COSL

CHINA OILFIELD SERVICES LIMITED

(STOCK CODE H-share : 2883 ; A-share : 601808)

Endeavour

Together to Achieve More

2020 ANNUAL REPORT

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 2020, 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.

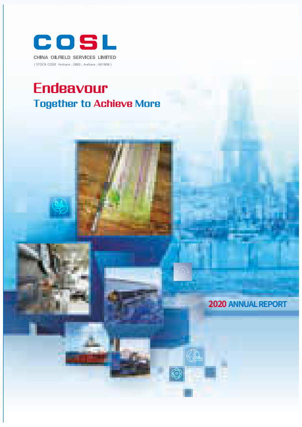
CORPORATE GOVERNANCE

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.

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.

Content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Business Overview

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

2020 PERFORMANCES

Total revenue:
RMB 28,925.3 million

Profit from operations:
RMB 4,141.9 million

Profit for the year:
RMB 2,718.3 million

Basic earnings per share:
RMB 56.65 cents/share

Total assets:
RMB 75,942.3 million

Total equity:
RMB 38,688.8 million

DOMESTIC

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

INTERNATIONAL

In 2020, 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 and product sales.

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

Europe region: Businesses involve drilling services and related services.

Africa region: Businesses involve geophysical services.

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

Financial Highlights

Unit: RMB million

	2020	2019	Change %
Revenue			
Domestic revenue	21,513.5	24,159.9	(11.0)
International revenue	7,411.8	6,915.9	7.2
Total	28,925.3	31,075.8	(6.9)
Operating expenses	(25,221.4)	(27,532.7)	(8.4)
Profit from operations	4,141.9	3,895.2	6.3
Profit before tax	3,378.7	3,472.2	(2.7)
Income tax expense	(660.4)	(944.2)	(30.1)
Profit for the year	2,718.3	2,528.0	7.5
Basic earnings per share (cent/share)	56.65	52.44	8.0
Net assets per share (RMB/share)	8.1	7.7	5.2
Ratio			
Return on equity (%)	7.2	7.1	
Return on asset (%)	3.6	3.4	
Gearing ratio (%)	42.9	47.7	
Price/Earnings ratio	9.7	20.9	
Dividend yield (%)	3.1	1.5	
Dividend payout ratio (%)	30.0	30.5	

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	2020	2019	Change over the same period last year (%)	2018	2017	2016
Revenue	28,925.3	31,075.8	(6.9)	21,886.6	17,458.6	15,085.5
Profit/(loss) from operations	4,141.9	3,895.2	6.3	643.5	1,468.0	(11,367.7)
Profit/(loss) for the year	2,718.3	2,528.0	7.5	88.7	80.9	(11,459.5)
Basic earnings/(loss) per share (cent/share)	56.65	52.44	8.0	1.48	0.90	(240.09)

	As at the end of 2020	As at the end of 2019	Change over the end of the same period last year (%)	As at the end of 2018	As at the end of 2017	As at the end of 2016
Total equity	38,688.8	36,910.3	4.8	34,677.4	34,687.5	35,296.4
Total assets	75,942.3	76,101.8	(0.2)	74,687.0	73,941.3	80,544.1

Chairman's Statement

Qi Meisheng
Chairman

Dear Shareholders,

In 2020, affected by the global climate policy, international oil and gas companies accelerated their business expansion in green industries, and the low-carbon development trend of the energy industry emerged. The Company accurately grasped the trend of energy transformation, deepened its technological development strategy, and promoted the upgrade of green and low-carbon equipment. Faced with the dual challenges of COVID-19 pandemic (hereinafter "Pandemic") and low oil prices, the Board and management actively responded and made timely adjustments on asset structure, continuously improved corporate governance, utilized the operational management advantages, and continuously promoted high-quality development, achieving good operating performance in a severe industry environment, and once again, created a promising return for shareholders.

1. STRATEGY IMPL1EMENTATION AND HIGH-QUALITY DEVELOPMENT

In 2020, through the implementation of the medium and long-term development strategy, the Company achieved partial results in high-quality development, the core position of innovation was significantly improved, and the level of governance modernization was further elevated. In 2021, the Company will continue to focus on "technical and international development" strategy, implement the arrangements in "five-pronged approach", accelerate the establishment of a "dual circulation" development pattern in which domestic circulation plays a principal status while domestic and international dual circulation remains mutual promotion, and comprehensively promote the Company's high-quality development.

First, the Company will implement the green and low-carbon concept, accelerate the exploration of new energy transformation, and promote the optimization and upgrading of the industrial structure with new energy security strategies; Second, the Company will practice innovation-driven development strategies, precisely match resources and stimulate innovations, and promote key core technology research and result transformation at full speed, focusing on the improvement of core competitiveness; Third, the Company will further improve the risk emergency mechanism, continue to enhance the ability to resist risks, steadily improve corporate governance efficiency and level, and regard lean cost control advantages as the core competitiveness and the driving force for sustainable development.

2. CORPORATE GOVERNANCE OPTIMIZATION AND INTERNAL CONTROL MANAGEMENT ENHANCEMENT

In 2020, the Company paid close attention to the implementation of new securities law and changes in regulatory rules, and actively adapted to the new requirements of the capital market on corporate governance and inside information management. In response to the dual challenges of Pandemic and falling oil prices, the Board discussed in depth the prevention of operational risks, strengthened the prevention and control of risks in key aspects, and improved risk response plans in an all-round way. It also dynamically tracked and assessed customer credit management, actively took notice of and strengthened cash flow management, optimized the internal audit model, improved the level of internal control management and promoted the improvement of governance efficiency. The Board led the preparation of the Company's "14th Five-Year" plan to coordinate the Company's medium and long-term development. It attached great importance to the green and low-carbon transformation of the energy industry, and conducted in-depth research on peak carbon dioxide emissions and carbon neutrality planning, actively arranged the Company's digital transformation, and seized development opportunities. In 2020, due to the expiration and retirement of some directors and supervisors, the members of the Company's Board of Directors and Board of Supervisors have changed. At present, the composition of the Company's current Board is in line with the principle of director diversity. When nominating candidates for directors, full consideration is given to factors such as professionalism, experience and expertise. The composition of directors' manifests internationalization, diversification and specialization. The Board has undergone careful research and decision-making procedures on all major issues. Three independent directors advised opinions and points of different areas in the decision-making procedures, which ensure that the Board operates in a standardized and efficient manner.

3. SUSTAINABLE DEVELOPMENT AND FULFILLMENT OF SOCIAL RESPONSIBILITIES

The Company always adheres to sustainable development, optimizes sustainable development governance, promotes the systematization and standardization of sustainable development, and realizes the organic combination of governance for sustainable development and corporate operation and management. The Company continuously improves the working efficiency of health, safety and environmental protection, and continuously upgrades the construction of the QHSE management system, and builds QHSE internationalization capabilities. As a central enterprise, the Company actively fulfills its responsibilities, and accurately promotes targeted poverty alleviation, poverty alleviation through education and employment and other charity works. The Company resolutely implements China's requirements on ecological civilization construction, fully implements the concept of green and high-quality development, and fully complies with the Ten Principles of the United Nations Global Compact and the latest requirements of regulatory agencies. In 2020, the Company was included as a constituent stock in Hang Seng's four sustainable development indexes, and won many honorary titles such as one of the "Chinese Business Top 100 Award in 2020" at the 20th China Business Top 100 Listed Companies Summit, the Chinese Enterprise ESG Gold Responsibility Award for "Excellent Corporate

Governance Enterprise". These honors reflect the capital market's high recognition and affirmation of the Company's sustainable development and investment value.

Dear shareholders, in 2020, the Company overcame dual challenges of epidemic prevention and control and responding to low oil prices, thanks to the strong support and understanding of customers, shareholders, domestic and foreign regulatory agencies, and the effective coordination of epidemic prevention and control by the Company's Board and Management, the Company carried forward production and operation in an orderly manner, continued to attach importance to and care for the life, health and safety of employees, and the overall emotion of employees was stable and morale was high, which helped the Company achieve good operating results. In 2021, the Company will seize new development opportunities, practice new development concepts, build a new development pattern, and accelerate the improvement of the Company's core competitiveness. The Board and Management will also closely follow the development trend of green and low-carbon energy, promote high-quality development of the Company with innovation, and strive to promote the modernization of the corporate governance system and governance capabilities. The directors of the Board and I firmly believe that with the Company's rich industry experience and cost advantages, we will strive to achieve higher quality and more efficient development, and create greater returns for shareholders, customers and all parties in the society.

Qi Meisheng
Chairman
24 March 2021

President's Report

Zhao Shunqiang
President

Dear shareholders:

In 2020, facing the severe impact of Pandemic, global investment in the oil and gas industry fallen sharply, and multiple upstream exploration and development projects were suspended, postponed or cancelled, and the oilfield service market was severely impacted and challenged. The Company proactively integrated into and served major national strategies with high-quality development, actively coordinated and promoted epidemic prevention and control and production operations. Thanks to fine management, reducing costs and increasing efficiency, practicing technological development and international development strategies, implementing the development concept of light assets and heavy technology, the Company strengthened its own technology research and development and technical reserves, and continued to promote the Company's service upgrades and industrial upgrades. As a result, new progress and new results was achieved in various aspects, the Company won high praise and recognition from customers at home and abroad, won many major awards, and established a good social image.

LAYING GREATER FOCUS ON QHSE MANAGEMENT, MAINTAINING STABLE SAFETY, ENVIRONMENTAL PROTECTION, QUALITY AND EFFICIENCY

In 2020, the Company thoroughly implemented the relevant national safety production requirements, made overall plans for epidemic response and safety risk prevention and control, promoted the construction of the QHSE global system, explored QHSE informatization, implemented the safety production responsibility system for all employees. The Company strictly controlled risks, strengthened supervision and inspection, vigorously and promoted the green and low-carbon action plan. QHSE management was steadily improved, operation services and product quality were good. The OSHA recordable incident occurrence rate was 0.065 and equipment availability was 99.6% which was a better level in history, the production safety is generally under control.

SIGNIFICANTLY ENHANCING INTERNATIONAL OPERATION MANAGEMENT CAPABILITY, COMPREHENSIVE COMPETITIVENESS AND GOVERNANCE CAPABILITY

In 2020, the Company resolutely implemented China's new energy security strategy of "Four Revolutions, One Cooperation", built a global integrated management system, improved the list of globalization function documents, issued a series of institutional documents, and strengthened audit and supervision efficiency. Focusing on major domestic and foreign projects, risk management and control in important aspects and key links, the Company comprehensively improved corporate governance capabilities and governance levels, further optimized distribution in overseas market, steadily promoted the normal operation of overseas projects, and successfully completed offshore jack-up drilling rigs service projects and semi-submersible drilling rigs service projects in the Asia-Pacific region, started the already-signed projects as scheduled, continued to deepen the cultivation in key markets, and successively obtained new projects such as cable logging services, drilling and completion fluid services, stimulation operations services, cementing operations services, jack-up drilling rigs services, semi-submersible drilling rigs services, drilling turnkey services, well workover and production increase turnkey services in Asia Pacific, the Middle East and the Americas..

ACHIEVING A NUMBER OF KEY OR CORE TECHNOLOGY BREAKTHROUGHS AND HIGH-EFFICIENCY CONVERSION APPLICATIONS OF NEW TECHNOLOGIES AND NEW PRODUCTS

In 2020, the Company focused on its technology development strategy and achieved breakthroughs in key technology research. 84 patents were obtained throughout the year, including 38 invention patents, and 6 scientific and technological awards at or above provincial and ministerial level. The Company's self-developed rotary steerable drilling and logging while drilling system achieves full specifications and full function coverage. The cumulative footage has exceeded 520,000 meters. The high-speed mud remote transmission technology while drilling achieved a breakthrough, and the transmission rate increased by 24 times. The ultra-high temperature logging system achieved acoustic, electrical, and nuclear logging capabilities under 235℃/175Mpa conditions, the highest operating well temperature reaches 196℃. The self-developed small-trace interval seismic streamer acquisition equipment efficiently completed domestic 6×6km three-dimensional acquisition operations with zero failures, and the successful debugging of new-type thickened oil thermal recovery equipment helps customers improve quality, reduce costs and increase efficiency. The two-way seismic streamer acquisition technology promoted a major discovery in an oil field in the South China Sea. The logging while drilling technology has been applied on a large scale in some domestic sea areas, exceeded designed production after multiple wells put into production. The application of new technologies, such as, high-temperature plugging, reservoir crack plugging, and strong pressure plugging, effectively shortens customers' well construction time and reduces customers' development costs.

OUTLOOK

Looking forward to 2021, the Company will start from a new development stage, implement new development concepts, build a new development pattern, stick to the development strategy of "technical and international development", focus on improving service quality, strengthen production and operation capacities, and deepen technological innovation and upgrading. At the same, the Company will accelerate the research and development of mainstream technologies in the industry, cultivate and enhance core competitiveness, accelerate digital transformation, create a stable industrial chain and supply chain system, optimize resource allocation, and implement lean management. We will thoroughly implement China's development requirements on ecological civilization, and practice green and low-carbon development strategy, further enhance the QHSE management level, improve the quality of operation, make a difference in promoting long-term development, improving management level, and reducing operating costs to promote the modernization of the corporate governance system and governance capabilities.

Zhao Shunqiang
President
24 March 2021

Management Discussion and Analysis

Drilling Services

INDUSTRY DEVELOPMENT OVERVIEW FOR 2020

In 2020, the Pandemic had a huge impact on global economy. According to the "World Economic Outlook Report" released by the International Monetary Fund, the global economy would shrink by 4.4% in 2020, with oil demand hit hard, leading to fluctuate international oil prices. According to statistics from major institutions such as the International Energy Agency (IEA) and OPEC, global oil demand would drop by more than 10% compared with last year in 2020.

In 2020, under the dual dilemma of the global Pandemic and low oil prices, the global oil and gas industry has been hit hard again. On the one hand, the world's leading oil companies have reduced their exploration investment in varying degrees, and global oil and gas exploration activities have become more cautious. Although OPEC+ has organized the largest production-cut alliance in history, it still presented a global "supply over demand" of oil and gas. According to a report issued by the consulting company IHS Markit, the capital expenditure for exploration and development of international oil companies in 2020 was US$302.0 billion, down 32% compared with 2019. The final investment decision for a large number of high-cost oil and gas development projects has been postponed. On the other hand, the business activities of world-class oilfield service companies have suffered huge economic losses due to Pandemic. According to a report released by the consulting company Spears & Associates, the global oilfield service and equipment market would be worth US$192.1 billion in 2020, down 29% compared with 2019. A large number of companies suffered huge losses and even went bankrupt.

BUSINESS REVIEW

In 2020, the sudden outbreak of Pandemic had a severe impact on all countries and also brought severe damage to the global economy. Under the influence of the combined pressure of Pandemic and oil price fluctuations, the global oilfield service market has been severely impacted and challenged, and the Group's service prices and workload have both dropped. On the domestic, due to the promotion of "Six Guarantees" and "Six Stability" missions on economic recovery in response to Pandemic, the driving of national energy security strategy, as well as the continuous implementation of CNOOC's "Seven-Year Action Plan", the domestic workload was guaranteed to a certain extent, but the service prices were under certain pressure. The Group recognized the severe situation, organized the largest production and operation in a scientific, safe and efficient manner, solidly implemented a special rectification action plan for safe production, detailed implemented the implementation plan for reducing costs, improving quality as well as increasing efficiency, and assisting the development and transformation of key core technologies. By seeking benefit from enterprise reform and management innovation, improving quality from safe operation and professional services, the Company made every effort to cope with the severe challenges of instability in the world economy and fluctuations in oil prices. In 2020, the Group's operating revenue was RMB28,925.3 million, a decrease of 6.9% compared with last year. Net profit was RMB2,718.3 million, an increase of RMB190.3 million compared with last year. Basic earnings per share was RMB0.57, an increase of RMB0.05 compared with 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 2020, the Group operated and managed a total of 57 drilling rigs (of which 43 are jack-up drilling rigs, and 14 are semi-submersible drilling rigs), and 5 module rigs, etc.

In 2020, revenue from drilling services amounted to RMB11,456.8 million, representing an increase of 5.8% as compared with RMB10,824.8 million of 2019, and including the receipt of US$188 million settlement income from Equinor Energy AS (hereinafter "Equinor").

During the period, the Group rationally allocated resources, improved equipment operation and maintenance & technical service capabilities, actively carried out safe operation around the world, resolutely supported the anti-epidemic policies of each country, and vigorously cooperated with national energy security policies while keeping the improvement of international competitiveness. "COSLHunter" completed the double-tubing production string run-in operation for the first time in the Americas, and exceeded the expected goal of well drilling and completion operations, which was highly recognized by customers; "HYSY936" completed the project survey efficiently and successfully located it in place, opening a new customer in the Americas for the first cooperation; "COSLConfidence" and "COSL3", high-quality service and safe & efficient operations have been awarded written praise from customers in the Americas; "COSLGift" successfully completed the 16" wellbore operation of a single operation well of a Middle East customer, breaking the 16" wellbore drilling record for the past 30 years of such operation site; a drilling rig that managed and operated by the Group winned the trust of overseas operators with high-quality performance; "NH7" successfully completed the exploration well operation, setting the record for the shortest drilling cycle for 4,001-4,500 meters of CNOOC; "HYSY982" completed the operation project efficiently, and once again refreshed the operating water depth record of the rig.

Drilling Services

At the end of 2020, the Group had 28 drilling rigs operating in the China Sea, 11 drilling rigs operating overseas, 14 drilling rigs were standby and 4 were being maintained in the shipyard.

In 2020, the Group's drilling rigs operated for 14,569 days, representing a year-on-year decrease of 168 days which decreased by 1.1%. It was mainly due to the impact of Pandemic and oil price fluctuations, the global upstream exploration and development investment has fallen, the oil service market has been hit, and the overall drilling operation volume has declined.

In 2020, the Group's jack-up drilling rigs operated for 11,427 days, representing a year-on-year increase of 292 days; semi-submersible drilling rigs operated for 3,142 days, representing a year-on-year decrease of 460 days. Operational details are as follows:

	2020	2019	Change	Percentage Change
Operating days (day)	14,569	14,737	(168)	(1.1%)
Jack-up drilling rigs	11,427	11,135	292	2.6%
Semi-submersible drilling rigs	3,142	3,602	(460)	(12.8%)
Available day utilization rate	75.0%	81.4%	Down 6.4 percentage points	
Jack-up drilling rigs	78.2%	83.9%	Down 5.7 percentage points	
Semi-submersible drilling rigs	65.3%	74.6%	Down 9.3 percentage points	
Calendar day utilization rate	71.6%	78.5%	Down 6.9 percentage points	
Jack-up drilling rigs	75.0%	81.0%	Down 6.0 percentage points	
Semi-submersible drilling rigs	61.3%	71.4%	Down 10.1 percentage points	

Five module rigs operated in the Gulf of Mexico for 940 days, representing a decrease of 500 days over the same period last year. The calendar day utilization rate decreased by 27.5 percentage points to 51.4%.

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

In 2020, the average day income of the drilling rigs of the Group is as follows. Excluding the impact of exchange rates, it decreased compared with 2019:

Average day income (ten thousand US$/day)	2020	2019	Change	Percentage Change
Jack-up drilling rigs	7.0	6.9	0.1	1.4%
Semi-submersible drilling rigs	18.6	17.2	1.4	8.1%
Drilling rigs average	9.5	9.4	0.1	1.1%

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

(2) USD/RMB exchange rate was 1: 6.5249 on 31 December 2020 and 1:6.9762 on 31 December 2019, 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 2020, revenue from the well service decreased by 11.5% from RMB15,030.0 million in the same period of 2019 to RMB13,304.7 million. The Group fully implemented the action plan to reduce costs, improve quality and increase efficiency, promoted key core technology research projects at full speed, and continued to increase scientific research investment and technological innovation, thus achieving various technological development results. The industrialization trials of independent research and development technology products succeeded continuously, and the commercialization process continued to accelerate. Under the impact of Pandemic and the overall continued downturn in the market, the Group's technical service business has maintained a rapid development trend, and its operating profit margin has been improved compared with last year, showing its competitive advantage.

Through in-house research and development of technology and equipment, the Group has greatly improved its operational capabilities. The self-developed large-diameter rotary well lining instruments have been successfully operated in domestic waters, and have created new records for the deepest instrument downhole, the highest well temperature, and the largest number of single-well corings; self-owned technical equipment has completed surface injection drilling operations and achieved zero breakthrough in deep water injection; the Company has completed the development of the first set of deep-water cementing hydrate decomposition prediction and evaluation software in domestic, providing a strong guarantee for further improving the international competitiveness of cementing technology; the 7-inch directional perforating gun operation technology has applied in the horizontal well completion perforation circle operation filled the domestic technical gap; the self-developed 9-5/8" one-time multi-layer gravel pack completion tool has completed highly difficult operations in the Bohai Sea, boosting the operation efficiency; the self-developed "D+W" tool has completed the high angle building hole rate horizontal well operation for the first time, setting three records of operating well depth, well temperature and angle building hole rate; the self-developed high speed velocity pulser (HSVP) has completed offshore application for the first time, filling the gap in domestic technology application; self-developed deep-water cement header has passed the application, indicating that the Group has successfully realized the localized substitution of key deepwater equipment; the self-developed quadrupole acoustic imaging logging tool while drilling has completed its offshore application for the first time.

The Group's technical service capabilities have been widely recognized by international customers. The first batch of two wells of the shallow shoal project undertaken in Asia was completed successfully, marking the success of the first operation in the shoal mud service; the Group's technical service performance and capabilities have also won the recognition of many international customers at the operation site as well as the Letter of Award on cementing business from new customers; won the new round of wireline logging service contracts in the Asian site; won the bid for the Asian cementing, drilling and completion fluid integration service contract and the two-year cementing service contract.

Marine Support Services

MARINE SUPPORT SERVICES SEGMENT

The Group operates and manages the largest offshore operation fleet with the most comprehensive functions in China, 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 2020, the marine support services actively prevented and controlled Pandemic, achieved the safe production goal of "zero injury, zero pollution, and zero accident", and further improved equipment support capabilities through measures such as making up for shortcomings and strengthening the weaknesses. The team building has achieved remarkable results, the assets has been continuously expanded, the overall operation volume has increased, scientific and technological innovation has continued to help safe operation, and the operational capabilities and safety performance has been steadily improved, all which further consolidated the domestic competitive advantage and market position, and successfully explored overseas markets to win the integration bidding project in the Americas. During the year, two 5,000-horsepower LNG-powered guard supply ships were delivered, and two 4,000-horsepower LNG-powered guard supply ships were launched, which played an active role in promoting the use of LNG clean energy in ships.

Marine Support Services

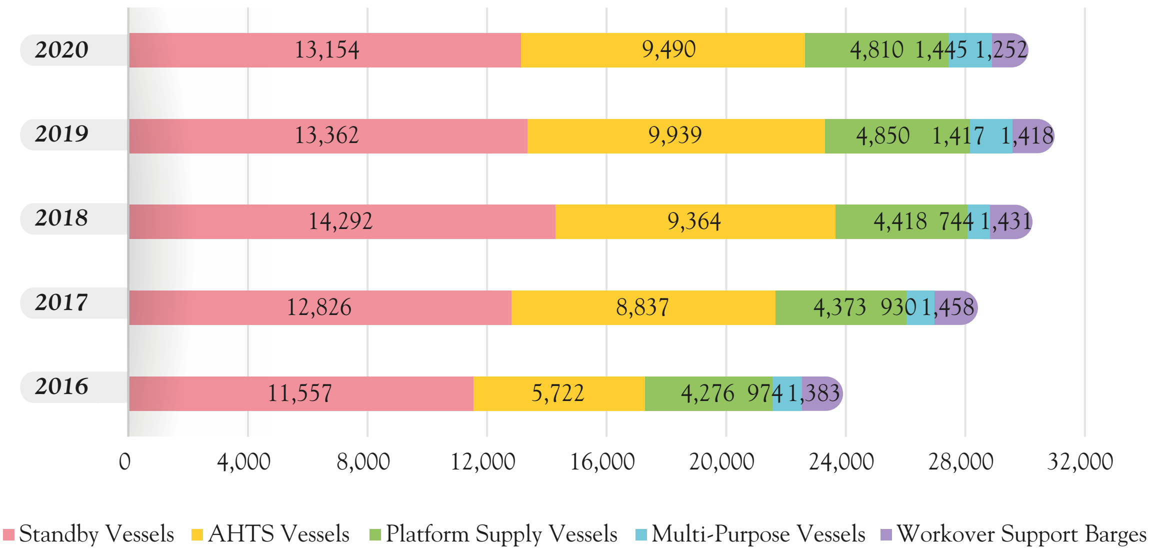
In 2020, revenue of marine support services decreased by 4.5% to RMB2,915.2 million from RMB3,052.9 million in 2019. The self-owned vessels operated 30,151 days, decreased by 2.7% as compared with last year. The chartered vessels operated 17,887 days in total, increased by 17.2% compared to last year, generating revenue of RMB996.9 million, and increased 7.3% from RMB929.5 million in the same period in 2019.

The calendar day utilization rate of self-owned utility vessels was 94.4% in 2020, representing an increase of 0.1 percentage point as compared with last year.

The operational details of self-owned utility vessels of the Group are as follows:

Operating days (day)	2020	2019	Change	Percentage Change
Standby vessels	13,154	13,362	(208)	(1.6%)
AHTS vessels	9,490	9,939	(449)	(4.5%)
Platform supply vessels	4,810	4,850	(40)	(0.8%)
Multi-purpose vessels	1,445	1,417	28	2.0%
Workover support barges	1,252	1,418	(166)	(11.7%)
Total	30,151	30,986	(835)	(2.7%)

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 2020, 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.

Affected by the general environment of Pandemic and low oil prices, international oil companies have drastically reduced their investment in exploration and development, the business of geophysical acquisition and surveying services has plummeted, the market has shrunk, and the prices of products and services have been pushed down. The Group got a clear understanding of the situation, closely focused on the domestic oil and gas reserves and production goals and tasks, solidly guaranteed geophysical acquisition resources, steadily promoted the optimization and reform of the organizational structure, and promoted the creation of technological value and the implementation of results. A self-developed small trace interval towing acquisition equipment was applied successfully with a high signal-to-noise ratio of the collected data and clear imaging, filling the domestic technical gap; the seismic vessel “HYSY718” broke the record with the highest monthly output in the country in the 12 years since the start of operation; the efficient and quality operation performance in the Americas was praised by clients.

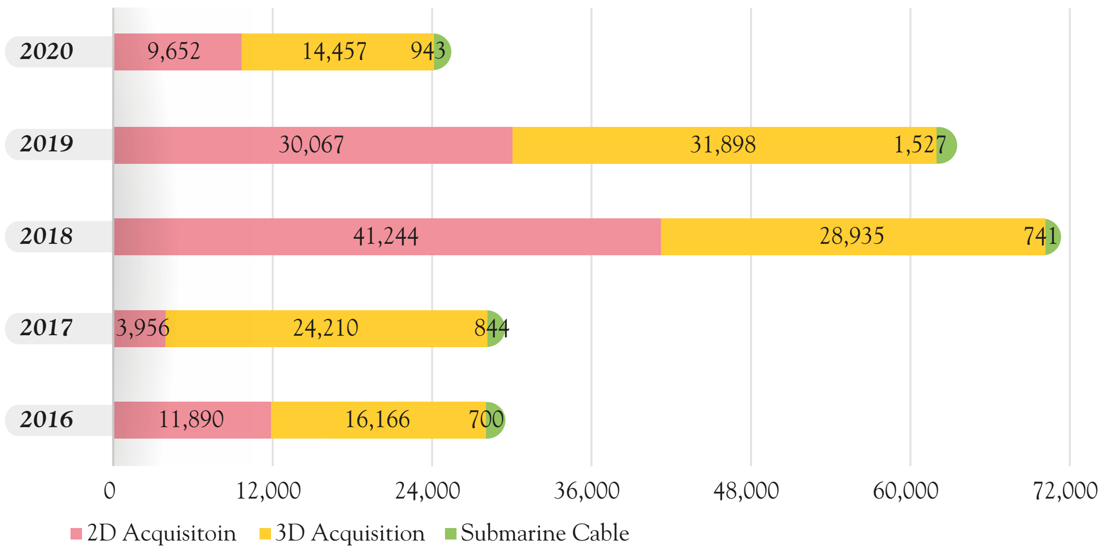
Geophysical Acquisition and Surveying Services

In 2020, revenue of geophysical acquisition and surveying services decreased to RMB1,248.6 million, representing a decrease of 42.4% compared with RMB2,168.1 million of 2019, of which, the surveying services recorded revenue of RMB370.5 million, representing a decrease of 4.1% as compared with RMB386.3 million over 2019.

The details of geophysical acquisition of the Group are as follows:

Businesses	2020	2019	Change	Percentage Change
2D acquisition (km)	9,652	30,067	(20,415)	(67.9%)
of which: multi-client	0	1,350	(1,350)	(100.0%)
3D acquisition (km^2)	14,457	31,898	(17,441)	(54.7%)
of which: multi-client	2,918	6,485	(3,567)	(55.0%)
Submarine cable (km^2)	943	1,527	(584)	(38.2%)

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



MAJOR SUBSIDIARIES

COSL Hong Kong International Limited, COSL Norwegian AS ("CNA"), COSL Singapore Limited are major subsidiaries of the Group engaged in drilling and well services relevant operations.

As at 31 December 2020, the total assets of COSL Hong Kong International Limited amounted to RMB6,950.2 million and equity was RMB6,950.2 million. COSL Hong Kong International Limited realized revenue of RMB34.1 thousand in 2020, which was zero in last year. The net profit amounted to RMB12.1 thousand, which was RMB-16.2 thousand in last year.

As at 31 December 2020, the total assets of CNA amounted to RMB9,276.4 million and equity was RMB-1,375.7 million. CNA realized revenue of RMB2,927.9 million in 2020, representing an increase of RMB878.2 million or 42.8% as compared with last year. The net profit amounted to RMB-144.6 million, representing a decrease in loss of RMB541.5 million as compared with last year. Taking into account the utilization rate and the operating price of large-scale equipment have not yet recovered to a normal level, the asset impairment loss for the year amounted to RMB1,447.8 million.

As at 31 December 2020, the total assets of COSL Singapore Limited amounted to RMB25,146.1 million and equity was RMB-1,424.0 million. COSL Singapore Limited realized revenue of RMB2,443.3 million in 2020, representing an increase of RMB194.4 million or 8.6% as compared with last year. The net profit amounted to RMB-896.7 million, representing a decrease in loss of RMB864.8 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 2020, the total assets of COSL DRILLING STRIKE PTE. LTD. amounted to RMB3,924.9 million and equity was RMB-2,930.7 million. The Company has 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 RMB238.3 million in 2020, representing an increase of RMB82.3 million or 52.8% as compared with last year. The net profit amounted to RMB-241.7 million, representing a decrease in loss of RMB412.3 million as compared with last year.

As at 31 December 2020, the total assets of COSL PROSPECTOR PTE. LTD. amounted to RMB8,306.3 million and equity was RMB-4,400.1 million. The Company has 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 RMB455.3 million in 2020, representing a decrease of RMB57.6 million or 11.2% as compared with last year. The net profit amounted to RMB-688.5 million, representing a decrease in loss of RMB413.8 million as compared with last year.

FINANCIAL REVIEW

1. ANALYSIS ON CONSOLIDATED STATEMENT OF PROFIT OR LOSS

1.1 Revenue

For the year 2020, revenue of the Group amounted to RMB28,925.3 million, representing a decrease of RMB2,150.5 million or 6.9% as compared with last year. The detailed analysis is set out below:

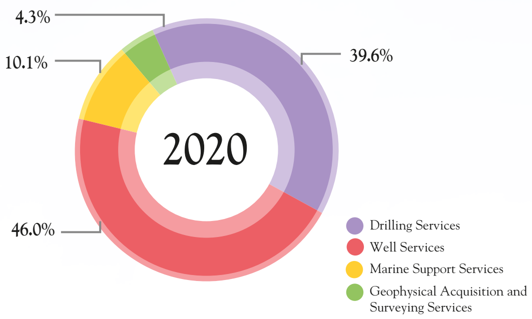
Analysis by business segment

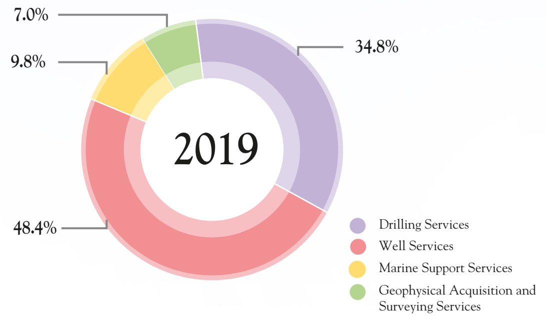
Unit: RMB million

Business segments	2020	2019	Change	Percentage change
Drilling services	11,456.8	10,824.8	632.0	5.8%
Well services	13,304.7	15,030.0	(1,725.3)	(11.5%)
Marine support services	2,915.2	3,052.9	(137.7)	(4.5%)
Geophysical acquisition and surveying services	1,248.6	2,168.1	(919.5)	(42.4%)
Total	28,925.3	31,075.8	(2,150.5)	(6.9%)

- Revenue generated from drilling services increased by 5.8% as compared with last year, which including the receipt of US$188 million settlement income from Equinor.
- Revenue of well services decreased by 11.5% as compared with last year, which was mainly due to the decline in prices of various business lines.
- Revenue from marine support services decreased by 4.5% as compared with last year, which was mainly due to the effect of the fall in operating prices this year.
- Revenue from geophysical acquisition and surveying services decreased by 42.4% as compared with last year, which was mainly due to the sharp drop in the workload this year.

Revenue analysis – by business





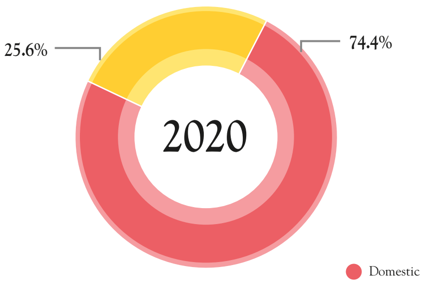
Analysis by operation area

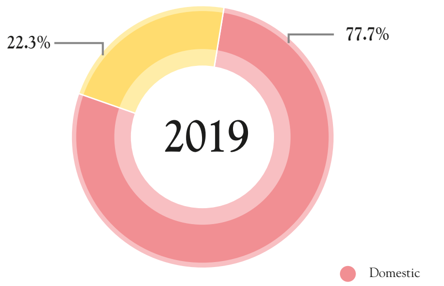
Unit: RMB million

Region	2020	2019	Change	Percentage change
Domestic	21,513.5	24,159.9	(2,646.4)	(11.0%)
International	7,411.8	6,915.9	495.9	7.2%
Total	28,925.3	31,075.8	(2,150.5)	(6.9%)

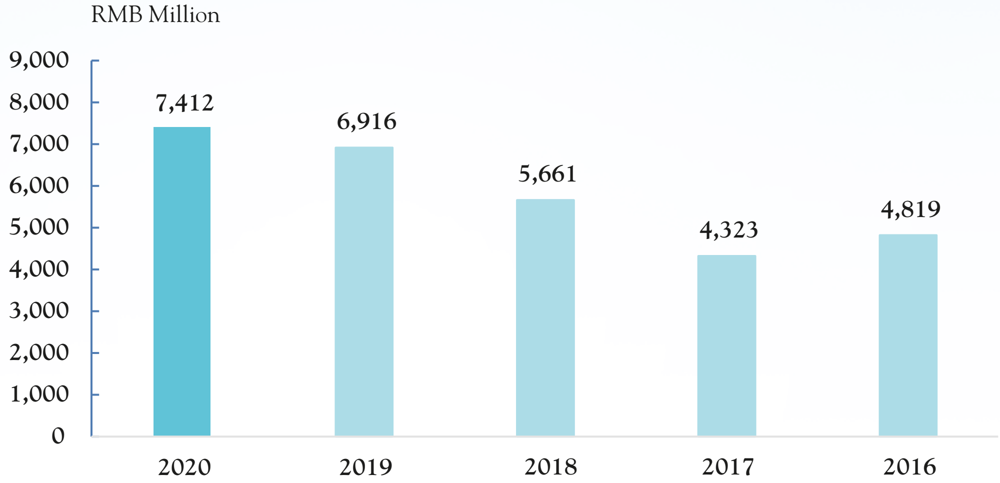
In terms of operation area, the Group's main source of revenue was from China offshore, accounting for 74.4% of the Group's total revenue. In 2020, the Group's international business recorded revenue of RMB7,411.8 million (compared with RMB6,915.9 million over last year, representing an increase of 7.2% as compared with last year), accounting for 25.6% 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 2020, operating expenses of the Group amounted to RMB25,221.4 million, representing a decrease of RMB2,311.3 million or 8.4% as compared with RMB27,532.7 million of last year.

The table below shows the operating expenses of the Group in 2020 and 2019:

Unit: RMB million

	2020	2019	Change	Percentage change
Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library	4,335.7	4,372.8	(37.1)	(0.8%)
Depreciation of right-of-use assets	480.4	589.3	(108.9)	(18.5%)
Employee compensation costs	4,897.1	5,808.0	(910.9)	(15.7%)
Repair and maintenance costs	435.9	691.3	(255.4)	(36.9%)
Consumption of supplies, materials, fuel, services and others	6,290.2	6,933.2	(643.0)	(9.3%)
Subcontracting expenses	4,768.5	5,943.9	(1,175.4)	(19.8%)
Lease expenses	1,224.3	1,287.7	(63.4)	(4.9%)
Other operating expenses	1,333.7	1,348.7	(15.0)	(1.1%)
Impairment loss of property, plant and equipment	1,447.8	241.5	1,206.3	499.5%
Impairment loss under expected credit losses model, net of reversal	7.8	316.3	(308.5)	(97.5%)
Total operating expenses	25,221.4	27,532.7	(2,311.3)	(8.4%)

Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library for the year decreased by RMB37.1 million compared with last year.

Depreciation of right-of-use assets for the year decreased by RMB108.9 million compared with last year.

Employee compensation costs for the year decreased by RMB910.9 million compared with last year, due to a phased exemption of corporate social insurance premium applicable in the PRC, in response to Pandemic.

Repair and maintenance costs for the year decreased by RMB255.4 million compared with last year. This was a consequence of repair projects being delayed due to Pandemic, and the Company's prompt efforts to reduce costs and improve quality and efficiency for a higher self-repair ratio and lower repair costs.

Consumption of supplies, materials, fuel, services and others for the year decreased by RMB643.0 million compared with last year, which was mainly due to the decrease in operation volume and the strengthening of cost control, which resulted in the decrease in consumption of supplies, materials, fuel, etc.

Subcontracting expenses for the year decreased by RMB1,175.4 million compared with last year, which was mainly due to that the Group was committed to cost control and effective reduction of subcontracting expenses, and at the same time, the industrialization trials of independent research and development technology products succeeded, and the commercialization process continued to accelerate, thus reducing the subcontracting business effectively.

Lease expenses for the year was RMB1,224.3 million, representing a decrease of RMB63.4 million compared with last year.

Impairment loss of property, plant and equipment for the year amounted to RMB1,447.8 million, representing an increase of RMB1,206.3 million 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, thus recognizing the impairment loss of fixed assets. For details of the provisions for asset impairment, please refer to the Company's announcement dated 29 April 2020 and 24 March 2021.

Credit impairment loss for the year was RMB7.8 million, representing a decrease of RMB308.5 million compared with last year.

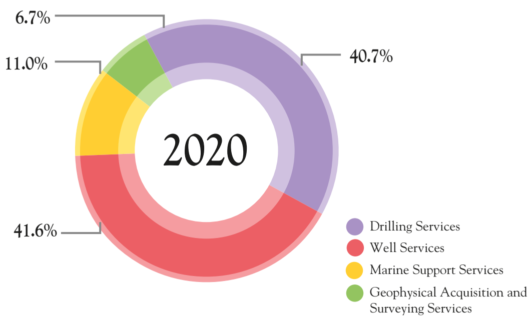
Other operating expenses for the year amounted to RMB1,333.7 million, which mainly included more than 30 cost subjects including travel expenses, business trip expense, office expenses, expenses for library materials, health, safety and environmental protection expenses, weather guarantee fees, consulting fees, audit fees and so on, representing a decrease of RMB15.0 million. Of the total other operating expenses, travel expenses amounted to RMB320.2 million, accounting for 24.0%; pandemic prevention expenses amounted RMB159.9 million, accounting for 12.0%; health, safety and environmental protection expenses amounted to RMB251.7 million, accounting for 18.9%; business trip expenses amounted to RMB165.9 million, accounting for 12.4%; transfer fees for other technology research, consulting fees and audit fees and so on, amounted to RMB436.0 million in total. In 2019, other operating expenses amounted to RMB1,348.7 million, of which travel expenses amounted to RMB405.5 million, accounting for 30.1%; health, safety and environmental protection expenses amounted to RMB269.4 million, accounting for 20.0%; business trip expenses amounted to RMB153.0 million, accounting for 11.3%; transfer fees for other technology research, consulting fees, audit fees and so on, amounted to RMB520.8 million in total.

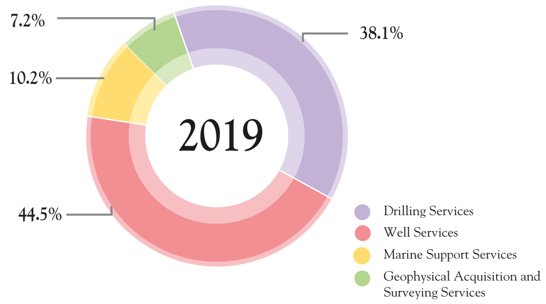
The operating expenses for each segment are shown in the table below:

Unit: RMB million

Business segments	2020	2019	Change	Percentage change
Drilling services	10,264.5	10,493.2	(228.7)	(2.2%)
Well services	10,508.4	12,247.3	(1,738.9)	(14.2%)
Marine support services	2,765.6	2,814.1	(48.5)	(1.7%)
Geophysical acquisition and surveying services	1,682.9	1,978.1	(295.2)	(14.9%)
Total	25,221.4	27,532.7	(2,311.3)	(8.4%)

Analysis of operating expenses – by business





1.3 Profit from operations

For the year 2020, the Group's profit from operations amounted to RMB4,141.9 million, representing an increase of RMB246.7 million as compared with RMB3,895.2 million of last year.

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

Unit: RMB million

Business segments	2020	2019	Change	Percentage change
Drilling services	1,256.8	442.8	814.0	183.8%
Well services	3,057.1	2,938.2	118.9	4.0%
Marine support services	173.7	256.2	(82.5)	(32.2%)
Geophysical acquisition and surveying services	(345.7)	258.0	(603.7)	(234.0%)
Total	4,141.9	3,895.2	246.7	6.3%

1.4 Financial expenses, net

Unit: RMB million

	2020	2019	Change	Percentage change
Exchange loss/(gain), net	403.8	(111.9)	515.7	(460.9%)
Finance costs	924.5	1,118.8	(194.3)	(17.4%)
Interest income	(69.6)	(67.5)	(2.1)	3.1%
Financial expenses, net	1,258.7	939.4	319.3	34.0%

The exchange loss increased by RMB515.7 million as affected by the change of exchange rates during the year.

1.5 Investment income

For the year 2020, the Group's investment income amounted to RMB116.2 million, representing a decrease of RMB102.0 million or 46.7% as compared with RMB218.2 million of last year, which was mainly attributable to the decrease 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 2020 amounted to RMB26.6 million, representing an increase of RMB65.4 million from RMB-38.8 million of last year. This was mainly due to the redemption of monetary fund and the expiration of floating income wealth management products in last year.

1.7 Other gains and losses

In 2020, the Group's other gains and losses amounted to RMB-12.2 million, representing a decrease of RMB28.7 million from RMB16.5 million of last year.

1.8 Profit before tax

The profit before tax generated by the Group was RMB3,378.7 million in 2020, representing a decrease of RMB93.5 million as compared with RMB3,472.2 million of last year.

1.9 Income tax expense

The income tax expense of the Group in 2020 was RMB660.4 million, representing a decrease of RMB283.8 million as compared with RMB944.2 million of 2019, which was mainly due to the decrease of the profits of the Company during the year.

1.10 Profit for the year

For the year 2020, profit of the Group was RMB2,718.3 million, representing an increase of RMB190.3 million as compared with RMB2,528.0 million of last year.

1.11 Basic earnings per share

For the year 2020, the Group's basic earnings per share were approximately RMB56.65 cents, representing an increase of approximately RMB4.21 cents as compared with approximately RMB52.44 cents of last year.

1.12 Dividend

For the year 2020, the Board of the Company proposed a final dividend of RMB0.17 per share (tax inclusive), totaling about RMB811.2 million. If approved by the general meeting, the final dividends are expected to be paid on or before 30 June 2021.

In accordance with the Enterprise Income Tax Law of the People's Republic of China, the implementation regulations and related tax 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). If relevant shareholders believe that the dividend income obtained needs to enjoy any tax treaty (arrangement) treatment, they can apply to the competent tax authority on their own after receiving the dividend in accordance with the regulations.

2. ANALYSIS ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020, the total assets of the Group amounted to RMB75,942.3 million, representing a decrease of RMB159.5 million or 0.2% as compared with RMB76,101.8 million as at the end of 2019. The total liabilities amounted to RMB37,253.5 million, representing a decrease of RMB1,938.0 million or 4.9% as compared with RMB39,191.5 million as at the end of 2019. Total equity amounted to RMB38,688.8 million, representing an increase of RMB1,778.5 million or 4.8% as compared with RMB36,910.3 million as at the end of 2019.

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	2020	2019	Change	Percentage change	Reasons
Assets						
1	Right-of-use assets	767.2	1,200.6	(433.4)	(36.1%)	Long-term lease contracts gradually expire.
2	Contract costs (non-current)	184.5	91.5	93.0	101.6%	Increase in contract performance costs this year.
3	Other non-current assets	158.8	247.0	(88.2)	(35.7%)	The deposit paid for purchasing property, plant and equipment decreased this year.
4	Deferred tax assets	158.8	92.5	66.3	71.7%	Mainly due to the increase in deductible temporary differences and the increase in deferred tax assets.
5	Inventories	2,246.8	1,424.7	822.1	57.7%	Increase in operation reserves this year.
6	Prepayments, deposits and other receivables	259.2	398.0	(138.8)	(34.9%)	Mainly due to the decrease in balance of tax prepayments this year.
7	Notes receivable	10.1	44.2	(34.1)	(77.1%)	Mainly due to the cash was recovered as a result of the notes due.
8	Receivables at fair value through other comprehensive income	3.0	40.6	(37.6)	(92.6%)	The decrease in bank acceptance bills at the end of the period.
9	Other current assets	125.4	2,577.0	(2,451.6)	(95.1%)	Fixed-income wealth management products expire.
10	Pledged deposits	3.7	102.2	(98.5)	(96.4%)	Mainly due to the decrease in pledged deposits held at the end of the year.
11	Cash and cash equivalents	6,583.7	3,363.6	3,220.1	95.7%	Mainly due to the issuance of long-term bonds this year.

Items	2020	2019	Change	Percentage change	Reasons
Liabilities					
1 Notes payable	0.0	3.5	(3.5)	(100.0%)	Mainly due to the payment of commercial acceptance bills due.
2 Tax payable	168.1	612.8	(444.7)	(72.6%)	The Group's corporate income tax payable this year decreased.
3 Interest-bearing bank borrowings (current liabilities)	18.3	608.9	(590.6)	(97.0%)	The borrowing USD84 million from the Export-Import Bank of China was due and paid at the end of the year.
4 Lease liabilities (current liabilities)	224.3	597.8	(373.5)	(62.5%)	Mainly due to pay rent.
5 Contract liabilities (current liabilities)	388.1	255.3	132.8	52.0%	Mainly due to the increase of the advance payment for operation during the year.
6 Deferred tax liabilities	24.9	62.7	(37.8)	(60.3%)	Mainly due to the increase in deductible temporary differences, resulting in the decrease of deferred income tax liabilities after offset.
7 Lease liabilities (non-current liabilities)	366.3	547.6	(181.3)	(33.1%)	Mainly due to pay rent.
8 Contract liabilities (non-current liabilities)	61.1	192.7	(131.6)	(68.3%)	Mainly due to the amortisation of mobilization revenue for the year.
9 Deferred income	278.5	401.6	(123.1)	(30.7%)	Mainly due to the amortization of the contract value during the year.

3. ANALYSIS OF CONSOLIDATED STATEMENT OF CASH FLOWS

At the beginning of 2020, the Group held cash and cash equivalents of RMB3,363.6 million. During 2020, the net cash inflows from operating activities amounted to RMB7,538.9 million; net cash outflows from investing activities amounted to RMB3,337.2 million; net cash outflows from financing activities amounted to RMB727.1 million and the impact of foreign exchange fluctuations resulted in a decrease of cash of RMB254.5 million. As at 31 December 2020, the Group's cash and cash equivalents amounted to RMB6,583.7 million.

3.1 Cash flows from operating activities

As at 31 December 2020, net cash inflows from operating activities of the Group amounted to RMB7,538.9 million, representing an increase of 8.2% 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 2020, net cash outflows generated from investing activities of the Group amounted to RMB3,337.2 million, representing an increase of RMB2,185.5 million as compared with last year, which was mainly attributed to the increase of RMB1,446.5 million in the cash outflows of the purchase of property, plant and equipment and other intangible assets as compared with last year, the decrease of RMB1,800.0 million in the cash outflows of the purchase of corporate wealth management products, monetary funds and debt instrument as compared with last year, the decrease of RMB2,628.8 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, no fixed deposits for more than three months for the year which led to the decrease of RMB141.5 million in cash inflows as compared with the same period last year, and the total increase of cash inflows of RMB231.3 million in other investment activities.

3.3 Cash flows from financing activities

As at 31 December 2020, net cash outflows from financing activities of the Group amounted to RMB727.1 million, representing a decrease of outflows of RMB4,924.7 million as compared with last year. There wasn't borrowing from related parties in 2020, which resulted in the decrease of RMB1,017.1 million in the cash inflows arising from financing activities as compared with last year, the increase of RMB5,613.7 million in the cash inflows as compared with last year due to proceeds from the issue of new long-term bonds, the decrease of RMB495.2 million in the cash outflows as compared with last year due to the repayment of long-term bonds, the increase of RMB429.4 million in the cash outflows as compared with last year due to the payment of dividends, and the total increase of cash inflows of RMB262.3 million in other financing activities.

3.4 The effect of foreign exchange fluctuations on cash during the year was a decrease of cash of RMB254.5 million.

3.5 The Group provides operation capital mainly through cash and interest bearing borrowings from operating activities, investment activities and financing activities. In 2020, the overall cash flow was safe and stable. For details of the Group's borrowings for the year ended 31 December 2020, please refer to Note 39 to the consolidated financial statements of this annual report.

4. CAPITAL EXPENDITURE

In 2020, the capital expenditure of the Group amounted to RMB3,956.4 million, representing an increase of RMB783.8 million or 24.7% as compared with last year. The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segments	2020	2019	Change	Percentage change
Drilling services	869.0	912.0	(43.0)	(4.7%)
Well services	1,879.8	1,180.9	698.9	59.2%
Marine support services	726.1	421.1	305.0	72.4%
Geophysical acquisition and surveying services	481.5	658.6	(177.1)	(26.9%)
Total	3,956.4	3,172.6	783.8	24.7%

The capital expenditure of the drilling services segment was mainly used for the renewal and construction of drilling rigs. The capital expenditure of the oilfield services segment was mainly used for the construction 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 the purchase of operation equipment.

BUSINESS PLAN

In 2021, the latest "World Economic Outlook Report" released by the International Monetary Fund shows that the global economy is expected to grow by 5.5% and Chinese economy by 8.1%. IHS and other agencies predict that the average Brent crude oil price will exceed USD50/barrel, while global upstream investment remains cautious, and competition in the oilfield service market will be fierce. Since the beginning of 2021, the Company has started a new round of actions on cost reduction, quality improvement and efficiency improvement, in-depth explored the cost space of each business line, and from increasing revenue, reducing costs, tapping potential, innovation and optimization, tried to all-round and systematically improve quality and efficiency, so as to further improve cost, expense and profit margin. In 2021, the Company will maintain a prudent attitude in capital investment, adhere to the Company's strategy and direction of "technical and international development", and continue to optimize the Company's industrial structure and business model. It is estimated that the Company's capital expenditure will be approximately RMB4.3 billion, mainly used for the construction of production bases, renovation of the facilities, machinery and equipment, and its overall cash flow is safe and stable.

Guided by the new development concept, the Company will adhere to the five aspects of innovation-driven, green and low-carbon, overseas development, market leadership, and talent-based enterprise development, and forge the seven capabilities respected by the industry and customers, operational performance, best technological innovation and equipment management capabilities, operation management and operation team satisfying global deployment, the most competitive operating cost advantage, skilled business operation ability, high-quality oilfield service corporate brand, and world-class management and safety culture, and focus on the Company's high-quality development, actively maintain the interests of investors, so as to ensure the stable dividend return of shareholders.

2021 BUSINESS OUTLOOK

In 2021, the latest "World Economic Outlook Report" released by the International Monetary Fund shows that the global economy is expected to grow by 5.5% and Chinese economy by 8.1%. The global economic growth will improve the growth of oil demand. The International Energy Agency (IEA) stated that it is expected that the growth of world oil demand will resume in 2021. According to the forecast data of the international information service agency IHS Markit in January 2021, the global upstream exploration and development investment in 2021 will be USD320.5 billion, an increase of 6.11% compared to 2020. In 2021, the global oilfield service market environment will slowly recover, the surplus of large-scale equipment will gradually improve, and market competition will remain fierce. Oilfield service companies need more self-reform, self-innovation, and continuous improvement of core competitiveness in order to better grasp development opportunities. In 2021, the Company will focus on major scientific and technological fields such as deep sea, heavy oil thermal recovery, low-permeability fracturing, and high temperature and high pressure, continue to improve the technical system, move forward to accelerate the industrialization and serialization of technical products, and further promote cost reduction, quality and efficiency improvement. Also, the Company will increase domestic exploration and development efforts to ensure national energy supply security, continue to explore overseas markets, take multiple measures to achieve high-quality sustainable development, actively embrace digital technology, and promote transformation and upgrading of traditional oilfields service industry. The Company will continue to focus on the development of the global economy, the trend of international oil prices and the investment in upstream exploration and development, and will formulate action plans in a timely manner in accordance with the new trends of the industry.

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 2020, the Company has complied with the principles and code provisions as set out in the Code in Appendix 14 of the Listing Rules, and also explained the implementation of section A.2.1 of the Code.

The Board is of the view that the improvement in corporate governance in 2020 was mainly reflected in the following aspects:

1. Improve comprehensive risk control measures in the spread of Pandemic. Risk response plans should cover the entire process, closely follow up, dynamically adjust, strengthen overseas Pandemic and operational risk control, improve the pertinence and effectiveness of risk control measures, and promote further upgrade of risk control.

2. Complete internal control management system, optimize internal audit mechanism, and create an audit model that combines professional auditors and functional experts, so as to ensure internal control and supervision mechanism be efficient and accurate, and effectively avoid business management risks.

3. Pay attention to the changes in the new securities law and regulatory rules, actively adapt to the new regulatory requirements of corporate governance, information disclosure, inside information, etc., revise the "Information Disclosure Management System", strengthen the construction of the information disclosure system, and optimize the information disclosure management functions; revise the "Compliance Operation Management System" to further improve the compliance operation mechanism, and realize the organic combination of pre-risk control and compliance operation.

4. Strengthen the daily communication between directors and the Company, improve the governance efficiency of directors and the Company, promote the improvement of corporate governance system and governance capabilities, and build an efficient and compliant information management system; continue to implement the Company's development strategy, increase investment in technology research and development, and build an effective talent incentive mechanism, so as to accelerate the implementation of the Company's development strategy and sustainable development strategy.

5. Continuously improve information disclosure and investor relationship, optimize the management mechanism of inside information. The Company attaches great importance to information disclosure, strictly abides by the requirements of information disclosure laws and regulations, and publishes regular reports and temporary announcements in accordance with the law. 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. During the reporting period, the Company carried out inside information and insider management in accordance with regulatory requirements and company regulations, continued to optimize the inside information management mechanism, enhanced the awareness of inside information insiders' compliance, and accomplished the registration of inside information and insiders. During the reporting period, there was no evidence of insiders using inside information to buy or sell company shares.

In 2020, the Company was included into four Hang Seng Sustainability Indexes at the same time, namely "Hang Seng (China A) Corporate Sustainability Benchmark Index", "Hang Seng Corporate Sustainability Benchmark Index", "Hang Seng (China A) Corporate Sustainability Index" and "Hang Seng (Mainland and Hong Kong) Corporate Sustainability Index". During the year, the Company was selected as the "Best Investor Relations Company Award" and "Best New Media Operation Award" in the 11th China Listed Company Investor Relations Tianma Award; it won the "A" category in information disclosure of main board listed companies on the Shanghai Stock Exchange in 2019-2020; won the "China Business Top 100 Awards 2020" at the 20th China Business Top 100 Listed Companies Summit; won the 8th Hong Kong Stocks Top 100 "Best Investment Value Award"; awarded the 10th China Securities Golden Bauhinia Award "Best Investor Relations Listed Company"; won the Chinese Enterprise ESG Gold Responsibility Award "Excellent Corporate Governance Enterprise"; and awarded the Sina Finance Golden Kirin Hong Kong Stock Value List "Most Branded Listed Company".

(I) DIRECTOR'S INVOLVEMENT IN SECURITIES TRANSACTIONS

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2020, 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 2020, 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 2020 and on the date of this report is as follows:

Chairman:	Qi Meisheng
Executive directors:	Qi Meisheng Zhao Shunqiang (appointed at the 2020 First EGM)
Independent non-executive directors:	Fong Chung, Mark Wong Kwai Huen, Albert Lin Boqiang (appointed at the 2019 AGM)
Non-executive directors:	Xu Yugao (appointed at the 2020 Second EGM) Zhao Baoshun (appointed at the 2020 Second EGM)

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 2019 (for details, please search our website for Articles of Association of the Company or Annual Report 2019).

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 2019 (for details, please search our website for Articles of Association of the Company or Annual Report 2019).

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.

3. Board Meetings

The Board of Directors convened six 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 2020, one meeting was 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 2020.

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 internal control system and 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 2020, the independent directors also reviewed the related connected transactions between the Company and CNOOC Finance Corporation Limited ("CNOOC Finance"), regarding deposit and settlement services 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 2020 (Mr. Zhao Shunqiang was appointed as executive director of the Company, Mr. Lin Boqiang was appointed as independent non-executive director of the Company, Mr. Xu Yugao and Mr. Zhao Baoshun was appointed as 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 covering 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" issued by the government, and the requirements for listing supervision. We continued to carry out system optimization such as establishment, modification, abolition and interpretation, so as to ensure the scientific, adaptable and compliance of the internal control system. 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 Board of the Company in early 2021 evaluated the effectiveness of the 2020 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" and the "Management of Reports on Major Business Risk Events", established a sound risk management and control mechanism, and also established a risk management organization system. The Company organizes annual risk identification and assessment and reports the annual risk control 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 major and material risks is achieved through the identification, evaluation, response and assessment of major and material risks. Facing the impact of uncertain factors, the Company organized and caught out various major business risk investigations, timely identified risks in various fields, continued to improve risk management awareness, completed preventive countermeasures and response measures, thus further firmly established all employees' risk management awareness. We systematically inspected the operation of its risk research and judgment mechanism, decision-making risk assessment mechanism, risk prevention and control coordination mechanism, and risk prevention and control responsibility mechanism, continued to improve our ability and level of prevention and resolution of major 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 Chairman and the Chief Executive Officer of the Company are currently held by Mr. Qi Meisheng alone. This is different from the Code provision A.2.1, which states that the roles of chairman and chief executive officer should be different and should not be performed by the same person at the same time. However, the Board believes that, the roles of chairman and chief executive officer being assumed by the same person can help to meet the Company's overall production and operation needs in current phase, and can effectively promote the Company's strategy. At the same time, all major decisions of the Company are discussed by the Board, the Board committees and the senior managements. The Board believes that the current structure does not reduce the balances of power and authorization, and allows the Company to make timely and effective decisions and implementations.

(IV) TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

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. The terms of office of Mr. Lin Boqiang is three years since the 2019 AGM. The term of office of Mr. Xu Yugao is three years since the 2020 Second EGM. The term of office of Mr. Zhao Baoshun is three years since the 2020 Second EGM.

(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, Fong Chung, Mark, Lin Boqiang and Xu Yugao. 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 two meetings (please see Table I for meeting summaries) to review and approve the remuneration of directors, supervisors and senior management for the year 2019 as disclosed in the 2019 annual report of the Company, review and approve the key performance assessment of the management in 2020, and listened to the report on the performance evaluation of management in 2020.

(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 Lin Boqiang, Qi Meisheng, Wong Kwai Huen, Albert, and Lin Boqiang 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 four meetings (for details of the meetings, please see Table I), during which the nomination of directors and the diversity policy of the directors were discussed, the independence of the independent directors was recognized, and the senior management was appointed.

(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, Wong Kwai Huen, Albert and Lin Boqiang. 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 2019, the first quarterly report, the interim financial results and the third quarterly report of 2020 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 2019 annual internal audit report and the 2020 internal audit proposal of the Company. During the reporting period, the committee adopted the internal audit working report and the 2020 comprehensive risk management report, required the Company to strengthen credit risk assessment and accounts receivable management in the spread of the Pandemic; further optimize cash flow management and reserves, and carry on the impairment assessment of fixed assets; strengthen the pre-control role of internal audit in business development, so as to achieve risk avoidance.

(3) Reviewed the connected transactions of the Company. Enquired about the progress of the 2020 daily connected transactions; discussed the related connected transactions between the Company and CNOOC Finance regarding deposits and settlement services.

(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 2020.

(VIII) TRAINING FOR DIRECTORS

The training of Directors during the year 2020 were as follows: In April, the Directors and senior management of the Company participated in the new "Securities Law" revision and interpretation training; In June, all Directors, Supervisors and senior management of the Company participated in the corporate governance improvement and securities compliance training; In June, the Independent Non-Executive Directors Mr. Fong Chung, Mark, Mr. Wong Kwai Huen, Albert and Mr. Lin Boqiang participated in the follow-up training for independent directors of listed companies of the Shanghai Stock Exchange; In August, the Independent Non-Executive Directors Mr. Fong Chung, Mark, Mr. Wong Kwai Huen, Albert and Mr. Lin Boqiang participated in independent director performance training; In September, all Directors, Supervisors and senior management of the Company participated in the special training of "Opinions on Further Improving the Quality of Listed Companies"; In November and December, Chairman Mr. Qi Meisheng, Independent Non-Executive Directors Mr. Fong Chung, Mark, Mr. Wong Kwai Huen, Albert and Mr. Lin Boqiang participated in the online special training course "Improve the Quality of Listed Companies" organized by Tianjin Association of Listed Companies.

(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 completing corporate governance, improving the quality of listed companies, promoting the integration of functions and responsibilities of various corporate governance units, and strengthening Director training, etc., and continues to promote corporate governance compliance operation. For the year 2020, 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 didn't make amendments to the Articles of Association. For details, please visit the Company's website.

(XI) THE REMUNERATION OF AUDITORS

In 2020, the Company re-appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2020, 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 RMB15.37 million for audit/review of the annual and interim financial statements in 2020 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	25 March 2020	Yanjiao	Qi Meisheng, Cao Shujie, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert, Meng Jun, Zhang Wukui	Qi Meisheng	Three supervisors attended as non-voting delegates
Second Meeting of Board of Directors	29 April 2020	Yanjiao	Qi Meisheng, Cao Shujie, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert, Meng Jun, Zhang Wukui	Qi Meisheng	Three supervisors attended as non-voting delegates
Third Meeting of Board of Directors	28 May 2020	Yanjiao	Qi Meisheng, Cao Shujie, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert, Meng Jun, Zhang Wukui	Qi Meisheng	Three supervisors attended as non-voting delegates
Fourth Meeting of Board of Directors	26 August 2020	Yanjiao	Qi Meisheng, Cao Shujie, Fong Chung, Mark, Wong Kwai Huen, Albert, Lin Boqiang, Meng Jun, Zhang Wukui	Qi Meisheng	Three supervisors attended as non-voting delegates
Fifth Meeting of Board of Directors	29 October 2020	Yanjiao	Qi Meisheng, Zhao Shunqiang, Fong Chung, Mark, Wong Kwai Huen, Albert, Lin Boqiang, Meng Jun, Zhang Wukui	Zhao Shunqiang	Two supervisors attended as non-voting delegates
Sixth Meeting of Board of Directors	18 December 2020	Yanjiao	Qi Meisheng, Zhao Shunqiang, Fong Chung, Mark, Wong Kwai Huen, Albert, Lin Boqiang, Xu Yugao, Zhao Baoshun	Zhao Shunqiang	Two supervisors attended as non-voting delegates
First Meeting of Audit Committee	24 March 2020	Yanjiao	Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert	Fong Chung, Mark	One supervisor attended as non-voting delegates
Second Meeting of Audit Committee	28 April 2020	Yanjiao	Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert	Fong Chung, Mark	One supervisor attended as non-voting delegates
Third Meeting of Audit Committee	25 August 2020	Yanjiao	Fong Chung, Mark, Wong Kwai Huen, Albert, Lin Boqiang	Fong Chung, Mark	One supervisor attended as non-voting delegates
Fourth Meeting of Audit Committee	28 October 2020	Yanjiao	Fong Chung, Mark, Wong Kwai Huen, Albert, Lin Boqiang	Fong Chung, Mark	One supervisor attended as non-voting delegates
First Meeting of Remuneration and Appraisal Committee	24 March 2020	Yanjiao	Wong Kwai Huen, Albert, Fong Chung, Mark, Law Hong Ping, Lawrence, Meng Jun	Wong Kwai Huen, Albert	One supervisor attended as non-voting delegates
Second Meeting of Remuneration and Appraisal Committee	17 December 2020	Yanjiao	Wong Kwai Huen, Albert, Fong Chung, Mark, Lin Boqiang, Xu Yugao	Wong Kwai Huen, Albert	
First Meeting of Nomination Committee	24 March 2020	Yanjiao	Law Hong Ping, Lawrence, Qi Meisheng, Wong Kwai Huen, Albert	Law Hong Ping, Lawrence	One supervisor attended as non-voting delegates
Second Meeting of Nomination Committee	25 August 2020	Yanjiao	Lin Boqiang, Qi Meisheng, Wong Kwai Huen, Albert	Lin Boqiang	One supervisor attended as non-voting delegates
Third Meeting of Nomination Committee	28 October 2020	Yanjiao	Lin Boqiang, Qi Meisheng, Wong Kwai Huen, Albert	Lin Boqiang	One supervisor attended as non-voting delegates
Fourth Meeting of Nomination Committee	17 December 2020	Yanjiao	Lin Boqiang, Qi Meisheng, Wong Kwai Huen, Albert	Lin Boqiang	

	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	6	4	4	2	0	3
Zhao Shunqiang	2	2	0	0	0	1
Fong Chung, Mark	6	6	6	0	0	5
Wong Kwai Huen, Albert	6	6	6	0	0	5
Lin Boqiang	3	3	3	0	0	2
Xu Yugao	1	1	0	0	0	0
Zhao Baoshun	1	1	0	0	0	0
Cao Shujie	4	3	0	1	0	3
Law Hong Ping, Lawrence	3	3	3	0	0	3
Meng Jun	5	5	4	0	0	5
Zhang Wukui	5	5	4	0	0	4

Table II: Particulars of the Board resolutions

Meeting	Matters considered
First Meeting of Board of Directors	1. Approving the resolution of the audited 2019 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 2019 4. Approving the proposal for the Directors' Report and Corporate Governance Report of the Company for the year 2019 5. Approving the resolution of the Sustainability Report of the Company for the year 2019 6. Approving the resolution of the 2019 Assessment Report on Internal Control of the Company 7. Approving the resolution of disclosure of results of the Company for the year 2019 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 by the Company 12. Approving the resolution of nominating Mr. Lin Boqiang as candidate for independent non-executive director 13. Approving the proposal for convening Annual General Meeting and Class Meeting

Meeting	Matters considered
Second Meeting of Board of Directors	1. Approving the resolution of the 2020 First Quarterly Report of the Company 2. Approving the resolution of the related connected transactions between the Company and CNOOC Finance Corporation Limited regarding deposit and settlement services, and authorizing the Company's management to sign an agreement related to the transaction 3. Approving the resolution of the impairment of fixed assets in the first quarter of 2020
Third Meeting of Board of Directors	No matter disclosable
Fourth Meeting of Board of Directors	1. Approving the resolution of the 2020 Interim Financial Report of the Company 2. Approving the resolution of the 2020 interim results disclosure of the Company 3. Approving the resolution of the appointment of senior management of the Company and nominating director candidates 4. Approving the resolution of convening EGM
Fifth Meeting of Board of Directors	1. Approving the resolution of the 2020 Third Quarterly Report of the Company 2. Approving the resolution of nominating director candidates 3. Approving the resolution of formulating the "Independent Director System" 4. Approving the resolution of convening EGM
Sixth Meeting of Board of Directors	1. Approving the resolution of the 2021 wealth management amount of the Company 2. Approving the resolution of revising the "Information Disclosure Management System"

Summary of General Meetings

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which resolutions were published
AGM 2019	28 May 2020	**As ordinary resolutions:** 1. To consider and approve the audited financial statements and the report of the auditor for the year ended 31 December 2019; 2. To consider and approve the proposed profit distribution plan and annual dividend plan for the year ended 31 December 2019; 3. To consider and approve the report of the directors of the Company for the year ended 31 December 2019; 4. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2019; 5. To appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors of the Company for the year 2020 and authorisation to the Board to fix the remuneration thereof; 6. To consider and approve the provision of guarantees by the Company for other parties; 7. To consider and approve the appointment of Mr. Lin Boqiang 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.	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There were 36 shareholders (including on-site attendance and online voting) in attendance either in person or by proxy at the AGM, representing 3,453,939,241 shares or 72.39% of the voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. All 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
2020 First A Share Class Meeting	28 May 2020	**As special resolutions:** 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 35 shareholders (including on-site attendance and online voting) in attendance either in person or by proxy at the meeting, representing 2,440,060,803 shares or 82.42% of the A voting shares. The aforesaid resolution was approved by way of on-site and online voting by poll. All directors and supervisors of the Company attended the Class Meeting.	www.sse.com.cn www.hkex.com.hk
2020 First H Share Class Meeting	28 May 2020	**As special resolutions:** 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 1,013,690,438 shares or 55.97% of the H voting shares. The aforesaid resolution was approved by way of on-site voting by poll. All directors and supervisors of the Company attended the Class Meeting.	www.sse.com.cn www.hkex.com.hk
2020 First EGM	21 October 2020	**As ordinary resolutions:** 1. To consider and approve the appointment of Mr. Zhao Shunqiang as an executive director of the Company. 2. To consider and approve the appointment of Mr. Peng Wen as a supervisor of the Company.	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There were 23 shareholders (including on-site attendance and online voting) in attendance either in person or by proxy at the meeting, representing 3,344,780,137 shares or 70.10% of the voting shares of the Company. The aforesaid resolutions were approved by way of onsite and online voting by poll. Chairman, Mr. Qi Meisheng, executive director, Mr. Cao Shujie could not attend the meeting due to other business, 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 supervisors of the Company attended the EGM.	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
2020 Second EGM	11 December 2020	**As ordinary resolutions:** 1. To consider and approve the appointment of Mr. Xu Yugao as a non-executive director of the Company. 2. To consider and approve the appointment of Mr. Zhao Baoshun as a non-executive director of the Company.	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There were 9 shareholders (including on-site attendance and online voting) in attendance either in person or by proxy at the meeting, representing 3,211,007,499 shares or 67.29% of the voting shares of the Company. The aforesaid resolutions were approved by way of onsite and online voting by poll. Chairman, Mr. Qi Meisheng, executive director, Mr. Zhao Shunqiang, non-executive director, Mr. Zhang Wukui, could not attend the meeting due to other business, employee supervisor, Mr. Zhao Bi could not attend the meeting due to other business, while all other directors and supervisors of the Company attended the EGM.	www.sse.com.cn www.hkex.com.hk

Sustainability Report 2020

About This Report

This is the 15th annual report on sustainable development released by China Oilfield Services Limited (hereinafter referred to as "COSL", "the Company" or "we").

● 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.

● Scope of This Report

This report covers the performance of COSL and its subsidiaries in aspects like economy, environment and social responsibilities. The time range of this report is from 1 January 2020 to 31 December 2020. Part of the content data is beyond the above range.

● Principle of This Report

During the preparation of this report, the principles of importance, quantification, consistency, and balance are followed to ensure that the information in this report is objective, standardized, honest and transparent.

● References

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.

● 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.

● 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 2020 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 acquisition 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

Always Do Better

Performance Guideline

Do Everything Diligently

Core Value

Win-win with shareholders, customers, employees and partners

Code of Conduct

Integrity, dedication, team work and selfdiscipline

Corporate Strategies

Since 2020, facing the intricate international situation and continued downturn in the industry, especially under the severe impact of COVID-19, the Company has continued to adhere to the practice of two major strategies: technological development and international development. It carried out the transformation from focusing on heavy assets to light assets and technologies. Moreover, the Company adopted the development strategy of paying equal attention to both domestic and overseas market rather than only attaching importance to domestic market. It also pushed forward internal reform deeper, continuously improved the corporate governance system, and modernized the level of governance capabilities, striving to build the company into an international first-class oilfield service company with Chinese characteristics.

Development of domestic business

- Strengthened the resources acquisition capabilities based on market demand, continued to consolidate the strong tie with CNOOC Limited as a community with a shared future, and continued to ensure the supply of high-quality equipment and technologies;
- Expanded business cooperation models, accelerated the application of new technologies and new processes, further improved oilfield exploration and development efficiency, reduced costs, and made every effort to ensure national energy security and increase of CNOOC reserves and production;
- Further consolidated and seized opportunities for land development, and built new growth momentum with the exploration and development business in the northwest region and domestic unconventional businesses as the center of effort.

Expansion of overseas business

- Thoroughly considered the maturity of regional development and implemented differentiated management and control models consistent with the operation of entities and project systems, expanded overseas business, and promoted integrated and coordinated overseas business development；
- Focused on building the capacity of five ancillary systems, namely business, operations, finance, technological development and overall management;
- Actively promoted cooperation in oil and gas field along the "Belt and Road", and strived to achieve an organic combination of commercial interests and safeguarding national energy security;
- 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

- Grasped the energy transformation trend and reform pattern, promoted the development of basic and forward-looking technologies, and provided important technical support for the Company's industrial transformation and development;
- Continued to sort out and carry out research on key and core technologies in various fields of the existing industrial chain, and realized the iterative upgrade of the core technology system;
- Further improved the technology R&D system and R&D platform, actively expanded technology acquisition channels and methods, improved R&D efficiency, and accelerated the serialization and industrialization of technology products;
- Further improved the series of high-end technology products and focused on building soft power such as geological oil reservoirs, engineering design and comprehensive data processing and interpretation;
- Vigorously develop information technology, promoted the deep integration of informationisation, digitalisation and artificial intelligence with business to continuously empowering the Company's high-quality development.

Development of large equipment

- Focusing on light assets operation and fully leveraging on social resources through leasing, cooperation and custody, the Company further optimised the assets structure;
- Continuously added functions on equipment and enhanced the competitiveness of diversified equipment;
- Continuously 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

- Actively built a green and clean production model and promoted the upgrade of green and low-carbon equipment;
- Promoted new and environmentally friendly drilling technology and vigorously expanded to wind power, hydrate and other clean energy industries to continuously bring new drivers to economic growth.

Honours in 2020

In early 2020,

won the "Outstanding Contributor Award for the 30th Anniversary of the Hope Project" issued by China Youth Development Foundation

In May 2020,

won the "Best Investor Relations Company Award" and "Best New Media Operation Award" in the 11th "Tianma Award" for Investor Relations of Chinese Listed Companies

In August 2020,

won the "Most Popular Listed Company" Award on Sina Finance Golden Unicorn Hong Kong Stock Value List

In September 2020,

rated as "A" Category (Excellent), the highest evaluation of information disclosure among Shanghai Stock Exchange Main Board Listed Companies 2019-2020

In November 2020,

won the "Chinese Business Top 100 Award in 2020" at the 20th China Business Top 100 Listed Companies Summit and the 6th China Top 100 Cities Comprehensive Development Forum

In December 2020,

awarded "Certificate of High-tech Enterprise" jointly issued by Tianjin Municipal Science and Technology Bureau, Tianjin Municipal Bureau of Finance, and Tianjin Municipal Taxation Bureau of the State Administration of Taxation

In December 2020,

won the 10th China Securities Golden Bauhinia Award "Best Investor Relations Listed Company"

In December 2020,

won the 8th Top 100 Hong Kong Stocks "Best Investment Value Award"

In December 2020,

awarded the Chinese Enterprise ESG Gold Responsibility Award for "Excellent Corporate Governance Enterprise" in 2020

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 Acquisition 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

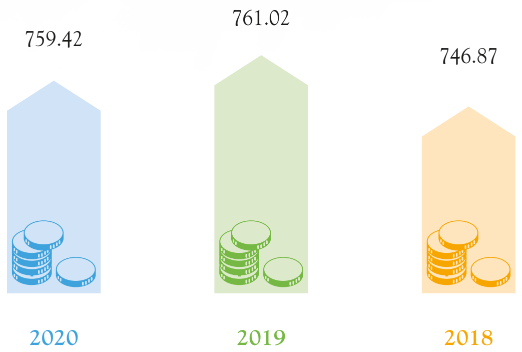
Marine Support Services

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

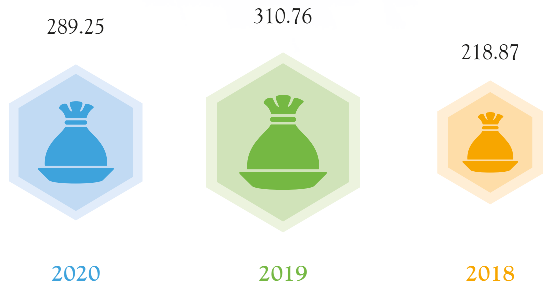
Key Performance

Market Performance

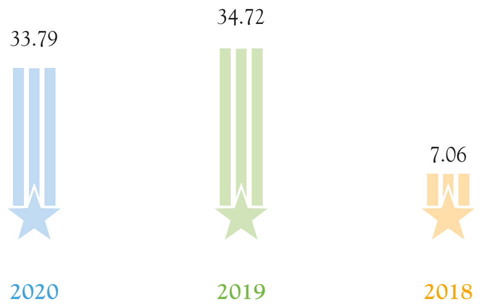
Total assets
(RMB100 million)



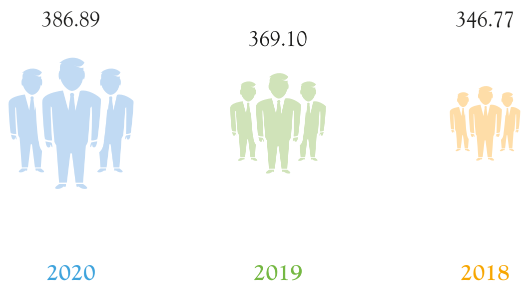
Operating revenue
(RMB100 million)



Profit before tax
(RMB100 million)



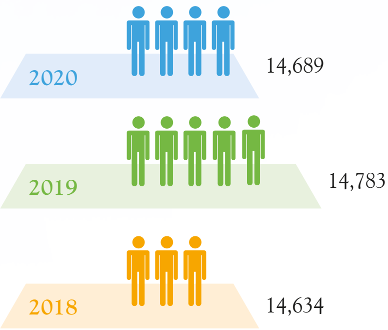
Total equity
(RMB100 million)



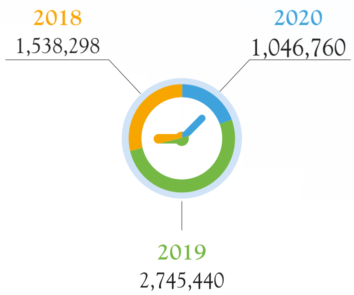
Market Performance	Unit	2020	2019	2018
Revenue from international business	RMB100 million	74.12	69.16	56.61
Percentage of revenue from international business	%	26	22	26
Total taxation	RMB100 million	22.82	23.36	13.78
Number of new patent	Piece	84	97	91
Social contribution value per share	RMB Yuan	2.06	2.30	1.52

Social Performance

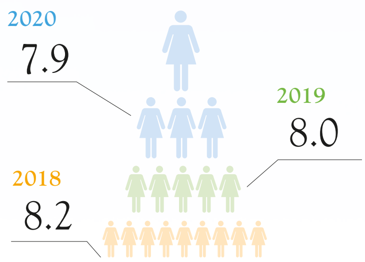
Total number of employees
(persons)



Total time of employees' training
(hours)



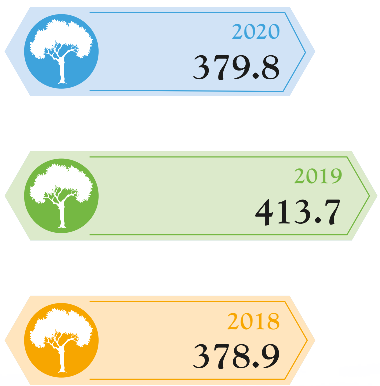
Proportion of Chinese female employees
(%)



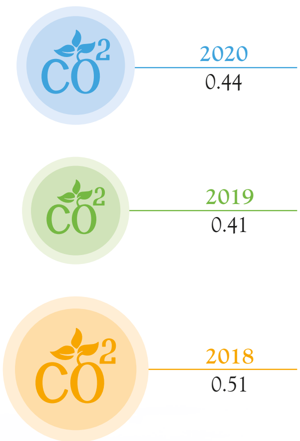
Social Performance	Unit	2020	2019	2018
Social insurance coverage	%	100	100	100
Percentage of labour contracts signed	%	100	100	100
Chinese staff turnover rate	%	0.8	1.6	2.6
Total donation & employee relief fund	RMB10,000	397.15	255	441.4
Number of maritime rescues and salvages	Times	14	16	25
Number of employees participating involunteer activities	Persons	11,530	980	883

Environmental Performance

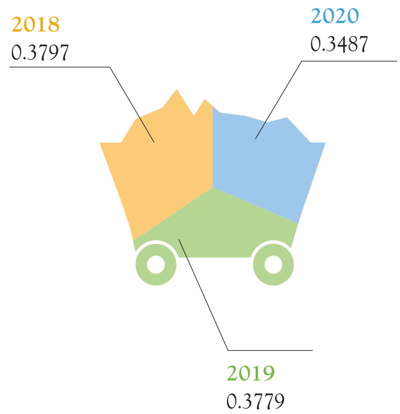
Investment in energy conversion and emissions reduction
(RMB10,000)



Emissions of carbon dioxide for an output value of RMB10,000
(tonnes/RMB10,000)



Energy consumption for an output value of RMB10,000
(tonnes of standard coal/ RMB10,000)



Focus: Help alleviate poverty and secure a decisive victory in building a moderately prosperous society in all respects

2020 is the final year to win the battle against poverty in an all-round way. COSL actively responds the call of the party and the nation on the fight against poverty, vigorously implements the deployment of CNOOC's Party Committee, consciously sees resolutely winning the "Three Tough Battles" as a political priority, and takes assistance in poverty alleviation as a major political task. By fulfilling the responsibility of as a central enterprise. It has made precise efforts in all aspects, such as education poverty alleviation, employment poverty alleviation, fixed-point poverty alleviation, consumption poverty alleviation, and achieved good results, contributing to the fight against poverty as scheduled.

Take multiple measures to accurately promote targeted poverty alleviation

At the beginning of 2020, CNOOC announced that the 6 counties and cities including Nyima County, Nagqu City, Tibet Autonomous Region, which under the couplet-assistance of CNOOC, all cast off their label as "poverty area".

Since 2002, in accordance with CNOOC's overall poverty alleviation deployment for Tibet, COSL has sent helpers in three batches to assist Nyima County, Nagqu City, Tibet Autonomous Region. Over the past 8 years, they helped build roads and houses, promoted the construction of 2,000 herdsmen's solar projects and other projects, built Nyima's infrastructure; strengthened the training and education of cadres and skilled talents. They helped build 277 residential settlements, function rooms, public toilets, photovoltaic power supplies, etc., to improve the production and living conditions of local residents. They helped local villagers build vegetable greenhouses and learn cultivation techniques so that families in plateau regions can grow fresh vegetables. These helpers set up a bridge for poverty alleviation from the sea to the plateau, and continuously turned CNOOC's development strategy of "relieving poverty, focusing on essence, creating circulation, and establishing a long-term mechanism" into the smiling faces of local people.

In 2019, COSL selected 3 helpers to station in the village, began to provide fixed-point assistance to Luxi Village, Longtou Town, Potou District, Zhanjiang City, Guangdong Province. In order to achieve the "Two Guarantee, Three Ensuring", so that the poor households can live a good life as soon as possible, the helpers from SOSL helped built new houses for 4 poor households, vigorously carried out industrial poverty alleviation, invited experts to carry out planting knowledge training on site, and encouraged the poor households to expand the scale of planting and distribute free fertilizers according to the planting area to help them alleviate poverty and increase income as soon as possible. The helpers visited registered impoverished households, gave them gifts on public holidays, applied for medical assistance for them, and purchased basic endowment insurance for them. In June 2020, all the registered impoverished households achieved the "Two Guarantee, Three Ensuring", and the withdrawal rate of poverty alleviation is 100%.

Since 2016, the Company began to undertake targeted poverty alleviation tasks in Leishan County, Guizhou Province, and invested RMB1.9 million in poverty alleviation funds to help Leishan County improve infrastructure and carry out industrial poverty alleviation projects such as Chinese herbal medicine planting and goat breeding. After unremitting efforts, Leishan County officially lifted out of the label of poverty in November 2020.

Inauguration ceremony of the poverty alleviation commercial building in Luxi Village

A poverty alleviation helper helps villagers move fertilizers to home

Helpers guard the front line and weave a "prevention and control network" for the epidemic

In the face of the unexpected epidemic, the helpers in Luxi Village, Longtou Town, Zhanjiang City, Guangdong Province were fighting on the front line of the "epidemic", they set up a station to control the access, and guard the frontline of epidemic prevention; they also conducted surveys on people coming back from high-risk areas, they used various methods such as broadcasting, hanging banners, home visit to propagandize and stably control the epidemic prevention frontline. In order to solve the problem of epidemic prevention materials shortage, the Company donated epidemic prevention materials and chemical fertilizers for spring ploughing to Luxi Village. The Company also donated smart phones and English learning machines to impoverished primary and middle school students, so that they can have an equal chance to receive high-quality online education.

"Education is key in poverty alleviation", accurately promoting poverty alleviation through education

For a nation to develop, education is the priority. General Secretary Xi Jinping pointed out that "the realization of the 'two centenary goals' and the realization of the China Dream of the great rejuvenation of the Chinese nation depend on talents and education." COSL responds positively to this remark and is duty-bound to assume its social responsibility of alleviating poverty through education.

In 2008, after discussion, COSL and China Youth Foundation decided to assist the construction of 12 "CNOOC COSL Hope Primary Schools" in 9 counties in Yunnan and Hainan provinces. In the early stage of aid construction, according to the China Youth Foundation's "Hope Project Management Measures", each elementary school requires an investment of RMB300,000. However, during the follow-up inspection process, COSL found that RMB300,000 is only enough to build a main teaching building, the Company decided to donate RMB12 million after research, the donation will be enough to build both main teaching building and supporting facilities.

After that, COSL has taken greater responsibility to integrate the corporate philosophy of "Always Do Better" into all aspects of alleviating poverty through education, and inspection teams and action teams have been sent. It increases donations and helped build supporting facilities; on the other hand, COSL strictly controlled the quality of construction and the earthquake resistance level of the main teaching buildings of Hope Primary Schools assisted by COSL is above Grade 8. In August 2014, a 6.5-magnitude earthquake occurred in Ludian County, Zhaotong City, Yunnan Province, and the main teaching building of Hope Primary School assisted by COSL was unscathed.

In September 2012, the 12th Hope Primary School assisted by COSL officially opened and was put into use in Qunying Township, Lingshui County. These 12 primary schools can accommodate more than 3000teachers and students. Over the years, COSL has continuously provided assistance to these schools. It organizes the Company's labor union and youth league committee to give gifts every year, and helps schools increase teaching equipment, upgrade infrastructure, and improve school conditions through donations. In October 2020, through the China Youth Development Foundation, COSL made a targeted donation of RMB150,000 to COSL Hope Primary School located at Dachai Village, Dachai Town, Qiaojia Country, Yunnan Province. These schools have successfully helped tens of thousands of poverty-stricken students return to school and receive education. Today, they have gradually grown into pillars who are giving their best to build the motherland on all fronts.

While doing a good job of assisting the construction of Hope Primary Schools in Yunnan and Hainan, COSL also actively participated in the couplet assistance of Mancheng Xunkou Hope Primary School in Hebei Province and Luanping Wafang Hope Primary School in Hebei Province in accordance with CNOOC's arrangements. In August 2020, COSL Charity Committee donated RMB96,000 to Mancheng Xunkou Hope Primary School in Hebei Province to improve school conditions.

According to statistics, in 2020, the Company focused on meeting schools' needs and invested a total of RMB1.766 million in repairing damaged campuses, improving school conditions, equipping teaching equipment, setting up award funds, subsidizing poverty-stricken students, and giving gifts on public holidays, etc., carrying out alleviating poverty through education in a comprehensive and multi-faceted manner.

At the beginning of 2020, the China Youth Development Foundation awarded COSL the "Outstanding Contributor to the 30th Anniversary of the Hope Project" medal and honorary certificate, and expressed its gratitude to the Company for its outstanding contributions to the construction of the Hope Project in Yunnan, Hainan and other places over the years.

In October 2020, the Company and the China Youth Foundation jointly planned to assist elementary schools in Hubei affected by COVID-19 and floods, and invested RMB700,000 in charity funds for the construction of damaged school and the establishment of scholarships in Hope Primary School in Dianping Village, Zhushan County, Hubei. COSL also invested RMB800,000 to two Hope Primary Schools in Yunnan and Hainan to upgrade the infrastructure and set up scholarships.

COSL donated books and bookcases to the Shuiliushi Primary School in Luxi Village, built a charity book corner, and read books with the children, encouraging them to love reading and give back to the society as soon as possible.

In May 2020

Coordinated and supported the Zhanjiang branch on behalf of the company to visit the four Hope Primary Schools in Hainan on the occasion of Children's Day, and sent nearly RMB20,000 of gifts

In August 2020

Donated RMB96,000 to Xunkou Hope Primary School, Mancheng District, Hebei Province through Hebei Mancheng Red Cross to improve school conditions

In July 2020

Tianjin Branch and Tianjin Binhai Middle School carried out school-enterprise joint construction and donated RMB118,000 of teaching equipment to the latter

In September 2020

Through the Youth Foundation, donated RMB150,000 to Luoji Hope Primary School in Dazhai Town, Qiaojia County, Yunnan Province to purchase teaching equipment and install a monitoring system for the school

Active participation, accurately promoting poverty alleviation through consumption

COSL actively implemented the central government's poverty alleviation work requirements of "alleviating poverty through consumption and full participation of all employees", did a solid job in matchmaking the production and marketing of agricultural products in poverty-stricken villages and areas severely affected by COVID-19, and encouraged and guided employees to purchase products from those areas, to help those people increase their income through consumption and promote economic recovery of the areas affected by COVID-19. In 2020, the amount of consumption reached RMB9.9776 million.

In April 2019, assisted by CNOOC, a Poverty Alleviation Workshop was completed in Gannan, which was mainly engaged in the production of clothing and work shoes and successfully helped 113 local people achieve employment. Among them, 62 were registered impoverished households, accounting for 55% of the total. COSL fully supported the workshop and actively purchased labor protection supplies such as work clothes and shoes for employees from it. In 2020, the procurement amounted to RMB4.2562 million.

In 2020, affected by COVID-19, honey in Luxi Village encountered poor sales. COSL actively sought sales channels for the villagers, carefully designed product copywriting and packaging, and adopted online and offline multi-channel sales models. Unsalable honey was sold to Dalian, Beijing, Tianjin, Sanya and other places.

At the same time, COSL actively participated in alleviating poverty through tourism, it encouraged and supported company employees to travel and consume in Gannan County, and took practical actions to help poverty-stricken areas in Gannan get rid of poverty.

In October 2020, the Company organized and implemented poverty alleviation product exhibition and sales activities, on-site sales reached RMB30,000

COSL actively responded to the nation's policy of alleviating poverty through consumption, helping win the decisive battle against poverty, and purchased unsellable agricultural products in Suizhou City, Hubei

Implement "ensure stability and ensure security in six aspects", and accurately promoting poverty alleviation through employment

Alleviating poverty through employment can help poor people achieve continuously increasing income and stabilize poverty alleviation results. In order to implement the work requirements on central enterprises, alleviating poverty through employment, COSL actively responded, while taking effective measures to normalize the epidemic prevention and control, it did a solid job of implementing "ensure stability in six aspects and ensure security in six aspects", and comprehensively carried out works on alleviating poverty through employment.

COSL focused on 87 impoverished counties in Tibet, Gansu, Inner Mongolia, Hainan and other provinces, and carried out recruitment work, and the effect was remarkable. It promoted contractors to recruit 991 college graduates, 76 veterans, 101 poverty-stricken migrant workers, and 92 poverty-stricken college students, of which, there were 24 college students lived in Hubei Province or were natives in Hubei.

Due to the epidemic, and recruitment was fully carried out online. COSL adopted many new live interview methods such as Tik Tok live streaming, INNOlink, QQ Meeting, etc., and provides precise assistance for student groups with special religious beliefs, ethnic culture, and living habits. The conservative employment concept of those students was changed, and everyone wanted to go out to see how big the world is.

Tsering Nyima, a Tibetan worker recruited by COSL in 2020, was studying

Corporate Governance

- Party Building
- Governance Structure
- Regulatory Compliance
- Internal control and risk management
- Anti-fraud construction

Party Building

Guided by Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era, The Company always sees political construction as the first priority. Under the strong leadership of the Party Committee of CNOOC, we comprehensively consolidated and deepened the educational achievements on the theme of "remain true to our original aspiration and keep our mission firmly in mind". The Company studied and implemented the spirit of the 19th National Congress of the Communist Party of China and the plenary sessions of the 19th National Congress of the Communist Party of China, to ensure that the Party Central Committee's decision-making and deployment are implemented, and worked hard to create a new situation for high-quality party building to lead high-quality development. The Company carried out the special action plan for the "Party Building Consolidation and Deepening Year", adhered to "grasp the two ends and lead the middle", and persevered in the standardized construction of party branches, with a reaching-standard rate of 99.3%. The "double-hundred reforms" were steadily promoted, reforms and innovations became common practice, and the dividends of reform were gradually enlarged. The Company adhered to the party's leadership over cadres and talents and solidly promoted the establishment of a cadre and talent team,"3+1" project; established a grid inspection and rectification responsibility system, innovatively implemented the project management methods, "One Plan", "Three Checklists" and "Worksheet System", and did a solid job in the "second half of the article", and all the problems discovered during the inspection were rectified.

Governance Structure

The Company integrates the leadership of the party into the whole process of governance, fulfills the pre-procedures of the Party Committee for making decisions on major issues, and take the "general meeting of shareholders, the Board, Board of Supervisors and senior management" as the starting point to establish governance mechanism with "the general meeting of shareholders takes overall management and control, the Board makes business decisions, The Board of Supervisors supervises in accordance with the law, and the senior management implements. The company has established a corporate governance structure of "scientific decision-making, effective execution, effective supervision, and standardized operation" to effectively improve the professionalism and effectiveness of the performance of the "general meeting of shareholders, the Board, Board of Supervisors and senior management", and comprehensively promoting the modernization of the corporate governance system.

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, the Patent Law of the People's Republic of China and relevant regulations to promote fair competition, respect and protect intellectual property, 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

Internal control system and system construction

Guided by strategies, problems and risks, The Company clarified the optimization direction and standards of the internal control system in the year, and carried out the internal control system optimization according to the annual plan. It continued to improve the applicability, scientificity and operability of the system, to ensure compliance and effectiveness of internal control system, to accelerate the promotion and standardization of the Company's construction and improvement of a global management system, as a result, adapting to the overall reform process of the Company.

Internal control system training

The Company combined the needs of different units and positions, sorted out the existing system, implemented various targeted trainings, organized and carried out several internal control publicity week activities, and after the system was revised and perfected, various functional departments and units at all levels also took time in publicity and implementation, continued to cultivate a good atmosphere for proactive publicity and implementation of the system.

Internal control evaluation

The Company comprehensively sorted out the main processes and key risk points of the functional system, continued to promote the standardization of internal control evaluation templates, covering the Company's main business processes, and continuously improved the quality of internal control evaluation. It carried out annual internal control evaluation work, systematically sorted out and evaluated the Company's system construction and implementation, and promoted staff at all levels of the Company to improve their awareness and ability of internal control management, and internal control evaluation continued to play the role of promoting the quality of system construction.

Risk Management

Establishing the risk management system

The Company has established a comprehensive risk management system and formulated the "Comprehensive Risk Management Measures" to continuously improve the risk management system and mechanism. In accordance with the principle of "grading, stratification, and classification", the risk management is integrated into daily production and operation management activities, forming a normalized system including evaluation, reporting, response, and supervision. The Company strengthened the organic integration of risk management and internal control and business. We continue to deepen the normalization of risk management.

The Company formulated the "Management Measures on Reports of Major Business Risk Events to improve the reporting mechanism and reporting system that are connected from top to bottom and horizontally coordinated, and by promoting early detection, early reporting, and early response to major risks, we avoid systemic business risks.

The Company established 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. We implement risk assessment and management control, reinforce our information sharing and continue to enhance the efficiency of synergic risk prevention and control mechanism.

Risk Identification

The Company continued to improve the "Risk Guidelines" and various early warning indicators, and continued to improve risk identification and early warning capabilities. It sees risk reports as the carrier, continued to optimize risk information sharing and reporting channels, and strengthened the coordination of units at all levels of the Company as a whole, and took joint actions to manage and control major and important risks. All units took the initiative to carry out risk assessment and response work, and reported risk information in a timely manner. Units of corporate headquarters strengthened monitoring and evaluation on risks, and put forward specific control and guidance opinions. By strengthening risk identification and coordinated management and control from different dimensions through units at all levels, it supports and guarantees the Company's high-quality development.

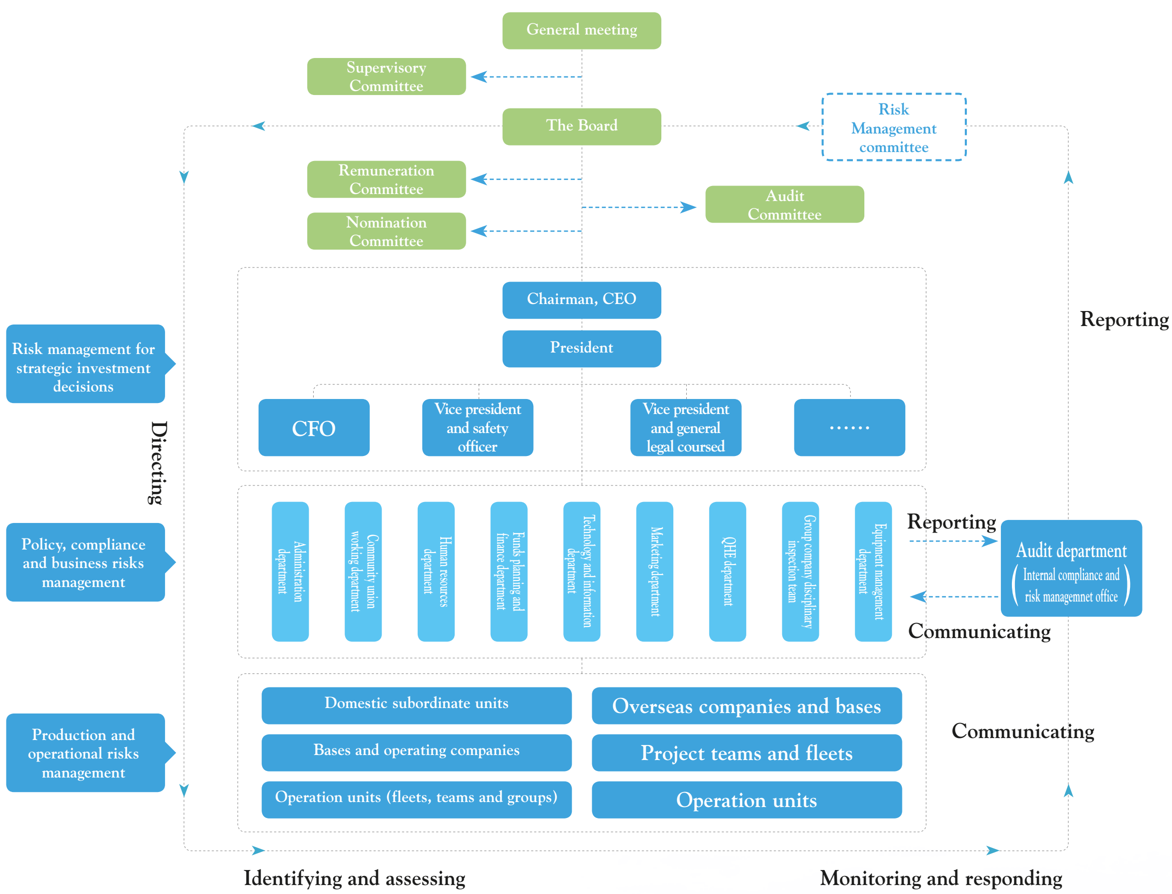
Risk prevention and response

Facing the impact of uncertain factors, the Company organized and conducted special investigations on major business risks, promptly identified risks in various fields, continuously improved risk management awareness, and improves prevention measures and response measures, which further established a firm risk management awareness among the staff. By systematically examining the operation of the Company's risk assessment mechanism, decision-making risk assessment mechanism, risk prevention and control coordination mechanism, and risk prevention and control responsibility mechanism, it played a positive role in further promoting the Company's overall risk resolution ability.

Internal control and risk management training performance table (2018-2020)

Indicator	Unit	2020	2019	2018
Number of internal control management training	Times	112	172	166
Number of participants in internal control management training	Person-times	2,662	2,725	2,512
Number of risk management training	Times	42	47	45
Number of participants in risk management	Person-times	1,709	1,621	1,598

Risk Management Organisation Chart



Anti-fraud Initiatives

Preventing commercial corruption and bribery

The Company conforms to the Anti-Unfair Competition Law of the People's Republic of China and the Interim Provisions on the Prohibition of Commercial Bribery, adheres to the guidance of petition reports, inspections, internal audits and special inspections, and continues to carry out in-depth anticorruption 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 2020, no instances of corruption, fraud or money laundering were detected by the Company.

On March 27, COSL held the 2020 Party Building Work Meeting and Improving Party Conduct and Clean Governance and Anti-Corruption Work Meeting

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. Select the best and empower overseas compliance supervision team, 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. In 2020, affected by COVID-19, the Company sent staff to the Middle East to carry out supervision work, and adopted Internet telecommuting in the Americas and Asia-Pacific regions to realize the effective operation of overseas supervision mechanisms. 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. The Company formulated integrity records for key personnel, as an important reference in personnel's post evaluation, selection, appointment, and promotion. It carried out anti-corruption propaganda, special learning activities on the construction of party conduct and clean governance, etc., to strengthen the awareness of honesty and self-discipline of leading cadres.

Performance of Anti-fraud trainings (2018-2020)

Indicator	Unit	2020	2019	2018
Number of anti-fraud trainings	Times	469	409	397
Number of participants in anti-fraud training	Person-times	17,891	16,141	16,507

Improved Capacity

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

Quality Management

Through strictly abiding by the "Product Quality Law of the People's Republic of China", "Industrial Product Quality Responsibility Regulations" and other relevant laws and regulations, as well as adherence to its policy of "impeccable credibility, equipment in good condition and quality assurance", the Company fully implements quality management, provides clients the quality and sustainability of its products and services, and meets the diverse needs of customers.

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.

The 2nd COSL New Employee Occupational Skill Competition

Improving Quality Management Systems

As part of its efforts to continuously improve its quality management, all disivions 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

Through various forms of quality trainings on quality management system, quality management basic knowledge, QC team practice, quality accident case analysis, quality control and quality assurance, and technical competition, all units of the Company continue to improve the quality knowledge and skills of employees and help the company's high-quality development.

Advancing Laboratory CNAS Certification

In 2020, In order to meet the international market access requirements, the Company continued to promote the ISO/IEC17025 laboratory certification of the Oilfield Technology Experiment Center and the Geophysical Exploration and Geotechnical Experiment Center. The Experimental Center of the Research Institute of Petrochemical Division successfully passed the biennial certificate renewal review.

Certificate of Renewal of Laboratory Center of Petrochemical Research Institute

Carrying out QC Team Activities

The Company carried out a total of 189 QC group activities throughout the year. In the first "CNOOC 2020 Quality Management Team Activities Outstanding Achievements" selection, a total of 20 teams including the manufacturing center "D+W Maintenance QC Team" won the title of Company's Outstanding QC Team Outstanding Achievement.

2020 Group QC Team Outstanding Achievement Certificate

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

The Company has always been adhering to the corporate philosophy of "Always Do Better" and dedicated to providing safe, high-quality, efficient and environmentally friendly services to Chinese and foreign customers.

Professional Services

Asia-Pacific..

Myanmar: Won the bids for jack-up drilling rig service and offshore cementing service projects.
Indonesia: 4 barges for 4-year service, 4-year oil well intervention service, offshore well repair service, drilling fluid and completion fluid service, logging service, cementing acidification and production stimulation service, offshore jack-up drilling rig service, and won the bid of semi-submersible drilling rig services.
Malaysia: Cementing engineering technical services for 19 wells, drilling fluid and solids control services for 15 wells.

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: Actively prepared to start the service of two jack-up drilling rigs for a period of three years offshore Kuwait.
Iraq: A three-year long-term well repair and production stimulation turnkey service project in the Missan Oilfield, and an integrated drilling turnkey project for 5 MISHRIF wells in the Missan Oilfield.

COSLGift drilling rig breaks the dust-covered 30-year drilling record in Saudi Aramco

In September 2020, the COSLGift drilling rig under the Saudi Arabia of COSL Middle East company achieved an average ROP of 87.66 feet per hour, which successfully completed the 16" wellbore operation of a single well at the Saudi Aramco operation site and broke the 16" borehole drilling record of Saudi Aramco in the operation block for 30 years. This record marked that the COSLGift drilling rig monopolized three out of 5 records in the history of Saudi Aramco's 16" borehole drilling, reflecting the fighting spirit and hard efforts made by the employees of the COSLGift drilling rig, it also demonstrated the tenacious work style and reliable work execution ability of the COSLGift drilling rig "COSL Iron Army" under the high standards of Saudi Aramco.

Americas……

Canada: Onshore logging services.
Brazil: HYSY720 ship 3D seismic acquisition service.
Mexico: Module rig drilling and well repair services, jack-up drilling rig services, wireline logging and perforation services, cementing services, drilling fluid services, and integrated services for winning the bids of rigs + logistics.

Europe …….

Norway: Semi-submersible drilling rig service project.
United Kingdom: Semi-submersible drilling rig service project.

Strengthening Communication with Customers

The Company continued to deepen the communications with key markets and key customers. Affected by COVID-19, the Company established a cloud business marketing and promotion platform as a new channel for communication and contact with international oil company customers, further consolidated the "cooperative stickiness" with customers. It actively promoted cooperation with well-known oil platforms such as “Oil Link” and “Oil Community”, using the public resources and platforms to show the Company's oilfield service capabilities, which cover the full industrial chain and high-end service, and made every effort to enhance the Company's brand influence in the domestic and foreign oil fields.

The Company continued to improve the content and quality of customer service covering the whole process, and timely recorded the content of customer complaints, handled and reported it according to the details of complaints, and maintained communication with customers during the rectification process to effectively solve customer problems. The customer satisfaction rate in 2020 was 95.3%.

Participated in the Asia-Pacific OTC Asia2020 Cloud Exhibition

In September 2020, COSL served as an exhibitor and a sponsor participate in the Asia-Pacific OTC Asia2020 Cloud Exhibition. It put together a professional promotion team, and demonstrated the Company's technology and equipment strength in all aspects through COSL special technical lectures, promotional videos and materials, online exchanges and other activities. During the exhibition, a total of more than 1,000 representatives of major oil companies visited the Company’s booth, more than 60 of them come from Total, Exxon Mobil, Kuwait Petroleum, Shell, Pertamina, Petronas, PTT and other well-known oil companies, they conducted in-depth business talks with the Company's promotion team.

Technological Innovation

The Company adheres to the strategy of "technical development", continues to optimize the technology R&D system and mechanism, fully promotes major technological breakthroughs, accelerates the industrialization of independent technologies and products, and contributes technological strength to boost China's oil and gas reserves and production and ensure national energy security.

Increase scientific research inputs

In 2020, the Company's Invested 1.312 billion RMB in technology development, an increase of 22.3% compared with the previous year. It has won the national "High-tech Enterprise" for the fifth time in a row. Throughout the year, it obtained 84 patents, including 38 invention patents, won 6 science and technology awards at provincial and ministerial level or above, among them, "Development and Application of Module Large Diameter Core Rotating Sidewall Coring Apparatus" and "High-efficiency and Environmentally Friendly Drilling Fluid Key Well Technology and Scale Application for Marine Complex Oil and Gas Fields" won the first prize of Tianjin Technology Invention Award and the first prize of Tianjin Science and Technology Progress Award. The Company's independent technical product serialization and industrialization accelerated, and breakthroughs were made in key technical equipment such as high-rate pulser while drilling, ultra-high temperature and high-voltage wire line logging, and marine seismic digital streamer system.

Logging while drilling equipment

Key Performance Table for Technical Innovation of COSL (2018-2020)

Indicator	Unit	2020	2019	2018
Research and development expenses	RMB10,000	131,178	107,269	79,375
Number of new patents	Piece	84	97	91
Number of new invention patents	Piece	38	38	42

Facilitate green development

The Company actively develops offshore oil and gas development environmental protection technology and equipment, forming a water-based drilling fluid waste offshore mobile center emission reduction integrated technology, integrating waste storage, transportation, treatment, and recycling, which can achieve 80% reduction in drilling fluid, 40%-60% reduction in drilling cuttings, and drill liquids are 100% recycled at sea. With this technology, throughout the year, the Company achieved emission reduction of 65,000 tons and resource disposal onshore of 30,000 tons in Bohai Sea area, it played a key role in the Caofeidian 6-4 project, the first large-scale ecological red line total recycle development project in China. In the western and eastern parts of South China Sea, and the East China Sea, 12,000 tons of wastes were reduced, and 16,000 tons were recovered and landed ashore.

Commercialization of technological achievements

Guided by the strong demand for technologies for increasing oil and gas reserves and production in China, the Company has sped up the commercialization and industrial application of scientific and technological achievements to continuously provide high-quality oilfield service technologies and products. Among these, our self-developed ESCOOL system has become the key equipment for offshore high-temperature logging with its operation at scale in China. The BIODRILL S synthetic drilling fluid system has successfully replaced its imported counterparts and set a number of operating records in high-temperature and extended reach deep wells in the South China Sea; our new large-scale thermal recovery equipment was successfully installed and commissioned in the Lvda 21-2 Oilfield, which is expected to increase the collection rate by 2%-5% compared with systems using steam only.

Deepened R&D reform

The Company's R&D reform was further deepened, with the system of project manager ownership gradually covering R&D, the second batch of projects under the industrialization incentive fund in good progress, and the economic benefit projection and simulated sharing plan for scientific research achievements officially released. The amended R&D system for better empowerment and support has greatly motivated R&D personnel and boosted the Company's technological advancement. By embedding empowerment and support and enhancing systems and coordination among departments, the Company successfully implemented its first pilot program with far better R&D efficiency, as well as a breakthrough in the development of high-end drilling fluid treating agents.

Successful first-time offshore application of COSL's self-developed HSVP

In December 2020, COSL's self-developed LWD High Speed Velocity Pulser ("HSVP") was applied offshore in a block in the Bohai Sea with an operational decoding success rate of 100%. It increases the drilling efficiency by 20% and has filled the gap in HSVP technology application in China, making COSL the third company to have this technology globally.

HSVP supports the complete set of equipment in our self-developed LWD and rotary steering drilling systems. It can decode mud pulse signals in real time, 24 times faster than ordinary pulsers in terms of transmission rate. It can effectively improve real-time data resolution and drilling efficiency, and provide reliable basis for customers to make timely decisions. The successful trial paved the way for the operation of high-end LWD equipment with large amounts of data, marking that the Company's LWD and rotary steering drilling systems have entered the "high-speed" stage, which will further accelerate the serialization and industrialization of our LWD and rotary steering products, providing solid technical support and strong momentum for offshore oil and gas exploration and development.

Supply Chain Management

The Company continuously optimizes its supply chain management, actively responds to the call for promoting global supply chain construction and innovative applications. It has implemented the CNOOC's requirements for the supply chain management system to align risk control with procurement quality, benefit and efficiency, aiming to create an integrated, cost saving, robust global supply chain support system with effective risk control.

Development of international supply chain management system

In accordance with the requirements on global supply chain construction and deployment, the Company has developed a new global supply chain system, laying a foundation for the globalization, standardization and differentiation of its supply chain. In addition, the Company further expanded the coverage of domestic annual agreements, explored and promoted the domestic annual agreements with economic advantages to overseas, in order for sharing of resources at home and abroad, and improved overseas procurement efficiency.

Logistics management

The Company established a "big logistics" unit to centralize all logistics activities previously managed by individual departments. Focusing on the key locations in its global operations, the Company set up a regional logistics and distribution department to carry out regional and cross-regional logistics business under unified coordination.

The Company made the most of domestic and foreign logistics markets to further break down its logistics business with a new model that combines full-truckload and less-than-truckload logistics. The Company is actively developing a sea, land, and air multimodal logistics system to drive the high-quality development of its business with a lower cost and more flexible logistics model. In addition, the Company is actively developing the resources of international logistics providers, to formulate a global logistics multimodal transport mechanism, connecting key nodes in global logistics business. At the preliminary stage, an integrated operation plan will be established with Singapore and Dubai as the hubs to set up international logistics routes in Europe, Asia, and the Americas, with a total of 48 global logistics routes.

Standardization management for supply chain

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 2020, the Company continued to conduct in-depth supplier review, and the annual review coverage of suppliers with business contacts in the past year reached 100%.

COSL's Standardise Management Mechanism for Suppliers

Supplier Access Approval Phase

The market entry barriers and the barriers of pools level 1 and 2 have been removed, and supplier resources are fully shared across the Group. Highlight the 7 key checking 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. For procurement, it is allowed to give appropriate preferential offers to suppliers of green, environmentally friendly and energy-saving products.

Number of suppliers by region (2018-2020)

Year	Unit	Total number of suppliers as at the end of the year	Overseas	Domestic	Major cities				
					Tianjin	Beijing	Guangdong	Shanghai	Others
2020	Supplier	6,312	3,270	3,042	764	452	459	197	1,170
2019	Supplier	6,707	3,246	3,461	776	541	462	198	1,484
2018	Supplier	6,653	3,569	3,084	682	497	448	185	1,272

Safety and Environmental Protection

- 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 norms in all aspects of its operation. Best practices are adopted to provide quality and efficient services to customers in a sustainable manner. The Company is committed to meeting the goal of zero accident through systematic management to protect people, environment and property against any harm. To this end, we undertake to:

1 continuously improve our QHSE management system by measuring, assessing, reporting and bench-marking our management performance;
2. require leaders at all levels to lead by example, proactively taking part in QHSE management and demonstrating visible leadership;
3. provide all employees with safety training to consistently enhance their awareness;
4. ensure that employees have the right to stop operation if they think it is dangerous;
5. protect the environment and practice clean production;
6. continuously improve emergency management and reduce accidents and losses;
7. foster a safety culture by sharing and conveying our values on safety;
8. require contractors to manage quality, health, safety and environmental protections in accordance with this policy.

QHSE Management

QHSE management system

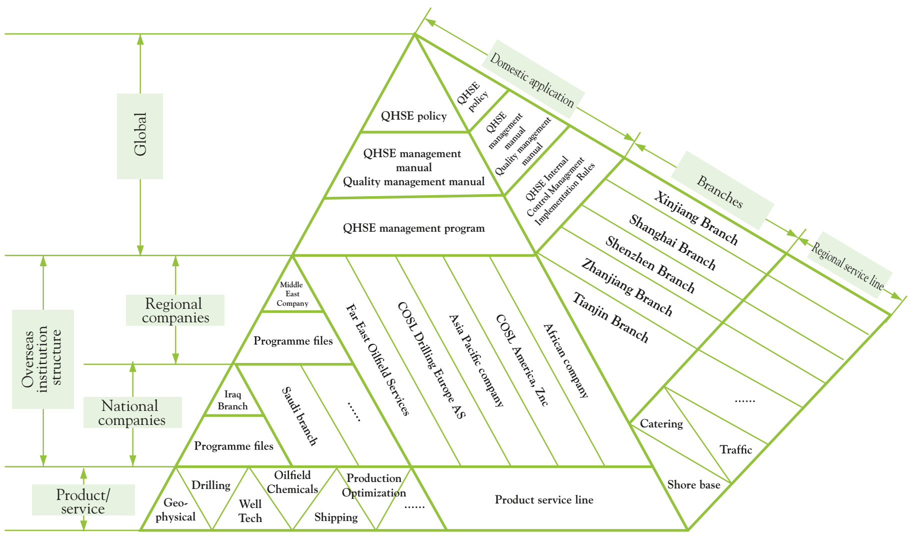
The Company is determined to implement the overall requirements and plans of the state and the CNOOC on safe production, and constantly improve the QHSE management system by leveraging on the concept of "building the system as a code".

The Company has prepared, published and implemented the Quality Management Manual and HSE Management Manual with different focuses;

According to the CNOOC's QHSE management framework, the Company has summarized and identified general requirements under existing management measures and rules, and prepared, published and implemented 36 global general management procedures by reference to the advanced management concepts and practices of peers;

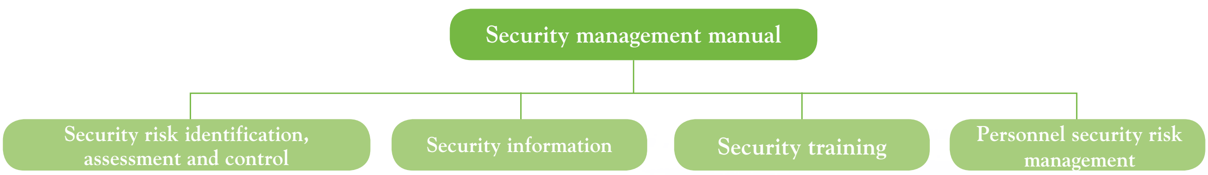
In accordance with the management requirements of the government authorities and superior authorities, the Company has prepared, published and implemented 24 domestically applicable management requirements based on the domestically applicable parts of the existing management measures and rules.

In October 2020, the Company released and implemented an upgraded version of the QHSE management system, which strictly matches the requirements of ISO9001, ISO14001, and ISO45001 standards, and integrates key elements of production and operation such as manpower, market, equipment, procurement, etc. The Company was the first to build an international structure for the QHSE management system by paying equal attention to domestic and foreign markets, which lays a solid foundation for the improvement to its QHSE management capabilities.



Security management systems

To put the Company's internationalized 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. In 2020, the Company has no security incidents throughout the year.



Operation Safety Management

Following its policy of "safety first, prevention foremost, and comprehensive control" and the continuous optimization 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 (2018-2020)

Indicator	Unit	2020	2019	2018
Number of production safety accidents	Case	26	37	21
Number of recordable injury incidents	Case	18	33	21
OSHA ratio	%	0.06	0.11	0.08
Accumulated lost working days ratio	%	1.68	1.24	1.6
Number of employee deaths	Person	1	1	0
Number of contractor deaths	Person	0	0	2

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

In order to meet the national requirements for the full implementation of safety production accountability, COSL strives to create an environment where everyone assumes, knows and fulfills his or her responsibilities, by guiding and regulating the compilation of a list of safe production roles and responsibilities for all staff. The list comprises "key points + standards", with CNOOC characteristics. COSL actively organizes various units and departments to compile and improve the list of safe production roles and responsibilities for all staff. In accordance with the principle of "same responsibility for the party and government, double responsibilities for one post, and accountability for dereliction of duty", COSL has compiled and completed a list of safety production roles and responsibilities for all staff, including headquarters, branches, overseas organizations, and business units, on the basis of "one list for one role", defining the key points of safe production responsibilities and safety work standards for everyone from the main person in charge to frontline employees, and clarifying the safety responsibility interface of employees at all levels. The Company has strengthened the ownership of safety responsibilities, by further enhancing the awareness of "red line" and the thinking based on "bottom line" of safety production, so as to ensure safe and stable production and operations.

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.

Carrying out a three-year special rectification for safe production to ensure sustained production safety

In order to implement the national safe production requirements, embed the concept of safe development, and comprehensively improve its QHSE management, the Company launched a three-year special rectification for safe production, to ensure sustained production safety by implementing the safe production responsibility system for all staff, improving and implementing the work mechanism to eliminate potential accidents at source, and strictly preventing all kinds of production safety accidents from occurring. The Company established 8 special working groups to formulate the "Implementation Plan for COSL Three-year Safe Production Action Plan", which contains 6 major tasks and 29 specific plans for carrying out special rectification from three aspects: investigation and rectification, system improvement, and deepening and enhancement. The Company has prepared a work list of key tasks including 6 major items and 133 minor items to define the milestones of each item, track the progress of related work on a monthly basis, and promote the effective implementation of the three-year special rectification for safe production in an orderly manner, in order to ensure sustained production safety by preventing all kinds of accidents from occurring.

The offshore production units of the Drilling Division are fully equipped with rigid cages. In the process of personnel transfer, the rigid cage support rods can effectively avoid the cage and personnel swinging caused by the hull due to swells, and improve the safety of hoisting operations for staff ascending to and descending from the drilling rig on shift change for application ships.

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 utilized 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

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.

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Monthly Risk 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.

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Daily Risk Control

Through application of job safety analysis (JSA), Company units identified their potential operational risk 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.

Carrying out "hazard hunt" to strengthen awareness and build a line of defense

In order to accurately eliminate common and frequent typical hidden hazards and prevent accidents, the Geophysical Division of COSL organized a "hazard hunt" to systematically analyze typical and repeated hidden hazards and identify the source of hidden hazards. A total of eight phases of "hazard hunt" were completed throughout the year. The activities motivated employees to look for hidden dangers, raised their awareness of typical hidden dangers, and improved our ability to identify and rectify hidden dangers, securing the safe, quality and sustainable development of the Company.

Special "hazard hunt" for "fixed CO_2 fire extinguishing systems"

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 Company systematically analyzed the root causes of problems arising from the training process, and focused on the accuracy of sessions hosted by training organizations, the flexibility of the number of staff joining sessions, and resource mismatch and imbalance caused by the shift rotation/training of employees in each unit through detailed communication and consultation with each branch and business groups. The Company discussed with the CNOOC to coordinate and determine training resources, frequency and number of training sessions etc., to make up for the Company's staff training and certification throughout the year and provide support to all units.

In 2020, due to COVID-19, the Company conducted training remotely mainly on online platforms. Through work groups, the parent company's "Haixue" platform and other channels, information on emergency, COVID-19 and mental health were shared and training sessions were conducted on epidemic prevention and control, psychological counseling, and safety skills. In 2020, all units provided a total of 1,093 training sessions, with a total of 17,000 learners and 370,000 learning hours, or 21 hours per person at average. Units at all levels carried out a total of 22,352 sessions of various safety training, with 254,547 participants.

Development of safety culture

The Company continued to carry out activities to develop its safety culture, such as the arrangement for leaders to visit the front-line and give lectures on safety, the in-depth analysis and application of safety indicators, the promotion of safety at all times, the co-development of safety culture, the development of benchmark units, and the assistance to laggers, in a view to fostering a safety culture specific to the Company and add vitality to the safety culture specific to oil services. The safety culture will support better safety management in the Company, ensuring its personnel and property are protected.

Safety Emergency Management

5,204

general exercises

8,881

special exercises

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 2020, the Company carried out a total of 14,085 ship-shore joint exercises and on-site exercises involving rigs, ships and shore facilities. These included 5,204 general exercises and 8,881 special exercises with a total of 258,834 participants.

COSL and the Middle East Company carried out ship-shore joint exercises on well control, personal injury, and oil spill handling

NH8 conducted ship-shore joint exercises on blowout and abandon of ship on fire, focused on improving the awareness of well control, employees' familiarity with rig emergency procedures and their roles in emergency, ensuring subsequent tasks are performed safely and efficiently

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 "Employee Health" and "Occupational Health". 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 2020, 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 99.25% of our staff working in the land workplace conducted body check.

100%

Staff working in offshore workplaces and fields passed the body check

100%

Staff exposed to occupational harmful environment passed the health check

Overseas Health Risk Management

In order to help our employees working in overseas regions and countries identify the health risks stemming from unfavorable factors such as geographical environment, social activities, animals, microorganisms and bacteria, and master the prevention and treatment measures for various health risks in their respective region, the Company issued the "COSL Overseas Health Risk Handbook, which currently covers six major overseas regions and 15 countries. It provides employees with comprehensive guidance from health risk identification to emergency response to threats. At the same time, the Company has signed a service agreement with International SOS, which will provide our employees with medical services or advice, assistance in referrals, language assistance, fund assistance (if appropriate), and drug purchase guidance.

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.

Employee Food Safety

The Company established a food safety management system to strengthen food safety management to prevent food poisoning accidents. As scientific catering is the basis of ensuring the health of emplyees, the canteen management division and the catering company work together to promote staff nutrition.

Canteen staff produced healthy diet bulletins every month to educate employees on the importance of reasonable diet, while ensuring a reasonable calorie structure of meals with balanced match to meet their normal needs, enabling staff to have a balanced and healthy diet.

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. Based on its occupational hazards, the Company has prioritized controls on occupational disease hazards while adopting targeted prevention and control measures.

Identification and visualization of hand injury hazards in the workplace

In order to avoid personal injury, the Company's marine business has made relevant supplements and improvements to the safety management system and operating instructions, and identified hand injury hazards with visualized reminders. Through training, crew members can clearly identify the hand injury hazards on the deck and in engine rooms to reduce unnecessary injuries.

Health Checks for Chinese Employees (2018-2020)

Indicator	Unit	2020	2019	2018
Coverage of all staff health check and health records	%	99.6	97.55	99.23
Number of persons attending occupational health checks	Person	4,673	4,709	5,047
Completion rate of occupational health checks	%	100	99.98	100

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

In 2020, the completion rate of detection work plan for occupational disease hazards was 73.2%. The sudden outbreak of COVID-19 in various parts of the country hindered the on-site inspection by the third-party testing agency as planned.

Health Examinations of Employees Exposed to Occupational Hazards (2020)

Health examination types	Actual examination person-time (person-times)	Completion rate of examination (%)
Pre-employment occupational health examination	311	100
On-the-job occupational health examination	4,186	100
Post-employment occupational health examination	175	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 2020, 383 staff attended the pre-employment occupational health training, 6,057 staff attended on-the job occupational health training, 320 staff attended the key persons-in-charge and occupational health management training and 424 staff attended specific occupational health training for those working in the workplaces with serious occupational hazards, with a completion rate of 100% in total.

6,057 Staff

attended on-the job occupational health training

100%

completion rate

Mental Health Counselling

Offshore operation is a very special type of operation, as the working environment is relatively closed with heavy workloads. During this special period, the Company paid great attention to the mental health of employees, used science-based psychological counseling methods to drive psychological intervention, and protected employees' physical and mental health by guiding them to manage stress and providing epidemic prevention knowledge.

Environmental Protection

Improving Environment Management

Building an Environmentally Friendly System

Guided by Xi Jinping's thoughts on ecological civilization and the requirements of the "14th Five-Year Plan", the Company has complied with the "Environmental Protection Law of the PRC" and with laws, regulations and regulatory documents for the prevention and control of air, water, and soil pollution, and established and improved the "Environmental Protection" and "Environmental Factors Evaluation" and other environmental protection systems. The Company endeavors to promote the standardization of environmental protection work, strengthen pollution prevention and management, focus on the protection of the ecological environment and resources, and prevent or reduce the impact of production and business activities on the ecological environment. At the same time, the Company continues to carry out benchmarking and quality improvement, revises and updates its environmental management system in accordance with the law, and forms a dynamic environment management and control mechanism to ensure that environmental protection is put in place with tangible results.

Environmental Impact Assessment

In the course of its production and operating activities, the Company carries out environmental impact assessment 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 has strengthened the identification and assessment of environmentally sensitive areas and environmental risks, and formulated 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 and mitigate business risks.

Environmental Protection Education and Training

The Company attaches great importance to environmental protection education and publicity work. It sorts out and summarizes national key policies on ecological and environmental protection every quarter, and sends them to all units, which are required to organize training and learning according to their needs to enhance employees' environmental awareness. By taking the production and operational characteristics into account, each working base improved its performance in training on the requirements of the latest laws and regulations, rubbish sorting, and the use of anti-pollution facilities and oil leakage emergency equipment, while further enhancing employees' awareness of environmental protection and improving their environmental work skills.

Saving Energy, Reducing Emissions and Carbon

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.

Energy Saving through Fueling at Sea by geophysical vessel

The Company's Geophysical Division has implemented good practices in fueling multi-cable vessels at sea. In 2020, it carried out 35 fueling at sea of 14,471.48 tons of diesel. Fueling at sea reduced the route for ships to refuel at ports and the time to retract underwater equipment, and saved a total of 1,719 tons of diesel, or 2,528.65 tons of standard coal.

Energy and Water Consumption (2018-2020)

Indicator	Unit	2020	2019	2018
Electricity	10,000 kWh	2,332.15	2,151.42	2,114.09
Diesel fuel	Tonnes	319,857.91	333,433.76	288,732.29
Natural gas	Cubic metres	358,020.00	377,268.00	377,315.00
Oil fuel	Tonnes	0	0	795.22
Gasoline	Tonnes	222.14	333.87	461.88
Engine oil	Tonnes	1,300.24	1,352.34	1,023.91
Water	Tonnes	1,004,742.41	1,044,900.61	923,776.18
Water reduction	Tonnes	28,019.00	21,117.00	18,765.00

Note: Comprehensive energy consumption, energy conservation, and output value energy consumption are calculated in strict compliance with GB/T 2589 General Principles for Calculation of Comprehensive Energy Consumption, GB/T 13234-2009 Calculation Method for Enterprise Energy Conservation, GB17167-2006 General Rules for Equipping and Management of Energy Measuring Instruments of Energy Users and Q/HS 1300-2019 Statistical Indicators and Calculation Methods of Energy Consumption, Q/HS13005-2019 Energy-saving Statistical Management Code issued by CNOOC and other national and corporate standards.

Water Resource Management

In strict compliance with applicable national laws, regulations and regulatory documents, the Company strengthened its water management, promoted the recycling of water used in production and make reasonable use of seawater and rain to minimize water consumption.

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.

Zero Emission Transformation of Drilling Rigs of Drilling Division

The Company's Drilling Division actively responded to the three-year action plan for pollution control in the Bohai Sea and completed the zero emission adaptive transformation of 6 drilling rigs, so that the rigs can collect and dispose of black water and gray water. Currently, the Drilling Division has 9 drilling rigs that have completed the zero emission transformation, which can operate in the offshore discharge-limited areas with more demanding conditions.

Each operation unit under the Drilling Division is equipped with a portable domestic sewage COD detector, and the domestic sewage is regularly sampled and tested to ensure that the discharge meets the standard

Managing Discharged Gas

The Company strictly adheres to the red line of ecological protection, complies with all national laws, regulations and regulatory documents relating to the atmosphere, and solidly promotes its discharged gas management. 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 drilling rigs equipped with advanced diesel engines. For the day-to-day operation of vessels and drilling rigs, 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.

VOCs Treatment by the Chemicals of the Oilfield Chemicals Division

The chemical company of the Oilfield Chemicals Division carried out VOCs treatment, where the exhaust gas discharged from the equipment is transported to the activated carbon adsorption box and the oil fume purifier device through the fan duct, and then the difficult-to-remove exhaust gas is decomposed into non-polluting substances through the effect of electrolytic adsorption, to ensure the discharged gas meets the standard.

Waste Management

The Company actively carried out solid waste treatment in accordance with the laws and regulations of the countries in which it operates and the international treaties, and is committed to reducing hazardous wastes at source and the impact on the environment.

The Company issued and implemented the "Interim Regulations of COSL on Recycling Management" to treat wastes in accordance with the 3R principles of Reduce, Reuse and Recycle to maximize waste reduction, reuse and recycling in production and operation activities. Entities qualified for hazardous waste disposal were appointed to dispose of pollutants such as industrial waste, solid waste, domestic waste, hazardous waste, and oil polluted water in compliance with regulations. 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, to prevent the spread of secondary pollution from hazardous waste.

Discharged Volume by the Company in Chinese Waters (2018-2020)

Types of discharges	Unit	2020	2019	2018
Qualified discharge of oil polluted water	Cubic metres	248.97	370.93	216.64
Discharge of crushed domestic waste	Tonnes	117.87	345.62	253.32
Qualified discharge of drilling slurry	Tonnes	48,422.03	58,757.14	47,216.45
Total discharge of waste	Tonnes	80,530.52	86,955.34	73,958.52
Discharge of waste for an output value	Tonnes /RMB10,000	0.03	0.03	0.04
Total discharge of hazardous waste	Tonnes	20,920.56	15,719.86	15,756.66
Discharge of hazardous waste for an output value	Tonnes /RMB10,000	0.01	0.01	0.01
Total discharge of non-hazardous waste	Tonnes	59,609.00	71,235.48	58,201.86
Discharge of non-hazardous waste for an output value	Tonnes /RMB10,000	0.03	0.03	0.03

New Technology Gives Old Drilling Fluid a New Life

In recent years, with increased complex offshore well operations, oil-based drilling fluids have been widely used in the East China Sea, the western South China Sea, and the eastern South China Sea. However, after repeated use, old oil-based drilling fluids becomes incapable of reuse with declining performance due to increasing pollutants. The Company's EPS project team developed a technology for recycling old oil-based drilling fluids. Through chemical distillation, the old drilling fluid is separated into clean recovered oil and solid materials, and 100% of the resources are recycled, which greatly reduces the generation of waste fluid.

Greenhouse Gas Emission Reduction

Deeply aware of the various impacts of climate change on its businesses, the Company has incorporated the response to climate change into the its development plan, actively carrying out greenhouse gas emission reduction actions. It has formulated the "Implementation Plan for COSL Green and Low-Carbon Development Action Plan" to set out corporate responsibility for greenhouse gas reduction, define the Company's development goals for a green and low-carbon future, reduce greenhouse gas emissions from the source, production process, and emission reduction, and contribute to the country's carbon emission peak in 2030 and carbon neutrality in 2060.

Greenhouse Gas Emissions by the Company in Chinese Waters (2018-2020)

Types of discharges	Unit	2020	2019	2018
Carbon dioxide emissions/greenhouse gas emissions	Tonnes	1,022,833.54	1,036,502.54	900,675.68
Carbon dioxide/greenhouse gas emission reduction	Tonnes	7,469.3	4,596.33	4,552.13
Carbon dioxide emissions for an output value of RMB10,000	Tonnes/RMB10,000	0.44	0.41	0.51

The chemical company of the oilfield chemical division changed the boiler fuel from diesel to alcohol-based fuel, reducing diesel consumption by 85 tonnes per year and carbon dioxide emissions by 264.77 tonnes

The Hailong 2 drilling rig of the Drilling Division conducted a counting on all the refrigerants on-board, and retired and replaced all the old refrigerant R22 that may destroy the atmospheric ozone layer with the environmentally friendly refrigerant R407C by consulting relevant technical information

Ecological Protection

The Company drives integrated ecological and environmental management and maintains strict compliance with laws and regulations on environmental protection of the countries and regions in which it operates, so as to enhance ecological and environmental protection. During operation, the discharge of hazardous and pollutant waste into the sea is avoided and oil leakage and underground water pollution are prevented whenever possible. The Company is committed to protecting biological diversity and co-existence with the environment.

The Drilling Division equipped the fuel pipelines of drilling rigs with buoyancy blocks and reflective tapes to prevent the fuel pipelines from being twisted by the propeller during the replenishment process, which effectively improves the safety of fuel replenishment operations and avoids environmental pollution caused by fuel leakage

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. All operation units strengthened the management and control of oil leakage risks by carrying out safety inspections before drilling into oil and gas reservoirs, regular maintenance of oil spill prevention equipment, and oil spill emergency drills from time to time. In 2020, no oil leakage occurred.

Prevention of Groundwater Pollution

The Company attaches great importance to the prevention and treatment of groundwater pollution. It invested more in the research and development of new technologies and processes which are applied in on-site operations to effectively promote groundwater protection by taking measures to prevent pollution in the process of oil exploration and development.

Conservation of biological diversity

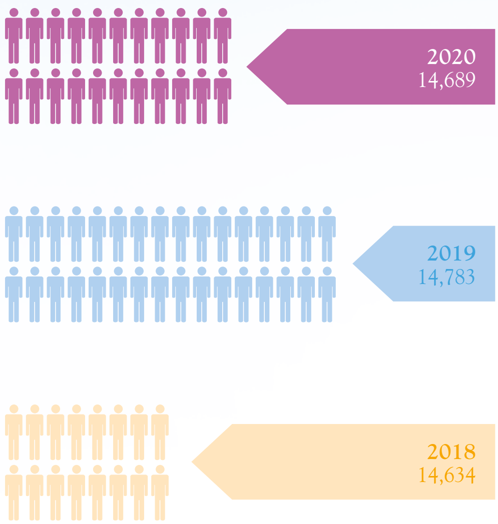
As an advocate and practitioner of protecting the marine ecological environment, the Company has always attached great importance to the protection of biodiversity. It actively takes preventive measures to promote resource restoration and environmental improvement around the work area, and eliminates or greatly reduces its negative impacts on biodiversity and ecosystems.

The Hailong 2 drilling rig of the Drilling Division set up temporary bird shelters at the bottom of the aircraft apron and on the two poles at the port side and the starboard side, and set up devices to provide temporary rest and water to migrating birds

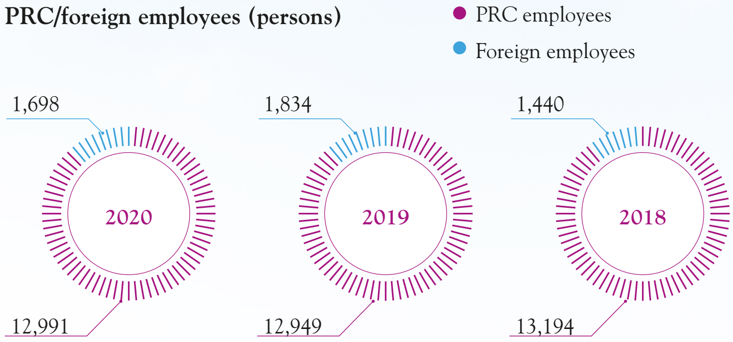
Staff Caring

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

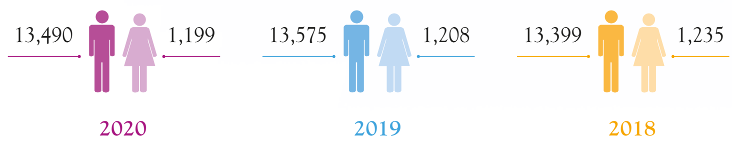
Number of employees (persons)



PRC/foreign employees (persons)



Male/female employees (persons)



Indicator	2020	2019	2018
Number of new employees during the reporting period (persons)	329	137	390
Percentage of Chinese female employees (%)	7.9	8.0	8.2
Social insurance coverage (%)	100	100	100
Percentage of labour contracts signed (%)	100	100	100
Proportion of female employees in management positions (%)	20.2	21.3	22.5

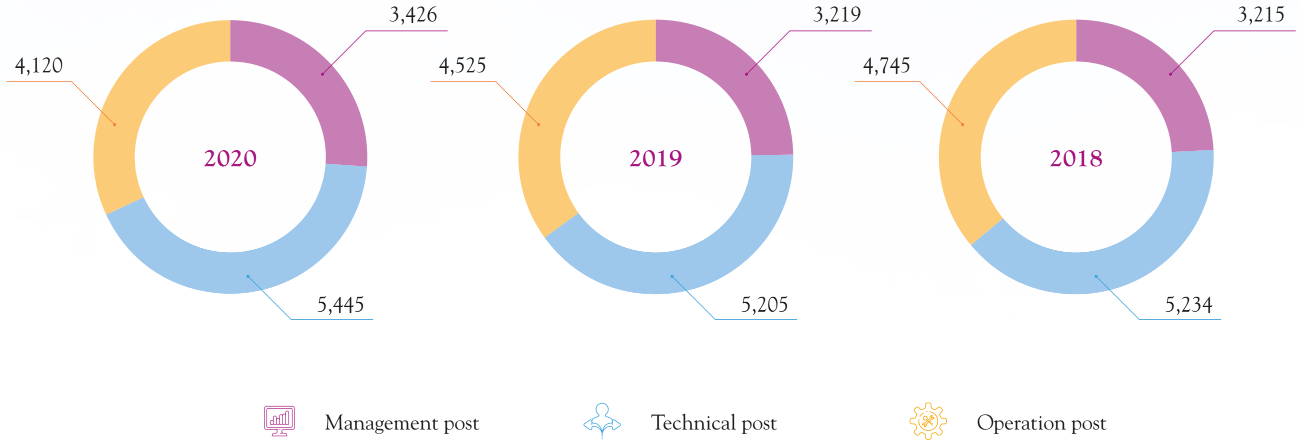
PRC Employees by Qualification (2018-2020) (persons)

Academic qualificatio	2020	2019	2018
Doctor	36	35	37
Master	846	725	674
Bachelor	6,013	5,920	6,017
Below	6,096	6,269	6,466

PRC Employees by Age (2018-2020) (persons)

Age	2020	2019	2018
30 or under	1,858	2,043	2,520
31-40	6,647	6,623	6,557
41-50	2,788	2,664	2,617
Over 51	1,698	1,619	1,500

PRC Employees Categorised by Position (2018-2020) (persons)



Employees Turnover Rate by Gender (2018-2020) (%)

Gender	2020	2019	2018
Male	95.4	97.6	96.2
Female	4.6	2.4	3.8

Employees Turnover Rate by Age (2018-2020) (%)

Age	2020	2019	2018
30 or under	45	49.5	67.5
31-40	43.1	45.3	26.6
41-50	4.6	2.8	3.6
Over 51	7.3	2.4	2.4

PRC Employees Turnover Rate by Areas (2018-2020) (%)

Area	2020	2019	2018
Chinese	100	100	99.7
Non-Chinese	0	0	0.3

Employee Rights

Employment Policy

As a "people-oriented" organisation, the Company provides employees with fair employment opportunities, and protects their rights and interests. The Company attaches importance to talent development and building a smooth career path, and has created an open and fair competition platform for employees, enabling all outstanding employees to fully enjoy the Company's development results, and helping employees realize their own value.

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", effectively protect female employees in the "3 phases". 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. In 2020, no violations occurred.

Compensation and Welfare

The Company strictly complies with domestic and local laws and policies on employee compensation and social security by operating a competitive remuneration system and performance appraisal system; makes contributions to basic social insurance and housing funds for employees; implements an enterprise annuity system and a supplementary medical insurance system and provides personal accident insurance and corporate supplemental pension insurance; and provides employees with a range of benefits, including health checks, paid vacations, assistance to those with difficulties or severe diseases, offering multilevel and all-rounded protection to its staff, in an effort to address their concerns and consistently enhance their sense of fulfillment and happiness.

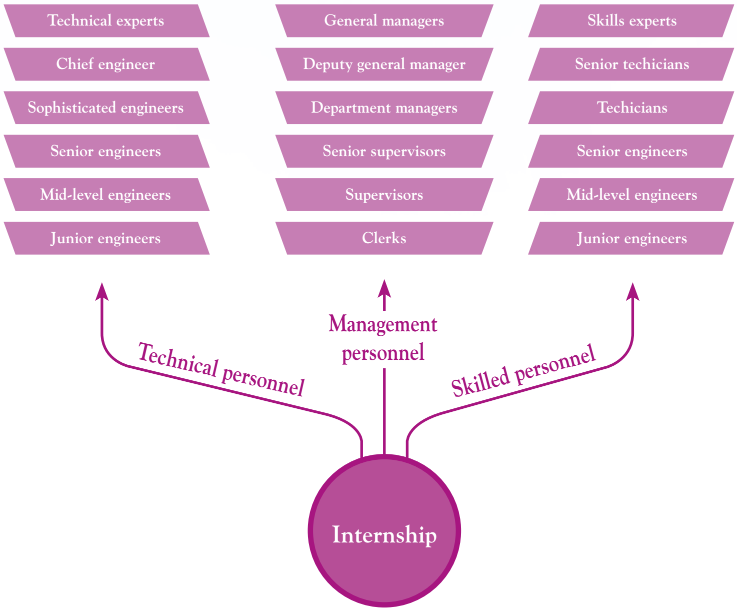
Employee Involvement

The Company supports and encourages employees to participate in corporate management, strengthens the development of basic level labor unions. The Company has established and improved the system of workers' congress, and revises the "Management Measures for the Workers' Congress" to protect employees' right to know, participate, express and supervise. At the same time, the Company gives full play to the role of employee representatives at basic level, in order to address management challenges with collective wisdom.

Staff Development

Broadening the Channels of Development

By closely focusing on the two development strategies of "technical development" and "international development", combined with human resource planning, the Company drive its revitalization with talents in all respects. Aiming at the development of core competence of employees, the Company formulated a career development path commensurate with the development of the Company and that of their capabilities, and built a multi-dimensional talent training system covering management, technology, skills, and internationalization. It defined new approaches to talent pipeline and incentives, strengthened talent pipeline development and special ability improvement, carried out rotation of roles in the same sequence, and implemented dynamic training and regular assessment, breaking through the bottleneck of talent pipeline development. In 2020, a total of 2,488 employees were promoted, providing strong talent support for the Company's high-quality development.



2,488 persons

promoted in 2020

Vocational training

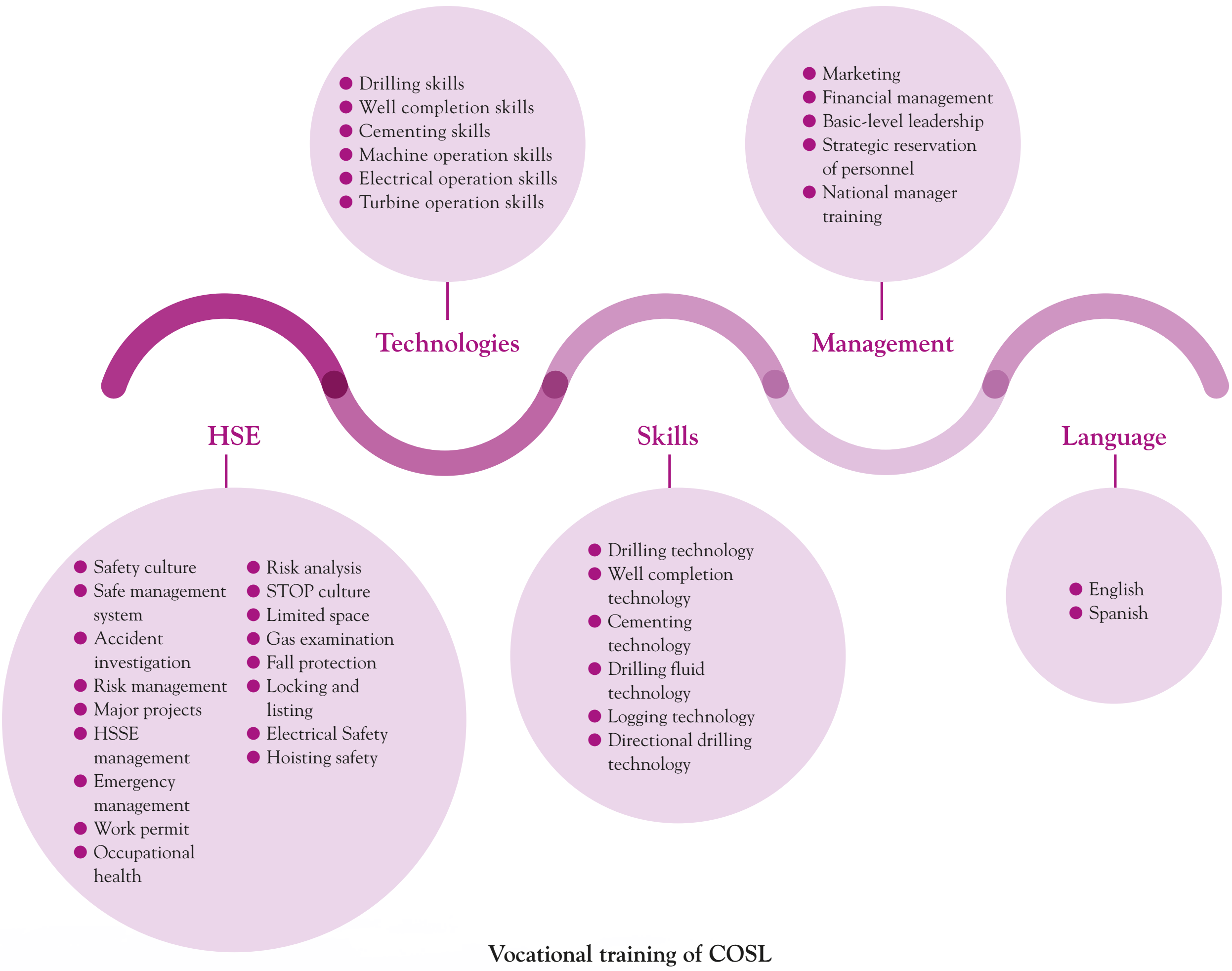
The Company has established a staff capability assurance management system that conforms to international standards, with the preliminary shift of the talent training system to routinization, standardization, systematization and industrialization. The Company aims to build a "pyramid" talent development system dominated by new employees, team leaders at basic level, core talents and high-end talents, to facilitate vertical and horizontal mobility, actively create an engaging atmosphere, and continue to contribute to human resource efficiency.

Based on the job requirements, the Company has increased investment in talent development by conducting extensive skill training and skill competitions, to encourage employees to learn, upgrade their skills, and improve their quality, and to enhance their competitiveness and overall business capabilities in all respects. By taking full advantage of the resources of Xinjiang's practical training venues, 31 training sessions were organized for 502 people in 2020. In terms of training well control professionals, it has obtained the qualification from IWCF on training and certification, and trained 11 international well control lecturers. In 2020, 14 international well control training sessions were held, and a total of 147 people were certified.

Statistics on employee training

Item	2020
Percentage of male trained staff (%)	93
Percentage of female trained staff (%)	7
Percentage of trained staff in operation positions (%)	29.3
Percentage of trained staff in technical positions (%)	50.4
Percentage of trained staff in management positions (%)	20.3
Average training time for male employees (hours)	155.5
Average training time for female employees (hours)	79.9
Average training time for staff in operation positions (hours)	173.1
Average training time for staff in technical positions (hours)	195.4
Average training time for staff in management positions (hours)	118.5

* Statistics have been disclosed by employee type according to the latest requirement of the Stock Exchange from 2020



Vocational training of COSL

Exchange and training for technical experts in 2020

In order to further strengthen the core professional qualities of technical experts, and accelerate the formation of a team of innovative professionals, the Company held a training session for its technical experts in 2020.

A total of 42 people from the Company's two-level technical experts and key technical personnel trained by various units participated. The training and learning on thought leadership, entrepreneurship, technological innovation, IPD, project management, and effective communication helped the technical experts think out of the box, driving technical advancement within the team of innovative professionals.

Training for strategic reserve talent in 2020

The Company and the Chinese Academy of Social Sciences jointly launched a strategic reserve talent training for 62 employees. Based on the original courses, this training was optimized and upgraded by adding lectures on big data, the "Belt and Road Initiative", and energy economy in response to national development strategy, helping enhance the trainees' strategic thinking and awareness of the big picture.

Multi-dimensional training at Indonesian company to upskill employees

The Indonesian petrochemical project team focused on the characteristics of overseas employees' needs for skills and combined online with offline training to train employees in multiple dimensions. Based on the level of their knowledge, the project team developed online training courses for project engineers, engineers, and main operators, and provided guidance online according to their needs anytime and anywhere. For some operation items, offline practical training sessions were conducted by arranging skilled workers to provide training using warehouse or on-site equipment, explaining in detail the operation points and risks, so as to contribute to better overall quality of overseas operation.

Mexico company turned crises into "opportunities" by creating a dual circulation of internal and external human resources

In order to ensure the normal operation of the area and the launch of new projects, the Mexico company created a model of "external circulation of fully localized workforce and internal circulation of existing employees ", where outstanding local employees were appointed to key management positions, while the replaced Chinese employees were rotated to other platforms to support production and operations. The internal and external dual circulation model cleared the path to promotion for local employees, and provided Chinese employees on the module rigs with opportunities to be trained on high-end jack-up drilling rigs, which effectively solves the lack of workers on jack-up drilling rigs, accelerates the growth of employees, and improves the overall service level and operation capability.

Localisation and Diversification

The Company's service area continues to extend from 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 order to comprehensively improve the building of international capacity, the Company is promoting the localization and diversification of staff, adheres to an employment policy of equality and nondiscrimination, and respect for different cultures, religions, customs, personal hobbies, etc. In 2020, the Company had 1,698 overseas employees.

Local Employees in Overseas Offices (2018-2020)

Indicator	2020	2019	2018
Number of local employees recruited by the Company (persons)	1,698	1,834	1,440
Percentage of local employees (%)	69	70	64

Employee Care

Helping employees in financial difficulty

The Company attaches great importance to employee care, and offers solid assistance to employees in need. The Company actively organized Party Committees and labor unions to go to the front line, and continued to carry out activities such as visits to families in difficulties during the Spring Festival, care for the disabled, natural disaster relief, and care for people stricken by poverty due to illness. In this way, the Company effectively helped employees solve work and life difficulties, so that they feel the caring support from our big family.

Balancing work and life

The Company advocates work-life balance for employees, by organizing various activities to protect their physical and mental well-being, enrich their spare-time lives, create a healthy and harmonious workplace, enhance their centripetal force and cohesion, and enable employees to work healthily and live a happy life.

Winter jogging

Contribution to the Society

- Fight COVID-19
- Marine Salvage
- Voluntary Service
- Social Responsibility Overseas

Fight COVID-19

In the face of the sudden outbreak of COVID-19, the Company fully implemented the epidemic prevention decisions and arrangements made by the Party Central Committee and the State Council, and regarded the epidemic development as an order, and prevention and control as its responsibility. With a focus on the prevention and control of COVID-19 from top to bottom, the Company is determined to win the fight against the pandemic by performing its responsibility of protecting employee safety with intense, solid and detailed prevention and control measures.

In 2020, the Company spent RMB185.74 million on the fight against COVID-19, equipping 2,885 overseas employees on duty and 663 Chinese employees with complete protective equipment so that no one has been infected.

Building the COVID-19 prevention and control system through comprehensive planning

A four-level leadership and command system for COVID-19 prevention and control

In January 2020, the Company issued the "Notice on Establishing the COSL Four-level Leadership and Command System for COVID-19 Prevention and Control", setting up a command system across the network of COSL to ensure that each management unit at all levels is fully covered.

L1 Leading Group

Mainly responsible for the overall coordination and command of the Company's domestic and foreign epidemic prevention and control

L2 Leading Group

Mainly responsible for the business coordination in respective administrative area and cross regions

L3 Leading Group

Mainly responsible for coordination of epidemic prevention and control in the unit and its subordinate units

L4 Leading Group

Mainly responsible for the fixed-point coordination of the management unit

COVID-19 prevention and control system

In January 2020, the Company issued the "Notice on the Establishment of COVID-19 Prevention and Control Working Group" to establish a COVID-19 prevention and control system in COSL, in support of the full implementation of its COVID-19 preventive measures from six aspects including logistics, party building, public opinion, information on COVID-19, supplies, and legal support.

Logistics support system

Responsible for access control, office disinfection, dining management, meeting management, business travel and visits, etc.

Party building support system

Responsible for support for policy promotion, publicity, volunteering etc.

Public opinion support

Responsible for public opinion research and early warning, rapid response, classification and handling

COVID-19 information support system

Responsible for data information and resource coordination, education on epidemic prevention and control, safety risk, epidemic control supervision and project management and control

Supplies support system

Responsible for epidemic prevention and production materials lockup, procurement, supply, transportation, storage, etc.

Legal support

Responsible for preventing and resolving major legal risks during the epidemic prevention and control period, and handling legal issues related to the performance of various business contracts during the pandemic.

A four-level joint COVID-19 supervision and management system

The Company has established a COVID-19 supervision and management system to supervise all units and individuals in implementing epidemic prevention and control measures from four directions: supervision by Party Committee, supervision on measures, supervision by commission for discipline inspection, and overall review mechanism.

Supervision by Party Committee

- The Company established an assurance mechanism for Party Committees at all levels, which supervised each unit's implementation of the "Task List for CNOOC to Contribute to the Accomplishment of the Central Government's Decision and Plan to Fight COVID-19" item by item

Supervision on measures

- The area supervision center and on-site safety supervision were used to supervise and inspect the implementation of prevention and control measures at all levels

Supervision by commission for discipline inspection

- The commission for discipline inspection supervised and inspected the implementation of prevention and control measures for key groups and important places, and conducted special supervision in a timely manner, holding leaders and individuals guilty of dishonesty or negligence of duty fully accountable

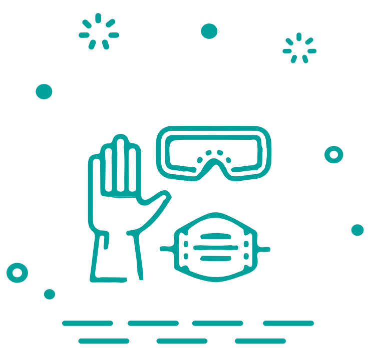
Overall review mechanism

- The 6 COVID-19 working groups conducted hierarchical reviews of the quality of the task lists of 38 affiliated units, and tracked their progress on a daily basis
- The progress of tasks was included in the evaluation of party organizations, cadres, leadership groups and leaders, and in the evaluation of the responsibility system for party building work, linked to various evaluations for advanced and outstanding roles

Planning and support for the resumption of work and production

System support

The Company established a multi-level system for the resumption of work and production by formulating personal protection manuals, workplace protection manuals, emergency procedures, control plans for the resumption of work and production, ship-shore COVID-19 emergency plans and other institutional documents while preparing a resumption plan to identify and address hidden dangers for sound safety control.



Staffing

According to the development of the epidemic, timely adjustments were made to staff rotation plan to ensure offshore operations. Each region actively secured available hotel resources for quarantine, with a total of more than 7,000 beds. Possible pressure on staffing imposed by the pandemic was assessed and reasonable arrangements were made to ensure that holders of key positions were on duty in line with safety requirements.

Supplies control

The Company established a coordination mechanism for emergency supplies and production and operation resources, with project prioritization to secure the supply for key projects. Management of contract performance was enhanced by tracking contractual delivery deadlines, and material production progress. By capturing the key project demand plans, contingency solutions were discussed and established, including plans for import of spare parts and materials to China.

Project implementation

The Company coordinated resources to proactively ensure that key projects are put into production on time; strengthened communication and coordination with operators to minimize and eliminate idle time of large equipment due to COVID-19 and operators; and took various measures to seize the time window to put the projects on track as soon as possible.

Proper arrangement for normalized COVID-19 prevention and control

In the context of the normalization of COVID-19 prevention and control, the Company issued the "Notice on Printing and Distributing the COSL Guidelines for COVID-19 Prevention and Control in Autumn and Winter and Normalized Measures in China" and "Notice on Further Strengthening the COVID-19 Prevention and Control in this Winter and Next Spring and Normalized Measures", to implement the "four early " prevention and control measures, and guide all units to carry out science-based and precise prevention and control of the pandemic accordingly.

Support for daily life of employees

The Company spared no effort to cater employees as usual, by securing adequate supply of food ingredients, carrying out special food safety inspections in canteens, hotels for quarantine, etc., and adopting take-away and having meals by batch to ensure that employees eat safely and reasonably. Available hotel resources for quarantine were secured to properly accommodate staff in quarantine and overseas employees to ensure availability to them where required or necessary. The Company managed and controlled the use o f vehicles, and provided shuttle buses with free travel permits granted to overseas employees and seconded personnel to ensure safe travel and safe return to home.

Overseas COVID-19 prevention and control

In order to effectively manage the risks caused by the spread of COVID-19 overseas, the Company formulated and issued documents such as the "Notice on Strengthening Overseas Prevention and Control of COVID-19" and "Guidelines for Normalized COVID-19 Prevention and Control Measures for Overseas Institutions of COSL" and established an overseas prevention and control working group, which established and improved a prevention and control system on a country-by-country, facility-by-facility, and person-by-person basis for individual high-risk areas. Based on the development of the epidemic, dynamical controls were established to effectively safeguard the Company's overseas production and operations.

The Company guided overseas branches to formulate special emergency plans for COVID-19, define the setting of temporary quarantine premise, site disinfection, emergency procedures, liaison with local CDCs, external resources, etc., so as to effectively respond to and handle possible infection case. Overseas branches formulated 22 emergency plans and conducted regular emergency drills to ensure that the process is reasonable and meets emergency needs. The Company developed the "Quarantine Plan for COSL Overseas Employees on Shift Rotation during COVID-19 Prevention and Control" for effective control on the quarantine and observation of overseas employees on shift rotation before leaving the country, and protection in travel, etc., so as to strictly manage the risk arising from overseas shift rotation. In 2020, no Chinese employee was infected.

Marine Salvage

The Company has leveraged its businesses and resource advantage to actively but safely participate in marine salvage, demonstrating corporate responsibility. In 2020, the Company dispatched 18 vessels, took part in 14 marine salvage operations, rescued 37 persons and 6 vessels in distress during the course of such activities.

On 28 October, the COSL vessel "HYSY606" promptly rescued a fisherman in distress in the waters between Dongmao and Ximao of Sanya Port.

On 2 November, the COSL vessel "HYSY673" rescued 4 fishermen on a fishing boat in distress in Xijiang 30-2 Oilfield.

Voluntary Service

Since the establishment of the "Blue Power" volunteer team in 2014, COSL has planned and carried out voluntary services for 7 years in a row, consistently expanding the scope of voluntary services and contributing to a better society.

Tianjin	● Supporting poverty alleviation through consumption with charitable sales of targeted products at COSL ● Launching the "World Oceans Day on 8 June" voluntary activity
Shenzhen	● Launching the "Blue Power" voluntary services for the fifth consecutive year to encourage people to protect our ocean and the Earth
Zhanjiang	● Launching activities such as "Sending Books to Schools in Mountains", "Donating Books with Love and Hope" and "Operation Sweet to Help Beekeepers Fight COVID-19" ● Launching the "Protection of Mangroves" activity to protect the ecological environment with practical actions
Xinjiang	● Launching the "Poverty Alleviation with Apricot" activity

In order to actively support the national call for free blood donation and promote the spirit of humanity, fraternity, dedication, friendship, and mutual assistance, since 2009, we have held voluntary blood donation activities for 12 consecutive years. More than 800 employees participated and the cumulative amount of blood donation was nearly 300,000 milliliters

"Protection of Mangroves" activity

Social Responsibility Overseas

COSL actively responds to the "Belt and Road Initiative", and in the process of "going out", it is committed to growing with local communities with mutual understanding to build a beautiful home together.

Contribution to the global fighting against COVID-19

During 2020, with COVID-19 rampaging through the world, the overseas companies of COSL actively shared their experience in prevention and control with local governments, supporting local governments and people with "Chinese wisdom" and "COSL solutions" where possible.

Saudi Drilling Company donated medical supplies

Guided by the Chinese Embassy in Saudi Arabia, the COSL Drilling Saudi Limited owned by COSL Middle East Company donated nucleic acid testing reagents, thermometers and other medical supplies to local people, which was highly praised by the Saudi side and demonstrated a strong sense of social responsibility.

Iraq branch implemented effective quarantine

COSL Iraq branch made a sound plan based on the experience in epidemic prevention in China, to have local employees quarantined before entering the site to work, effectively preventing the risk of COVID-19 importations. COSL became the first foreign company in Missan Oilfield to organize the quarantine of Iraqi workers, with more than 700 local employees were released for work after quarantine. COSL contributed its wisdom and strength to the fight of local community against COVID-19 and the employment of residents.

Mexican company presented anti-COVID plan

During the epidemic, COSL Mexico took the initiative to contact the local government, and presented the company's "one country, one approach" anti-COVID plan for Mexico to the municipal government of Carmen with both pictures and texts, introducing its training on COVID-19 prevention and control, emergency plan for COVID-19, the reporting to customers and suppliers, the 14-day centralized quarantine and observation for workers on shift rotation to Mexico at departure and arrival, and protections on the go. The company's anti-epidemic measures were highly appreciated by the Mayor of Carmen, Oscar Román Rosas, who said he would work with the municipal health department to escalate the COSL plan to the state and federal governments.

The city of Carmen is now facing daunting challenges from COVID-19. In terms of prevention and control measures, COSL Mexico is indeed ahead of most local companies, demonstrating a strong sense of social responsibility.

—— Oscar Román Rosas, Mayor of Carmen, Mexico

Sustainable Development Management

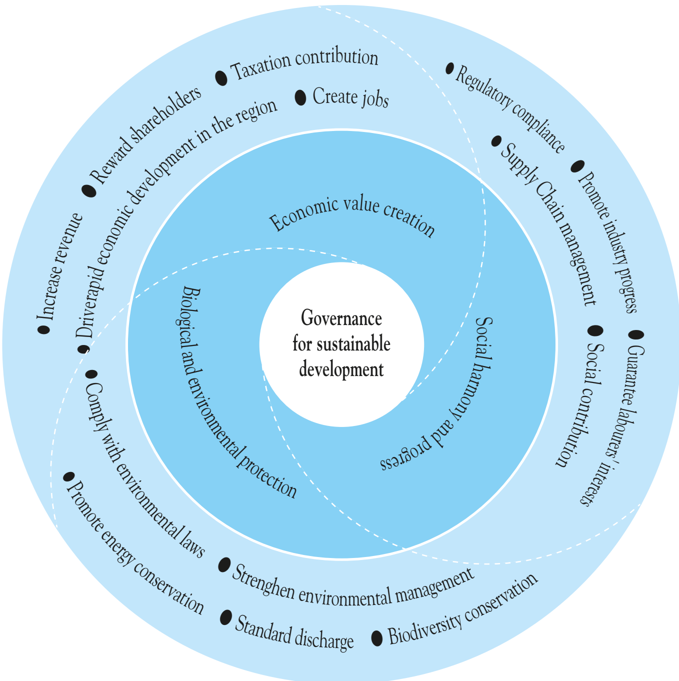
Sustainable Development Governance

Sustainability risk management

The Board attaches great importance to the risks arising in the process of sustainable development, and has established a risk management committee, which meets regularly for risk identification and assessment. Relevant departments are responsible for managing risks in finance, legal issues, anti-fraud, safe production, environmental protection, overseas public security, etc., which are integrated into day-to-day production and operation management to form a routine system of risk assessment, reporting, response and monitoring.

Sustainable development management system

The Company continues to optimize 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.



Analysis of Material Issues

The Company uses questionnaire surveys to identify, evaluate and screen sustainable development issues, and has determined issues that are of high concern to the Company and stakeholders. Disclosures and responses focusing on these are made in the report.

Strengthening party building	Sustainable development management	Risk management	Compliance	Anti-fraud initiatives
Quality management and quality services	Technological innovations	Safe production and occupational health	Response to climate change	Energy saving and emissions reduction
Conservation of biological diversity	Supply chain management	Protection of employee rights	Career development	Staff caring
Fight against COVID-19	Targeted poverty alleviation	Marine salvage	Voluntary services	Social responsibility overseas

Communication with Stakeholders

The Company attaches great importance to communication with stakeholders, and adopts their relevant demands as the Company's 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
Clients	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	Targeted poverty alleviation Fight COVID-19 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

Prospects

We will adhere to sustainable development, continue to improve our corporate governance, optimize sustainable development governance, embed social responsibility into our strategy and business growth and increase our competitiveness in terms of corporate social responsibility.

We will adhere to innovation-driven development, increase investment in scientific research, speed up the commercialization of R&D achievements, support energy development with "green technology" and meet client demands with innovation and professional services.

We will adhere to safety and environmental protection, continue to enhance safe production management, ensuring safe and efficient operations; actively respond to climate change, strengthen energy conservation and emission reduction, and carbon reduction, protect the ecological environment, and enable carbon neutrality and ecological development with practical actions.

We will adhere to cooperation for win-win results, strengthen supply chain management, and promote integrated development at home and abroad; adhere to the people-oriented approach, care for every employee, facilitate career development, promote work-life balance, and enhance cohesion and centripetal force.

We will adhere to contribution to the society, consolidate the results of poverty alleviation, and proceed with rural revitalization; continue to prevent and control COVID-19 to safeguard the physical and mental health of employees; continue to promote public welfare activities such as marine salvage and voluntary services to build a harmonious society; actively respond to the "Belt and Road Initiative", expand into overseas markets, fulfill overseas social responsibilities, and become a global corporate 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 CEO	Male	52	2018-3-28 2016-7-22 2020-8-26	2022-5-29					144.43	No
Zhao Shunqiang	Executive Director President	Male	52	2020-10-21 2020-8-26	2023-10-20					34.96	No
Zheng Yonggang	CFO	Male	47	2018-2-28		5,200	5,200	0	Nil	125.37	No
Yu Feng	Vice President	Male	56	2017-1						117.99	No
Xu Yingbo	Team Leader of the Discipline Inspection Commission	Male	47	2020-7-29						51.76	No
Lu Tao	Vice President	Male	52	2020-7-29						49.83	No
Xiong Min	Vice President	Male	44	2020-12-18						3.66	No
Yang Dexing	Vice President	Male	40	2020-12-18						3.64	No
Fong Chung, Mark	Independent Non-Executive Director	Male	69	2015-6-2	2021-5-29					40.00	No
Wong Kwai Huen, Albert	Independent Non-Executive Director	Male	69	2016-5-31	2022-5-29					40.00	No
Lin Boqiang	Independent Non-Executive Director	Male	63	2020-5-28	2023-5-27					23.33	No
Xu Yugao	Non-Executive Director	Male	51	2020-12-11	2023-12-10					–	Yes
Zhao Baoshun	Non-Executive Director	Male	58	2020-12-11	2023-12-10					–	Yes
Peng Wen	Chairman of Supervisory Committee	Male	51	2020-10-21	2023-10-20					–	Yes
Cheng Xinsheng	Independent Supervisor	Male	57	2015-6-2	2021-5-29					8.00	No
Zhao Bi	Employee Supervisor	Male	39	2019-7-30	2022-7-29					94.96	No
Wu Yanyan	Secretary of the Company	Female	41	2019-8-22						92.57	No
Cao Shujie	Original Executive Director Original CEO, President	Male	56	2018-5-30 2018-3-28	2020-10-21 2020-6-29					51.71	No
Liu Yifeng	Original Deputy Party Secretary, Chairman of Labour Union	Male	56	2017-8	2020-5-7					30.48	No
Yu Guimin	Original Vice President	Male	51	2017-1	2020-5-8					29.57	No
Law Hong Ping, Lawrence	Original Independent Non-Executive Director	Male	66	2014-5-23	2020-5-28					16.67	No
Meng Jun	Original Non-Executive Director	Male	60	2017-12-13	2020-12-11					–	Yes
Zhang Wukui	Original Non-Executive Director	Male	61	2018-5-30	2020-12-11					–	Yes
Wu Hanming	Original Chairman of Supervisory Committee	Male	61	2018-5-30	2020-10-21					–	Yes
Total	/	/	/	/	/	5,200	5,200	0	/	958.93	/

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, Chairman of the Board, an Executive Director and CEO 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 COSL. Since March 2018, Mr. Qi has served as Chairman and an Executive Director of COSL. From August 2020, he has served as CEO of COSL. Mr. Qi has nearly 30 years of experience in the oil and natural gas industry.

Zhao Shunqiang

Mr. Zhao Shunqiang, Chinese, born in 1968, an Executive Director and President of COSL, senior engineer. He graduated from China University of Petroleum (East China) with bachelor degree of drilling engineering in 1990 and was granted EMBA of CEIBS in 2008. From July 1990 to November 2001, Mr. Zhao successively served as drilling foreman, staff member of operating department and senior team leader of China Offshore Oil Northern Drilling Company; from November 2001 to October 2002, he successively served as Vice President of China Offshore Oil International Engineering Company and manager of Bohai No. 9 Rig of China Offshore Oil Northern Drilling Company; from October 2002 to August 2004, he served as Vice GM of Tianjin Branch of COSL; from August 2004 to November 2004, he served as Director of Drilling Technology Institute (Tanggu) of COSL IPM Division; from November 2004 to December 2005, he served as GM of Tianjin Branch of COSL; from December 2005 to April 2012, he served as GM of the Production Optimization Division of COSL, while he also served as the Dean of Production Optimization Research Institute from January 2011 to April 2012; from April 2012 to March 2018, he served as the Vice GM of CNOOC International Limited; from March 2018 to August 2020, he served as President of CNOOC Uganda Limited; since August 2020, he has served as President of COSL. Since October 2020, he has served as an Executive Director of COSL. Mr. Zhao has over 30 years of experience in the oil and natural gas industry.

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. From June 2013 to November 2020, Mr. Fong served as an Independent Non-Executive Director of Macau Legend Development Limited. Mr. Fong is currently an Independent Non-Executive Director of Sinopec Kantons Holdings 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 the chairman of Hong Kong Board of Review (Inland Revenue Ordinance), the former 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.

Lin Boqiang

Mr. Lin Boqiang, American, born in 1957, an Independent Non-Executive Director of COSL. Mr. Lin has a Ph.D in economics from the University of California, United States of America. Mr. Lin was the economist (energy) of Asian Development Bank. He is currently a "Changjiang Scholar" distinguished professor of School of Management of Xiamen University, dean of China Institute for Studies in Energy Policy and a doctoral tutor of Xiamen University. Mr. Lin is the chief editor of Energy Economics, an international energy economics journal. Meanwhile, Mr. Lin is a member of the National Energy Consultation Committee under the National Energy Commission, a member of the Energy Price Consultation Committee under the National Development and Reform Commission, a special economic analyst for China Xinhua News Agency, a special observer of China National Radio, an executive member of the Energy Leader Committee of the World Economic Forum based in Davos. From May 2014 to June 2020, Mr. Lin served as an Independent Non-Executive Director of PetroChina Company Limited. Since May 2020, Mr. Lin has served as an Independent Non-Executive Director of COSL.

Xu Yugao

Mr. Xu Yugao, Chinese, born in 1969, a Non-executive Director of COSL. He is a professor level senior economist who obtained an engineering Bachelor's degree in Automation and an engineering doctor degree in Systematic Engineering from Tsinghua University in 1993 and 1997, respectively. Mr. Xu served as an assistant researcher (lecturer) at the Institute of 21st Century Development of Tsinghua University from October 1997 to March 2000. From September 2000 to July 2002, he studied technology policy in the Department of Engineering Systems of Massachusetts Institute of Technology and obtained a Master's degree in Technical Policy. From July 2002 to June 2003, he served as the strategic research manager of Strategic Planning Department of COSL. From June 2003 to November 2004, he served as the policy research manager of the Development and Research Office of China National Offshore Oil Corporation. From November 2004 to July 2008, he served as the chief financial officer of CNOOC Petroleum Base Group Co., Ltd.. From July 2008 to August 2013, he served as the deputy general manager and chief financial officer of CNOOC Energy Technology & Services Limited. From August 2013 to May 2016, he served as the general manager of the Legal Department of China National Offshore Oil Corporation (CNOOC Limited). From May 2016 to July 2018, he served as the director of the Policy Research Office of China National Offshore Oil Corporation. From July 2018 to June 2020, he served as the Dean of the Cadre College of China National Offshore Oil Corporation. From June 2020 to present, he served as the general manager (director) of International Cooperation Department (Foreign Affairs Department) of China National Offshore Oil Corporation (CNOOC Limited). Since December 2020, Mr. Xu has served as a Non-Executive Director of COSL.

Zhao Baoshun

Mr. Zhao Baoshun, Chinese, born in 1963, a Non-Executive Director of COSL, senior engineer. He graduated from the East China Petroleum Institute with a Bachelor's degree majoring in geophysical exploration in August 1984. Mr. Zhao successively served as a technician and secretary of Youth League Committee of the Computation Centre of Bohai Oil Corporation, the secretary of Youth League Committee of Bohai Petroleum Company from August 1984 to August 1987. From August 1987 to March 1996, he served as satellite navigation main operator, instrument operator, seismic source main operator, section chief of the Production Section/Equipment Section/Personnel Section in Bohai Oil Geophysics Company. From March 1996 to May 2001, he successively served as the secretary of General Office, secretary of the general manager, the deputy director of the Secretariat of the General Office and the secretary of general manager, the deputy director of the General Affairs Department of General Office, deputy director of the Security Department of General Office. From May 2001 to August 2004, he successively served as the cadre of the Bitumen Development and Operation Department, the head of Qingdao Bitumen Acquisition Project, the leader of the field project team of China Offshore Bitumen (Luzhou) Project and the manager of the Comprehensive Management Department of CNOOC Oil & Gas Development and Utilization Company. From August 2004 to November 2005, he served as the general manager of CNOOC Bitumen Co. Ltd.. From November 2005 to December 2011, he served as the deputy general manager of CNOOC Oil & Gas Development and Utilization Company. From December 2011 to July 2018, he served as the deputy general manager of the QHSE Department of China National Offshore Oil Corporation (CNOOC Limited). From July 2018 to June 2020, he served as chairman of the Trade Union of departments directly under CNOOC and the deputy head of the United Front Work Department of the Communist Party Committee of China National Offshore Oil Corporation. From June 2020 to present, he has served as the deputy director of the Party and Mass Work Department, chairman of the Trade Union of departments directly under CNOOC, the deputy head of the United Front Work Department of the Communist Party Committee, and the deputy director of the Trade Union Work Committee of China National Offshore Oil Corporation. Since December 2020, Mr. Zhao has served as a Non-Executive Director of COSL.

BOARD OF SUPERVISORS:

Peng Wen

Mr. Peng Wen, Chinese, born in November 1969, the Chairman of the Supervisory Committee of COSL, a senior accountant. He graduated from the Economics Department of Xiangtan Mining Institute in July 1991, majoring in accounting, studied by correspondence in China University of Mining and Technology with a Bachelor of Management in Accounting from September 2000 to July 2003, and studied part-time in China University of Mining and Technology from February 2004 to January 2008 and obtained an undergraduate degree in Law. From July 1991 to April 1999, Mr. Peng served successively as cashier, accountant of the geological exploration department, accountant of financial department of special construction basic engineering head company, financial accounting of social insurance coordinating office and vice section chief and chief staff member of financial fund department in DaTun Coal Electricity Company. From April 1999 to April 2006, he successively served as chief of the finance department of Kongzhuang Mine, chief accountant and General Legal Counsel of Construction and Installation Engineering Company of DaTun Coal Electricity (Group) Co., Ltd.. From April 2006 to September 2007, he served as vice GM and chief accountant of Hunan Ordnance Industry Group Co., Ltd.. From September 2007 to April 2013, he served as chief accountant of China United Coalbed Methane Corporation Ltd.. From April 2013 to February 2016, he served as chief accountant of China United Coalbed Methane Corporation Ltd. and chief accountant of the unconventional oil and gas branch of CNOOC (China) Co., Ltd.. From February 2016 to February 2017, he served as the vice president of CNOOC International Financial Leasing Limited. From February 2017 to June 2020, he served as the vice president of CNOOC International Financial Leasing Limited, and the vice GM of CNOOC Investment Holding Co., Ltd.. Since June 2020, he has been a full-time supervisor of CNOOC. He is currently the Chairman of Supervisory Committee of Offshore Oil Engineering Co,. Ltd., CNOOC Research Institute Co. Ltd,. China United Coalbed Methane Corporation Ltd. and CNOOC Hainan Energy Co., Ltd.. Since October 2020, Mr. Peng has served as the Chairman of Supervisory Committee of COSL.

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, Employee Supervisor of COSL, administrative officer, graduated from the Jianghan Petroleum Institute with a Bachelor degree in 2003. 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.

Zhao Shunqiang

Mr. Zhao Shunqiang, please refer to the Section of Board of Directors.

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, Deputy Party Secretary, Vice President and Chairman of Labour Union. 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 center 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 COSL from December 2001 to September 2002. He also served as a vice general manager of the Well Tech of COSL from September 2002 to March 2006 and a general manager of the Well Tech of COSL from March 2006 to January 2016. From January 2016 to January 2017, he served as a marketing director of COSL. Since January 2017, he has been a Vice President of COSL. From June 2017 to September 2020, he has also served as a safety director of COSL. From July 2020, he served as Deputy Party Secretary, Vice President and Chairman of Labour Union of COSL.

Xu Yingbo

Mr. Xu Yingbo, Chinese, born in 1973, Team Leader of the Discipline Inspection Commission, senior engineer. He graduated from the China University of Petroleum (East China) with major in production process automation and obtained a Bachelor's degree in engineering, and later was granted a master's degree in project management from the China University of Petroleum (Beijing). From July 1997 to November 2002, Mr. Xu served as instrument engineer, instrument chief operator, and equipment supervisor at the South China Sea Western Petroleum Production Company. From November 2002 to January 2007, he served as equipment supervisor and FPSO director assistant of CNOOC Energy Development Oil Production Service Company. From January 2007 to July 2007, he served as FPSO Director of CNOOC Shenzhen Branch Xijiang 23-1 Oilfield. From July 2007 to April 2009, he served as Director of of CNOOC Shenzhen Branch Xijiang 23-1 Oilfield. From April 2009 to December 2010, he served as Production Director of CNOOC Shenzhen Branch Self-operated Oilfield; From December 2010 to January 2013, he served as Production Manager of CNOOC Shenzhen Branch Xijiang Oilfield Operation Area. From January 2013 to December 2014, he served as the Vice Manager of CNOOC Shenzhen Branch Xijiang Oilfield Operation Area. From December 2014 to October 2016, he served as Vice Manager, Deputy Party Secretary and Secretary of the Disciplinary Committee of CNOOC Shenzhen Branch Xijiang Oilfield Operation Area. From October 2016 to September 2017, he served as Manager of the Supervision Department of the Eastern South China Sea Petroleum Administration. From September 2017 to December 2018, he served as Deputy Leader of the Discipline Inspection Group of the Party Team in CNOOC Shenzhen branch. From December 2018 to February 2020, he served as Deputy Leader of the Party Inspection Team of CNOOC. Since February 2020, Mr. Xu has served as Team Leader of the Discipline Inspection Commission.

Lu Tao

Mr. Lu Tao, Chinese, born in 1969, Vice President and General Legal Counsel of COSL, professor-level senior engineer. He graduated from the University of Electronic Science and Technology of China with major in electromagnetic field and microwave technology and a master's degree in 1993, and later was granted a doctorate degree in measurement technology and instrumentation from the University of Electronic Science and Technology of China. From April 1993 to July 1993, Mr. Lu served as research engineer at the Research Institute of China National Offshore Oil Logging Corporation, and from July 1993 to October 1993, he had an intern at Xinjiang Branch of China National Offshore Oil Logging Corporation. From October 1993 to January 2002, he served as research engineer at the Research Institute of China National Offshore Oil Logging Corporation. From January 2002 to September 2002, he served as Vice Chief Engineer of the Technology Development Center of COSL Logging Division. From September 2002 to December 2004, he served as the Vice Chief Engineer of the Electromechanical Equipment Institute of COSL R&D Center. From December 2004 to April 2006, he served as the Director of the Electromechanical Equipment Institute of the COSL Technical Center. From April 2006 to January 2010, he served as the Chief Engineer of the COSL Technical Center. From January 2010 to May 2010, he served as Deputy Director of COSL Technical Center. From June 2010 to June 2016, he served as Vice General Manager of COSL Well Tech Division. From June 2016 to November 2017, he served as General Manager of COSL Well Tech Division. From November 2017 to August 2019, he served as General Manager and Deputy Party Secretary of COSL Well Tech Division. From August 2019 to November 2019, he served as General Manager and Deputy Party Secretary (responsible for the work of the Party Committee) of COSL Well Tech Division. From November 2019 to August 2020, he served as General Manager and Party Secretary of COSL Well Tech Division. Since July 2020, he served as Vice President and concurrently served as General Legal Counsel of COSL.

Xiong Min

Mr. Xiong Min, Chinese, born in 1976, Vice President of COSL, General Manager of Malaysian joint venture and General Manager of CDPPM, senior engineer. Mr. Xiong graduated from China University of Petroleum in 1996 with major in oil engineering and obtained a Bachelor's degree, and then obtained a Master degree from the University of Science and Technology Beijing with major in vehicle engineering (mining machine). From July 1996 to January 1998, he was a junior engineer at Huanxiling Oil Production Plant in Liaohe Oilfield. From January 1998 to October 2001, he served as a junior engineer at Research Institute of Drilling and Production Technology of Liaohe Oilfield. From October 2001 to March 2004, he studied for Master's degree majored in University of Science and Technology Beijing with major in vehicle engineering (mining machinery). From March 2004 to April 2005, he served as Sales Engineer at Lincom Pty Ltd.. From April 2005 to April 2007, he was the project manager of Tanggu Base, Cementing Center, COSL Well Tech Division. From April 2007 to February 2012, he served as Technology Supervisor and Manager of Cementing Operation Company, Tanggu Base, COSL Oilfield Chemicals Division. From February 2012 to November 2014, he was Vice Manager and Manager of Indonesia Base of COSL Oilfield Chemicals Division. From November 2014 to August 2016, he was Manager of Indonesia Operation Company of COSL Oilfield Chemicals Division. From August 2016 to September 2017, he served as Vice General Manager of COSL Oilfield Chemicals Division. Since September 2017, he served as General Manager of Malaysian joint venture of COSL. Since January 2019, he concurrently served as General Manager of COSL Drilling Pan Pacific (Malaysia) Company (CDPPM). Since December 2020, he served as Vice President of COSL.

Yang Dexing

Mr. Yang Dexing, Chinese, born in 1980, Vice President and Safety Director of COSL, senior engineer. Mr. Yang graduated from China University of Petroleum (East China) with a major in oil engineering and obtained a Bachelor's degree in 2003, and then obtained a Master's degree from China University of Petroleum (East China) with major in oil and gas field Development, and a Master's degree from University of Stavanger in Norway with major in industrial economics. From July 2003 to November 2007, he served as learning foreman and drilling team leader of Bohai 10 in Tanggu Base of COSL Drilling Division. From November 2007 to September 2008, he served as Senior Team Leader of HYSY 931 at Tanggu Operation Company of COSL Drilling Division. From September 2008 to July 2012, he served as the Senior Team Leader and Platform Manager of Bohai 4 at Tanggu Operation Company of COSL Drilling Division. From July 2012 to August 2013, he was a off-production training student for the Master of industrial economics at University of Stavanger in Norway. From August 2012 to July 2014, he obtained a Master's degree in industrial economics from University of Stavanger. From August 2013 to May 2014, he served as COSLGIFT Platform Manager at Tanggu Operation Company of COSL Drilling Division. From May 2014 to October 2014, he was Manager of Human Resources Department of COSL Drilling Division. From October 2014 to February 2016, he was Manager of Operational Safety and Environmental Protection Department of COSL Drilling Division. From February 2016 to April 2017, he served as President of PT. COSL DRILLING INDO of COSL Drilling Division. From April 2017 to June 2018, he served as Vice Manager of the Quality and Safety Department of COSL. Since June 2018, he was Manager of the Quality and Safety Department of COSL. Since December 2020, he served as Vice President of COSL. Since February 2021, he concurrently served as Safety Director of COSL.

Wu Yanyan

Ms. Wu Yanyan, Chinese, born in 1979, Secretary of the Board of COSL (Company Secretary), 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 (Company Secretary).

The directors, supervisors and senior management resigned during 2020 and as at the date of preparation of this report:

Mr. Liu Yifeng, Chinese, born in 1964, original Deputy Party Secretary and Chairman of Labour Union of COSL. He resigned as Deputy Party Secretary and Chairman of Labour Union of COSL on 7 May 2020.

Mr. Yu Guimin, Chinese, born in 1969, original Vice President of COSL. He resigned as Vice President of COSL on 8 May 2020.

Mr. Law Hong Ping, **Lawrence,** China (Hong Kong) by nationality, born in 1954, an original Independent Non-Executive Director of COSL. He resigned as Independent Non-Executive Director of COSL on 28 May 2020.

Mr. Cao Shujie, Chinese, born in 1964, original Executive Director, CEO and President of COSL. He resigned as CEO and President of COSL on 29 June 2020, and resigned as Executive Director of COSL on 21 October 2020.

Mr. Wu Hanming, Chinese, born in 1959, original Chairman of Supervisory Committee of COSL. He resigned as Chairman of Supervisory Committee of COSL on 21 October 2020.

Mr. Meng Jun, Chinese, born in 1960, original Non-Executive Director of COSL. He resigned as Non-Executive Director of COSL on 11 December 2020.

Mr. Zhang Wukui, Chinese, born in 1959, original Non-Executive Director of COSL. He resigned as Non-Executive Director of COSL on 11 December 2020.

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
Xu Yugao	CNOOC	General Manager of International Cooperation Department	June 2020	Until now
Zhao Baoshun	CNOOC	Deputy Director of Community Union Working Departmentt	June 2020	Until now
Peng Wen	CNOOC	Full-time supervisor	June 2020	Until now
Meng Jun	CNOOC	General Manager of Financial Assets Department	July 2017	December 2019
Wu Hanming	CNOOC	Chairman of Supervisory Committee	May 2018	December 2020

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 shareholder company	Position held	Starting date of term of office	Expiry date of term of office
Fong Chung, Mark	Grant Thornton Hong Kong Limited	Honorary advisor	2014	Until now
	Macau Legend Development Limited	Independent Non-Executive Director	June 2013	November 2020
Wong Kwai Huen, Albert	Fried, Frank, Harris, Shriver & Jacobson LLP	Principal of Hong Kong branch	2015	Until now
Lin Boqiang	Xiamen University	Professor	June 2006	Until now
	PetroChina Company Limited	Independent Non-Executive Director	May 2014	June 2020
Peng Wen	Offshore Oil Engineering Co., Ltd.	Chairman of Supervisory Committee	December 2020	Until now
Cheng Xinsheng	Nankai University	Professor	December 2005	Until now
Law Hong Ping, Lawrence	Vincera Consulting Limited	Chairman	2012	2017
Meng Jun	Offshore Oil Engineering Co., Ltd.	Director	January 2014	December 2020
	China BlueChemical Ltd.	Director	October 2017	December 2020
Zhang Wukui	CNOOC Energy Technology & Services Ltd.	Director	January 2014	December 2020
	Offshore Oil Engineering Co., Ltd.	Director	April 2018	December 2020
Wu Hanming	Offshore Oil Engineering Co., Ltd.	Chairman of Supervisory Committee	April 2018	December 2020

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	RMB9,589.3 thousand
Total actual remuneration of Directors, Supervisors and Senior Management at the end of the reporting period	RMB9,589.3 thousand

5. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Change of Directors

(1) On 28 May 2020, the Company convened the 2019 AGM, at which Mr. Law Hong Ping, Lawrence, an Independent Non-Executive director, resigned for expiration of six years. The AGM considered and approved the appointment of Mr. Lin Boqiang as an Independent Non-Executive director of the Company to fill in the vacancy to be left open by the resignation of Mr. Law Hong Ping, Lawrence for a term of three year starting from the date when the resolution was passed at the AGM and Mr. Lin serves as a member of the audit committee of the Company, a member of the Remuneration and Assessment Committee of the Company and the Chairman of the Nomination Committee of the Company.

(2) On 26 August 2020, the Board received the written resignation from Mr. Cao Shujie, an Executive Director of the Company, who resigned from the position of Executive Director of the Company due to position change. His resignation will be effective when new Executive Director is elected by the shareholders of the Company at the 2020 first EGM. On 21 October 2020, the Company convened the 2020 First EGM. The EGM considered and approved the appointment of Mr. Zhao Shunqiang as an Executive Director of the Company for a term of three years, starting from the date when the resolution was passed at the 2020 First EGM.

(3) On 29 October 2020, the Board of the Company received written resignations from Mr. Meng Jun, a Non-Executive Director and a member of the Remuneration and Appraisal Committee, and Mr. Zhang Wukui, a Non-Executive Director. Mr. Meng Jun resigned as a Non-Executive Director and a member of the Remuneration and Appraisal Committee due to his retirement. His resignation will be effective when new Non-Executive Director is elected by the shareholders of the Company at the 2020 Second EGM. Mr. Zhang Wukui resigned as a Non-Executive Director due to his retirement. His resignation will be effective when new Non-Executive Director is elected by the shareholders of the Company at the 2020 Second EGM. On 11 December 2020, the Company convened the 2020 Second EGM. The EGM considered and approved the appointment of Mr. Xu Yugao as a Non-Executive Director of the Company for a term of three years, starting from the date when the resolution was passed at the 2020 Second EGM. Mr. Xu Yugao has also served as a member of the Remuneration and Appraisal Committee. The EGM considered and approved the appointment of Mr. Zhao Baoshun as a Non-Executive Director of the Company for a term of three years, starting from the date when the resolution was passed at the 2020 Second EGM.

2. Change of Supervisors

(1) On 9 September 2020, the Board of Supervisors of the Company received a written resignation from Mr. Wu Hanming, the Chairman of Supervisory Committee. Mr. Wu Hanming resigned as a Supervisor of the Company and the Chairman of Supervisory Committee due to his retirement. His resignation will be effective when new supervisor is elected by the shareholders of the Company at the 2020 First EGM. On 21 October 2020, the Company convened the 2020 First EGM. The EGM considered and approved the appointment of Mr. Peng Wen as a Supervisor of the Company for a term of three years, starting from the date when the resolution was passed at the 2020 First EGM. The Board of Supervisors elected Mr. Peng Wen as the Chairman of Supervisory Committee on 21 October 2020, effective from 21 October 2020.

3. Change of Senior Management

(1) On 7 May 2020, Mr. Liu Yifeng resigned as Deputy Party Secretary and Chairman of Labour Union of the Company due to job adjustment, effective from 7 May 2020.

(2) On 8 May 2020, Mr. Yu Guimin resigned from Vice President of the Company due to job adjustment, effective from 8 May 2020.

(3) On 29 June 2020, the Board received a written resignation from Mr. Cao Shujie. Mr. Cao Shujie applied for the resignation of CEO and President of the Company due to job transfer with effect from 29 June 2020.

(5) On 29 July 2020, Mr. Xu Yingbo was appointed as the Team Leader of the Discipline Inspection Commission of the Company, effective from 29 July 2020.

(6) On 29 July 2020, Mr. Lu Tao was appointed as the Vice President of the Company, effective from 29 July 2020.

(7) On 26 August 2020, the Board appointed Mr. Qi Meisheng, an Executive Director, as CEO of the Company, effective from 26 August 2020. CEO is the chief executive of the Company and reports to the Board.

(8) On 26 August 2020, the Board appointed Mr. Zhao Shunqiang as the President of the Company, effective from 26 August 2020.

(9) On 18 December 2020, the Board appointed Mr. Xiong Min as the Vice President of the Company, effective from 18 December 2020.

(10) On 18 December 2020, the Board appointed Mr. Yang Dexing as the Vice President of the Company, effective from 18 December 2020.

6. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(1) Employees

Number of in-service employees of the Company	12,904
Number of in-service employees of the major subsidiaries	1,698
Total number of in-service employees	14,602
The number of retired employees whose expenses are borne by the Company and its major subsidiaries	87

Composition of professions

Type of profession	Number of employees in the profession (Headcount)
Operation Management	3,711
Technical Expertise	5,795
Skills Operating	5,096
Total	14,602

Educational level

Type of educational level	Number of employees (Headcount)
Master degree or above	910
Bachelor degree	6,514
College graduates	3,350
Below college graduates	3,828
Total	14,602

(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 2020.

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. Affected by Pandemic and drastic fluctuations in oil prices, 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 Company's production environment is mainly in the ocean. As the environmental protection supervision of domestic and overseas local government agencies is becoming increasingly strict, the Company's investment in environmental protection is expected to increase accordingly. At the same time, as the offshore oil industry, the inherent high-risk attributes of the industry are superimposed by possible natural disasters, harsh marine weather and other factors, thus health, safety and environmental protection incidents are more likely to occur. The Company expects that the workload will remain at a high level. With the addition of new staff and new equipment, factors such as staff cooperation and man-machine running-in will bring challenges to safe production. The current overseas Pandemic situation is complex and severe, which has a greater impact on the Company's overseas project operation.

(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 controls the exchange rate risk by conducting regular research and analysis of exchange rate trends and reducing exchange risk exposure.

(5) Risk of impairment of assets. According to the requirements of accounting standards, the Company should perform impairment testing on the assets that may have signs of impairment on the balance sheet date. With the operating uncertainty brought by oil prices and industry fluctuations, the Company may experience various impairment risks including impairment of fixed assets caused by the recoverable amount of some fixed assets is less than its book value.

(6) Accounts receivable recovery risk. If customers choose to postpone payment or default on payment, the Company will not be able to collect funds in time, which will adversely affect operating cash flow or create new bad debt.

(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

The Company has established a comprehensive risk management organization system, formulated the "Comprehensive Risk Management Measures", continued to improve the risk management system and mechanism, and integrated risk management into daily production and operation management activities in accordance with the principle of "rating, stratification, classification", form the normalization mechanism with Assessment, Reporting, Response and Supervision, strengthen the organic integration of risk management, internal control and business, and continue to deepen the normalization of risk management. We established the "Management of Reports on Major Business Risk Events", improved the reporting mechanism and reporting system that are connected from top to bottom and horizontally coordinated, and by promoting Early Detection, Early Reporting and Early Response to major risks, systemic business risks are avoided. Closely centering on the strategic goal of "technical and international development", the Company comprehensively strengthened risk emergency management, formulated various emergency response systems, and continuously improved risk response systems and mechanisms. We continuously consolidated the responsibility of all levels of departments to prevent and control risks, strengthened the sharing of information and resources, and continued to promote the role of coordinated risk prevention and control mechanisms. Facing the impact of uncertain factors, the Company organized and caught out various major business risk investigations, timely identified risks in various fields, continued to improve risk management awareness, completed preventive countermeasures and response measures, thus further firmly established all employees' risk management awareness. We systematically inspected the operation of its risk research and judgment mechanism, decision-making risk assessment mechanism, risk prevention and control coordination mechanism, and risk prevention and control responsibility mechanism, continued to comprehensively improve 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 2020 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 147 to 152.

The directors recommend the payment of a final dividend of RMB0.17 (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 RMB811,170,640 (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 2020 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 2020 are set out in Note 49 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 2020, accumulated expenses of two tranches of bonds amounted to RMB9,985,425,000.00. The proceeds were utilized in full.

In 2019, 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 RMB1,998.1 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 40 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$401,228.76 was not yet utilized as at 31 December 2020. 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

	2020	2019	2018	2017	2016
Revenue, net of sales surtaxes	28,925,315	31,075,838	21,886,628	17,458,554	15,085,545
Other income	438,024	352,136	284,090	324,056	153,207
Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library	(4,335,730)	(4,372,838)	(4,262,776)	(4,488,936)	(4,520,118)
Depreciation of right-of-use assets	(480,380)	(589,264)	–	–	–
Employee compensation costs	(4,897,099)	(5,807,994)	(5,026,085)	(4,031,973)	(3,890,143)
Repair and maintenance costs	(435,878)	(691,334)	(523,764)	(364,063)	(500,093)
Consumption of supplies, materials, fuel, services and others	(6,290,190)	(6,933,202)	(4,954,252)	(3,069,432)	(4,116,437)
Subcontracting expenses	(4,768,526)	(5,943,860)	(3,578,949)	(2,367,934)	(2,364,588)
Lease expenses	(1,224,265)	(1,287,702)	(1,126,191)	(594,735)	(1,206,111)
Other operating expenses	(1,333,746)	(1,348,745)	(1,516,863)	(1,309,038)	(2,865,175)
Impairment of goodwill	–	–	–	–	(3,455,378)
Impairment of property, plant and equipment	(1,447,834)	(241,485)	(122,962)	(4,942)	(3,688,408)
Impairment losses under expected credit loss model, net of reversal	(7,778)	(316,324)	(415,364)	(83,602)	–
Total operating expenses	(25,221,426)	(27,532,748)	(21,527,206)	(16,314,655)	(26,606,451)
Profit/(loss) from operations	4,141,913	3,895,226	643,512	1,467,955	(11,367,699)
Exchange (loss)/gain, net	(403,839)	111,871	358,647	(388,092)	268,710
Finance costs	(924,485)	(1,118,797)	(1,082,501)	(1,100,941)	(1,047,667)
Interest income	69,644	67,522	107,552	99,575	130,519
Investment income	116,175	218,214	164,730	187,545	191,933
Gains/(losses) arising from financial assets at fair value through profit or loss	26,572	(38,829)	49,441	–	–
Share of profits of joint ventures, net of tax	364,917	320,452	184,288	106,867	16,849
Other gains and losses	(12,157)	16,515	280,660	(30,644)	–
Profit/(loss) before tax	3,378,740	3,472,174	706,329	342,265	(11,807,355)
Income tax (expense)/credit	(660,424)	(944,159)	(617,657)	(261,350)	347,899
Profit/(loss) for the year	2,718,316	2,528,015	88,672	80,915	(11,459,456)

ASSETS AND LIABILITIES

Unit: RMB'000

	2020	2019	2018	2017	2016
Total assets	75,942,308	76,101,838	74,687,004	73,941,296	80,544,057
Total liabilities	37,253,500	39,191,561	40,009,598	39,253,811	45,247,679

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 2020, based on a net profit of RMB2,718,315,604 achieved by the Group (of which net profit attributable to the owners of the Company amounted to RMB2,703,186,710) plus the retained profits of RMB17,196,349,188 as at the beginning of the year and deducted the dividend of 2019 of RMB763,454,720 declared and paid in 2020, after deducted the amount of other comprehensive income transferred into undistributed profit of RMB16,202,785, the total distributable profit would be RMB19,119,878,393 at the end of 2020. The Group recommended a cash dividend of RMB0.17 per share (tax inclusive) on the basis that the total share capital was 4,771,592,000 shares as at 31 December 2020. The total dividend amounts to RMB811,170,640 and the balance of retained profits of RMB18,308,707,753 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 2019 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 2020 of the Company for approval.

As at the year ended 31 December 2020, 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 (%)
2020	1.70	811,171	2,703,187	30.01
2019	1.60	763,455	2,502,238	30.51
2018	0.70	334,011	70,802	472

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable donations totaling RMB1,822,500.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, sales to the Group's five largest customers accounted for approximately 86.6% of the total sales for the year and sales to the largest customer included therein accounted for approximately 72.8%. Purchases from the Group's five largest suppliers accounted for approximately 20.0% of the total purchases for the year; and purchases from the Group's largest supplier accounted for approximately 6.3% 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 48 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 2020, the Group had no material charges against its assets.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no 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:

Executive directors	Independent Non-Executive directors	Non-Executive directors	Supervisors
Qi Meisheng *(Chairman)*	Fong Chung, Mark *(note 1)*	Xu Yugao	Peng Wen *(Chairman of the Supervisory Committee)*
Zhao Shunqiang	Wong Kwai Huen, Albert Lin Boqiang	Zhao Baoshun	Cheng Xinsheng *(Independent Supervisor)* 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 Fong Chung, Mark, Wong Kwai Huen, Albert and Lin Boqiang and as at the date of this report, still considers them to be independent.

Note: 1. Mr. Fong Chung, Mark, an Independent Non-Executive Director, will resign from office at the expiry of six years at the 2020 AGM of the Company. For details, please refer to the announcement of the Company dated 24 March 2021.

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 2020 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 2020 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 2020 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 47 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 2020, 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 2020, 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 (%)
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 2020, the Group had the following continuing connected transactions:

1. Master Services Framework Agreement

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.

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 2020, 2021 and 2022 are as follows:

	For the year ended 31 December 2020 (RMB million)	For the year ended 31 December 2021 (RMB million)	For the year ended 31 December 2022 (RMB million)
Annual caps			
– Provision by the Group of oilfield services to CNOOC and its subsidiaries	40,044	52,058	67,675
– Provision by CNOOC and its subsidiaries of machinery leasing, equipment, material and utilities services to the Group	5,397	7,169	9,534
– Provision by CNOOC and its subsidiaries of property services to the Group	600	797	1,059

2. **Deposit and Settlement Agreement**

The Company entered into a new Deposit and Settlement Agreement with CNOOC Finance on 8 May 2020. 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 2020 for a term of three years and will expire on 7 May 2023.

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 2020 to 7 May 2023 all are RMB1,200 million respectively.

During the year ended 31 December 2020, actual transaction amounts of the above-mentioned connected transactions of the Group are as follows:

a. **Included in revenue**

	2020 RMB'000	2019 RMB'000
i CNOOC Limited Group		
– Provision of drilling services	5,465,135	6,303,361
– Provision of well services	11,858,621	13,652,619
– Provision of marine support services	2,705,232	2,743,376
– Provision of geophysical acquisition and surveying services	1,058,340	1,657,321
	21,087,328	24,356,677
ii CNOOC Group		
– Provision of drilling services	39,794	102,834
– Provision of well services	416,537	228,125
– Provision of marine support services	35,645	41,719
– Provision of geophysical acquisition and surveying services	51,646	91,441
	543,622	464,119
iii Associates invested by CNOOC		
– Provision of drilling services	433	3,813
– Provision of well services	10,645	131,138
– Provision of marine support services	3,060	18,162
	14,138	153,113

b. Included in operating expenses

	2020 RMB'000	2019 RMB'000
i CNOOC Limited Group		
Materials, utilities and other ancillary services	3,877	79,268
Transportation services	3,311	383
Leasing of equipment	437	257
	7,625	79,908
Property services	5,989	6,207
	13,614	86,115
ii CNOOC Group		
Materials, utilities and other ancillary services	1,251,443	1,076,401
Leasing of equipment	193,948	162,242
Transportation services	18,738	48,437
Management services	44,151	32,896
Repair and maintenance services	40,359	21,733
Labour services	101	60
	1,548,740	1,341,769
Property services	85,061	145,168
	1,633,801	1,486,937
iii Associates invested by CNOOC		
Materials, utilities and other ancillary services	59,837	19,862
Leasing of equipment	41	–
Management services	–	1,207
	59,878	21,069

c. Included in interest income

	2020 RMB'000	2019 RMB'000
CNOOC Finance (a subsidiary of CNOOC)		
Interest income	17,918	15,326

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

	2020 RMB'000	2019 RMB'000
Dividend income from joint ventures	215,602	124,569

e. Included in finance costs

During the current year, the finance costs on the loan from a related party are US$5,147,000 (2019: US$9,535,000), which is equivalent to approximately RMB35,503,000 (2019: RMB65,775,000).

During the current year, the finance costs on the lease liabilities due to related party are RMB989,000 (2019: RMB4,680,000).

f. Deposits

	31 December 2020 RMB'000	31 December 2019 RMB'000
Deposits placed with CNOOC Finance	1,197,961	1,498,717

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 RMB15,229,000 (2019: RMB38,708,000).

h. Right-of-use assets

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:

	2020 RMB'000	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 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 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 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 47 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 2020 annual results with the management.

BUSINESS PLAN

In 2021, the latest "World Economic Outlook Report" released by the International Monetary Fund shows that the global economy is expected to grow by 5.5% and Chinese economy by 8.1%. IHS and other agencies predict that the average Brent crude oil price will exceed USD50/barrel, while global upstream investment remains cautious, and competition in the oilfield service market will be fierce. Since the beginning of 2021, the Company has started a new round of actions on cost reduction, quality improvement and efficiency improvement, in-depth explored the cost space of each business line, and from increasing revenue, reducing costs, tapping potential, innovation and optimization, tried to all-round and systematically improve quality and efficiency, so as to further improve cost, expense and profit margin. In 2021, the Company will maintain a prudent attitude in capital investment, adhere to the Company's strategy and direction of "technical and international development", and continue to optimize the Company's industrial structure and business model. It is estimated that the Company's capital expenditure will be approximately RMB4.3 billion, mainly used for the construction of production bases, renovation of the facilities, machinery and equipment, and its overall cash flow is safe and stable.

Guided by the new development concept, the Company will adhere to the five aspects of innovation-driven, green and low-carbon, overseas development, market leadership, and talent-based enterprise development, and forge the seven capabilities respected by the industry and customers, operational performance, best technological innovation and equipment management capabilities, operation management and operation team satisfying global deployment, the most competitive operating cost advantage, skilled business operation ability, high-quality oilfield service corporate brand, and world-class management and safety culture, and focus on the Company's high-quality development, actively maintain the interests of investors, so as to ensure the stable dividend return of shareholders.

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

These financial statements have been audited by Deloitte Touche Tohmatsu, who will retire at the forthcoming AGM at which a resolution for re-appointing Ernst & Young Hua Ming LLP and Ernst & Young as the domestic and international auditors of the Company will be proposed.

EXECUTION OF THE INSIDER INFORMATION MANAGEMENT SYSTEM

The Company continuously worked on the regular registration of insiders.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 adhere to the green policy of "protecting the environment, saving energy and increasing efficiency and green development", strictly abide by the environmental protection laws and regulations of the located countries and regions, and strengthen ecological and environmental protection; put in place environmental management system certified by DNV GL and Maritime Safety Administration of the PRC, and in production and operation activities, strictly abide by environmental protection requirements of laws, regulations, relevant standards and international conventions, and regularly evaluate the compliance with environmental rules and regulations, continue to improve the environmental protection system, ensure the Company's operation compliance; establish an environmental protection team with dedicated and supporting staff, carry out environmental protection theory, skills and awareness training, constantly enhance the performance capability of environmental protection personnel; identify and evaluate environmental factors involved in the operation process, formulate corresponding management and control measures; carry out special environmental protection inspections, verify the implementation of systems and measures, ensure effective management and control of environmental risks; install recycling facilities to classified recycle and treat various pollutants generated from production and operation, equip environmental protection equipment and facilities, so as to meet the approved discharge standard, and entrust qualified organizations to treat the prohibited pollutants after they are recovered, so as to avoid harm to the environment; for the risks in production and operation activities, formulate environmental emergency plan, file with relevant national authorities, effectively link with the emergency plans of relevant departments, and at the same time, carry on on-site emergency response plan in respect of potential emergency such as oil leakage, organize special emergency response drillings regularly, continuously 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; the Company formulated and issued the COSL Green Development Action Plan Implementation Proposal, which points out the direction for the Company's green and low-carbon development in the future from three parts: the green and low-carbon development master plan, target positioning and implementation plan.

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 2020, 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
24 March 2021

Supervisory Committee Report

The Supervisory Committee of the Company for the year 2020 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 2020, six 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

On 9 September 2020, Mr. Wu Hanming, Chairman of the Supervisory Committee, applied for resignation as a supervisor and Chairman of the Supervisory Committee of the Company due to retirement. On 21 October 2020, the Company held its first EGM, which reviewed and approved the proposal of appointing Mr. Peng Wen as the Company's supervisor. The Supervisory Committee elected Mr. Peng Wen as the Chairman of the Supervisory Committee on 21 October 2020. Mr. Wu Hanming 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. Wu Hanming for his contribution to the Company during his tenure as a supervisor of the Company.

During the reporting period, Mr. Cheng Xinsheng served as the independent supervisor and Mr. Zhao Bi served as the employee representative supervisor.

II. OPERATION OF THE SUPERVISORY COMMITTEE

1) Six 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 2019 Annual Report, the first quarterly report for the year 2020, the 2020 Interim Report and the third quarterly report for the year 2020 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) Supervisors Wu Hanming and Zhao Bi both attended the first, second, third and fourth Board meetings of 2020. Supervisor Wu Hanming did not attend the fifth and sixth Board meetings due to retirement. Supervisor Zhao Bi did not attend the fifth and sixth Board meetings due to other business reasons. Supervisor Peng Wen attended the fifth and sixth Board meetings, and Supervisor Cheng Xinsheng attended all six Board meetings. Supervisors Wu Hanming, Cheng Xinsheng and Zhao Bi attended 2019 AGM, 2020 First A Share Class Meeting and 2020 First H Share Class Meeting. Supervisor Peng Wen attended 2020 Second EGM, Supervisor Cheng Xinsheng attended 2020 First and Second EGM, and Supervisor Zhao Bi did not attend 2020 First and Second EGM.

6) In June, the supervisors of the Company attended the training on corporate governance improvement and securities compliance "Know and Do"; in September, the supervisors of the Company participated in the training on new Securities Law; in November, the supervisors of the Company attended the training on "Opinions on Further Improving the Quality of Listed Companies".

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 was 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 was of the opinion that the Company was in strict compliance with the financial laws and regulations and the financial system. The financial management system of the Company was healthy and effective, the accounting treatment are consistent while the financial statements were 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 subsidiaries 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 was 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 was 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 was 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 was 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 2021

In 2021, 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 Management 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
Peng Wen
Chairman of the Supervisory Committee
24 March 2021

Significant Events

(I) SIGNIFICANT RELATED PARTY TRANSACTIONS

Further details on related party transactions are given in Note 47 to the financial statements of this annual report.

(II) GUARANTEE

Unit: RMB'000

External guarantee provided by the Company (excluding guarantee to subsidiaries)

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 guarantee	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	92,918.59	2018-9-18	2019-3-22	2020-6-21	Joint liability guarantee	Yes	No	0	No	No
COSL	Headquarter of the Company	Oceancare Corporation Sdn Bhd	163,862.17	2018-9-18	2020-3-22	2021-6-21	Joint liability guarantee	No	No	0	No	No

Total amount of guarantee occurred during the reporting period (excluding guarantee to subsidiaries)	256,780.76
Total balance of guarantee as at the end of the reporting period (A) (excluding guarantee to subsidiaries)	163,862.17
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	29,987,201.71
Total balance of guarantee provided by the Company to its subsidiaries at the end of the reporting period (B)	25,489,940.20
Total guarantee provided by the Company (including guarantee to subsidiaries)	
Total amount of guarantee (A+B)	25,653,802.37
Total amount of guarantee as a percentage of the Group's net assets (%)	66.31
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)	25,111,496.00
The excess of total amount of guarantee over 50% of the net assets (E)	6,309,398.59
Total amount of the three guarantees above (C+D+E)	31,420,894.59
Unexpired guarantee may be jointly and severally liable	N/A

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, US$500 million medium term notes issued by a subsidiary in 2015, and US$800 million notes issued by a subsidiary in 2020.

(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	7 years
Name of international audit firm	Deloitte Touche Tohmatsu
Remuneration of international audit firm	–
The service period of international audit firm	7 years
Remuneration of domestic and international audit firm	15.37

	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 28 May 2020, the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors for 2020 respectively was approved at the AGM 2019.

(IV) OTHER MATTERS

1. Civil Action

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. 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 (https://www.hkexnews.com.hk) and website of the Company (https://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 (https://www.hkexnews.com.hk) and website of the Company (https://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 (https://www.hkexnews.com.hk) and website of the Company (https://www.cosl.com.cn).

In the first quarter of 2020, Equinor has paid a settlement sum of US$188 million to COM. Strictly according to relevant rules of the accounting standards, the Company performed impairment testing on fixed asset and made provision for the asset impairment. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (https://www.hkexnews.com.hk) and website of the Company (https://www.cosl.com.cn).

2. Issue of the notes

On 24 June 2020, COSL Singapore Capital Ltd., a wholly-owned indirect subsidiary of the Company, respectively issued the US$500,000,000 1.875% guaranteed senior notes due 2025 (hereinafter "2025 Notes") and the US$300,000,000 2.500% guaranteed senior notes due 2030 (hereinafter "2030 Notes"). The two Notes have been approved for listing and trading on the Hong Kong Stock Exchange.

The 2025 Notes will bear interest on their outstanding principal amount from and including 24 June 2020 at the rate of 1.875% per annum, payable semi-annually in arrears on 24 June and 24 December of each year, beginning on 24 December 2020. The maturity date of the 2025 Notes is 24 June 2025. At any time and from time to time prior to the maturity date, the Company may at its option redeem the 2025 Notes, at a pre-determined redemption price.

The 2030 Notes will bear interest on their outstanding principal amount from and including 24 June 2020 at the rate of 2.500% per annum, payable semi-annually in arrears on 24 June and 24 December of each year, beginning on 24 December 2020. The maturity date of the 2030 Notes is 24 June 2030. At any time and from time to time prior to the maturity date, the Company may at its option redeem the 2030 Notes, at a pre-determined redemption price.

For details of the 2025 Notes and the 2030 Notes, please refer to the announcements of the Company dated 17 June 2020 and 19 June 2020, and the notice of listing dated 24 June 2020.

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 147 to 252, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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.

Independent Auditor's Report (Continued)

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 2020, the carrying amount of property, plant and equipment of the Group, including drilling rigs and vessels, was RMB46,918,930,000, 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 or cash-generating units ("CGUs")has been determined based on a value in use calculation through discounting the estimated future cash flows generated from the relevant assets or CGUs 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 2020, the Group's net accounts receivable amounting to RMB9,589,683,000 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, reasonable and supportable forward-looking information that is available without undue cost or effort; • We challenged management's basis and judgement in determining credit loss allowance on accounts receivables as at 31 December 2020, 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 49 to the consolidated financial statements.

Independent Auditor's Report (Continued)

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.

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

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.

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, actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report (Continued)

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

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

24 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	*6*	**28,959,199**	31,135,150
Sales surtaxes		**(33,884)**	(59,312)
Revenue, net of sales surtaxes		**28,925,315**	31,075,838
Other income	*7*	**438,024**	352,136
Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library		**(4,335,730)**	(4,372,838)
Depreciation of right-of-use assets		**(480,380)**	(589,264)
Employee compensation costs	*8*	**(4,897,099)**	(5,807,994)
Repair and maintenance costs		**(435,878)**	(691,334)
Consumption of supplies, materials, fuel, services and others		**(6,290,190)**	(6,933,202)
Subcontracting expenses		**(4,768,526)**	(5,943,860)
Lease expenses	*8*	**(1,224,265)**	(1,287,702)
Other operating expenses		**(1,333,746)**	(1,348,745)
Impairment of property, plant and equipment	*18*	**(1,447,834)**	(241,485)
Impairment losses under expected credit loss model, net of reversal	*10*	**(7,778)**	(316,324)
Total operating expenses		**(25,221,426)**	(27,532,748)
PROFIT FROM OPERATIONS		**4,141,913**	3,895,226
Exchange (loss)/gain, net		**(403,839)**	111,871
Finance costs	*9*	**(924,485)**	(1,118,797)
Interest income		**69,644**	67,522
Investment income	*8*	**116,175**	218,214
Gains/(losses) arising from financial assets at fair value through profit or loss	*8*	**26,572**	(38,829)
Share of profits of an associate and joint ventures, net of tax	*24*	**364,917**	320,452
Other gains and losses	*8*	**(12,157)**	16,515
PROFIT BEFORE TAX	*8*	**3,378,740**	3,472,174
Income tax expense	*14*	**(660,424)**	(944,159)
PROFIT FOR THE YEAR		**2,718,316**	2,528,015
Attributable to:			
Owners of the Company		**2,703,187**	2,502,238
Non-controlling interests		**15,129**	25,777
		2,718,316	2,528,015
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	*17*	**56.65 cents**	52.44 cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Note	2020 RMB'000	2019 RMB'000
PROFIT FOR THE YEAR		**2,718,316**	2,528,015
OTHER COMPREHENSIVE INCOME/(EXPENSE)	*15*		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plan		**–**	(1,768)
Income tax relating to item that will not be reclassified to profit or loss		**–**	389
		–	(1,379)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(271,365)**	66,203
Share of other comprehensive (expense)/income of joint ventures due to translation differences, net of related income tax		**(12,112)**	7,157
Income tax income/(expense) relating to item that may be reclassified subsequently to profit or loss		**107,147**	(27,402)
		(176,330)	45,958
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF INCOME TAX		**(176,330)**	44,579
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,541,986**	2,572,594
Attributable to:			
Owners of the Company		**2,539,194**	2,544,038
Non-controlling interests		**2,792**	28,556
		2,541,986	2,572,594

Consolidated Statement of Financial Position

31 December 2020

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*18*	**46,918,930**	50,218,143
Right-of-use assets	*19*	**767,186**	1,200,640
Goodwill	*20*	**–**	–
Other intangible assets	*21*	**75,509**	62,135
MultiClient library	*22*	**253,840**	279,726
Investments in associates and joint ventures	*24*	**1,102,008**	880,583
Financial assets at fair value through profit or loss	*29*	**–**	–
Contract costs	*33*	**184,545**	91,500
Other non-current assets	*34*	**158,760**	246,988
Deferred tax assets	*37*	**158,780**	92,468
Total non-current assets		**49,619,558**	53,072,183
CURRENT ASSETS			
Inventories	*25*	**2,246,758**	1,424,674
Prepayments, deposits and other receivables	*26*	**259,239**	397,972
Accounts receivable	*27*	**10,212,212**	10,305,533
Notes receivable	*28*	**10,050**	44,245
Receivables at fair value through other comprehensive income	*30*	**3,010**	40,580
Financial assets at fair value through profit or loss	*29*	**5,539,402**	4,511,248
Debt instrument at amortised cost	*31*	**1,000,416**	–
Contract assets	*32*	**320,397**	262,594
Contract costs	*33*	**18,514**	–
Other current assets	*34*	**125,351**	2,577,018
Pledged deposits	*35*	**3,659**	102,202
Cash and cash equivalents	*35*	**6,583,742**	3,363,589
Total current assets		**26,322,750**	23,029,655
CURRENT LIABILITIES			
Trade and other payables	*36*	**9,393,051**	10,284,224
Notes payable		**–**	3,467
Salary and bonus payables		**820,138**	979,229
Tax payable		**168,111**	612,784
Loan from a related party	*38*	**2,284,336**	2,443,946
Interest-bearing bank borrowings	*39*	**18,291**	608,906
Long term bonds	*40*	**3,265,377**	3,810,175
Lease liabilities	*41*	**224,285**	597,774
Contract liabilities	*42*	**388,144**	255,306
Other current liabilities	*34*	**314,191**	233,010
Total current liabilities		**16,875,924**	19,828,821
NET CURRENT ASSETS		**9,446,826**	3,200,834
TOTAL ASSETS LESS CURRENT LIABILITIES		**59,066,384**	56,273,017

Consolidated Statement of Financial Position (Continued)

31 December 2020

	Notes	31 December 2020 RMB'000	31 December 2019 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*37*	**24,906**	62,655
Interest-bearing bank borrowings	*39*	**191,146**	201,049
Long term bonds	*40*	**19,455,678**	17,928,478
Lease liabilities	*41*	**366,303**	547,572
Contract liabilities	*42*	**61,057**	192,745
Deferred income	*43*	**278,486**	401,554
Employee benefit liabilities		**–**	28,687
Total non-current liabilities		**20,377,576**	19,362,740
Net assets		**38,688,808**	36,910,277
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*44*	**4,771,592**	4,771,592
Reserves		**33,738,338**	31,962,599
		38,509,930	36,734,191
Non-controlling interests		**178,878**	176,086
Total equity		**38,688,808**	36,910,277

Qi Meisheng
Director

Zhao Shunqiang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	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 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	–	–	–	–	–	–	(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**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**2,703,187**	**–**	**2,703,187**	**15,129**	**2,718,316**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(163,993)**	**–**	**–**	**(163,993)**	**(12,337)**	**(176,330)**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**–**	**–**	**(163,993)**	**2,703,187**	**–**	**2,539,194**	**2,792**	**2,541,986**
Appropriation of safety fund	**–**	**–**	**–**	**38,503**	**–**	**–**	**–**	**–**	**38,503**	**–**	**38,503**
Utilisation of safety fund	**–**	**–**	**–**	**(38,503)**	**–**	**–**	**–**	**–**	**(38,503)**	**–**	**(38,503)**
Termination of a defined benefit pension plan (note 13)	**–**	**–**	**–**	**–**	**16,202**	**–**	**(16,202)**	**–**	**–**	**–**	**–**
Final 2019 dividend paid (note 16)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(763,455)**	**(763,455)**	**–**	**(763,455)**
Proposed final 2020 dividend (note 16)	**–**	**–**	**–**	**–**	**–**	**–**	**(811,171)**	**811,171**	**–**	**–**	**–**
At 31 December 2020	**4,771,592**	**12,366,274**	**2,508,656**	**–**	**–**	**(256,472)**	**18,308,709**	**811,171**	**38,509,930**	**178,878**	**38,688,808**

* These reserve accounts comprise the consolidated reserves of approximately RMB33,738,338,000 (2019: RMB31,962,599,000) in the consolidated statement of financial position as at 31 December 2020.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	*46*	**8,631,647**	7,913,330
Taxes paid:			
Mainland China corporate income tax paid		**(937,345)**	(724,849)
Overseas income taxes paid		**(155,382)**	(222,888)
Net cash flows from operating activities		**7,538,920**	6,965,593
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and other intangible assets		**(4,145,678)**	(2,699,226)
Payments for right-of-use assets		**–**	(107,522)
Investment in MultiClient library		**(10,634)**	(91,818)
Government grant received		**6,327**	2,748
Purchase of floating and fixed rate investments in corporate wealth management products, liquidity funds and debt instrument		**(9,000,000)**	(10,800,000)
Proceeds on disposal/maturity of floating and fixed rate investments in corporate wealth management products and liquidity funds		**9,628,277**	12,257,106
Proceeds from disposal of property, plant and equipment		**8,087**	25,703
Investment in an associate		**(83,200)**	–
Withdrawal of time deposits with maturity of over three months		**–**	141,523
Interest received		**69,641**	69,414
Dividends received from joint ventures		**215,602**	154,069
Deposits paid for acquisition of property, plant and equipment		**(25,588)**	(103,729)
Net cash flows used in investing activities		**(3,337,166)**	(1,151,732)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loan raised from a related party		**–**	1,017,120
Proceeds from issue of long-term bonds		**5,613,680**	–
Repayment of bank loans		**(605,996)**	(601,138)
Repayment of long-term bonds		**(3,502,850)**	(3,998,100)
Repayment of lease liabilities		**(545,407)**	(637,808)
Dividends paid		**(763,455)**	(334,011)
Interest paid		**(923,025)**	(1,097,825)
Net cash flows used in financing activities		**(727,053)**	(5,651,762)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,474,701**	162,099
Cash and cash equivalents at the beginning of year		**3,363,589**	3,169,610
Effect of foreign exchange rate changes, net		**(254,548)**	31,880
CASH AND CASH EQUIVALENTS AT END OF YEAR		**6,583,742**	3,363,589
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	*35*	**6,587,401**	3,465,791
Less: Pledged deposits	*35*	**(3,659)**	(102,202)
Cash and cash equivalents as stated in the consolidated statement of cash flows	*35*	**6,583,742**	3,363,589

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	*Definition of Material*
Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*

In addition, the Group has early applied the Amendment to HKFRS 16 *COVID-19-Related Rent Concessions*.

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year 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. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.1 Impacts on application of Amendments to HKFRS 3 *Definition of a Business*

The Group has applied the amendments for the first time in the current year. The amendments clarify that while business usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. 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.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

2.2 Impacts on early application of Amendment to HKFRS 16 *Covid-19-Related Rent Concessions*

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-releted rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021;

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 *Leases* ("HKFRS 16") if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the consolidated financial statements for the current year and the opening retained profits at 1 January 2020.

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

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 and the related Amendments*[1]
Amendments to HKFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*[4]
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	*Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*[1]
Amendments to HKAS 16	*Property, Plant and Equipment – Proceeds before Intended Use*[2]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Amendments to HKFRSs	*Annual Improvement to HKFRSs 2018-2020*[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
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 2021.

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 Reference to the Conceptual Framework

The amendments:

- update a reference in HKFRS 3 *Business Combinations* so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010);

- add a requirement that, for transactions and other events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets or* HK(IFRIC)-Int 21 *Levies*, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

- add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Group will apply the amendments prospectively to business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modification required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16;

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several London Interbank Offered Rate ("LIBOR") bank loans which may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- Specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an instrument applying HKAS 32 *Financial Instruments: Presentation.*

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2020, the application of the amendments will not result in reclassification of the Group's liabilities.

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

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

Amendments to HKAS 16 Property, Plant and Equipment – Proceeds before Intended Use

The amendments specify that the costs of any item that were produces while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 *Inventories*.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to HKAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that, when an entity assesses whether a contract is onerous in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, the unavoidable costs under the contract should reflect the least net cost of existing from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments are applicable to contracts for which the Group has not yet fulfilled all its obligations as at the date of initial application.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

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. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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, 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Business combinations or asset acquisitions and goodwill

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair value at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Business combinations or asset acquisitions and goodwill (continued)

Business combinations (continued)

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 associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and 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 an associate or 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 associate or joint venture. Changes in net assets of the associate/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 an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or 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 associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or 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 an associate or 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 an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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.

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 or 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers (continued)

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 Instruments* ("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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Revenue from contracts with customers (continued)

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.

Contract costs

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 *Revenue from Contracts with Customers* ("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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application or arising from business combinations, 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.

The Group as a lessee

Allocation of consideration to components of a contract

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of the underlying assets that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. During the current 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 other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

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.

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 in 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (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, less any incentives receivable, 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.

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.

Sale and leaseback transactions

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 continues to recognise the assets and 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 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.

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 16% (2019: 14% to 20%) 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Employee benefits (continued)

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Income tax (continued)

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 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:

Vessels (including 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 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, accounts receivable, notes receivable, certain other receivables, other current assets – fixed rate corporate wealth management products, debt instrument at amortised cost, 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and measurement of financial assets (continued)

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.

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 in the reserve. 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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

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, accounts receivable, notes receivable, receivables at fair value through other comprehensive income, certain other receivables, other current assets – fixed rate corporate wealth management products, debt instrument at amortised cost), lease receivable, contract assets and financial guarantee contracts which are subject to impairment assessment 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 there has been a significant increase in credit risk since initial recognition, in which case 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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 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 (continued)

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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 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 and 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. The Group uses a practical expedient in estimating ECL on accounts receivable and certain other receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 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 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.

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 reserve without reducing the carrying amount of financial assets at FVTOCI. Such amount represents the changes in the 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, the cumulative gain or loss previously accumulated in the reserve is reclassified to profit or loss.

For non-substantial modification of financial assets that do not result in derecognition, the carrying amount of the relevant financial assets will be calculated at the present value of the modified contractual cash flows discounted at the financial assets' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial assets and are amortised over the remaining term. Any adjustment to the carrying amount of the financial asset is recognised in profit or loss at the date of modification.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

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.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. 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 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 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.

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 RMB1,447,834,000 (2019: RMB241,485,000). As at 31 December 2020 the carrying amount of property, plant and equipment was RMB46,918,930,000 (2019: RMB50,218,143,000). 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.

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 49.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 RMB7,375,319,000 (2019: RMB9,611,096,000) and deductible temporary differences of RMB2,771,710,000 at 31 December 2020 (2019: RMB1,727,398,000). Further details are contained in note 37. 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 planning and finance department), pledged deposits, certain other current assets, financial assets at FVTPL, debt instrument at amortised cost and deferred tax assets as these assets are managed on a group basis.

All liabilities are allocated to reportable segments other than loan from a related party, interest-bearing bank borrowings and long term bonds (funds managed by the corporate planning and finance department), 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

5. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2020	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	11,456,840	13,304,738	2,915,150	1,248,587	28,925,315
Sales surtaxes	8,687	18,995	3,955	2,247	33,884
Revenue, before net of sales surtaxes	11,465,527	13,323,733	2,919,105	1,250,834	28,959,199
Intersegment sales	57,615	293,371	197,888	27,371	576,245
Segment revenue	11,523,142	13,617,104	3,116,993	1,278,205	29,535,444
Elimination	(57,615)	(293,371)	(197,888)	(27,371)	(576,245)
Group revenue	11,465,527	13,323,733	2,919,105	1,250,834	28,959,199
Segment results	1,255,591	3,374,727	177,566	(313,211)	4,494,673
Reconciliation:					
Exchange loss, net					(403,839)
Finance costs					(924,485)
Interest income					69,644
Investment income					116,175
Gains arising from financial assets at FVTPL					26,572
Profit before tax					3,378,740
Income tax expense					(660,424)
As at 31 December 2020					
Segment assets	38,748,467	12,572,299	7,747,673	4,402,933	63,471,372
Unallocated assets					12,470,936
Total assets					75,942,308
Segment liabilities	3,912,895	5,801,358	1,363,215	768,187	11,845,655
Unallocated liabilities					25,407,845
Total liabilities					37,253,500
Other segment information:					
Capital expenditure	868,984	1,879,776	726,144	481,532	3,956,436
Depreciation of property, plant and equipment and amortisation of intangible assets	2,486,252	700,614	649,810	499,054	4,335,730
Depreciation of right-of-use assets	333,106	49,980	67,594	29,700	480,380
Impairment of accounts receivable	3,980	4,909	991	431	10,311
Reversal of other receivables impaired	(734)	(1,359)	(310)	(130)	(2,533)
Impairment of inventories	8,703	10,113	2,216	949	21,981
Impairment of property, plant and equipment	1,447,834	–	–	–	1,447,834
Share of profits of joint ventures	4,687	285,301	–	74,929	364,917
Investments in an associate and joint ventures	656	855,122	–	246,230	1,102,008

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
Revenue, 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
Losses 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)

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 associates and joint ventures, financial instruments and deferred tax assets) information for the Group's geographical areas for the years ended 31 December 2020 and 2019.

		International		
Year ended/as at 31 December 2020	**Domestic RMB'000**	**North Sea RMB'000**	**Others RMB'000**	**Total RMB'000**
Segment revenue:				
Sales to external customers	**21,547,359**	**2,675,522**	**4,736,318**	**28,959,199**
Less: Sales surtaxes	**(33,884)**	**–**	**–**	**(33,884)**
Revenue, net of sales surtaxes	**21,513,475**	**2,675,522**	**4,736,318**	**28,925,315**
Non-current assets:	**32,772,219**	**6,717,249**	**8,869,302**	**48,358,770**

		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)
Revenue, 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

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 73% (2019: 78%) of the total sales of the Group for the year ended 31 December 2020, details of the segments with such revenue are given in note 47(A).

6. REVENUE

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers	**28,647,528**	31,003,307
Revenue arising from operating leases	**311,671**	131,843
	28,959,199	31,135,150

6. REVENUE (continued)

(A) Disaggregation of revenue from contracts with customers, before net of sales surtaxes

(a) For the year ended 31 December 2020

	For the year ended 31 December 2020				
	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	5,514,370	12,114,638	2,768,331	1,150,020	21,547,359
North Sea	2,638,986	–	–	–	2,638,986
Others	3,000,500	1,209,095	150,774	100,814	4,461,183
Total	11,153,856	13,323,733	2,919,105	1,250,834	28,647,528
Timing of revenue recognition					
At a point of time	–	63,931	–	7,064	70,995
Over time *(a)*	11,153,856	13,259,802	2,919,105	1,243,770	28,576,533
Total	11,153,856	13,323,733	2,919,105	1,250,834	28,647,528
Type of customer					
CNOOC Limited Group	5,465,135	11,858,621	2,705,232	1,058,340	21,087,328
Others	5,688,721	1,465,112	213,873	192,494	7,560,200
Total	11,153,856	13,323,733	2,919,105	1,250,834	28,647,528

(a) Included in revenue from drilling services was a settlement amount of the Group's right under a ceased contract, recognised by the Group upon receipt. During the year ended 31 December 2020, COSL Offshore Management AS ("COM", a subsidiary of the Company) and Equinor Energy AS ("Equinor") reached an out of court settlement and signed a formal settlement agreement regarding the legal suit on the drilling rigs COSLInnovator and COSLPromoter. Equinor paid US$188,000,000, equivalent to approximately RMB1,309,561,000 to COM as a full settlement of the Group's right to revenue under the ceased contract.

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 2020			
	Segment revenue RMB'000	Less: Revenue arising from operating leases RMB'000	Eliminations RMB'000	Revenue from contracts with customers RMB'000
Drilling Services	11,523,142	(311,671)	(57,615)	11,153,856
Well Services	13,617,104	–	(293,371)	13,323,733
Marine Support Services	3,116,993	–	(197,888)	2,919,105
Geophysical Acquisition and Surveying Services	1,278,205	–	(27,371)	1,250,834
Total	29,535,444	(311,671)	(576,245)	28,647,528

6. REVENUE (continued)

(A) Disaggregation of revenue from contracts with customers, before net of sales surtaxes (continued)

(b) 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
Total	31,561,540	(131,843)	(426,390)	31,003,307

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 2020 and 2019 and the expected timing of recognising revenue are as follows:

	As at 31 December 2020				
	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	**426,844**	**811,456**	**–**	**126,230**	**1,364,530**
In the second to fifth year, inclusive	**251,879**	**871,314**	**–**	**–**	**1,123,193**
After five years	**138**	**–**	**–**	**–**	**138**
Total	**678,861**	**1,682,770**	**–**	**126,230**	**2,487,861**

	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

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

	2020 RMB'000	2019 RMB'000
Insurance claims received (a)	**194,472**	23,370
Government grants (b)	**211,525**	264,822
Compensation income on breach of contracts	**11,189**	53,423
Others	**20,838**	10,521
Total	**438,024**	352,136

(a) The amount includes insurance claims of RMB194,185,000 received in current year for certain assets damaged and insured.

(b) Government grants include release of deferred income of RMB109,134,000 for the year (2019: RMB122,366,000) (note 43).

8. PROFIT BEFORE TAX

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

	2020 RMB'000	2019 RMB'000
Employee compensation costs		
(including directors' and chief executive's remuneration):		
Wages, salaries and bonuses	**3,663,398**	4,419,411
Social security costs	**994,682**	941,794
Retirement benefits and pensions	**239,019**	446,789
	4,897,099	5,807,994
Auditor's remuneration	**15,827**	16,279
Gains arising from lease modifications	**(3,226)**	(74,011)
Losses on disposal of plant and equipment and other intangible assets, net	**15,383**	57,496
Lease expenses in respect of land and buildings, berths and equipment (a)	**1,224,265**	1,287,702
Provision of impairment of inventories	**21,981**	6,156
Income from investments in corporate wealth management products, liquidity funds and debt instrument	**(116,175)**	(218,214)
(Gains)/losses arising from financial assets at FVTPL	**(26,572)**	38,829
Cost of inventories recognised as an expense	**3,810,024**	4,316,869
Research and development costs, included in:	**769,253**	932,656
Depreciation of property, plant and equipment	**96,577**	97,234
Employee compensation costs	**229,696**	318,017
Consumption of supplies, materials, fuel, services and others	**442,980**	517,405

(a) Lease expenses 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:

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	**10,106**	41,308
Interest on loan from a related party	**35,503**	65,775
Interest on long term bonds	**808,705**	901,493
Interest on lease liability	**33,813**	63,298
Total interests	**888,127**	1,071,874
Other finance cost:		
Others	**36,358**	46,923
	924,485	1,118,797

10. IMPAIRMENT LOSSES OF ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES, NET OF REVERSAL

	2020 RMB'000	2019 RMB'000
Impairment losses recognised/(reversed) on:		
Accounts receivable	**10,311**	314,596
Other receivables	**(2,533)**	1,728
	7,778	316,324

Details of impairment assessment for the year ended 31 December 2020 are set out in note 49.

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:

	2020 RMB'000	2019 RMB'000
Fees	**1,280**	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	**1,133**	1,359
Bonuses*	**1,881**	2,353
Pension scheme contributions	**247**	420
	3,261	4,132
	4,541	5,412

* 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.

11. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

(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:

	2020 RMB'000	2019 RMB'000
Independent non-executive directors:		
Fong Chung, Mark	400	400
Wong Kwai Huen, Albert	400	400
Lin Boqiang(1)	233	–
Law Hong Ping, Lawrence(1)	167	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 (2019: Nil).

(b) Executive directors, non-executive directors, supervisors and the chief executive

2020	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive director and chief executive:				
Qi Meisheng(2)	488	860	96	1,444
Cao Shujie(2)	287	180	51	518
	775	1,040	147	1,962
Executive director and president:				
Zhao Shunqiang(3)	119	208	22	349
Non-executive directors:				
Xu Yugao(4)*	–	–	–	–
Zhao Baoshun(4)*	–	–	–	–
Meng Jun(4)*	–	–	–	–
Zhang Wukui(4)*	–	–	–	–
Supervisors:				
Peng Wen(5)*	–	–	–	–
Zhao Bi(6)	239	633	78	950
Wu Hanming(5)*	–	–	–	–
	239	633	78	950
Total	1,133	1,881	247	3,261

11. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive (continued)

2019	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
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(6)	252	427	53	732
Zhao Bi(6)	107	188	68	363
	359	615	121	1,095
Total	1,359	2,353	420	4,132

Notes:

(1) Lin Boqiang was appointed as independent non-executive director and Law Hong Ping, Lawrence resigned on 28 May 2020.

(2) Cao Shujie resigned as the chief executive officer on 29 June 2020 and resigned as the executive director on 21 October 2020. Qi Meisheng was appointed as the chief executive officer on 26 August 2020.

(3) Zhao Shunqiang was appointed as the president on 26 August 2020 and appointed as the executive director on 21 October 2020.

(4) Meng Jun and Zhang Wukui resigned as non-executive director and Xu Yugao and Zhao Baoshun were appointed as non-executive director on 11 December 2020.

(5) Peng Wen was appointed as chairman of the supervisory board and Wu Hanming resigned on 21 October 2020.

(6) Zhao Bi was appointed as the employee supervisor and Li Zhi resigned on 30 July 2019.

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 (2019: Nil), details of whose remuneration are set out in note 11. Details of the remuneration of the five (2019: Five) non-director, non-supervisor, and non-chief executive highest paid employees for the year are as follows:

	2020 RMB'000	2019 RMB'000
Basic salaries, allowances and benefits in kind	**10,043**	9,756
Bonuses	**3,597**	1,486
Pension scheme contributions	**318**	2,882
	13,958	14,124

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	
	2020	2019
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**2**	–
HK$3,000,001 to HK$3,500,000	**–**	3
HK$3,500,001 to HK$4,000,000	**1**	1
HK$4,000,001 to HK$4,500,000	**1**	–
	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 16% (2019: 14% to 20%) 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 employees in CNA. During the current year, the Group terminated the said defined benefit pension plan pursuant to the local government's order and negotiated with relevant affected parties for the termination of the plan. Up to now, the local government has not released any new plans and arrangements. Based on the most recent negotiation progress with the relevant affected parties, the Group has applied its best estimates for the compensation and based on the best estimates, the prior year employee benefit liabilities balance and the further accrued compensation are included in salaries and bonus payable. But the amount of the compensation negotiated with related parties in the future may be different from the current estimated amount.

13. PENSIONS AND DEFINED BENEFIT PLAN (continued)

The retirement expenses of the Group are as follows:

	2020 RMB'000	2019 RMB'000
Contributions to the PRC government-regulated pension scheme	**207,059**	378,264
Contributions to overseas subsidiaries' pension schemes	**31,960**	51,253
Cost under a defined benefit plan for overseas subsidiaries	–	17,272
	239,019	446,789

At 31 December 2020, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2019: 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 2020, the CIT rate of the Company is to be 15% for the period from 2020 to 2022.

According to the HNTE certificate renewed by the Group's subsidiary COSL Chemicals (Tianjin), Ltd in October 2020, the CIT rate of COSL Chemicals (Tianjin), Ltd is to be 15% for the period from 2020 to 2022.

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.

14. INCOME TAX EXPENSE (continued)

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

Countries and regions	2020	2019
Indonesia	**22%**	25%
Mexico	**30%**	30%
Norway	**22%**	22%
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 9% 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% ofrevenue 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:

	2020 RMB'000	2019 RMB'000
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**190,589**	200,482
Deferred	**(8,336)**	65
PRC corporate income taxes:		
Current	**573,419**	925,675
Deferred	**(96,147)**	(251,134)
Under provision in prior years	**899**	69,071
Total tax charge for the year	**660,424**	944,159

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:

	2020 RMB'000	2020 %	2019 RMB'000	2019 %
Profit before tax	3,378,740		3,472,174	
Tax at the statutory tax rate of 25% (2019: 25%)	844,685	25.0	868,043	25.0
Tax effect as an HNTE	(309,435)	(9.2)	(634,071)	(18.3)
Tax effect of income not subject to tax	(51)	–	(3,108)	(0.1)
Tax effect of share of profit of an associate and joint ventures	(91,133)	(2.7)	(80,113)	(2.3)
Tax effect of expense not deductible for tax	44,887	1.3	64,103	1.8
Tax benefit for qualifying research and development expenses	(101,284)	(3.0)	(118,129)	(3.3)
Effect of non-deductible expenses/non-taxable profit and different tax rates for overseas subsidiaries	499,345	14.8	652,255	18.8
Changes in opening deferred tax liability/asset resulting from a decrease in applicable tax rate	(49,981)	(1.5)	–	–
Tax effect of tax losses and deductible temporary differences unrecognised	304,594	9.0	63,021	1.8
Utilisation of tax losses previously not recognised	(428,879)	(12.7)	(19,639)	(0.6)
Tax effect on translation adjustment (a)	3,912	0.1	17,574	0.5
Under provision in respect of prior years	899	–	69,071	2.0
Others	(57,135)	(1.6)	65,152	1.9
Total tax charge at the Group's effective tax rate	660,424	19.5	944,159	27.2

(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 an associate and joint ventures amounting to approximately RMB56,472,000 (2019: RMB70,775,000) is included in "Share of profits of an associate and joint ventures" in the consolidated statement of profit or loss.

15. OTHER COMPREHENSIVE INCOME/(EXPENSE)

	2020 RMB'000	2019 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)
Income tax relating to item that will not be reclassified subsequently to profit or loss	–	389
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(271,365)**	66,203
Income tax impact	**107,147**	(27,402)
Share of other comprehensive (expense)/income of joint ventures due to translation differences, net of related income tax	**(12,112)**	7,157
Other comprehensive (expense)/income, net of income tax	**(176,330)**	44,579

16. DIVIDENDS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Proposed final dividend – RMB0.17 per ordinary share (2019: RMB0.16 per ordinary share)	**811,171**	763,455

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 2020, the dividend proposed in 2019 and paid to the shareholders of the Company is RMB0.16 per ordinary share, in an aggregate amount of RMB763,455,000 (2019: RMB334,011,000).

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

16. DIVIDENDS (continued)

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:

	2020 RMB'000	2019 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**2,703,187**	2,502,238

	2020	2019
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 2020 and 2019 as the Group had no dilutive potential ordinary shares in issue during those years.

18. PROPERTY, PLANT AND EQUIPMENT

31 December 2020	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 2019 and at 1 January 2020							
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
Carrying amount							
At 1 January 2020	8,451,004	33,933,983	5,118,542	16,099	784,772	1,913,743	50,218,143
Additions	–	9,169	1,048,680	1,435	59,595	2,774,000	3,892,879
Depreciation provided during the year	(799,492)	(1,834,552)	(1,596,369)	(2,599)	(48,451)	–	(4,281,463)
Disposals/write-offs	(30)	(10,054)	(3,114)	(4,099)	–	–	(17,297)
Transfers from/(to) construction in progress	6,651	189,516	1,321,732	434	–	(1,518,333)	–
Impairment provided	–	(1,447,834)	–	–	–	–	(1,447,834)
Exchange realignment	2,060	(1,313,021)	(91,862)	–	(21,578)	(21,097)	(1,445,498)
At 31 December 2020	7,660,193	29,527,207	5,797,609	11,270	774,338	3,148,313	46,918,930
At 31 December 2020							
Cost	15,690,888	63,179,598	21,420,590	92,960	991,137	3,148,723	104,523,896
Accumulated depreciation and impairment	(8,030,695)	(33,652,391)	(15,622,981)	(81,690)	(216,799)	(410)	(57,604,966)
Carrying amount	7,660,193	29,527,207	5,797,609	11,270	774,338	3,148,313	46,918,930

31 December 2019	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)

During the year ended 31 December 2020, no interest was capitalised in property, plant and equipment (2019: Nil).

Impairment of property, plant and equipment

During the year ended 31 December 2020, 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 Group 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. Among others reviewed, given the lower expected day rates and future operating cash flows after the cessation of the relevant contract as disclosed in note 6, the recoverable amount of the relevant drilling rigs is considered to be lower than its carrying value. The review led to the recognition of an impairment loss of RMB1,447,834,000 (2019: RMB241,485,000) for certain drilling rigs in drilling services segment which has been recognised in profit or loss for the year ended 31 December 2020. 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.

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 7.00%~9.37% (2019: 7.5%~8.6%). 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

31 December 2020	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 2020							
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
Carrying amount							
At 1 January 2020	253,258	285,209	292,137	1,410	155,119	213,507	1,200,640
Additions	–	71,965	62,123	4,434	23,774	–	162,296
Depreciation charge	(67,521)	(221,069)	(128,362)	(2,610)	(57,819)	(2,999)	(480,380)
Lease modification	–	(91,816)	(2,619)	(11)	279	–	(94,167)
Exchange realignment	–	(3,515)	(6,079)	(24)	(6,247)	(5,338)	(21,203)
At 31 December 2020	185,737	40,774	217,200	3,199	115,106	205,170	767,186
As at 31 December 2020							
Cost	320,779	246,390	415,013	6,384	204,458	235,512	1,428,536
Accumulated depreciation and impairment	(135,042)	(205,616)	(197,813)	(3,185)	(89,352)	(30,342)	(661,350)
Carrying amount	185,737	40,774	217,200	3,199	115,106	205,170	767,186

31 December 2019	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

19. RIGHT-OF-USE ASSETS (continued)

	2020 RMB'000	2019 RMB'000
Expense related to short-term leases	**647,000**	726,689
Variable lease payments not included in the measurement of lease liabilities	**577,265**	561,013
Total cash outflow for leases	**1,657,232**	1,908,426

For both years, the Group leases various 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.

The Group regularly entered into short-term leases for vessels, drilling rigs, machinery and equipment, buildings and motor vehicles. As at 31 December 2020, 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.

Variable lease payments

The Group entered into several lease contracts associated to certain drilling rigs, 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 2020, 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.

	2020 RMB'000
COST	
At 1 January	4,700,188
Exchange realignment	(304,062)
At 31 December	4,396,126
IMPAIRMENT	
At 1 January	4,700,188
Exchange realignment	(304,062)
At 31 December	4,396,126
CARRYING VALUE	
At 31 December	–

21. OTHER INTANGIBLE ASSETS

31 December 2020	Trademark RMB'000	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Carrying amount at 1 January 2020	79	62,056	–	62,135
Additions	–	41,636	–	41,636
Amortisation provided during the year	(41)	(27,966)	–	(28,007)
Disposals	–	–	–	–
Exchange realignment	–	(255)	–	(255)
At 31 December 2020	38	75,471	–	75,509
At 31 December 2020				
Cost	411	635,772	117,422	753,605
Accumulated amortisation	(373)	(560,301)	(117,422)	(678,096)
Carrying amount	38	75,471	–	75,509

21. OTHER INTANGIBLE ASSETS (continued)

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

22. MULTICLIENT LIBRARY

	MultiClient Library RMB'000
Carrying amount at 31 December 2019	279,726
Development cost capitalised in the year	21,921
Amortisation provided during the year	(35,513)
Exchange realignment	(12,294)
At 31 December 2020	253,840
At 31 December 2020	
Cost	299,179
Accumulated amortisation	(45,339)
Carrying amount	253,840

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 2020, 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 2020	2019	Principal activities
COSL Chemicals (Tianjin), Ltd. (a)	Tianjin, PRC 7 September 1993	PRC	RMB20,000,000	**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

23. PARTICULARS OF SUBSIDIARIES (continued)

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		Principal activities
				2020	2019	
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	RMB200,000,000	**100%**	100%	Provision of oil & gas exploration services

(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 2020 and 31 December 2019 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 RMB15,087,681,000 at the end of the year:

	Held by third party RMB'000
COSL Finance (BVI) Limited	6,585,160
COSL Singapore Capital Ltd.	8,502,521

24. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2020 RMB'000	2019 RMB'000
Cost of investments in an associate	**83,200**	–
Cost of investments in joint ventures	**149,201**	148,926
Share of post-acquisition profits and loss, and other comprehensive income, net of dividends received	**869,607**	731,657
End of the year	**1,102,008**	880,583

Particulars of all associates and 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 2020	Percentage of Ownership interest 2019	Percentage of Voting rights held 2020	Percentage of Voting rights held 2019	Principal activities
China Offshore Fugro GeoSolutions (Shenzhen) Company Ltd.	US$6,000,000	Shenzhen, PRC 24 August 1983	**50**	50	**50**	50	Provision of geophysical and surveying services
China France Bohai Geoservices Co., Ltd.	US$6,650,000	Tianjin, PRC 30 November 1983	**50**	50	**50**	50	Provision of logging services
China Petroleum Logging-Atlas Cooperation Service Company	US$2,000,000	Shenzhen, PRC 10 May 1984	**50**	50	**50**	50	Provision of logging services
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar") (a)	RMB4,640,000	Shenzhen, PRC 25 October 1984	**60**	60	**50**	50	Provision of drilling fluids services
CNOOC-OTIS Well Completion Services Ltd.	US$2,000,000	Tianjin, PRC 14 April 1993	**50**	50	**50**	50	Provision of well completion services
COSL-Expro Testing Services (Tianjin) Company Ltd.	US$5,000,000	Tianjin, PRC 28 February 2007	**50**	50	**50**	50	Provision of well testing services
PBS-COSL Oilfield Services Company SDN BHD ("PBS-COSL") (b)	Brunei Dollar 100,000	Brunei 20 March 2014	**49**	49	**50**	50	Provision of drilling services
COSL (Malaysia) SDN.BHD. ("COSL Malaysia") (c) (d)	Ringgit Malaysia 350,000	Malaysia 31 July 2017	**49**	49	**50**	50	Provision of drilling services
Well Technology Company Ltd.	RMB260,000,000	Foshan, PRC 24 July 2020	**40**	–	**40**	–	Provision of well technology services

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

24. INVESTMENTS IN ASSOCIATES AND 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 2020, 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 associates and joint ventures are directly held by the Company except for COSL Malaysia, which is indirectly held through COSL Drilling Pan-Pacific Ltd.

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

The aggregate financial information in respect of the Group's associates and joint ventures is set out below since none of the associates and joint ventures is individually material.

	2020 RMB'000	2019 RMB'000
The Group's share of profit	**364,917**	320,452
The Group's share of other comprehensive (expense)/income	**(12,112)**	7,157
The Group's share of total comprehensive income	**352,805**	327,609

25. INVENTORIES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Raw materials	**1,989,620**	1,195,464
Goods in transit	**168,489**	73,113
Work in progress	**69,009**	73,989
Consumables and others	**19,640**	82,108
	2,246,758	1,424,674

The Group wrote down RMB30,318,000 (2019: RMB14,320,000) and reversed write-down of RMB8,337,000 (2019: RMB8,164,000) during the year, both of which were recorded in other operating expenses.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Prepayments	**105,258**	132,788
Deposits	**28,363**	49,790
Other receivables	**134,822**	229,734
	268,443	412,312
Less: Provision for impairment of other receivables	**(9,204)**	(14,340)
	259,239	397,972

An analysis of other receivables is as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Prepaid tax	**74,727**	120,555
Compensation receivables	**2,651**	33,562
Insurance claim receivables	**29,883**	19,313
Payments on behalf of suppliers	**7,708**	19,097
Advance to employees	**2,407**	7,318
Others	**17,446**	29,889
	134,822	229,734

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

27. ACCOUNTS RECEIVABLE

	31 December 2020 RMB'000	31 December 2019 RMB'000
Accounts receivable – goods and services	**12,956,377**	13,223,934
Less: Allowance for credit losses	**(2,744,165)**	(2,918,401)
	10,212,212	10,305,533

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 2020 RMB'000	31 December 2019 RMB'000
Within six months	**9,543,578**	9,981,405
Six months to one year	**497,115**	236,393
One to two years	**125,692**	87,646
Over two years	**45,827**	89
	10,212,212	10,305,533

As at 31 December 2020, included in the Group's accounts receivable balance are debtors with aggregate carrying amount of RMB668,634,000 (31 December 2019: RMB324,128,000) which are past due as at the reporting date. Out of the past due balances, RMB456,952,000 (31 December 2019: RMB210,344,000) 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 2020 are set out in note 49.

28. NOTES RECEIVABLE

	31 December 2020 RMB'000	31 December 2019 RMB'000
Commercial notes receivable at amortised costs	**10,050**	44,245

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 2020 RMB'000	31 December 2019 RMB'000
Current asset:		
Investments in floating rate corporate wealth management products	**2,539,196**	4,511,248
Investments in liquidity funds	**3,000,206**	–
Non-current asset:		
Unlisted equity investment	**–**	–
	5,539,402	4,511,248

30. RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2020 RMB'000	31 December 2019 RMB'000
Bank acceptance notes receivable	**3,010**	40,580

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 48.

The Group provided no impairment against the balance after due consideration of the banks' low credit risk.

31. DEBT INSTRUMENT AT AMORTISED COST

The balance represents a debt instrument invested by the Group during the current year, carrying annual interest of 3.8% and maturing on 27 December 2021. The Group is going to hold the instrument until maturity and therefore measures it at amortised cost.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

32. CONTRACT ASSETS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Contract assets – current	**320,397**	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.

33. CONTRACT COSTS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Mobilisation (a)	**203,059**	89,113
Others	**–**	2,387
	203,059	91,500
Current	**18,514**	–
Non-current	**184,545**	91,500
	203,059	91,500

(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.

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

	31 December 2020 RMB'000	31 December 2019 RMB'000
Investments in fixed rate corporate wealth management products	–	2,507,314
Value-added tax recoverable	**35,173**	45,087
Value-added tax to be deducted and prepaid	**90,178**	24,617
Other current assets	**125,351**	2,577,018
Output value-added tax to be recognised	**(314,191)**	(233,010)
Other current liabilities	**(314,191)**	(233,010)
Deposits paid for the acquisition of property, plant and equipment	**25,588**	128,358
Value-added tax recoverable	**130,545**	58,205
Deposits paid for the addition of right-of-use assets	–	57,522
Tax recoverable	**2,627**	2,903
Other non-current assets	**158,760**	246,988

35. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Cash and balances with banks	**5,389,440**	1,967,074
Deposits with CNOOC Finance Corporation Ltd. ("CNOOC Finance") (note 47)	**1,197,961**	1,498,717
Cash and balances with banks and financial institutions	**6,587,401**	3,465,791
Less:		
Pledged deposits	**(3,659)**	(102,202)
Cash and cash equivalents	**6,583,742**	3,363,589

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately RMB2,976,395,000 (2019: RMB2,043,017,000). 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

36. 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 2020 RMB'000	31 December 2019 RMB'000
Outstanding balances aged:		
Within one year	**8,140,199**	9,462,482
One to two years	**626,382**	102,643
Two to three years	**34,840**	41,300
Over three years	**45,537**	83,728
	8,846,958	9,690,153

37. 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 2020 RMB'000	31 December 2019 RMB'000
Deferred tax assets	**158,780**	92,468
Deferred tax liabilities	**(24,906)**	(62,655)
	133,874	29,813

37. DEFERRED TAXATION (continued)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Balance at 1 January 2019 RMB'000	Recognised in profit or loss RMB'000	Exchange realignment RMB'000	Balance at 31 December 2019 and 1 January 2020 RMB'000	Recognised in profit or loss RMB'000	Exchange realignment RMB'000	Balance at 31 December 2020 RMB'000
Deferred tax assets:							
Provision for staff bonus	83,465	(28,136)	1	55,330	(43,040)	(98)	12,192
Impairment of assets	54,620	7,703	–	62,323	1,876	–	64,199
Fair value adjustment arising from acquisition of a subsidiary	–	8,563	96	8,659	(7,552)	(154)	953
Accrued liabilities	18,903	161,299	–	180,202	34,033	–	214,235
Deductible tax loss	62,579	(8,269)	937	55,247	(23,174)	(2,325)	29,748
Right-of use assets and lease liabilities	48	45,896	(9)	45,935	(38,705)	21	7,251
Others	3,675	28,579	80	32,334	18,386	(97)	50,623
	223,290	215,635	1,105	440,030	(58,176)	(2,653)	379,201
Deferred tax liabilities:							
Accelerated depreciation of property, plant and equipment	434,474	(42,920)	923	392,477	(176,614)	(648)	215,215
Fair value adjustment arising from acquisition of a subsidiary	609	(612)	3	–	–	–	–
The investment of corporate wealth management products	–	2,627	–	2,627	2,920	–	5,547
Right-of use assets and lease liabilities	578	(579)	1	–	–	–	–
Others	8,850	6,050	213	15,113	11,035	(1,583)	24,565
	444,511	(35,434)	1,140	410,217	(162,659)	(2,231)	245,327
	221,221	(251,069)	35	(29,813)	(104,483)	422	(133,874)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of Group's associate and joint ventures for which deferred tax liabilities have not been recognised was RMB1,244,951,000 (31 December 2019: RMB1,224,680,000). No liability has been recognised in respect of these differences as the investment company and those associate and joint ventures are all located in the PRC and the applicable tax rate of those associate and joint ventures was the same as or higher than the applicable tax rate of the investment company.

At 31 December 2020, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB414,556,000 (2019: RMB252,644,000). 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.

37. DEFERRED TAXATION (continued)

At 31 December 2020, accumulated unrecognised tax losses arising in the Group of approximately RMB7,375,319,000 (2019: RMB9,611,096,000) were available for offsetting against future taxable profits of the companies in which the losses arose.

The unrecognised income tax losses which have fixed expiry date, will be expired in the following years:

	31 December 2020 RMB'000	31 December 2019 RMB'000
31 December 2021	–	85,910
31 December 2022	**236**	236
31 December 2023	**1,632**	1,632
31 December 2024	**737**	737
31 December 2025	**701**	–
31 December 2027	**3,118**	3,365
31 December 2028	**4,703**	4,703
31 December 2029	**408**	408
	11,535	96,991

At 31 December 2020, the Group had tax losses arising in Norway of RMB7,363,784,000 (2019: RMB9,514,105,000) 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 2020, the Group has deductible temporary differences of RMB2,771,710,000 (2019: RMB1,727,398,000). 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.

38. LOAN FROM A RELATED PARTY

	Contractual interest rate per annum (%)	31 December 2020 RMB'000	31 December 2019 RMB'000
Loan from a related party – unsecured	LIBOR+0.5%	**2,284,336**	2,443,946

During the year ended 31 December 2020, the Group maintained a loan of US$350,000,000, equivalent to approximately RMB2,283,715,000, 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 47).

39. INTEREST-BEARING BANK BORROWINGS

	Contractual interest rate (%) per annum	Year of maturity	31 December 2020 RMB'000	31 December 2019 RMB'000
Export-Import Bank of China – unsecured (a)	LIBOR+1.70%	2020	–	589,928
China Development Bank (b)	1.08%	2035	**209,437**	220,027
			209,437	809,955
Less: Current portion of long term bank loans			**(18,291)**	(608,906)
			191,146	201,049

(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. The loan was repaid in full during the current year.

(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 2020 was 2.39% per annum (2019: 3.77% per annum).

	31 December 2020 RMB'000	31 December 2019 RMB'000
Bank borrowings repayable:		
Within one year	**18,291**	608,906
In the second year	**3,951**	2,610
In the third to fifth year, inclusive	**35,930**	34,814
Beyond five years	**151,265**	163,625
	209,437	809,955

40. LONG TERM BONDS

	Year of maturity	31 December 2020 RMB'000	31 December 2019 RMB'000
Corporate bonds (a)	2022	**1,542,000**	1,542,000
2016 Corporate Bonds			
(Type II of the First Tranche Issue as defined below) (b)	2026	**3,071,183**	3,070,763
(Type I of the Second Tranche Issue as defined below) (b)	2021	**102,493**	102,493
(Type II of the Second Tranche Issue as defined below) (b)	2021	**2,917,698**	2,916,915
Senior unsecured USD bonds (c)	2022	**6,585,160**	7,032,189
Guaranteed medium term notes			
First Drawdown Note (d)	2020	**–**	3,537,073
Second Drawdown Note (d)	2025	**3,311,019**	3,537,220
Guaranteed senior notes			
2025 Notes (e)	2025	**3,253,958**	–
2030 Notes (e)	2030	**1,937,544**	–
		22,721,055	21,738,653
Current		**3,265,377**	3,810,175
Non-current		**19,455,678**	17,928,478
		22,721,055	21,738,653

(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 (2019: 4.48% per annum), and the maturity date is 14 May 2022.

40. 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 was repaid on 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.

On 21 October 2016, the Group issued its second tranche (the "Second Tranche Issue") of 2016 Corporate Bonds with an aggregate amount of RMB5,000,000,000. The Second Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,100,000,000 (the "Type I of the Second Tranche Issue") and is repayable on 24 October 2021. The Group has the right to adjust or not to adjust the coupon rate for the fourth and fifth year at the end of the third year on 24 October 2019 by giving a notice to the bondholders. The bondholders 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 year of 2019, 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 24 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 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. During the current year, the Group repaid First Drawdown Note of US$500,000,000. 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.

(e) On 24 June 2020, COSL Singapore Capital Ltd., a wholly-owned subsidiary of the Company, issued two tranches of Guaranteed Senior Notes. The Company has unconditionally and irrevocably guaranteed the due and punctual payment of Guaranteed Senior Notes.

The first tranche of the notes (the "2025 Notes") is a 5-year guaranteed senior notes, with a US$500,000,000 principal amount. The maturity date is 24 June 2025. The effective interest rate of the 2025 Notes is 1.94% per annum.

The second tranche of the notes (the "2030 Notes") is a 10-year guaranteed senior notes, with a US$300,000,000 principal amount. The maturity date is 24 June 2030. The effective interest rate of the 2030 Notes is 2.62% per annum.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

41. LEASE LIABILITIES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Lease liabilities payable:		
Within one year	**224,285**	597,774
One to two years	**135,944**	209,520
Two to five years	**172,503**	234,850
Over five years	**57,856**	103,202
	590,588	1,145,346
Less: Amount due for settlement with 12 months shown under current liabilities	**(224,285)**	(597,774)
Amount due for settlement after 12 months shown under non-current liabilities	**366,303**	547,572

The weighted average incremental borrowing rates applied to lease liabilities range from 2.79% to 4.39% (2019: from 3.85% to 4.47%).

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 2020	**8,559**	**66,810**	**17,681**
As at 31 December 2019	319,379	74,631	28,386

42. CONTRACT LIABILITIES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Contract liabilities		
Current	**388,144**	255,306
Non-current	**61,057**	192,745
	449,201	448,051

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 2020				
Revenue recognised that was included in the contract liability balance at the beginning of the year	**211,425**	**60,499**	**51,799**	**323,723**

	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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

43. 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 2019	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
Additions	**–**	**6,327**	**64,475**	**–**	**70,802**
Credited to profit or loss	**(75,541)**	**(23,101)**	**(86,033)**	**(7,615)**	**(192,290)**
Exchange realignment	**(1,520)**	**–**	**(60)**	**–**	**(1,580)**
At 31 December 2020	**9,530**	**163,059**	**40,743**	**65,154**	**278,486**

44. ISSUED CAPITAL

	31 December 2020 RMB'000	31 December 2019 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

45. CONTINGENCES 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$25,113,000, which is equivalent to approximately RMB163,862,000. 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 2020 RMB'000	31 December 2019 RMB'000
Contracted, but not provided for	**1,477,742**	1,512,276

At the end of the reporting period, the Group's share of joint ventures' own capital commitments were insignificant.

46. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

	Notes	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,378,740**	3,472,174
Adjustments for:			
Finance costs	*9*	**888,127**	1,071,874
Interest income		**(69,644)**	(67,522)
Investment income	*8*	**(116,175)**	(218,214)
(Gain)/loss arising from financial assets at FVTPL	*8*	**(26,572)**	38,829
Share of profits of an associate and joint ventures, net of tax	*24*	**(364,917)**	(320,452)
Exchange loss/(gain), net		**403,839**	(105,442)
Loss on disposal of property, plant and equipment, net	*8*	**15,383**	57,496
Gain arising from lease modifications	*8*	**(3,226)**	(74,011)
Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library		**4,335,730**	4,372,838
Depreciation of right-of-use assets	*19*	**480,380**	589,264
Impairment losses of accounts receivable and other receivables, net of reversal	*10*	**7,778**	316,324
Provision of impairment of inventories	*8*	**21,981**	6,156
Impairment of property, plant and equipment		**1,447,834**	241,485
		10,399,258	9,380,799
Increase in inventories		**(891,708)**	(93,534)
Increase in accounts receivable		**(47,995)**	(2,559,986)
Decrease/(increase) in pledged deposits		**98,007**	(1,701)
Decrease in notes receivable		**34,195**	157,246
Decrease/(increase) in prepayments, deposits and other receivables		**17,686**	(93,981)
Decrease/(increase) in receivables at fair value through other comprehensive income		**37,570**	(15,840)
(Decrease)/increase in trade and other payables, net of payables for purchases of property, plant and equipment		**(515,289)**	1,382,711
(Decrease)/increase in notes payables		**(3,467)**	3,201
(Decrease)/increase in salary and bonus payables		**(204,711)**	17,871
Decrease in deferred income		**(120,200)**	(117,935)
Increase in contract assets		**(57,802)**	(262,594)
Increase/(decrease) in contract liabilities		**9,821**	(18,105)
(Increase)/decrease in contract costs		**(123,718)**	135,178
Cash generated from operations		**8,631,647**	7,913,330

46. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Reconciliation of liabilities arising from financing activities

	1 January 2020 RMB'000	Financing cash flows *(a)* RMB'000	Non-cash changes: Foreign exchange movement RMB'000	Non-cash changes: Interests expenses and announced dividends RMB'000	Non-cash changes: New leases entered and lease modified RMB'000	Other changes *(b)* RMB'000	31 December 2020 RMB'000
Loan from a related party (note 38)	**2,443,946**	**(37,098)**	**(158,015)**	**35,503**	**–**	**–**	**2,284,336**
Interest-bearing bank borrowings (note 39)	**809,955**	**(617,941)**	**(298)**	**9,423**	**–**	**8,298**	**209,437**
Long term bonds (note 40)	**21,738,653**	**1,267,913**	**(1,094,216)**	**791,951**	**–**	**16,754**	**22,721,055**
Lease liabilities	**1,145,346**	**(576,472)**	**(6,396)**	**33,813**	**(5,703)**	**–**	**590,588**
Dividend payable (included in trade and other payables)	**–**	**(763,455)**	**–**	**763,455**	**–**	**–**	**–**
Total	**26,137,900**	**(727,053)**	**(1,258,925)**	**1,634,145**	**(5,703)**	**25,052**	**25,805,416**

	1 January 2019 (Restated) RMB'000	Financing cash flows (a) RMB'000	Non-cash changes: Foreign exchange movement RMB'000	Non-cash changes: Interests expenses and announced dividends RMB'000	Non-cash changes: New leases entered and lease modified RMB'000	Other changes (b) RMB'000	31 December 2019 RMB'000
Loan from a related party (note 38)	1,374,823	951,401	51,947	65,775	–	–	2,443,946
Interest-bearing bank borrowings (note 39)	1,387,599	(641,416)	14,542	39,003	–	10,227	809,955
Long term bonds (note 40)	25,539,413	(4,930,667)	228,414	883,437	–	18,056	21,738,653
Lease liabilities	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

(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.

47. 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) associates invested by CNOOC.

a. Included in revenue – gross revenue earned from provision of services to the following related parties

	2020 RMB'000	2019 RMB'000
i CNOOC Limited Group		
– Provision of drilling services	**5,465,135**	6,303,361
– Provision of well services	**11,858,621**	13,652,619
– Provision of marine support services	**2,705,232**	2,743,376
– Provision of geophysical acquisition and surveying services	**1,058,340**	1,657,321
	21,087,328	24,356,677
ii CNOOC Group		
– Provision of drilling services	**39,794**	102,834
– Provision of well services	**416,537**	228,125
– Provision of marine support services	**35,645**	41,719
– Provision of geophysical acquisition and surveying services	**51,646**	91,441
	543,622	464,119
iii Joint ventures		
– Provision of drilling services	**–**	21,719
– Provision of well services	**30,550**	15,445
– Provision of geophysical acquisition and surveying services	**–**	1,285
	30,550	38,449
iv Associates invested by CNOOC		
– Provision of drilling services	**433**	3,813
– Provision of well services	**10,645**	131,138
– Provision of marine support services	**3,060**	18,162
	14,138	153,113

47. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

b. Included in operating expenses

		2020 RMB'000	2019 RMB'000
i	CNOOC Limited Group		
	Materials, utilities and other ancillary services	**3,877**	79,268
	Transportation services	**3,311**	383
	Leasing of equipment	**437**	257
		7,625	79,908
	Property services	**5,989**	6,207
		13,614	86,115
ii	CNOOC Group		
	Materials, utilities and other ancillary services	**1,251,443**	1,076,401
	Leasing of equipment	**193,948**	162,242
	Transportation services	**18,738**	48,437
	Management services	**44,151**	32,896
	Repair and maintenance services	**40,359**	21,733
	Labour services	**101**	60
		1,548,740	1,341,769
	Property services	**85,061**	145,168
		1,633,801	1,486,937
iii	Joint ventures		
	Materials, utilities and other ancillary services	**218,282**	319,434
	Leasing of equipment	**13,786**	22,576
	Repair and maintenance services	**27**	–
		232,095	342,010
iv	Associates invested by CNOOC		
	Materials, utilities and other ancillary services	**59,837**	19,862
	Leasing of equipment	**41**	–
	Management services	**–**	1,207
		59,878	21,069

47. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

c. *Included in interest income*

	2020 RMB'000	2019 RMB'000
CNOOC Finance (a subsidiary of CNOOC)		
Interest income	**17,918**	15,326

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*

	2020 RMB'000	2019 RMB'000
Dividend income from joint ventures	**215,602**	124,569

e. *Included in finance costs*

During the current year, the finance costs on the loan from a related party (note 38) are US$5,147,000 (2019: US$9,535,000), which is equivalent to approximately RMB35,503,000 (2019: RMB65,775,000).

During the current year, the finance costs on the lease liabilities due to related party are RMB989,000 (2019: RMB4,680,000).

f. *Deposits*

	31 December 2020 RMB'000	31 December 2019 RMB'000
Deposits placed with CNOOC Finance	**1,197,961**	1,498,717

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 RMB15,229,000 (2019: RMB38,708,000).

47. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

h. *Right-of-use assets*

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:

	2020 RMB'000	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 had the following capital commitments with related parties, principally for construction and purchases of property, plant and equipment at the end of the reporting period:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Contracted, but not provided for	**10,659**	–

The Group has no guarantees granted to related parties as of 31 December 2020 and 2019.

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 2020 RMB'000	31 December 2019 RMB'000
Due from CNOOC Limited Group	**7,377,005**	7,679,994
Due from CNOOC Group	**94,406**	71,236
Due from joint ventures	**10,183**	4,617
Due from associates invested by CNOOC	**6,647**	11,356
	7,488,241	7,767,203

47. 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 2020 RMB'000	31 December 2019 RMB'000
Due from CNOOC Limited Group	**2,650**	33,663
Due from CNOOC Group	**2,355**	1,697
Due from joint ventures	**2,410**	15,790
Due from associates invested by CNOOC	**26**	–
	7,441	51,150
Less: Provision for impairment of other receivables	**(500)**	(500)
	6,941	50,650

Trade and other payables

	31 December 2020 RMB'000	31 December 2019 RMB'000
Due to CNOOC Limited Group	**25,280**	35,127
Due to CNOOC Group	**654,869**	652,291
Due to joint ventures	**166,059**	203,692
Due to associates invested by CNOOC	**42,553**	19,065
	888,761	910,175

Loan from a related party

	31 December 2020 RMB'000	31 December 2019 RMB'000
An unsecured loan due to CNOOC Group *(note 38)*	**2,284,336**	2,443,946

Contract liabilities

	31 December 2020 RMB'000	31 December 2019 RMB'000
Due to the CNOOC Limited Group	**10,000**	3,535
Due to the CNOOC Group	**249,581**	156,915
	259,581	160,450

47. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

j. *Outstanding balances with related parties* (continued)

Lease liabilities

	31 December 2020 RMB'000	31 December 2019 RMB'000
Due to the CNOOC Group	**68**	50,578
Due to joint ventures	**–**	2,770
	68	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 2020 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 47 (A)b.

The Directors are of the opinion that the above transactions with related parties were conducted in the usual course of business.

47. 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 2020, as summarised below:

	31 December 2020 RMB'000	31 December 2019 RMB'000
Cash and cash equivalents	**457,369**	536,716
	457,369	536,716
Long-term bank loans (note 39)	**191,146**	201,049
Current portion of long-term bank loans (note 39)	**18,291**	608,906
	209,437	809,955

Deposit interest rates and loan interest rates are at the market rates.

	2020 RMB'000	2019 RMB'000
Finance costs	**10,106**	41,308

(B) Compensation of key management personnel of the Group

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	**7,688**	8,653
Post-employment benefits	**621**	1,029
Total compensation paid to key management personnel	**8,309**	9,682

Further details of Directors', supervisors and the chief executive's emoluments are included in note 11.

48. 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 2020			
	Amortised cost RMB'000	FVTPL RMB'000	FVTOCI RMB'000	Total RMB'000
Financial assets included in deposits and other receivables (note 26)	**77,496**	**–**	**–**	**77,496**
Financial assets at FVTPL (note 29)	**–**	**5,539,402**	**–**	**5,539,402**
Receivables measured at FVTOCI (note 30)	**–**	**–**	**3,010**	**3,010**
Accounts receivable (note 27)	**10,212,212**	**–**	**–**	**10,212,212**
Notes receivable (note 28)	**10,050**	**–**	**–**	**10,050**
Pledged deposits (note 35)	**3,659**	**–**	**–**	**3,659**
Cash and cash equivalents (note 35)	**6,583,742**	**–**	**–**	**6,583,742**
Debt instrument at amortised cost (note 31)	**1,000,416**	**–**	**–**	**1,000,416**
Total	**17,887,575**	**5,539,402**	**3,010**	**23,429,987**

	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 35)	102,202	–	–	102,202
Cash and cash equivalents (note 35)	3,363,589	–	–	3,363,589
Financial assets included in other current assets (note 34)	2,507,314	–	–	2,507,314
Total	16,460,194	4,511,248	40,580	21,012,022

48. FINANCIAL INSTRUMENTS (continued)

(a) Financial instruments by category (continued)

Financial liabilities

	31 December 2020 RMB'000	31 December 2019 RMB'000
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	**9,082,596**	9,944,156
Notes payables	**–**	3,467
Interest-bearing bank borrowings		
– current portion (note 39)	**18,291**	608,906
Long term bonds (note 40)	**3,265,377**	3,810,175
Loan from a related party (note 38)	**2,284,336**	2,443,946
Subtotal	**14,650,600**	16,810,650
Non-current		
Interest-bearing bank borrowings (note 39)	**191,146**	201,049
Long term bonds (note 40)	**19,455,678**	17,928,478
Subtotal	**19,646,824**	18,129,527
Total	**34,297,424**	34,940,177

(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.

Financial assets	Fair value as at 31/12/2020 RMB'000	Fair value as at 31/12/2019 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at FVTPL – liquidity funds	**3,000,206**	–	Level 1	Quoted bid prices in an active market
Receivables at FVTOCI – notes receivable	**3,010**	40,580	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	**2,539,196**	4,511,248	Level 3	Discounted cash flow. Future cash flows estimated based on estimated return

48. FINANCIAL INSTRUMENTS (continued)

(b) Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)

Reconciliation of Level 3 fair value measurements is as follows:

	Financial assets at FVTPL RMB'000
At 31 December 2019	4,511,248
Purchase	5,000,000
Redemption	(7,000,000)
Change in fair value	27,948
At 31 December 2020	2,539,196

(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 2020 RMB'000	31 December 2019 RMB'000	**31 December 2020 RMB'000**	31 December 2019 RMB'000
Financial liabilities				
Long term bonds (note 40)	**22,721,055**	21,738,653	**23,093,031**	21,956,603

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.

49. 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 debt instrument. 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 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 2020 RMB'000	31 December 2019 RMB'000	**31 December 2020 RMB'000**	31 December 2019 RMB'000
US$	**16,205,692**	17,091,550	**680,759**	1,308,395
Others	**426,990**	565,405	**634,170**	781,059

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 2020 and 2019. 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 6.5% (2019: 2%) appreciation or depreciation of US dollars.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/(decrease) in profit		Increase/(decrease) in other comprehensive income	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Appreciation of US$	**240,474**	43,710	**551,164**	224,814
Depreciation of US$	**(240,474)**	(43,710)	**(551,164)**	(224,814)

Interest rate risk

The fair value interest rate risk relates primarily to the Group's fixed-rate long-term bonds (see note 40), fixed-rate bank borrowings (see note 39) and lease liabilities (see note 41). The cash flow interest rate risk of the Group relates primarily to variable-rate loan from a related party (see note 38) and variable-rate bank borrowings (see note 39 for details of these borrowings) and certain cash and cash equivalent (see note 35). 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.

A fundamental reform of major interest rate benchmark is being undertaken globally, including the replacement of some interbank offered rates with alternative nearly risk-free rates. As listed in note 38, several of the Group's LIBOR loans may be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

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 (2019: 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 (2019: 50 basis points) and all other variables were held constant, the Group's post-tax profit would (decrease) increase by approximately RMB11,419,000 for the year ended 31 December 2020 (2019: the Group's post-tax profit would (decrease) increase by approximately RMB14,720,000) 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 debt instrument, 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.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

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 72% (2019: 75%) and 81% (2019: 82%) of the total accounts receivable respectively.

No other financial assets carry a significant exposure to credit risk.

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 2020 Gross carrying amount RMB'000**	31 December 2019 Gross carrying amount RMB'000
Financial assets at amortised costs				
Financial assets included in deposits and other receivables		12-month ECL – assessed individually	**35,938**	50,416
		12-month ECL – provision matrix	**49,613**	100,735
		Lifetime ECL (credit-impaired) – assessed individually	**500**	500
Accounts receivable	*a*	Lifetime ECL (not credit-impaired) – assessed individually	**9,575,647**	9,480,886
		Lifetime ECL (not credit-impaired) – provision matrix	**643,023**	783,287
		Lifetime ECL (credit-impaired) – assessed individually	**2,691,628**	2,909,877
		Lifetime ECL (credit-impaired) – provision matrix	**46,079**	49,884
Notes receivable at amortised costs		12-month ECL	**10,050**	44,245
Pledged deposits		12-month ECL	**3,659**	102,202
Cash and cash equivalents		12-month ECL	**6,583,742**	3,363,589
Financial assets included in other current assets		12-month ECL	**–**	2,507,314
Debt instrument at amortised cost		12-month ECL	**1,000,416**	–
Financial assets at FVTOCI				
Receivables at FVTOCI		12-month ECL	**3,010**	40,580
Other items				
Contract assets		Lifetime ECL (credit-impaired) – assessed individually	**320,397**	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.

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

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.

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 2019	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 due to financial instruments recognised as at 1 January 2020:			
– Impairment losses recognised	17,551	55	17,606
– Impairment losses reversed	(6,943)	(352)	(7,295)
– Write-offs	–	(618)	(618)
Exchange adjustments	(128)	(183,801)	(183,929)
As at 31 December 2020	20,494	2,723,671	2,744,165

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 2019	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
Changes due to financial instruments recognised as at 1 January 2020:			
– Impairment losses recognised	2,492	2,603	5,095
– Impairment losses reversed	(7,628)	–	(7,628)
– Write-offs	–	(2,603)	(2,603)
As at 31 December 2020	8,704	500	9,204

Change in the loss allowance for other receivables are mainly due to the settlement of other receivables.

49. 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. 22% of the Group's borrowings would mature in less than one year as at 31 December 2020 (2019: 27%) 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 2020						
	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	1.45%-3.07%	21,255	20,968	62,314	207,282	311,819	209,437
Loan from a related party	0.65%-2.25%	2,284,336	–	–	–	2,284,336	2,284,336
Long term bonds	1.94%-4.58%	4,025,495	8,684,077	7,634,068	5,300,685	25,644,325	22,721,055
Lease liabilities	2.79%~4.39%	233,186	150,240	192,762	49,804	625,992	590,588
Financial liabilities included in trade and other payables	N/A	9,082,596	–	–	–	9,082,596	9,082,596
Contract performance guarantee	N/A	163,862	–	–	–	163,862	–
		15,810,730	8,855,285	7,889,144	5,557,771	38,112,930	34,888,012

	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	1.47%-4.37%	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	3.85%~4.47%	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

49. 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 2020 and 2019.

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 2020 RMB'000	31 December 2019 RMB'000
Interest-bearing bank borrowings (note 39)	**209,437**	809,955
Trade and other payables	**9,082,596**	9,944,156
Notes payable	**–**	3,467
Salary and bonus payables	**820,138**	979,229
Loan from a related party (note 38)	**2,284,336**	2,443,946
Long term bonds (note 40)	**22,721,055**	21,738,653
Lease liabilities (note 41)	**590,588**	1,145,346
Less: Cash and cash equivalents (note 35)	**(6,583,742)**	(3,363,589)
Net debt	**29,124,408**	33,701,163
Equity attributable to owners of the Company	**38,509,930**	36,734,191
Non-controlling interests	**178,878**	176,086
Total capital	**38,688,808**	36,910,277
Capital and net debt	**67,813,216**	70,611,440
Gearing ratio	**43%**	48%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2020 RMB'000	31 December 2019 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**26,850,973**	26,374,833
Right-of-use assets	**443,339**	805,588
Other intangible assets	**71,862**	58,065
MultiClient library	**117,656**	–
Investments in subsidiaries	**6,903,474**	7,843,474
Investments in associate and joint ventures	**1,101,352**	880,583
Other long term receivables	**1,688,288**	6,893,547
Other non-current assets	**22,317**	170,444
Deferred tax assets	**127,106**	30,509
Total non-current assets	**37,326,367**	43,057,043
CURRENT ASSETS		
Inventories	**1,388,377**	628,088
Prepayments, deposits and other receivables	**614,990**	930,782
Accounts receivable	**9,818,242**	10,067,949
Notes receivable	**9,101**	44,245
Receivables at fair value through other comprehensive income	**2,400**	39,180
Financial assets at fair value through profit or loss	**5,539,402**	4,511,248
Debt instrument at amortised cost	**1,000,416**	–
Contract assets	**231,725**	140,430
Contract costs	**12,147**	–
Other current assets	**46,440**	2,518,579
Pledged deposits	**3,659**	5,584
Cash and cash equivalents	**5,785,369**	1,941,152
Total current assets	**24,452,268**	20,827,237
CURRENT LIABILITIES		
Trade and other payables	**9,405,361**	9,648,313
Notes payable	**–**	3,467
Salary and bonus payables	**618,441**	832,073
Tax payable	**100,499**	584,520
Interest-bearing bank borrowings	**18,291**	608,906
Long term bonds	**3,135,649**	134,402
Lease liabilities	**205,778**	612,768
Contract liabilities	**292,262**	203,958
Other current liability	**302,809**	232,771
Total current liabilities	**14,079,090**	12,861,178
NET CURRENT ASSETS	**10,373,178**	7,966,059
TOTAL ASSETS LESS CURRENT LIABILITIES	**47,699,545**	51,023,102

50. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

	31 December 2020 RMB'000	31 December 2019 RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**191,146**	201,049
Long term bonds	**4,497,725**	7,497,770
Lease liabilities	**195,798**	286,639
Deferred income	**267,920**	314,962
Total non-current liabilities	**5,152,589**	8,300,420
Net assets	**42,546,956**	42,722,682
EQUITY		
Issued capital	**4,771,592**	4,771,592
Reserves	**37,775,364**	37,951,090
Total equity	**42,546,956**	42,722,682

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 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**
Profit for the year	**–**	**–**	**–**	**–**	**712,871**	**–**	**712,871**
Other comprehensive income for the year	**–**	**–**	**–**	**(125,142)**	**–**	**–**	**(125,142)**
Total comprehensive income for the year	**–**	**–**	**–**	**(125,142)**	**712,871**	**–**	**587,729**
Appropriation of safety fund	**–**	**–**	**38,503**	**–**	**–**	**–**	**38,503**
Utilisation of safety fund	**–**	**–**	**(38,503)**	**–**	**–**	**–**	**(38,503)**
Final 2019 dividend paid	**–**	**–**	**–**	**–**	**–**	**(763,455)**	**(763,455)**
Proposed final 2020 dividend	**–**	**–**	**–**	**–**	**(811,171)**	**811,171**	**–**
At 31 December 2020 (note (ii))	**12,371,645**	**2,508,656**	**–**	**18,201**	**22,065,691**	**811,171**	**37,775,364**

50. 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 2020 and 2019 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 2020, in accordance with the PRC Company Law, an amount of approximately RMB12,371,645,000 (2019: RMB12,371,645,000) standing to the credit of the Company's capital reserve account and an amount of approximately RMB2,508,656,000 (2019: 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 RMB22,876,862,000 (2019: RMB22,927,446,000) 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 2020.

The retained profits of the Company determined under the relevant PRC accounting principles and financial regulations in the PRC amounted to approximately RMB22,876,862,000 as at 31 December 2020 (2019: RMB22,927,446,000).

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 March 2021.

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Newspapers for Disclosure of Information

Shanghai Securities News
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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

91120116710929 21XD

Name and Office Address of the Company's Auditor

Beijing:

Deloitte Touche Tohmatsu Certified Public Accountants LLP
Address: 12/F, China Life Financial Centre, No. 23, Zhenzhi Road,
Chaoyang District, Beijing, China

Hong Kong:

Deloitte Touche Tohmatsu
Address: 35/F One Pacific Place,
88 Queensway, 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. 2020 Annual Report published in the Hong Kong Stock Exchange.

China Oilfield Services Limited
Qi Meisheng
Chairman
24 March 2021

Glossary

COSL, the Company or the Group	China Oilfield Services Limited
CNOOC	China National Offshore Oil Corporation
CNOOC Limited	CNOOC Limited
CNOOC Limited Group	CNOOC Limited and its subsidiaries
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, which has absorbed and merged into COSL Norwegian AS
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 in the operation waters 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 rigs	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
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

(STOCK CODE H-share : 2883 ; A-share : 601808)

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