ANNUAL REPORT 2008

CHINA OILFIELD SERVICES LIMITED

(Stock Code A Share: 601808 ; H Share: 2883)

Company Profile

China Oilfield Services Limited (COSL) is the leading integrated oilfield services provider in the offshore China market. Its services cover each phase of offshore oil and gas exploration, development and production. Its four core business segments are geophysical services, drilling services, well services, marine support and transportation services. COSL has listed its H shares on the Main Board of the Stock Exchange of Hong Kong Limited ("HKSE") since 20 November 2002 under the ticker 2883. Since 26 March 2004, COSL's stocks can be traded by means of Level I unlisted American Depositary Receipts at OTC (over-the-counter) market in the United States. The ticker symbol is CHOLY. COSL has listed its A shares on Shanghai Stock Exchange ("SSE") under the ticker 601808 since 28 September 2007.

COSL possesses the largest fleet of offshore oilfield services facilities in China. As at 31 December 2008, COSL operated and managed 23 drilling rigs (of which 20 are jack-up drilling rigs (one leased, one managed) and 3 are semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 5 land drilling rigs. In addition, COSL also owns and operates the largest and most diverse fleets in offshore China, including more than 70 working vessels and 4 oil tankers, 5 chemical carriers, 8 seismic vessels, 4 surveying vessels, and a vast array of modern facilities and equipment for logging, drilling fluids, directional drilling, cementing and well work-over services, including FCT, FET, LWD and ERSC, etc.

As the largest listed offshore oilfield services company in China, COSL not only provides services of single operations for the customers, but also offers integrated package and turnkey services; COSL's business activities are conducted not only in offshore China, but also extended to different regions of the world including North and South America, the Middle East, Africa, Europe, South East Asia and Australia. COSL and its employees are dedicated to provide premier quality services, while adhering to the highest health, safety and environmental standards. COSL has obtained the ISM (International Safety Management) certifications, and in 2008, COSL was awarded QHSE management system certificates issued by DNV in compliance with ISO9001, ISO14001 and OHSAS18001 standards.

With the drive of "WE MUST DO BETTER", COSL will endeavor to provide domestic and international clients with safe, quality, productive and environmental protection services. COSL commits itself to realize win-win situation for shareholders, clients, employees and partners. It is steadily making headway toward being one of the world top class oilfield services companies.

The Board of Directors (the "Board"), Supervisory Committee, and the directors, supervisors and senior management of China Oilfield Services Limited (the "Company") confirmed that there are no material omissions and misrepresentations or serious misleading statements in this annual report and accept join and several responsibility for the truthfulness, accuracy and completeness of the contents of the report. All directors attended the Board of Directors' meeting. Ernst & Young Hua Ming and Ernst & Young have given unqualified opinions on the 2008 financial statements prepared under the Accounting Standards for Business Enterprises, or Chinese Accounting Standards ("CAS") and the Hong Kong Financial Reporting Standards ("HKFRS"). Mr. Liu Jian, Chief Executive Officer, Mr. Zhong Hua, EVP & CFO, and Mr. Chen Linting, General Manager of Accounting Department, have declared that they assure for the truthfulness, accuracy and completeness of the financial statements in the Annual Report 2008.

Contents

Principal Financial Data and Financial Indicators

Financial data prepared in accordance with CAS

1. Principal Financial Data for the Year 2008(Consolidated)

Unit: Million Currency: RMB

Item	amount
Profit from operations	3,339.3
Profit for the year	3,307.3
Net profit attributable to shareholders of the Parent	3,102.2
Net profit excluding extraordinary gain and loss for the year attributable to shareholders of the Parent	3,334.1
Net cash flow from operating activities	4,036.7

2. Principal Accounting Data and Financial Highlights for the Latest 3 Years (Consolidated)

Unit: Million Currency: RMB

Item	2008	2007	Increase /Decrease (%)	2006
Revenue	12,430.3	9,241.9	34.5	6,524.2
Profit for the year	3,307.3	2,866.6	15.4	1,450.2
Net profit attributable to shareholders of the Parent	3,102.2	2,237.6	38.6	1,128.0
Net profit excluding extraordinary gain and loss for the year attributable to shareholders of the Parent	3,334.1	2,232.4	49.4	1,111.2
Basic earnings per share (RMB Yuan)	0.69	0.54	27.8	0.28
Diluted earnings per share (RMB Yuan)	0.69	0.54	27.8	0.28
Basic earnings per share after deduction of extraordinary gain and loss (RMB Yuan)	0.74	0.54	37.0	0.28
Fully diluted net assets earnings ratio (%)	15.67	12.99	2.68	13.09
Weighted average net assets earnings ratio (%)	16.76	19.86	(3.1)	13.57
Ratio of fully diluted net assets earnings after deduction of extraordinary gain and loss (%)	16.84	12.96	3.88	12.89
Ratio of weighted average net assets earnings after deduction of extraordinary gain and loss (%)	18.02	19.81	(1.79)	13.36
Net cash flow from operating activities	4,036.7	2,964.3	36.2	1,822.0
Net cash flow from operating activities per share (RMB Yuan)	0.90	0.72	25.0	0.46

	As at 31 December 2008	As at 31 December 2007	Increase/ Decrease (%)	As at 31 December 2006
Total assets	56,659.1	23,089.1	145.4	13,133.4
Shareholders' equity	19,797.8	17,225.0	14.9	8,618.6
Net assets per share attributable to shareholders of the Parent (RMB Yuan)	4.40	4.17	5.5	2.16

3. Items and amounts net of extraordinary gain and loss (Consolidated)

Unit: Yuan Currency: RMB

Items of extraordinary gain and loss	2008 Income/(Loss)
Losses on disposal of non-current assets	(53,429,454)
Subsidy Income	24,258,570
Fair value change in financial liabilities hold for trading	(52,983,938)
Loss on swap and forward exchange rate contract	(151,658,433)
Net amounts of other non-operating income/loss	(2,805,149)
Total of extraordinary gain and loss	(236,618,404)
Tax effect	4,796,405
Net amounts affecting under extraordinary gain and loss	(231,821,999)

4. The Statement of Differences between Domestic and Overseas Accounting Standards (Consolidated Statement)

The Directors confirmed that when preparing the consolidated financial statements of the Group for the year ended 31 December 2008 and 2007, there were no substantial differences between the accounting policies adopted in the financial statements prepared in accordance with CAS issued by the Ministry of Finance in February 2006 and HKFRS financial statements of the Group for the corresponding periods. As such, for both 2007 and 2008, there were no substantial differences between the net profit or net assets reported in the Group's financial statements prepared under CAS and those prepared under HKFRS, and hence, no reconciliations were required.

Changes in Share Capital and Particulars of Shareholders

(I) Changes in Share Capital

1. Table of Changes in Shares

During the reporting period, there was no change in the total number of shares and the share structure of the Company.

Disclosure of Other Information Deemed Necessary by the Company or Required by the Securities Regulatory Body

The total share capital of the Company increased to 4,495,320,000 shares upon listing of the A shares in 2007, among which, China National Offshore Oil Corporation held 2,460,468,000 shares, representing approximately 54.74% of the Company's total issued share capital; public investors held 2,034,852,000 shares, representing approximately 45.26% of the Company's total issued share capital, and shareholders of overseas listed foreign-funded shares ("H shares") held 1,534,852,000 shares, representing approximately 34.14% of the Company's total issued share capital and A share shareholders held 500,000,000 shares, representing approximately 11.12% of the Company's total issued share capital.

2. Table of Changes in Restricted Shares

During the reporting period, there was no change in the restricted shares of the Company.

3. Details of Securities Issuance and Initial Public Offering (IPO)

Issuance of securities issuance in the latest 3 years

Unit: share Currency: RMB

Types of shares and debt securities	Date of issue	Issue price (RMB)	Issue quantity	Date of IPO	Total number of tradable shares	Expiry date of transaction
A shares	20 September 2007	13.48	500,000,000	28 September 2007	500,000,000	–
Corporate bonds	14 May 2007	100	1,500,000,000	–	–	11 May 2022
Short-term financing bonds	13 February 2006	96.9/100	1,000,000,000	–	–	13 February 2007

- The Company has been approved by the China Securities Regulatory Commission pursuant to Document: Zheng Jian FaXing Zi [2007] No.284 to make an initial public offering of not more than 820,000,000 A shares. The Company issued 500,000,000 A shares based on market demand. Such shares received approval from the Shanghai Stock Exchange with Document: Shang Zheng Shang Zi [2007J No.181 and listed on the Shanghai Stock Exchange on 28 September 2007.

- On 14 May 2007, COSL issued corporate bonds of RMB1,500,000,000 with annual rate of 4.48% at par; the term of the corporate bonds was 15 years from 14 May 2007 to 13 May 2022; The corporate bonds were guaranteed by China Construction Bank Beijing Branch under an irrevocable and unconditional guarantee granted by the China Construction Bank Corporation, and issued to institutional investors in the People's Republic of China through issuance network set up by syndicate members.

- On 13 February 2006, COSL issued short-term financing bonds amounting to RMB 1 billion with a term of 365 days from 13 February 2006 to 13 February 2007. These financing bonds were issued by way of discount with purchase unit of RMB 1 million. Repayment date for the short-term financing bonds was 13 February 2007 with earnings ratio of 3.2% and par price of RMB96.9 Yuan per hundred Yuan.

4. Changes in the Total Number of the Company's Shares and the Shares Structure

During the reporting period, there was no change in the total number of issued shares and the share structure of the Company.

5. Employees' shares

As at the end of the reporting period, there was no employee share.

(II) Shareholders

I. Number of Shareholders and Particulars of Shareholding

As at 31 December 2008, number of shareholders and particulars of shareholding were as follows:

Number of shareholders at the end of the reporting period

Unit: share

A shares	H shares
170,348	259

Particulars of shareholding of the Top 10 Shareholders

Name of shareholder	Nature of shareholder	Shareholding percentage (%)	Total number of shares held	Increase/Decrease during the reporting period	Number of shares held subject to restrictions on sales	Number of shares pledged or locked up
China National Offshore Oil Corporation	State-owned	54.74	2,460,468,000	–	2,460,468,000	–
Hong Kong Securities Clearing Company Nominees Limited	Others	34.08	1,531,783,899	(680,000)	–	–
Bosera Thematic Sector Equity Securities Investment Fund	Others	0.22	10,000,000	9,173,000	–	–
Southern Selected Equity Securities Investment Fund	Others	0.21	9,560,807	–	–	–
Peng Hua China 50 Open Securities Investment Fund	Others	0.21	9,467,311	–	–	–
Jiashi Strategic Growth Mixed Securities Investment Fund	Others	0.21	9,386,794	–	–	–
Peng Hua Quality Governance Equity Securities Investment Fund (LOF)	Others	0.17	7,437,728	–	–	–
Tung Tak Securities Investment Fund	Others	0.15	6,662,143	–	–	–
Southern High Growth Equity Open Securities Investment Fund	Others	0.14	6,342,494	–	–	–
Pu Hui Securities Investment Fund	Others	0.13	6,036,987	–	–	–

Particulars of Shareholding of the Top 10 Shareholders Not Subject to Restrictions on Sales

Name of shareholder	Shares not subject to restrictions on sales	Type of share
Hong Kong Securities Clearing Company Nominees Limited	1,531,783,899	H shares
Bosera Thematic Sector Equity Securities Investment Fund	10,000,000	A shares
Southern Selected Equity Securities Investment Fund	9,560,807	A shares
Peng Hua China 50 Open Securities Investment Fund	9,467,311	A shares
Jiashi Strategic Growth Mixed Securities Investment Fund	9,386,794	A shares
Peng Hua Quality Governance Equity Securities Investment Fund (LOF)	7,437,728	A shares
Tung Tak Securities Investment Fund	6,662,143	A shares
Southern High Growth Equity Open Securities Investment Fund	6,342,494	A shares
Pu Hui Securities Investment Fund	6,036,987	A shares
Peng Hua Momentum Growth Mixed Securities Investment Fund (LOF)	5,987,306	A shares

Remarks

1) Shares held by Hong Kong Securities Clearing Company (HKSCC) Nominees Limited were the sum of H-shares (by agent) traded in the trading platform of HKSCC Nominees Limited and in the accounts of H-share shareholders.

2) Shares held by shareholders with shareholdings of more than 5% (including 5%) during the reporting period were not pledged nor locked up.

3) To the knowledge of the Company, there were no connected relationships or concerted actions between the above top 10 shareholders, the top 10 shareholders not subject to restrictions on sales or between the above top 10 shareholders and top 10 shareholders not subject to restrictions on sales other than Peng Hua China 50 Open Securities Investment Fund, Peng Hua Quality Governance Equity Securities Investment Fund (LOF) and Peng Hua Momentum Growth Mixed Securities Investment Fund (LOF) managed by Peng Hua Fund Management Limited; Southern Selected Equity Securities Investment Fund and Southern High Growth Equity Open Securities Investment Fund managed by Southern Fund Management Limited.

Particulars of Shareholding of the Top 10 Shareholders and Other Shareholders Subject to Restrictions on Sales

Unit: share

NO	Name of shareholder subject to restrictions on sales	Shares subject to restrictions on sales	Particulars of tradable shares subject to restrictions: Date on which shares become tradeable	Particulars of tradable shares subject to restrictions: Number of newly increased tradeable shares	Restrictions on sales
1	China National Offshore Oil Corporation	2,460,468,000	28 September 2010	–	36 months
2	Chengyu Fu	20,000	N/A	N/A	during term of directors

Information of Shareholders of H Shares Disclosed according to Securities and Future Ordinance

Name of shareholders	Capacity of interests held	Number of interest shares held (shares)	Percentage in interest (H) of COSL(%)
Commonwealth Bank of Australia	Interest in controlled corporation	137,548,000(L)	8.96(L)
JPMorgan Chase & Co.	Interest in controlled corporation	109,796,831(L)	7.15(L)
		77,563,119(P)	5.05(P)
Mirae Asset Global Investments (Hong Kong) Limited	Beneficial owner	104,462,840(L)	6.81(L)

Note:

(a) "L" means long position

(b) "P" means short position

II. Brief Introduction on the Controlling Shareholder and the Beneficial Controller

(1) The controlling shareholder and the beneficial controller

- Name of Company: China National Offshore Oil Corporation ("CNOOC")
- Corporate Representive: Chengyu Fu
- Establishment Date: 15th Feb 1982
- Registered Capital: RMB 94,931,614,000
- Main business of operations or management activities: CNOOC was entitled to exploitation of offshore petroleum resources in cooperation with foreign enterprises in China and franchise business of natural gas resources pursuant to Regulations of the People's Republic of China on the Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises. The main business involved in organization for exploration, development, production and refining of offshore oil and natural gas, processing and utilization of petrochemical and gas; sales of oil, natural gas, oil and gas processing products, petrochemical products and their production, provision of services for users with oil, exploration of natural gas development, production and sales; import and export of three types commodities approved; the above import and export for related units and the agents; technology export of the system; crude oil imports; contractor for Sino-foreign joint ventures, co-production; countertrade and re-exports.

(2) Changes in the controlling shareholder and the beneficial controller

During the reporting period, there was no change in the controlling shareholder and the beneficial controller of the Company.

(3) Diagram of the equity and controlling relationship between the Company and its ultimate controlling shareholder

Stated-owned Assets Supervision and Administration Commission of the State Council

↓ 100%

China National Offshore Oil Corporation

↓ 54.74%

China Oilfield Services Limited

III. Other Institutional Shareholders Holding 10% or More of the Shares

As at the end of the reporting period, there is no legal person shareholder of the Company who holds more than 10% of the shares.

Chairman's Statement

Dear Shareholders,

I am delighted to report to you the developments of COSL in the past year.

Business review

In 2008, facing new changes and new trends in the domestic and the international macro environments, the Company insisted on scientific development; enhanced the implementation of our four core strategies, i.e. leading in technologies and cost control, integration and internationalization; refined operation and management; achieved the new high operating results, and consolidated comprehensive capabilities of the Company. In 2008, the Group had a pretax profit of RMB3,307.3 million, representing an increase of 15.4% over the same period of last year, a net profit of RMB3,102.2 million, representing an increase of 38.6% over the same period of last year, and a basic income per share of RMB0.69, representing an increase of 27.8% over the same period of last year.

Prospect

In 2009, the international financial crisis will develop and proliferate further. Whether in the world or in China, whether for the oil industry as a whole or for the oilfield services industry in China in particular, 2009 will be a difficult year. The uncertainties and instabilities in the outside world, together with the difficulties in and pressing nature of development of the Company, it will be very tough and complicated for the Company to continue with its high efficiency and high speed development. COSL will strive to master major trends, have an in-depth knowledge of the complexity and grimness of the macro economic situation; continue to enhance our confidence, courage and strength to fight against risks and difficulties; grasp opportunities, complete various tasks with consciousness and initiative; develop scientifically, promote further development of various businesses of the Company, and provide shareholders with good development results.

I. Master external environment changes, with our initiatives

In 2009, instabilities in macro economic environments in China and the world will have a negative impact on our development, however, various positive factors will also exist for us to explore.

On the negative side: for world economy, on the one hand, the negative impact of the financial crisis on real economy will emerge further, with simultaneous recessions in major economies in the world, and slower growths in emerging and developing markets. Though various governments have been trying their best to rescue the financial market and the real economy, the downward trend has dominated world economy. According to a forecast of the World Bank, the growth rate of world economy will reduce from last year's 2.5% to 0.9% in 2009, with negative growths in the developed world. On the other hand, the financial crisis has not touched the bottom yet, there have been significant uncertainties in the recovery of world economy. With significant fall in oil price, capital investment plans of oil companies have been reduced, resulting in more fierce competition among oilfield service companies. Therefore, the Company will face increased pressures from reduced service prices, as well as equipment utilization rates. Based on survey results, an analyst from the Barclays Investment Company of New York forecasted that world oil exploration and production expenses will reduce 12% from last year to US$400 billion in 2009, ending a growth trend of 6 years.

On the positive side: (1) the economic development in China has a stronger resistance against risks, with little change in the basics and the long term trend of economic development; (2) targeting the slowing trend in economic development, the Chinese government has adopted various policy measures to stimulate the economy growth in a timely manner, enhanced market confidence, and revitalised the national economy to maintain a steady to faster development; (3) lower interest rates in the financial market will reduce interest burdens on bank loans, with lowered financing costs; (4) after 8 years' quality and high speed development, COSL not only has a good profession talent bank, a leading cost advantage, but also a comprehensive oilfield technology services industry chain, providing not just single operation tasks, but an integrated, general subcontracting operation service pack; (5) with a comparatively strong management system, a comprehensive risk identification and prevention system in particular, COSL has significantly enhanced its risk resistance capability.

COSL will take full advantage of our strengths, strive to solve issues confronted, acknowledge the seriousness of the crisis, and fight it with full confidence. We will prevent risks, and grasp development opportunities at the same time; prepare to work hard, and prepare for the economic recovery as well; work for the present, and plan for the future. We will improve our systems, enhance our management level, strengthen our risk management and control, increase our innovation capability, and improve our staff quality, with sustainable and steady development of various businesses of the Company.

Moreover, the Board has appointed Mr. Liu Jian as the new CEO of the Company on 2 March to replace Mr. Yuan Guangyu. We would like to express our thankfulness towards Mr. Yuan for his contribution to the Company's development during his term as CEO. We have full confidence in Mr. Liu's capability and experience, and believe that under the leadership of Mr. Liu, the management may keep the steady development of the Company.

II. Grasp opportunities, take full advantage of our strengths to promote the steady business development of COSL

In 2009, COSL will further expand its production capacity, enhance its service capabilities and market competitiveness. We will consolidate our leading position in the domestic oilfield service market, and pursue our internationalization. However, we will not be too optimistic about the macro economic situation and the industry trend, the low oil price will have a long term pressure on investment plans of oil companies and operation prices of service companies, resulting in more fierce competition among oilfield service companies, with reduced service prices in the short run. Though we have fundamentally settled our original production capacity, and have basic arrangements in place for the newly acquired capacity of Awilco Offshore ASA ("AWO"), with the newly acquired drilling vessels not only enlarged our drilling vessel team, enhanced our equipment asset quality, but also drove the business growth in technology service segment; however, we will encounter a market with uncertainties, with risks in our operation environment. COSL shall respond in a prudent manner, develop proactively, take full advantage of our differentiated comparative strengths and our integrated system, to organize and develop our core geophysical exploration, drilling, well services and marine support and transportation services, to try our best to settle unsettled production capacity. At the mean time, we will grasp opportunities, expand the use of external resources, promote the integrated general subcontracting service, to explore income sources, reduce costs, enhance efficiency, and promote the steady business development of the Company.

III. Strengthen technological innovation, enhance technological driving force

We have learnt from our past experience that developments can hardly be achieved without technologies, and sustainable development can hardly be attained without proprietorship technologies. Advanced technologies have been the keys in solving problems in oilfield exploration, development and production, they are fundamental in increasing income, reducing cost, and enhancing efficiency; and the trump cards in productivity development and competitiveness enhancement.

In 2009, COSL will strengthen the building of the scientific talent team, speed up training for scientific innovation capacity, enhance management of R&D projects, increase science and technology based productivity with new measures: (1) to improve management of science and technology institutes, so as to link up production with R&D, plan and develop systems for technological innovation and technical support; (2) to speed up the training for technology talents, expand our team of technical experts, enhance technical staff quality; (3) to further increase technology investment, enhance management of R&D projects, strengthen technology driving forces; and (4) to enhance construction of fundamental facilities for R&D.

IV. Continue to strengthen fundamental management, strive to build and develop new advantages

Continue to strengthen QHSE management. Safety has always been a weak point in corporate management, therefore, we will always strive for improvements in the long run. For the sustainable development of COSL and our target of building an international first class company, we have to further enhance our safety culture, strengthen our safety system, enforce system implementation, and focus on problem identification and solving tasks, so as to maintain a high level QHSE management, and establish an environment friendly, energy saving enterprise.

Control risks, optimize financial structure. In the past few years, our organic growth, together with enormous investments in development by acquisition, resulted in rapid expansion of the Company, and expanding international operation, with increasing financial expenses and capital costs, and increasing financial and capital management risks therewith. Therefore, we have to further enhance our budget management, audit management, cash flow management and gearing ratio management, so as to control risks, optimize our financial structure with multiple channels. We will use financial instruments in a better manner to hedge and prevent interest and exchange risks, to ensure the financial stability and capital safety of COSL.

Speed up post acquisition integration, position ourselves for new opportunities. Acquisition and integration is difficult and complicated a task that cannot be easily completed in a short time, especially for the integration between Chinese and foreign enterprises. Upon the completion of the acquisition, follow up integration tasks of COSL have been progressing step by step with success. We will continue to proactively and steadily promote our internationalization development strategy, in accordance with international macro environment, our financial and capital conditions and the progress in integration management. Meanwhile, we will strengthen the training for medium to high level management personnel, enhance their management technique and capability, so as to form a solid human resources foundation for further development of COSL in the future.

Take full advantage of our integration system of a comprehensive oilfield service company to develop. More than 70% of the present oil reserves in the world have been in the hands of various national oil companies, with only 10% in the hands of multinational corporations. The global oil industry has been entering a new page in history dominated by national oil companies. Due to historical and reality reasons, most of the third world resources countries lack the expertise and project management capability of their own. Therefore, companies with comprehensive integrated service capacities like COSL will enjoy greater comparative advantages, with bigger rooms for development.

Members of the Board and I firmly believe that, with the support of our shareholders, the common efforts of the Board, the Supervisory Committee, the management and all our staff, we will continue to focus on scientific development, make full advantage of favorable conditions, proactively respond to various challenges, continue to enhance corporate value, and bring shareholders, clients, employees and the society with good development.

Fu Chengyu
Chairman
1 April 2009

INTEGRATED OILFIELD SERVICES SUPPLIER

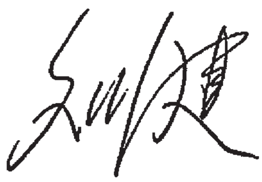
BEING A COMPREHENSIVE SOLUTION PROVIDER OF INTEGRATED OILFIELD SERVICES, COSL'S CORE SERVICES ARE DRILLING SERVICES, WELL SERVICES, MARINE SUPPORT AND TRANSPORTATION SERVICES AND GEOPHYSICAL SERVICES, WHICH COVER EACH PHASE OF OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION.

Management Discussion & Analysis

In 2008, under the leadership of the Board and the former CEO, Mr. Yuan Guangyu, and the refined management of all senior management personnel, targeting at building a first class international service company, driven by the four major core strategies, the Company proactively responded to various challenges, grasped opportunities to speed up development and achieved the new high operating results. In the year, we achieved an operation revenue of RMB12,142.9 million, representing an increase of 34.8% over last year; an operation profit of RMB3,630.5 million, representing an increase of 28.4% over last year and a net profit of RMB3,102.2 million, representing an increase of 38.6% over last year; with earnings per share reaching RMB0.69, representing an increase of RMB0.15.

While maintaining better economic efficiency, the Company has been enhancing its equipment capability, R&D capacity, technical service ability and market competitiveness and sustains a faster growth. The Company's equipment capability has been further increased upon the acquisition of AWO and provided room for synergic development for other business segments and forms a solid foundation for the sustainable and steady development of the Company in the future.

In 2009, under the international financial crises, there are increasing uncertainties in the global economic environment and slowing down economic growth in China as well as intensified competition in the oilfield services market. The Group will make full advantage of its leading position in the domestic oilfield services market, uphold scientific development, make full use of favorable conditions, proactively respond to various challenges, flexibly respond to changes in the domestic and international markets, carefully arrange domestic and international resources, scientifically organize production and operation, proactively promote technical progresses, continuously enhance corporate value, and strive our best to provide a good return our shareholders, our community and our staff.



Liu Jian
Chief Executive Officer
1 April 2009

INDUSTRY REVIEW

The data in the following discussion and analysis are extracted from the Group's audited financial statements prepared under HKFRS

The world economy has experienced a deep adjustment in 2008, with economic growth turned from robust to sluggish. The United Nations published the World Economic Situation and Prospects 2009 on 16 January 2009, with a forecasted world economic growth rate of 2.5% for 2009, lower than the recent 10 year average level of 2.99%. Economy in China suffered from inflation in the first half of the year, and in the second half, exports dropped significantly under the impact of the subprime mortgage crisis. However, the basic trend of a steady and faster development of the national economy has been maintained. According to an announcement dated 22 January 2009 by the National Bureau of Statistics of China, GDP in China increased 9.0% in this year as compared with last year.

With regard to demand for energy and international oil price, according to a report of International Energy Agency, daily global demand for crude oil in 2008 was 86,200,000 barrels which increased 0.1% compared with last year. International oil price staged a roller coaster scene in 2008, rising high and falling deep, with the New York WTI crude oil price climbing from US$99.64 per barrel at the beginning of the year to a height of US$147.27, then falling significantly 74% to US$38.95 at the end of the year, resulting in an annual average oil price of US$99, representing an increase of 38% over 2007.

In 2008, the financial storm swept across the world, with world economy starting to fall, however, due to lagging effect of the industry, the impact on oilfield services industry had not surfaced yet. As the largest comprehensive oilfield services provider in China's offshore market, COSL consolidated its organic growth, and, through it's wholly owned subsidiary, COSL Norwegian AS ("CNA"), completed the acquisition of AWO (currently known as COSL Drilling Europe AS, "CDE"), a Norwegian drilling company in September, thus speeding up the internationalization process of the Group. The four major businesses, namely drilling services, well services, marine support and transportation services and geophysical service, performed well in the year, with record high revenue[1]. Overseas business experienced strong growth, with an operation area extending to 20 countries and regions.

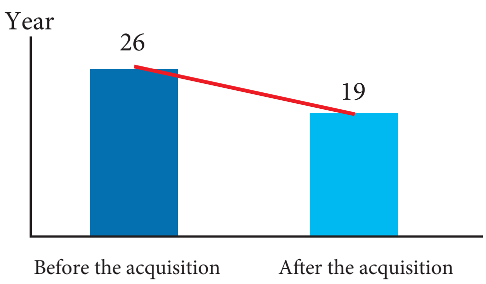
BUSINESS REVIEW

Drilling Services Segment[2]

We are the major supplier of China offshore drilling services, also an important participant of international drilling services, we mainly provide services such as drilling, module rigs, land drilling rigs and drilling management. As of the end of 2008, we operated and managed a total of 23 drilling rigs (of which 20 are jack-up drilling rigs (one leased, one managed), and 3 are semi-submersible drilling rigs) and 2 accommodation rigs.

Drilling business of COSL developed strongly in 2008. Based on the original market and through the acquisition of AWO, our drilling equipment capacity has been significantly enhanced. COSL942 has started operation in September this year which significantly enhanced the drilling capability of COSL. New rigs acquired by COSL in the acquisition have operation depths of over 300 feet which is able to fulfill most drilling requirements under the predominantly complicated conditions in offshore China, and significantly improve the function and age structure of COSL's rigs with the average rig age lowered from 26 years to 19 years.

Age of rigs before and after the acquisition



As of 31 December 2008, our drilling vessels, accommodation rigs and land drilling rigs operated in 8 countries and regions around the world. Among which, 10 drilling rigs in Bohai Gulf of China, 1 in Yellow Sea of China, 5 in South Sea of China, 1 in Vietnam, 1 in Indonesian waters, 2 in Australian waters, 1 in Saudi Arabia, 2 in North Sea, 1 in Libya; 4 module rigs in Mexican waters; 3 land drilling rigs in Libya, 1 in Xinjiang of China. In addition, we also provide drilling platform management service for clients in Iran.

1 *Unless otherwise specified hereunder, revenue represents the net invoiced value, net of sales in surtaxes.*
2 *The Company acquired AWO, a Norwegian drilling company, in September 2008, and combined it into drilling services segment for analysis.*

DRILLING SERVICES

BEING A MAJOR DRILLING SERVICE PROVIDER IN OFFSHORE CHINA, AS WELL AS AN IMPORTANT INTERNATIONAL DRILLING PARTICIPANT, COSL MAINLY ENGAGE IN DRILLING SERVICES FOR OFFSHORE OIL AND GAS EXPLORATION AND DEVELOPMENT. WE ARE CAPABLE OF PROVIDING DRILLING SERVICES OF UP TO 1500 FT WATER DEPTH AND DRILLING DEPTH OF 30,000 FT.


2008 Drilling Services Revenue Increased 51.0% to
RMB 5,919.9 MILLION
Water depth can be reached up to
1,500 ft
Oil well drilling depth can be reached up to
30,000 ft

As of 31 December 2008, COSL operated a total of 19 jack-up drilling rigs, with 4,556 operation days which increased by 328 days compared with last year, with a calendar day utilization rate of 91.1%; 3 semi-submersible drilling rigs had 1,098 operation days which increased 18 days compared with last year, with a calendar day utilization rate of 100%, an increase of 1.4% compared with last year; accommodation rigs had 184 operation days, with a calendar day utilization rate of 100%. Among which, the total number of days in operation for our drilling rigs before the acquisition (13 jack-up drilling rigs, 3 semi-submersible drilling rigs) was 5,164 days, representing a decrease of 144 days compared with last year, among which jack-up drilling rigs decreased 162 days, while semi-submersible drilling rigs increased 18 days. The decrease in operation days of jack-up drilling rigs was mainly due to upgrading and overhaul of COSL931 during the period to enhance its operation capacity, thus resulted in 262 maintenance days, together with 29 maintenance days for other vessels, which offset the addition of 117 operation days contributed by the newly added COSL942 and the 12 operation days added by the intercalary month. The increase in operation days of semi-submersible drilling rigs was mainly due to a decrease of 15 maintenance days for NH2 compared with last year, and the 3 operation days added by the intercalary month. In 2008, due to the increase in maintenance days for jack-up drilling rigs, the average calendar day utilization rate of owned drilling rigs dropped 4.9% to 92.1%, of which, the calendar day utilization rate of jack-up drilling rigs was 90.2% and 100% for semi-submersible drilling rigs, while their available day utilization rate remained at 100%. In addition, with the acquisition of AWO on 29 September 2008 which operated a total of 6 jack-up drilling rigs and 2 accommodation rigs brought 674 operation days in the fourth quarter after the acquisition, of which 490 days were contributed by jack-up drilling rigs, with a calendar day utilization rate of 99.4%; and 184 days from accommodation rigs, with a calendar day utilization rate of 100%.

Moreover, 4 module rigs were provided for clients in Mexico Gulf, with 1,442 operation days during the year, and a calendar day utilization rate of 98.5%; while 3 land drilling rigs in Libya and 1 land drilling rig in China brought 751 operation days, with both the calendar day utilization rate and the available day utilization rate reaching 100.0%.

The 2008 day rate of COSL had increased as compared with last year. The details are as follows:

Average day rate (ten thousand US$/day)	2008	2007	Increase	Increase, net of exchange rate impact
Jack-up drilling rigs	11.6	7.8	47.9%	38.9%
Among which: COSL	10.5	7.8	33.5%	25.4%
Among which: CDE (inclusive of only the fourth quarter)	18.0	N/A	N/A	N/A
Semi-submersible drilling rigs	17.9	14.2	25.7%	18.0%
Accommodation rigs	16.7	N/A	N/A	N/A
Total (including CDE)	12.9	9.1	41.6%	32.9%
Total (not including CDE)	12.0	9.1	31.8%	23.7%

Note:

1. *As of 28 December 2007, the exchange rate for US$ against RMB was 1:7.3046; as of 28 December 2008, the exchange rate for US$ against RMB was 1:6.8346.*

With the overseas acquisition, rise in day rates, the newly added COSL942, and the full year operation of 3 land drilling rigs and 4 module rigs in Mexico Gulf, the revenue of drilling services segment reached RMB5,919.9 million in 2008, representing an increase of 51.0% over last year.

The technical parameters of 22 drilling rigs and 2 accommodation rigs:

Drilling rig	Commencement for operation/ overhaul year	Manufacturer	Drilling depth (feet)	Operation depth (feet)	Current operation area	Current client
Jack-up drilling rigs						
BH4	1977/2001	Hitachi Zosen Ship Yard	20,000	300	Indonesia	CNOOC SES Ltd
BH5	1983/2007	China Dalian Shipyard	20,000	130	Bohai Gulf	CNOOC Ltd
BH7	1983/2001	China Dalian Shipyard	6,000M	40M	Bohai Gulf	CNOOC Ltd
BH8	1980/2001	Marathon Le Toureen Marine Company	20,000	246	Bohai Gulf	KERR-McGee
BH9	1984/1997	Dalian Shipbuilding Industry Co.	6,000M	40M	Bohai Gulf	CNOOC Ltd
BH10	1980/1987	Marathon Le Toureen, Singapore	20,000	250	Bohai Gulf	CNOOC Ltd
BH12	1978/1998	Mitsubishi Heavy Industries, Ltd, Japan	6,000M	56M	Bohai Gulf	CNOOC Ltd
NH1	1976/2000	Robin Shipyard (pte) Ltd, Singapore	20,000	154	Bohai Gulf	ConocoPhillips China Inc.
NH4	1980/2002	Hitachi Zosen, Osaka works Sakai Japan	20,000	315	South Sea	CNOOC Ltd
COSL931	1993/2008	Vyborg's Shipyard, Russia, and Finland	21,325	328	South Sea	CNOOC Ltd
COSL935	1976/2006	Japan Hitachi Shipbuilding	20,000	300	Bohai Gulf	CNOOC Ltd
COSL941	2006	Dalian Shipbuilding Industry Co.	30,000	400	South Sea	CNOOC Ltd
COSL942 (new)	2008	Dalian Shipbuilding Industry Co.	30,000	400	Yellow Sea	CNOOC Ltd
COSL Power (new)	2006	PPL Shipyard Pte Ltd	30,000	375	Saudi Arabia	ADC
COSL Craft (new)	2006	Keppel Fels	30,000	400	West Australia	AGR
COSL Superior (new)	2007	PPL Shipyard Pte Ltd	30,000	375	Malay Basin	Thang Long
COSL Boss (new)	2008	Keppel Fels	30,000	400	Bohai Gulf	CNOOC
COSL Force (new)	2008	PPL Shipyard Pte Ltd	30,000	375	Libya	Repsol
COSL Seeker (new)	2008	PPL Shipyard Ptd Ltd	30,000	375	Bohai Gulf	CNOOC
Semi-submersible drilling rigs						
NH2	1974/1999	AKER GROUP	25,000	1,000	South Sea	CNOOC Ltd
NH5	1983/1998	Framaes Mek, Norway	25,000	1,500	South Sea	CNOOC Ltd
NH6	1982/2000	Gotaverken Arendal. Sweden	25,000	1,500	Australia	Woodside Energy Ltd
Accommodation rigs						
Port Rigmar (new)	1979	Robin Shipyard (Ptd.) Ltd		300	North Sea	ConocoPhilips
Port Reval (new)	1976	Mitsui Zosen Systems Research Inc		1,500	North Sea	ConocoPhilips

WELL SERVICES

BEING THE LARGEST AND MOST COMPETENT ALL AROUND WELL SERVICES PROVIDER IN OFFSHORE CHINA, COSL CAN FULFILL A CHAIN OF WELL SERVICES PERFORMANCES.

Well Services Segment

We possess over 30 years of experiences in well services and over 20 years of experience in on-shore well services operation. Our major clients for well services includes large scale oil and gas companies in China (such as CNOOC and Petrochina etc) and oil and gas multinationals (such as BP, Shell, ConocoPhillips and Chevron etc). Through advanced technological facilities and an excellent management team, we provide comprehensive professional well services to clients, including logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, oilfield production optimization etc.

Benefited from increasing market demand for services, COSL gained new grounds in overseas markets in 2008: directional drilling project technical services won a contract to provide services for 34 geothermal wells in the Philippines; our proprietary owned logging system ELIS entered South East Asia to provide cable logging service; our land open-hole cable logging, perforation, drilling fluids and cementing services have also successfully entered Indonesia to provide services for clients.

Besides developing overseas markets, our long term R&D makes new technologies another driving force behind the business growth of the Group. During the year, FCT had a successful trial, and made COSL the fourth company in the world in possession of such technology; the experiment of thick oil thermal recovery[3] technology in Bohai oilfields has been successful and resulted in a 300-400% growth in average daily crude oil production; the R&D of synthesis based drilling fluid (which may enhance the average machine drilling speed for more than 95% in operation) successfully opened the Indonesian market for our drilling fluids services.

Driven by new markets and new advance technologies, our well services segment achieved a revenue of RMB2,732.6 million in 2008, representing an increase of 20.4% or RMB462.6 million from RMB2,270.0 million of last year. In 2008, well services segment had the following changes in revenue:

Unit: RMB million

	2008	2007	Change %
Logging	526.2	416.5	26.3%
Directional drilling	465.3	350.8	32.6%
Drilling fluids	435.8	386.6	12.7%
Cementing	435.6	364.7	19.4%
Well workover	712.8	543.6	31.1%
Well completion and other well services	156.9	207.8	(24.5%)
Total	2,732.6	2,270.0	20.4%

In 2008, well services segment had the following changes in volume:

For the 12 months ending on 31 December

Well services	2008	2007	Change %
Logging (no. of jobs)	1,010	865	16.8%
Drilling fluids (no. of wells)	355	290	22.4%
Directional drilling (no. of jobs)	803	581	38.2%
Cementing (no. of wells)	450	474	(5.1%)
Well completion (no. of jobs)	556	487	14.2%
Well workover (team•day)	20,858	15,944	30.8%

3 *Thick oil shall mean crude oil of high asphalt and pectin content and high viscosity, usually with a ground density of over 0.943 and an underground viscosity of over 50 centipoises, and is also called heavy oil due to its high density. Technologies to rise temperature in the storage layer, thus reduce viscosity of thick oil so as to improve production volume and recovery rate are commonly used in the recovery of thick oil. Thermal recovery shall mean the artificial heating of underground oil reserve hardly extractable under normal circumstances to make such oil reserve extractable, so as to enhance recovery rate. Thermal recovery is an emerging oil extraction method for oilfield development and production in recent years.*

Pursuant to the above two tables, well services had an aggregate operation income of RMB2,732.6 million, representing an increase of 20.4% over last year. Among which, revenue of logging business increased 26.3% over last year due to new markets in Indonesia and Burma, as well as commencement of new projects in China. Revenue of directional drilling business increased 32.6% over last year due to newly added contracts in the Philippines and the commencement of new projects in China while the revenue of drilling fluids business increased 12.7% over last year due to new markets in Indonesia and the successful development of the PetroChina drilling mud business in China. Although the business volume of cementing business dropped, the development of the Indonesian market, and the increase in higher unit price well exploration and well production business resulted in an revenue increase of 19.4% over last year. Revenue of well workover business increased 31.1% over last year due to volume growth and new project development in China while the revenue of well completion and other well services decreased 24.5% over last year due to decreased demand in overseas markets.

MARINE SUPPORT AND TRANSPORTATION SERVICES

OWNING AND OPERATING THE LARGEST AND MOST COMPREHENSIVE OFFSHORE UTILITY FLEETS IN CHINA AND CURRENTLY HAS 75 UTILITY VESSELS, 4 OIL TANKERS AND 5 CHEMICAL CARRIERS.

Marine Support and Transportation Services Segment

We possess and operate the largest and most comprehensive offshore utility transportation fleets in China. On 31 December 2008, the Group owned an aggregate of 75 utility vessels of various types, leased 5 utility vessels from the joint venture company, Eastern Marine Service Ltd. on a long-term basis, and at the same time owned 4 oil tankers, 5 chemical carriers, which were mainly operated in offshore China. The offshore utility vessels provide services for offshore oil and natural gas fields exploration, development and production, and are responsible for supplies, cargoes and crew transportation and standby services in the sea, and provide moving and positioning for drilling platforms, towing and anchoring services for offshore vessels. The oil tankers are used for transporting crude oil and refined oil and gas products. The chemical carriers are used for carrying chemical products such as methanol.

In 2008, COSL further expanded its utility vessel team, with 5 more standby vessels and 3 more multi-purpose vessels which joined the fleet during the year whereby 2 multi-purpose vessels were scrapped. As of 31 December 2008, the Group owned 75 utility vessels (43 standby vessels, 21 AHTS vessels, 5 platform supply vessels, 6 multipurpose vessels) and maintained a dominant position in the China offshore services area.

During the year, our owned utility vessels operated a total of 23,626 days, representing a decrease of 603 days or 2.5% from the same period last year. This is mainly due to the scrapping of one vessel in January and November 2008 respectively, and new vessels joined the team later during the year (2 in September, 2 in November and 4 in December), and contributed less to the operation volume in 2008. The average available day utilization rate of owned vessels was 99.3%, representing a decrease of 0.3% compared to the same period last year. The calendar day utilization rate was 94.8%, representing a slight decrease of 0.1% compared to the same period last year. The Group leased five platform supply vessels from the joint venture company, Eastern Marine Services Ltd. on a long term basis, and operated 1,742 days during the year, representing an increase of 1,100 days compared to the same period last year. In addition, the Group proactively leased 6 external vessels to meet market demand, and operated an aggregate of 590 days.

In 2008, the average day rate of utility vessels increased 22.4% compared to the same period last year, to US$8,200/day. Through the increase in service prices and proactive development of leasing of external vessels, revenue in the year reached RMB1,613.9 million, representing an increase of 17.4% over RMB1,374.5 million of the same period last year.

COSL owned 75 utility vessels, with the following technical parameters:

			31 December 2008			
Vessel name	Power	Year of commencement for operation	Gross length (meter) x Gross width (meter)	Load draft (meter)	Deck area (m^2)	Deck load (ton)
Standby vessels						
Binhai 207	3800	1973	53.10×11.02	3.45	205	370
Binhai 208	3800	1974	53.10×11.02	3.45	205	370
Binhai 209	2600	1974	51.53×11.60	3.89	125	395
Binhai 212	2600	1975	51.53×11.60	3.96	217	395
Binhai 213	2600	1975	51.53×11.60	3.96	217	395
Binhai 241	4800	1984	56.00×12.00	4.30	304	400
Binhai 242	4800	1984	56.00×12.00	4.30	304	400
Binhai 243	4800	1984	56.00×12.00	4.30	304	400
Binhai 244	4000	1984	53.55×12.00	4.60	242	500
Binhai 245	4000	1984	53.55×12.00	4.60	242	500
Binhai 262	6528	1986	58.60×13.00	5.10	388	630
Binhai 264	6528	1987	58.60×13.00	5.10	388	630
Binhai 265	6528	1987	58.60×13.00	5.10	388	630
Binhai 266	6800	2003	69.50x14.00	5.20	375	500
Binhai 267	6800	2003	69.50x14.00	5.20	375	500
Binhai 268	6800	2003	69.50x14.00	5.20	375	500
Binhai 282	8000	1979	67.00×14.62	5.12	324	500
Nan Ou	7200	1982	66.30×14.20	4.97/5.00	345	540
Nanying	7200	1982	66.30×14.20	4.97/5.00	345	540
Nanhai 201	3800	1974	53.10×11.02	3.45	205	370
Nanhai 202	3800	1975	53.10×11.02	3.45	205	370
Nanhai 203	3800	1975	53.10×11.02	3.45	205	370
Nanhai 206	8000	1978	67.00×14.62	5.06	385	500
Nanhai 208	6000	1979	61.90×12.50	4.96	314	494
Nanhai 210	6520	1986	64.71×13.8	5.95	416	600
Nanhai 211	6520	1986	64.71×13.8	5.95	416	600
Nanhai 217	6908	2001	66.30x14.20	5.70	384	600
Nanhai 218	6908	2001	66.30x14.20	5.70	384	600
Nanhai 219	6908	2002	66.30x14.20	5.70	384	600
Nanhai 220	6908	2003	69.30x14.20	5.70	415	600
Nanhai 221	6908	2003	69.30x14.20	5.70	415	600
Nanhai 222	14150	2004	69.20×16.80	6.20	500	800
COSL 564(new)	5200	2008	63.88x15	5.30	440	500
COSL 601(new)	7202	2008	69.61x14.8	4.60	452	600
COSL 602(new)	7202	2008	69.61x14.8	4.60	452	600
COSL 603(new)	7202	2008	69.61x14.8	4.60	452	600
COSL 609(new)	7202	2009	69.6x14.8	5.70	452	600
COSL 623	8160	2004	69.30×14.60	5.80	430	600
COSL 653	6404	2004	69.00×14.60	5.50	335	500
COSL 654	6404	2004	69.00×14.60	5.50	335	500
COSL 655	6404	2004	69.00×14.60	5.50	335	500
COSL 656	6404	2004	69.00×14.60	5.50	335	500
COSL 689	8320	2005	70.56×14.8	5.70	350	500

			31 December 2008			
Vessel name	Power	Year of commencement for operation	Gross length (meter) x Gross width (meter)	Load draft (meter)	Deck area (m^2)	Deck load (ton)
AHTS vessels						
Binhai 214	3800	1975	53.10×11.02	3.45	205	370
Binhai 215	3800	1975	53.10×11.02	3.45	205	370
Binhai 263	6528	1986	58.60×13.00	5.10	388	630
Binhai 281	8000	1979	67.00×14.62	5.12	324	500
Binhai 283	8160	1984	64.40×13.80	5.00	418	700
Binhai 284	8000	1992	68.25×14.00	4.88	300	500
Binhai 285	8000	1993	68.25×14.00	4.88	300	500
Binhai 286	8160	2003	70.08x14.20	5.25	300	500
Binhai 287	8160	2004	70.08x14.20	5.25	300	500
Binhai 291	10200	1982	65.70×13.80	5.85	444	620
Binhai 292	13000	1980	67.11×15.50	6.46	462	1000
Nanhai 205	8000	1975	63.40×13.20	5.77	350	600
Nanhai 207	8000	1979	67.00×14.62	5.06	385	500
Nanhai 209	6000	1979	61.90×12.50	4.96	314	494
Nanhai 212	10560	1984	66.50×14.40	6.42	369	575
Nanhai 213	10560	1981	67.87×14.52	5.01	365	660
Nanhai 215	12730	1983	67.84×15.60	6.44	476	1200
Nanhai 216	12240	1982	68.02x14.50	5.97	418	670
COSL 688	8320	2004	70.56x14.8	5.70	350	500
COSL671	7040	1979	64.50x13.80	5.90	418	750
COSL672	8160	1982	64.66x13.80	5.07	374	800
Platform supply vessels						
Binhai 251	5460	1995	59.80×15.00	5.50	444	900
Binhai 252	5460	1995	59.80×15.00	5.50	444	900
Binhai 253	5308	2001	70.31x16.00	5.80	585	1200
Binhai 254	5308	2001	70.31x16.00	5.80	585	1200
Binhai 293	9600	1982	82.80×18.00	5.67	510	600
Multi-purpose vessels						
Binhai 210	2600	1974	51.53×11.60	3.96	217	395
Binhai 211	2600	1975	51.53×11.60	3.96	217	395
COSL 561(new)	4134	2008	51.1x12.4	4.30	156	200
COSL 562(new)	4134	2008	51.1x12.4	4.30	156	200
COSL 563(new)	4134	2008	51.1x12.4	4.30	156	200
New Century I	6090	2004	39.78x15.00	3.80	N/A	N/A

The Company owned oil tankers and chemical carriers with the following technical parameters:

Vessel name	Year of commencement for operation	Gross tonnage (tons)	Gross power (KW)	Carrying tonnage (tons)	Light draft (meter)	Load draft (meter)	Maximum speed (knot)	Economy speed (knot)	Journey capacity (nautical mile)	Main engine manufacturer
Oil tanker										
Binhai 608	1998	4044	2995	4992	2.11	5.73	13.2	12.8	5000	Finland Wartsila
Binhai 607	1998	4044	2995	4992	2.11	5.73	13.2	12.8	5000	Finland Wartsila
Binhai 606	1988	3456	2500	4703	3.79	6.38	13	11	3000	Shanghai Hudong Shipyard
Binhai 604	1980	2485	2250	3338	3.49	5.75	16.2	14.0	2400	Shanghai Hudong Shipyard
Chemical Carrier										
COSL 801	2004	1578	734	1800	2.75	4.00	12	10	6700	Ningbo C.S.I. Power & Machinery
COSL 851	2006	2356	1620	2315	1.77	4.00	12	10	6700	Yanmar
COSL 852	2005	2834	1920	3955	5.2	5.20	12	11	2500	Yanmar
COSL 881	2007	8479	3824	12000	4.8	7.41	13	10	6000	Shanxi Diesel Engine Works
COSL 882	2005	8479	3824	12000	4.8	7.41	12	10	6700	Shanxi Diesel Engine Heavy Industry Co., Ltd.


GEOPHYSICAL SERVICES

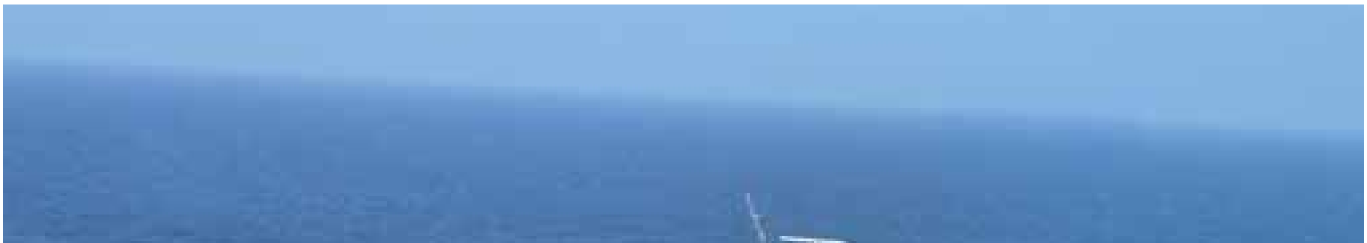

BEING A MAJOR PROVIDER OF GEOPHYSICAL SERVICES IN OFFSHORE CHINA, AS WELL AS AN IMPORTANT PARTICIPANT IN THE GLOBAL GEOPHYSICAL MARKET, COSL CURRENTLY OWN 8 SEISMIC VESSELS AND 4 INTEGRATED MARINE SURVEYING VESSELS.

Geophysical Services Segment

We are a major supplier of geophysical services for offshore China, at the same time we also provide services in other offshore regions, including South and North America, the Middle East, Africa and Europe. Our geophysical services are divided into two main categories: seismic services and surveying services. At present, we own 8 seismic vessels and 4 integrated marine surveying vessels.

There has been a strong demand for geophysical services in Chinese waters in 2008. The Group's 8-cable seismic vessel COSL719 joined our operation on 22 March 2008 and operated well during the year, with 3D seismic data collection covering 3,113 km². In overseas markets, COSL718 completed 2,302 km² 3D seismic data collections in South East Asia; Binhai 517 sailed to the Arctic Ocean for the first time, and completed 7,074 km 2D seismic data collections for clients. Though focused on the domestic market, data processing business won 3D data processing contracts from Australia, and completed a processing volume of 990 km².

Driven by both the operation of new facilities and the development of overseas markets, the revenue of the geophysical services for the Group in the year reached RMB1,876.6 million, with an increase of RMB434.8 million or 30.2% compared with RMB1,441.8 million of the same period last year.



During the year, the changes in the operating volume of geophysical services were as follows:

Geophysical Services	2008	2007	Change
2D			
Collection (km)	49,448	37,810	30.8%
Processing (km)	23,402	14,137	65.5%
3D			
Collection (km^2)	13,592	9,694	40.2%
Processing (km^2)	8,382	5,686	47.4%

In 2008, our surveying services developed steadily with 4 surveying vessels achieving an aggregate income of RMB265.4 million, representing an increase of BMB7.4 million or 2.9% over RMB258.0 million of last year.

Seismic vessels with the following technical parameters:

31 December 2008

Vessel name	Year of commencement for operation	Seismic data collection capacity	2D Seismic data collection capacity (km, km^2/year)	Cruise speed (knot/hour)	Total tonnage	Length (meter)	Maximum No. of cable	Cable data	Recording system	Quality control system	Navigation system	Nationality
Oriental Pearl	1994	2D/3D	2800km^2	11	3,676	78.7	4	Digital cable	Sercel-seal	Focus/PC-cluster	CONCEPT	China
Binhai 511	1979	2D/3D	1900km^2	12.5	2,231	81	3	Digital cable	Sercel-seal	Focus/PC-cluster	CONCEPT	China
Binhai 512	1979	2D/3D	2200km^2	12.5	1,964	79	4	Digital cable	Sercel-seal	Focus/PC-cluster	CONCEPT	China
Binhai 517	1997	2D/3D	20000km	12	1,240	59.7	1	Digital cable	Sytrak-960	Focus/Ultra-80	CONCEPT	China
Binhai 518	1982	2D/3D	13000km	8	704	49.6	1	Digital cable	Sytrak-960	Focus/Ultra-60	CONCEPT	China
Nanhai 502	1979	2D/3D	20000km	12	931	60.2	1	Digital cable	Sytrak-960	Focus/Ultra-80	CONCEPT	China
COSL 718	2005	2D/3D	3500km^2	13.5	5,059	79.8	6	Digital cable	Sercel-seal	Focus/PC-cluster	CONCEPT	China
COSL 719	2008	2D/3D	3500km^2	12	4,904	79.8	8	Digital cable	Sercel-seal	Focus/PC-cluster	CONCEPT	China

Integrated marine surveying vessels with the following technical parameters:

31 December 2008

Name	Vessel type	Year of commencement for operation	Length (m)	Gross tonnage	Journey capacity (nautical mile)	Functionality
Binhai 218	Ocean geological survey vessel	1982	54.96	769	5,000	Four point anchoring system
Binhai 521	Ocean geophysical survey vessel	1975	51.19	622	5,000	–
Nanhai 503	Ocean geological, geophysical and environment survey vessel	1979	75.88	1,778.00	10,000	Four point anchoring system
COSL 709	Comprehensive survey vessel	2005	79.89	3,119.00	12,000	Joint operated DP II power positioning

Integrated Project Management

Integrated project management is one of our four core strategies, a unique resources allocation advantage enjoyed by the Group. In 2008, the Group achieved an integrated project management revenue of RMB692.3 million, representing 5.7% of the revenue of the Group.

Overseas Business Expansion

The Group has always been actively looking for overseas cooperation opportunities. As of the end of 2008, our businesses covered 20 countries and regions in the world. While consolidating original markets, we proactively explored and developed new markets, and achieved outstanding results. During the year, income from overseas markets increased RMB1,398.4 million or 85.0% over RMB1,645.0 million from last year to a record high of RMB3,043.4 million, representing an increase from 18.3% to 25.1% of our total revenue.

During the year, the Group completed the acquisition of AWO, a Norwegian drilling company, thus enhanced our capacity in drilling facilities, expanded our overseas market share, with our operation area extended to the North Sea, the Mediterranean, and other areas. For land drilling rigs, the Group has shipped 5 rigs to Libya, and three of them have started to provide land drilling services for clients. In Mexico Gulf, 4 module rigs operated smoothly in full for clients during the year, and accumulated 1,442 operation days. Well services also made various achievements in 2008. Directional drilling project technical services won a contract to provide services for geothermal wells in the Philippines. Our proprietary owned logging system ELIS entered South East Asia to provide cable logging service and our land open-hole cable logging, perforation, drilling fluids and cementing services have also successfully entered Indonesia to provide services. For geophysical services, COSL718 covered 2,302 km^2 in South East Asia in the beginning of the year while BH517 operated in Indonesia and the Arctic Ocean respectively. We also achieved breakthroughs in data processing services, developed new overseas markets, and won 3D data processing contracts from Australia. As for marine support and transportation services, three vessels have been in South East Asia to provide support services for drilling operation.

Technology and development

Technology is one of our four core strategies. We have continuously strive to enhance our R&D capabilities, so as to add momentum for the sustainable development of the Group. In 2008, we continued to increase investment in R&D, accelerated the adaptation of technologies with various leading R&D achievements: a major progress has been made in the research and manufacturing of offshore high precision seismic collection equipment, with the first domestic proprietorship offshore cable seismic collection system and depth control system; the first domestic proprietorship drilling chip grinding and pulping system has completed the site function trial, a solid step forward in domestic manufacturing of the equipment and the recovery of drilling wastes; a major breakthrough in the manufacturing technology of jack-up platform leg tube, closing the gap of such technology in China, and became a major assurance for supporting the development of large equipments of COSL; the well wall rotating corer has performed stably in various offshore trials, the application of such device may significantly save site operation time, reduce operation cost, and enhance rock core recovery rate. In addition, upon overcoming various technical difficulties, our proprietorship, advanced, comprehensive ELIS logging system has been awarded the 2nd Class State Science and Technology Progress Award during the year. In 2008, the Group has been granted 38 patents of which 9 are invention patents, with a cumulative total of 117 effective patents of which 34 are invention patents.

Overseas Acquisition

On 29 September 2008, COSL completed the acquisition of the 98.8% equity interest in AWO (the acquisition was valued at a total of NOK12.7 billion, circa US$2.33 billion or RMB15.9 billion). On 15 October 2008, the Group acquired the rest of the equity interest thereby helding 100% interest in AWO (now known as COSL Drilling Europe AS, "CDE"). On 30 October 2008, Oslo Bors ASA, the Oslo Stock Exchange approved the delisting of AWO from the securities exchange. Thereupon, COSL's acquisition of equity interests in AWO of Norway has been fully completed. Through the acquisition of AWO, the offshore drilling capacity and service area of COSL have been further enhanced and expanded.

The newly acquired CDE contributed an operation result to the Group for three months during the year, with an income of RMB912.7 million. In 2008, under the result of COSL's good operation and the acquisition of CDE, total revenue of the Group increased RMB3,135.0 million or 34.8% over last year; total assets of the Group increased RMB33,498.1 million or 145.1% over last year to RMB56,587.1 million.

FINANCIAL REVIEW

The financial data in the following discussion and analysis are extracted from the Group's audited financial statements prepared under HKFRS.

1. Income statement analysis

1.1 Revenue

In 2008, the Group continued with its good and fast development trend, with record high operation result and with revenue reaching RMB12,142.9 million, representing an increase of RMB3,134.9 million or 34.8% from RMB9,008.0 million for the same period last year, among which, the increase in service fees, the increase in operation volume with market development and the operation of new facilities contributed an additional income of RMB2,212.3 million for COSL. Moreover, the newly acquired CDE contributed a quarterly income of RMB912.7 million.

The following table presents income from various sectors:

Unit: RMB million

Business segment	2008	2007	Change	Change %
Drilling	5,919.9	3,921.7	1,998.2	51.0%
Well services	2,732.6	2,270.0	462.6	20.4%
Marine support and transportation	1,613.9	1,374.5	239.4	17.4%
Geophysical	1,876.5	1,441.8	434.7	30.1%
Total	12,142.9	9,008.0	3,134.9	34.8%

1.2 Other revenue

In 2008, other revenue amounted to RMB48.7 million, compared to RMB38.6 million for the same period last year, representing an increase of 26.2%. This was mainly due to the reimbursement of 2006 business tax of RMB22.4 million. Moreover, insurance compensation received increased by RMB15.4 million compared to the same period last year.

1.3 Operating expenses

As of the end of 2008, operating expenses of the Group totaled RMB8,561.1 million, representing an increase of RMB2,341.9 million or 37.7% from RMB6,219.2 million for the same period last year.

The table below shows the breakdown of operating expenses for the Group in 2008 and 2007:

Unit: RMB million

	2008	2007	Change	Change %
Depreciation	1,563.5	1,042.1	521.4	50.0%
Employee compensation costs	2,106.5	1,643.9	462.6	28.1%
Repair and maintenance costs	420.3	317.6	102.7	32.3%
Consumption of supplies, materials, fuel, services and others	2,720.1	2,003.6	716.5	35.8%
Subcontracting expenses	542.2	357.2	185.0	51.8%
Operating lease expenses	356.1	365.7	(9.6)	(2.6%)
Other selling, general and administrative expenses	158.5	102.0	56.5	55.4%
Other operating expenses	693.9	387.1	306.8	79.3%
Total operating expenses	8,561.1	6,219.2	2,341.9	37.7%

Depreciation charge increased by RMB521.4 million or 50.0%, due to the addition of new drilling vessel COSL942, 3 land drilling rigs, survey vessel COSL719 and the purchase of underwater cable and LWD and other facilities, resulting in an increase of depreciation charge of RMB327.0 million. Moreover, the 8 drilling vessels of the newly acquired CDE had a depreciation charge of RMB194.1 million.

Employee compensation costs increased by RMB462.6 million or 28.1%, mainly due to staff recruited by COSL with the operation of new facilities and the continuous business development of the Group. The newly acquired CDE contributed to the increase of employee compensation costs significantly.

Repair and maintenance costs increased by RMB102.7 million or 32.3%, mainly due to an increase of maintenance days of COSL drilling vessels contributing an increase of RMB77.3 million. Moreover, the newly acquired CDE had maintenance costs of RMB25.4 million.

Consumption of supplies, materials, fuel, services and others increased by RMB716.5 million or 35.8%, mainly due to the operation of COSL942, 3 land drilling rigs, survey vessel COSL719 and the full year operation of 4 module rigs in Mexico Gulf, with increased consumption of material. Moreover, the newly acquired CDE also contributed to increased consumption of material.

Subcontracting expenses increased by RMB185.0 million or 51.8%, mainly due to increased subcontracting for expansion of market share and the full capacity operation of well services.

Other selling, general and administrative expenses increased by RMB56.5 million or 55.4%, due to business expansion of COSL, with an increase in management expense of RMB19.0 million. Moreover, the newly acquired CDE contributed management expense of RMB37.5 million.

Other operating expenses increased by RMB306.8 million or 79.3%, due to active performance of social responsibilities of COSL. Donations for the earthquake area in Sichuan, payment of construction fund, and donations to Hope Primary Schools, with a total of RMB24.7 million were made. Impairment provision for accounts receivable with specific risk identified and inventories amounted to RMB53.0 million. Disposal loss of non-current assets increased by RMB34.6 million and other expenses increased by RMB9.9 million. Moreover, the newly acquired CDE had other operating expenses of RMB184.6 million.

The operating expenses for each of the segments are as shown in the table below:

Unit: RMB million

Business Segment	2008	2007	Change %
Drilling	3,812.6	2,445.7	55.9%
Well services	2,281.2	1,889.0	20.8%
Marine support and transportation	1,128.6	971.6	16.2%
Geophysical	1,338.7	912.9	46.6%
Total	8,561.1	6,219.2	37.7%

1.4 Operating profit

Driven by the strong performance of the drilling segment, operating profit for the Group in 2008 amounted to RMB3,630.5 million, representing an increase of RMB803.1 million or 28.4% from RMB2,827.4 million for the same period last year.

The operating profits for each of the segments are as shown in the table below:

Unit: RMB million

Business Segment	2008	2007	Change	Change %
Drilling	2,117.9	1,489.4	628.5	42.2%
Well services	470.8	390.5	80.3	20.5%
Marine support and transportation	491.2	409.5	81.7	20.0%
Geophysical	550.6	538.0	12.6	2.3%
Total	3,630.5	2,827.4	803.1	28.4%

1.5 Financial expenses

The table below shows the breakdown of financial expenses for the Group in 2008:

Unit: RMB million

		Among which:			
	2008	CNA	2007	Change	Change %
Exchange loss/(gain)	91.4	(56.8)	113.9	(22.5)	(19.8%)
Finance cost	638.9	434.0	31.5	607.4	1,924.5%
Interest income	(191.4)	(27.6)	(71.4)	(120.0)	168.0%
Total	538.9	349.6	74.0	464.9	628.3%

In 2008, the financial expenses was RMB538.9 million, representing an increase of RMB464.9 million or 628.3% compared with RMB74.0 million of last year.

Exchange loss decreased by RMB22.5 million, due to the exchange gain of RMB56.8 million contributed by the combined result of CNA. Besides that, exchange loss of COSL (excluding CNA) increased by RMB34.3 million over last year. Exchange gain of CNA was derived mainly from the appreciation of US dollar against Norwegian krone, with a decrease in the carrying amount of Norwegian krone bonds of CNA group. The increase in exchange loss of COSL (excluding CNA) was mainly due to the appreciation of Renminbi against US dollar in the year, and development of overseas business of COSL, resulting in increased US dollar income from overseas.

Finance cost increased by RMB607.4 million, mainly due to interests on loans amounting to RMB 231.4 million for the acquisition of CDE, RMB171.3 million interest expense from other debts, fair value losses on derivatives instruments related to interest rate swap amounted to RMB53.0 million and realised losses of derivative instruments mainly related to forward contracts amounted to RMB151.7 million.

Interest income increased by RMB120.0 million, due to increased bank deposits held by COSL after the issuance of A shares in 2007 which contributed to the increase of RMB92.4 million compared with last year. Moreover, the newly established CNA had an interest income of RMB27.6 million on bank deposits.

1.6 Share of profits and losses from jointly-controlled entities

In 2008, our share of profits from jointly controlled entities amounted to RMB215.7 million, representing an increase of RMB102.5 million or 90.6% compared to RMB113.2 million for the same period last year. The main reason for the increase was an increase of RMB33.2 million from China France Bohai Geoservices Co., Ltd. under the impact of new equipment and new technologies; an increase of RMB80.5 million from Eastern Marine Services Ltd. for reduced maintenance and enhanced operation efficiency and an increase of RMB28.4 million from COSL-Expro Testing Services (Tianjin) Company Ltd. for increase in operation volume while other companies had a total decrease of RMB39.6 million.

1.7 Profit before tax

Driven by strong drilling services, the profit before tax attained by the Group was RMB3,307.3 million in 2008, representing a growth of RMB440.7 million or 15.4% compared to RMB2,866.6 million for the same period last year.

1.8 Income tax

The net income tax expense in 2008 was RMB205.0 million, representing a decrease of RMB424.0 million from RMB629.0 million of last year. The Company was certified as an advanced technology enterprise in 2008 and the corporate income tax rate was approved to be 15%. The lower income tax rate for 2008 contributed to the decrease of tax expenses. During the year, the Company also enjoyed an income tax refund of RMB524.0 million as an advanced technology enterprise for the year 2007, while in 2007, such income tax refund as an advanced technology enterprise for the year 2006 was RMB272.3 million.

1.9 Profit after tax

In 2008, the profit after tax of the Group was RMB3,102.2 million, representing an increase of RMB864.6 million or 38.6% from RMB2,237.6 million of the same period last year.

1.10 Dividend

For 2008, the Board proposed a final dividend of RMB14.00 fen per ordinary share, totaling RMB629.3 million.

The acquisition of CDE had a significant impact on the financial status of the Group as of 31 December 2008, and was well presented in the balance sheet and the cash flow statement. We discussed below the analysis for major changes in the balance sheet and the cash flow statement:

2. Balance sheet analysis

2.1 Current assets

As of 31 December 2008, current assets were RMB9,994.2 million, representing a decrease of RMB1,431.6 million or 12.5% from RMB11,425.8 million as of the end of 2007, with major changes analysed as follows:

2.1.1 Prepayments, deposits and other receivables

As of 31 December 2008, prepayments, deposits and other receivables were RMB1,501.4 million, representing an increase of RMB1,291.8 million or 616.3% compared with RMB209.6 million as of the end of 2007, mainly due to the prepayment of RMB1,232.9 million in the year (mainly related to prepayment for construction of drilling facilities which consists of two 350 feet, one 200 feet drilling vessels and AHTS vessels).

2.1.2 Notes receivable

As of 31 December 2008, notes receivable were RMB354.9 million, representing an increase of RMB352.6 million or 15,672.0% compared with RMB2.3 million as of the end of 2007, mainly due to notes receivable of RMB338.3 million from CNOOC Limited and notes receivable of RMB16.6 million from other companies.

2.1.3 Accounts receivable

As of 31 December 2008, accounts receivable were RMB2,735.0 million, representing an increase of RMB1,330.2 million or 94.7% compared with RMB1,404.8 million as of the end of 2007. The increase was mainly due to the increased revenue of COSL generated by higher revenue from overseas markets and the diversified client base caused an increase in accounts receivable of RMB791.6 million. Moreover, the newly acquired CDE had accounts receivable of RMB538.6 million.

2.1.4 Cash and cash equivalents

As of 31 December 2008, cash and cash equivalents were RMB4,563.8 million, representing a decrease of RMB4,202.2 million or 47.9% compared with RMB8,766.0 million as of the end of 2007. The details were provided in the analysis of the cash flow statement.

2.2 Non-current assets

As of 31 December 2008, non-current assets were RMB46,592.9 million, representing an increase of RMB34,929.7 million or 299.5% from RMB11,663.2 million as of the end of 2007. Significant changes in the items are analyzed as follows:

2.2.1 Properties, plants and equipments

As of 31 December 2008, properties, plants and equipments were RMB41,855.7 million, representing an increase of RMB30,737.7 million or 276.5% compared with RMB11,118.0 million as of the end of 2007, mainly due to the expansion of facilities of COSL during the year with the addition of drilling vessel COSL942, 3 land drilling rigs, survey vessel COSL719 with underwater cable, LWD and other facilities, to increase our operation capacity. Moreover, the acquisition of CDE also contributed to increase in facilities (mainly comprising of 6 jack-up drilling rigs and 2 accommodation rigs).

2.2.2 Intangible assets

As of 31 December 2008, intangible assets were RMB523.8 million, representing an increase of RMB471.7 million or 904.9% compared with RMB52.1 million as of the end of 2007, mainly due to the prepaid land lease payments of land in Tanggu District, Tianjin City and intangible assets from the acquisition of CDE.

2.2.3 Goodwill

In 2008, the goodwill amounting to RMB3,480.5 million represents the excess of the business combination cost of AWO over the net fair value of its identifiable net assets.

The allocation of the acquisition cost is still preliminary pending for the finalization of the valuation of the assets and liabilities.

2.3 Current liabilities

As of 31 December 2008, current liabilities were RMB12,314.6 million, representing an increase of RMB8,930.2 million or 263.9% from RMB3,384.4 million as of the end of 2007. Significant changes are analyzed as follows:

2.3.1 Trade and other payables

As of 31 December 2008, trade and other payables were RMB3,759.3 million, representing an increase of RMB1,672.2 million or 80.1% compared with RMB2,087.1 million as of the end of 2007, mainly due to increase of notes payable of RMB366.8 million which were mainly notes payable to Offshore Oil Engineering Co., Ltd., increase of accounts payable of RMB708.9 million mainly due to increase in accounts payable amounting to RMB 503.4 million with the expansion of business and accounts payable of CDE amounting to RMB205.5 million of which payable as Yantai Raffles for rigs construction cost were RMB140.4 million. Other payables increased by RMB425.3 million mainly due to the acquisition of CDE with increased other payables. The increase of interests payable and others amounted to RMB171.2 million.

2.3.2 Interest-bearing bank borrowings (current)

As of 31 December 2008, interest-bearing bank borrowings (current) were RMB7,778.6 million, representing an increase of RMB7,578.6 million or 3,789.3% compared with RMB200.0 million as of the end of 2007. The balance mainly comprise of short term borrowings amounting to RMB6,835.6 million for the newly incorporated subsidiary CNA, current portion amounting to RMB200.0 million of the RMB944.0 million loan from the Import and Export Bank of China for the construction of module rigs in Mexico, current portion amounting to RMB44.0 million of the RMB400.0 million loan from the Import and Export Bank of China obtained in November 2008 for the undertaking of oilfield well workover support vessels services in Indonesia and the acquired CDE brought with it current portion of the long term loans amounting to US$102.3 million (RMB699.0 million).

2.4 Non-current liabilities

As of 31 December 2008, non-current liabilities were RMB24,474.7 million, representing an increase of RMB21,995.1 million or 887.1% from RMB2,479.6 million as of the end of 2007. Significant changes are analysed as following:

2.4.1 Deferred tax liabilities

As of 31 December 2008, deferred tax liabilities were RMB2,429.0 million, representing an increase of RMB2,193.4 million or 931.1% compared with RMB235.6 million as of the end of 2007, mainly due to the acquisition of CDE, with fair value adjustment of RMB12,219.9 million which give rise to deferred tax liabilities of RMB1,872.8 million.

2.4.2 Interest-bearing bank borrowings (non-current)

As of 31 December 2008, interest-bearing bank borrowings (non-current) were RMB16,355.4 million, representing an increase of RMB15,611.4 million or 2,098.3% compared with RMB744.0 million as of the end of 2007. The increase was mainly due to the bank loans of US$2,200.0 million (US$800 million from the Import and Export Bank of China and US$1,400 million overseas syndicate loan) for the acquisition of AWO of which US$1,266.7 million (RMB8,657.2 million) remained as non-current borrowings. In addition, a project loan of RMB400.0 million was obtained in November from the Import and Export Bank of China for oilfield well workover support vessel services in Indonesia, of which RMB356.0 million remained as non-current borrowings. The newly acquired CDE had non-current borrowings of US$994.7 million (RMB6,798.2 million). On the other hand, the Company has repaid RMB200.0 million for part of the loam from the Import and Export Bank of China.

2.4.3 Long-term bonds

As of 31 December 2008, long-term bonds were RMB4,028.3 million, representing an increase of RMB2,528.3 million or 168.6% compared with RMB1,500.0 million as of the end of 2007, mainly due to bonds payable of RMB2,528.3 acquired from CDE.

2.4.4 Deferred revenue

As of 31 December 2008, deferred revenue were RMB1,512.6 million, which arises from the acquisition of CDE of which the difference between the market day rates and the lower contract price were recognised as deferred revenue.

3. Cash flow statement analysis

As of the beginning of the year, we held cash and cash equivalents of RMB6,797.1 million. The net cash inflow from operating activities from the period was RMB4,037.8 million, net cash outflow from investing activities was RMB20,625.5 million, net cash inflow from financing activities was RMB14,239.9 million and the decrease of RMB153.8 million was due to the impact of foreign exchange fluctuations. As of 31 December 2008, our cash and cash equivalents were RMB4,295.5 million.

3.1 Cash flows from operating activities

Cash inflow from operating activities amounted to RMB4,456.8 million, which was in line with the development of the Group's business. After considering cash paid for PRC Corporate Income Tax of RMB418.9 million and overseas income tax of RMB55.2 million, together with tax refund at current period of RMB55.1 million. In 2008, net cash inflow from operating activities amounted to RMB4,037.8 million, representing an increase of RMB1,063.9 million or 35.8% compared with RMB2,973.9 million of the same period of last year.

3.2 Cash flows from investing activities

In 2008, the net cash outflow from investing activities amounted to RMB20,625.5 million, representing an increase of RMB15,271.4 million compared with RMB5,354.1 million of the same period of last year, mainly due to the net cash outflow of RMB15,647.0 million in respect of the acquisition of CDE.

3.3 Capital expenditure

In 2008, COSL once again increased investments, continued to accelerate the speed of acquiring more facilities. Capital expenditure for the year reached RMB6,837.7 million, increased RMB3,372.3 million or 97.3% compared to RMB3,465.5 million in the same period last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segment	2008	2007	Change	Change %
Drilling	3,754.6	1,825.6	1,929.1	105.7%
Well services	1,287.3	651.4	635.8	97.6%
Marine support and transportation	1,292.0	411.9	880.0	213.6%
Geophysical	503.9	576.5	(72.7)	(12.6%)
Total	6,837.7	3,465.5	3,372.3	97.3%

Of which, capital expenditure for drilling services was RMB3,754.6 million, mainly used for building two 350-feet jack-up drilling rig, one 200-feet jack-up drilling rigs, 5 land drilling rigs and the upgrading and renovation of the jack-up drilling vessel COSL931. Capital expenditure for well services was RMB1,287.3 million, mainly used for building 2 multi-function drilling platform (LIFTBOAT) and purchasing of wireless LWD equipments and facilities etc. Capital expenditure for marine support and transportation services was RMB1,292.0 million, mainly used for building 18 oilfield utility vessels and 3 well workover support barges. Capital expenditure for geophysical services was RMB503.9 million, mainly used for converting a platform supply vessel into 8-cable survey vessel and the construction of a 12-cable survey vessel.

3.4 Cash flows from financing activities

In 2008, net cash inflow from financing activities amounted to RMB14,239.9 million. The cash inflow was mainly from loan proceeds of US$2,200 million (RMB15,036.1 million) for the acquisition of Awilco, loan proceeds of RMB400.0 million for the building of 3 barges, proceeds from drawdown of loan amounting to RMB345.7 million by CDE and a special fund of RMB55.0 million received for R&D.

The cash outflow was mainly for the repayment of debts amounting to RMB570.9 million to repay short term loans and amount due to the utimate holding company, dividend payment of RMB539.4 million, the repayment of interests of RMB408.7 million, and other payments related to financing activities amounting to RMB77.9 million in cash.

OTHERS

(The data in the following analysis are extracted from the Group's audited financial statements prepared under CAS.)

1) Main business by sub-sector or product line in accordance with SSE

Operating revenue, operating costs, operating profit of margin for each business segment are prepared in accordance with CAS as per the following chart:

Sub-sector or product line	Operating revenue (RMB million)	Operating costs	Operating profit margin	Increase/decrease of operating revenue from the same period last year(%)	Increase/decreases of operating cost from the same period last year(%)	Increase/decrease of operating profit margin from the same period last year (%)
Business segments						
Drilling services	6,038.90	3,806.20	37%	33%	34%	0%
Well services	2,798.40	2,333.80	17%	17%	17%	0%
Marine support and transportation services	1,665.40	1,173.00	30%	15%	14%	1%
Geophysical services	1,927.60	1,289.10	33%	23%	27%	(3%)
Unallocated fees	–	489.00	–	–	106%	–
Total	12,430.30	9,091.10	27%	26%	30%	(4%)

2) Operating revenue by region

Operating revenue by region prepared in accordance with CAS are as per the following chart:

Unit: RMB million

Revenue	2008	2007
Domestic	9,386.9	7,596.9
Overseas	3,043.4	1,645.0
Total	12,430.3	9,241.9

3) Accounting information related to fair value measurement

Unit: RMB ten thousand

Item	Beginning balance (asset/(liability)) 2008	Fair value change loss in the period 2007	Fair value change Aggregate fair value change included in equity	Loss on disposal of financial instruments	Impairment provided in the period	Ending balance (asset/ (liability))
Financial assets						
Among which:						
1. Financial assets at fair value, with changes included in current profit and loss	–	–	–	–	–	–
Among which: derivative financial assets	–	–	–	–	–	–
2. Available for sale financial assets	60,733.8	–	–	–	(10,650.8)	3,431.8
Financial assets sub-total	60,733.8	–	–	–	(10,650.8)	3,431.8
Financial liabilities	–	(5,298.4)	–	(15,165.8)	–	(4,930.8)
Investment properties	–	–	–	–	–	–
Biological assets for production	–	–	–	–	–	–
Others	–	–	–	–	–	–
Total	60,733.8	(5,298.4)	–	(15,165.8)	(10,650.8)	(1,499.0)

4) Foreign currency financial assets, financial liabilities held by the Group

Unit: RMB ten thousand

Item	Beginning balance (asset/(liability)) 2008	Fair value change loss in the period 2007	Fair value change Aggregate fair value change included in equity	Loss on disposal of financial instruments	Impairment provided in the period	Ending balance (asset/ (liability))
Financial assets						
Among which:						
1. Financial assets at fair value, with changes included in current profit and loss	–	–	–	–	–	–
Among which: derivative financial assets	–	–	–	–	–	–
2. Loans and receivables	37,659.7	–	–	–	(323.5)	128,484.7
3. Available-for-sale financial assets	–	–	–	–	(10,650.8)	3,431.8
4. Held-to-maturity investments	–	–	–	–	–	11,735.3
Financial assets sub-total	37,659.7	–	–	–	(10,974.3)	143,651.8
Financial liabilities	–	(5,298.4)	–	(15,165.8)	–	(4,930.8)

OUTLOOK

Looking forward into 2009, the world economy has adjusted downwards under the attack of the financial tsunami. According to the World Economic Situation and Prospects 2009 published by the United Nations on 16 January 2009, global economic growth in 2009 will reduced drastically to 1.0%. Although the world economy are being adjusted downwards and international oil prices remained low, the demand for energy in China continued to grow. CNOOC Limited, a major client of COSL, will have an estimated capital expenditure of US$6.8 billion in 2009, representing an increase of 19% compared with 2008.

Encountering the difficult and challenging year of 2009, we will continue to expand our production capacity, further enhance our service capabilities and market competitiveness. It is estimated that one 200 feet, one 350 feet, one 375 feet and one 400 feet drilling vessels will join our operation in 2009; an undersea cable team will be form for geophysical services to cover seismic collection to a depth of 500 meters; 10 utilities vessels and 3 barges will join our marine support and transportation services; two multipurpose platforms, VSP, LWD, MWD, acidizing and fracturing equipments will be introduced for our well services together with the industrialization of ELIS and FCT system.

Meanwhile, we will strive for the improvement in corporate governance, build up a comprehensive risk prevention and control system. We will increase technology investments, improve the R&D system of COSL, including the promotion of joint laboratories with higher education institutions and research institutes, with timely industrialization of R&D results. We will take full advantage of our leading cost advantage, to save expenditure and increase income sources, formulate energy consumption standards for large equipments of COSL and implement measures to save water and electricity in the Company. For safe production, we will continue to intensify the QHSE system. In order to address issues relating to rapid expansion in equipments and employees, lowered staff quality, technology and expertise level, as well as increased risks, we will enhance staff training, formulate effective implementation rules, and eliminate hidden operation safety issues. In addition, we will also proactively optimize our capital structure, enhance return on capital through uses of external resources, strive to develop overseas markets on the basis of a consolidated domestic market, speed up the process of internationalization, business integration after the acquisition.

We will continue to strengthen brand establishment, strive for greater values for shareholders, actively undertake our social responsibilities, make greater contributions to the society, and achieve an all win situation among shareholders, customers, employees and business partners.

Corporate Governance

Corporate Governance Report 2008

Since its incorporation and H share offering in 2002, the Company has established a complete and effective corporate governance system, comprising mainly the establishment and effectively running of shareholders' meetings, the decision making and supervising systems of the Board and Supervisory Committee respectively, in particular, professional committees of the Board and independent directors have played a practical role in the decision making and supervising process pursuant to corporate governance principles and supervisory requirements, ensured the compliance of decisions of the Company with the interests of shareholders as a whole; and the establishment and running of decision making and supervising systems of the Company have also complied with supervisory requirements, not in violation of laws, regulations and public undertakings of the Company. Upon the issuance of A shares in China in 2007, with reference to supervisory requirements of the A share market, the Company revised the corporate governance system, improved or formulated related systems and regulations, thus further enhanced the corporate governance standards of the Company. As of the date of this Report, the Company has established and effectively operated a corporate governance system, with the Articles as the core, comprising fundamental systems like the Articles, the Rules of Procedure of the Board of Directors, the Rules of Procedure of the Supervisory Committee, the Rules of Procedure of the Shareholders' General Meetings and rules of procedure of three sub-committees of the Board (the audit committee, the remuneration committee and the nomination committee), together with basic systems for the operation and management of the Company like the Connected Transactions Decision System, the Fund Raising Management Measures, the Information Disclosure Management Measures, the Financial System of the Company, the Investment and Budgeting Management System and the Regulations with regard to Trading of Securities of the Company by Designated Persons formulated and approved by the Board.

The Board is of the view that corporate governance standards of the Company have been kept at a high level through out 2008 (for details, please refer to the Self Inspection Report on Corporate Governance Special Activities of COSL disclosed at websites of Shanghai Stock Exchange and the Company on 4 September 2008). In relation to the compliance with the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, Code Provision E 1.2 provides that the chairman of the Board should attend the annual general meeting of the Company. The annual general meeting of the Company held on 3 June 2008 was presided over by the Vice Chairman and the Chief Executive Officer of the Company, Mr. Yuan Guangyu, because the Chairman was unable to chair the meeting due to other urgent business. Mr. Yuan's chairing of the meeting was made in accordance with the Articles of Association of the Company and the Board also considers that after the issue of A shares by the Company, the number of shareholders attending the Annual General Meeting would increase significantly, and it would be in the best interest of the shareholders that the participation in and presiding over of the general meeting by an executive director would facilitate better communication between the Company and the shareholders.

Apart from the above deviation, the Board of the Company is not aware of any other deviation from the provisions set out in the Listing Rules, and the Board considers the Company has adequately complied with the requirements concerning corporate governance practice in the Listing Rules.

Upon the issuance of A shares in September 2007, the Company is listed in and supervised by markets inside and outside of China, therefore, corporate governance would need to be adjusted accordingly, so as to implement related supervisory requirements and enhance corporate governance level, major works in 2008 include:

1. In accordance with China Security Regulatory Commission's requirements regarding enhancing corporate governance special activities of listed companies, the Company conducted a self inspection into the corporate governance works of the Company with an aim to identify existing problems and inadequacies, analyze reasons and suggest an adjustment plan. Such self inspection report and adjustment plan have been reviewed and approved by the Board, and filed with A share supervisory authorities for disclosure. Thereby, the Company enhanced its corporate governance and standardised operation level. For example, the Company has confirmed with a limit of the term of independent directors of not more than 6 continuous years pursuant to A share supervisory requirements, and made related arrangements; the Company has also suggested and undertook adjustment plans with regard to other problems discovered, with completion of all works undertook in 2008.

2. The Company organised related trainings for directors, supervisors, senior management personnel and other designated personnel of the Company pursuant to supervisory requirements of listed companies, for them to have a basic understanding of fundamental principles, ideas and supervisory requirements of corporate governance. In November 2008, the Company engaged professionals to hold specific training seminars for directors, supervisors and senior management personnel of the Company with regard to information disclosure, prevention of insider trading, default legal responsibilities of listed companies, among others, and a special training against insider trading was held in October 2008 for personnel of related posts of the Company (staff in frequent contact of insider information of the Company, other than directors, supervisors and senior management personnel).

3. The Company adopted the Internet voting method for the shareholders' Annual General Meeting, to facilitate general shareholders to participate in the decision making of the Company and present their opinion. On the shareholders' Annual General Meeting on 3 June 2008, the Company adopted a combination of on site and Internet voting (not required by related regulatory regulations), representing the Company's respect of general shareholders.

The Board reviewed the Company's conditions of compliance with listing corporate governance regulatory documents issued by China Security Regulatory Commission during the reporting period, and considered the governance conditions of the Company have met the requirements of such documents.

I. Director's Involvement in Securities Transactions

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2008, the provisions of the Model Code for Securities Transaction by Directors of Listed Issuers ("the Model Code") set out in Appendix 10 of the Listing Rules were observed. At present the Company has adopted a code of conduct for securities transactions by directors that exceed the provisions set out in the Model Code (such as stricter regulations regarding disclosure compared to the Model Code). Upon specific inquiries, all directors have confirmed that they were in strict compliance with the provisions of the Model Code. In addition, directors, supervisors and senior management of the Company confirmed that during the twelve months ended 31 December 2008, 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 of the China Security Regulatory Commission.

II. Duty Performance of the Board of Directors

(I) Composition of the Board of Directors

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

Chairman:	Fu Chengyu
Executive directors:	Yuan Guangyu (until 2 March 2009), Li Yong
Non-executive director:	Yuan Guangyu (from 2 March 2009), Wu Mengfei
Independent non-executive directors:	Andrew Y. Yan, Gordon C.K. Kwong, Simon X. Jiang

(II) 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 2007 (for details, please search our website for Articles of Association of the Company or Annual Report 2007).

(III) Board Meetings

The Board of Directors convened five regular meetings during the year and one extraordinary meeting, please see Table I of this Report for details of meeting attendance of directors. For other ad hoc items not within the regular Board Meeting's agenda and require approval from the Board, the Chairman may serve the Board's proposed resolutions in written form to the members of the Board in accordance with related requirements of the Articles of Association, the items will become valid resolutions upon signing by the number of directors which meets the quorum as stated in the Articles of Association. 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, ensured prudent discussion by directors before decision making of material items, and performance of integrity and due diligent responsibilities of directors in related decision making. Please see Table II for detailed resolutions adopted by the Board in 2008.

(IV) Duty Performance of Independent Non-executive Directors

The Board now has three independent non-executive directors, all of them have rich professional experience in the fields of finance or investment, and are very familiar with operation of board of directors and duties of independent non-executive directors of listed companies. During the reporting period, the three independent non-executive directors effectively performed their due diligent and attentive responsibilities as directors, and provided various professional advices for the Company, especially in the review of financial reports, the review of connected transactions, the evaluation of major acquisitions, the review and examination of long term encouragement plans for senior management, among which, please see Chapter VIII of this Report for details of related reviews of financial reports and the internal control system. During the reporting period, independent directors reviewed also continuous connected transactions of the Company, and confirmed that such transactions are fair and reasonable and within the limits approved by shareholders' general meetings. In addition, during the reporting period, independent non-executive directors also reviewed and approved a disclosable connected transaction of the Company (a deposit with a connected person). Please see Table I for details of Board and professional committee meeting attendance of independent directors.

During the period under review, independent non-executive directors have not objected to resolutions of the Board of the Company, or any other item of the Board.

(V) Particulars of general meeting convened by the Board during the reporting period were set out in Chapter VII "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; and reviewed implementation condition of general meeting by the Company, and considered there was no problem occurred in implementation of resolution of general meeting.

(VI) Other matters

During the period under review, the number and qualifications of independent non-executive directors of the Company were in compliance with Rules 3.10 (1) and (2) of the Listing Rules and the independence of current independent non-executive directors of the Company is in compliance with the requirement set out in the Listing Rules 3.13.

Note: The terms of four directors (including one executive director, one non-executive director and two independent non-executive directors) of the Company expired in the second half of 2008, as the Articles of Association (revised, 2007) of the Company took the election date at shareholders' general meetings as the unified commencement dates of directors (before such revision, the Articles of Association does not specify the commencement date of directors, in fact, resolutions have been adopted at shareholders' general meetings to define such commencement dates, therefore, elections may be held at shareholders' general meetings before the expiry of such terms), to facilitate the completion of election procedures of newly elected or renewal of directors, terms of directors expired in the second half of 2008 have been extended to the first half of 2009, until the convening of the Annual General Meeting (where an election of directors will be held).

III. Chairman and Chief Executive Officer

The functions of the Chairman and the Chief Executive Officer of the Company are clearly defined and such positions are at present separately held by two persons, i.e., Fu Chengyu as Chairman and Yuan Guangyu as the Chief Executive Officer (Mr. Yuan Guanyu resigned from the duty of CEO on 2 March 2009, and has been replaced by Mr. Liu Jian).

IV. Terms of office of non-executive directors are as follows:

The term of office of Fu Chengyu and Andrew Y. Yan is from 20 September 2005 to 19 September 2008. The term of office of Gordon C.K. Kwong is from 30 October 2005 to 29 October 2008. The term of office of Wu Mengfei and Simon X. Jiang is from 27 May 2007 to 26 May 2010. Please see (VI) of Chapter II of this Report for details of renewal arrangements for such directors.

V. Directors' Remuneration

(I) The composition and functions of the Remuneration and Review Committee

1. The Remuneration and Review Committee of the Company consists of five members, namely Andrew Y. Yan, Gordon C.K. Kwong, Simon X. Jiang, Yuan Guangyu and Wu Mengfei, of which three are independent non-executive directors and Andrew Y. Yan, independent non-executive director, acts as Chairman.

2. The functions of this committee are to formulate the standard for assessing the performance of directors, supervisors and members of senior management and to conduct such assessment, formulate and review the remuneration policy and scheme for directors, supervisors, and the senior management.

(II) The work of the Remuneration and Review Committee during the year

During the reporting period, the committee held three meetings (please see Table I for meeting summaries), reviewed the implementation report of Company management with regard to the H share stock appreciation rights plan, the performance assessment report of assignees pursuant to such plan, the annual remuneration report of directors, supervisors and senior management, and the report with regard to the new stock appreciation rights plan.

VI. The Nomination of Directors

(I) The composition and functions of the Nomination Committee

1. The Nomination Committee of the Company consists of three members, namely Yuan Guangyu, Andrew Y. Yan, and Simon X. Jiang, of which two are independent non-executive directors and Yuan Guangyu acts as Chairman.

2. Major functions of the committee are to select and recommend candidates for directors of the Company and to recommend the standards and procedures for selecting such candidates.

(II) The work of the Nomination Committee during the year, procedures and standards for nomination

During the reporting period, the committee held two meetings (please see Table I for meeting summaries), and advised the Board with regard to the structure of the Board, renewal arrangements of directors, among others.

The Nomination Committee nominated directors and senior management members according to the following procedure:

1. Communicated with the management of the Company and researched on the need of the Company for new directors and senior management members;
2. Sought extensively for the right candidates for directors and senior management from within the Company and from controlled (and investee) enterprises as well as in the recruitment market;
3. Collected information about the occupation, education qualification, titles, detailed working experience, part time jobs, etc of the preliminary candidates;
4. Sought the consent of nominees for nomination without which they could not become candidates for directors or members of senior management;
5. Convened meeting of the Nomination Committee, examined the qualifications of preliminary candidates for directors and Secretary to the Board with reference to the requirements regarding such positions as well as the qualifications required for positions of other senior management personnel nominated by the President;
6. Before electing new directors and appointing new senior management personnel, the Nomination Committee should recommend candidates to be appointed and forward relevant materials to the Board.
7. Follow up on decisions of the Board and feedback opinions. The standard of the committee to select and recommend candidates for directors and senior management is to meet the need of the Company and should review candidates' working experience, ability and personal integrity.

VII. The Remuneration of Auditors

The Company re-appointed Ernst & Young Hua Ming and Ernst & Young as auditors of the Company and the fees for the audit and non-audit work provided to the Company during the reporting period were as follows:

The audit fees totaled RMB 10,922,000 for audit of the annual and interim financial statements. The non-audit fees of consultation services for tax, IT, acquisition and integration which totaled RMB11,572,000 was recognised in the income statement. Moreover, the acquisition costs for the acquisition of CDE during the period included audit service fee of RMB15,300,000 which was directly related to the acquisition.

VIII. The Audit Committee

(I) The composition and functions of the Audit Committee

1. The Audit Committee consists of three members, namely Andrew Y. Yan, Gordon C.K. Kwong and Simon X. Jiang, all of whom are independent non-executive directors and Gordon C.K. Kwong acts as the Chairman.
2. The functions of this committee are to review the accounting policy, financial condition and financial reporting procedures of the Company; to review the internal control structure; to recommend and engage external audit body; and to be mainly responsible for the communication, supervision and review of the internal and external audit of the Company.

(II) The work of the Audit Committee during the year

During the reporting period, the committee held four meetings (please see Table I for meeting summaries). The major work of the Audit Committee for the year was:

1. Reviewed the financial reports of the annual operating results of 2007, the first quarterly operating results of 2008 and the interim operating results of 2008 and the third quarterly operating results of 2008 of the Company. During the review process, the members performed sufficient and necessary communication with the external auditor and the management of the Company in the process examination and fulfilled its duties in ensuring the Company's compliance with regulations, and the completeness and accuracy of the operating results disclosed by the Company.

2. Reviewed the internal control system of the Company. During the reporting period, the committee studied the relevant recommendations in the "Report to the Audit Committee" from the auditor to the Company, reviewed the assessment report on effectiveness of internal control of the Company, including the 2008 Internal Control Self Assessment Report of the Company, and issued specific opinions regarding the completeness of internal control system to the Board of Directors and management.

3. During the reporting period, the committee examined items on the report about the issue of A shares by the Company such as tax compliance and GAAP differences in the financial statements.

4. Made recommendations regarding re-appointment of the auditors. The committee considered Ernst & Young and Ernst & Young Hua Ming serving as the Company's external auditors appropriate. Approval for the re-appointment of the auditors was granted by the Board of Directors.

IX. Responsibilities Undertaken

The Board of Directors acknowledges its responsibilities of preparing the financial statements of the Company and the auditors have also reported on their audits of the financial statements; the Board of Directors undertakes the responsibilities for the effective internal control of the Company and its subsidiaries and has completed the relevant review and assessment during the reported period (for details, please see the Internal Control Self Assessment Report of the Company on our website), and concluded that there were no major deficiencies in the internal controls of the Company and its subsidiaries; the Board of Directors undertakes herewith that, unless otherwise stated in this 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	28 March 2008	Shenzhen	Fu Chengyu, Yuan Guangyu, Wu Mengfei, Li Yong, Andrew Y. Yan, Gordon C.K. Kwong, Simon X. Jiang	Fu Chengyu	Three supervisors attended as a non-voting delegate
Second Meeting of Board of Directors	29 April 2008	Beijing	Yuan Guangyu, Wu Mengfei, Li Yong, Andrew Y. Yan, Gordon C.K. Kwong, Simon X. Jiang	Yuan Guangyu	Telephone conference One supervisor attended as a non-voting delegate
Third Meeting of Board of Directors	28 August 2008	Shenzhen	Fu Chengyu, Yuan Guangyu, Wu Mengfei, Li Yong, Andrew Y. Yan, Gordon C.K. Kwong, Simon X. Jiang	Fu Chengyu	Three supervisors attended as a non-voting delegate
Fourth Meeting of Board of Directors	29 October 2008	Beijing	Fu Chengyu, Yuan Guangyu, Wu Mengfei, Gordon C.K. Kwong, Simon X. Jiang	Fu Chengyu	Telephone conference Three supervisors attended as a non-voting delegate
Fifth Meeting of Board of Directors	19 December 2008	Shenzhen	Fu Chengyu, Yuan Guangyu, Wu Mengfei, Li Yong, Andrew Y. Yan, Gordon C.K. Kwong, Simon X. Jiang	Fu Chengyu	Two supervisors attended as a non-voting delegate
Interim Meeting of Board of Directors	6 July 2008	Beijing	Fu Chengyu, Yuan Guangyu, Wu Mengfei, Li Yong, Andrew Y. Yan, Gordon C.K. Kwong, Simon X. Jiang	Fu Chengyu	Three supervisors attended as a non-voting delegate
First Meeting of Audit Committee	27 March 2008	Shenzhen	Gordon C.K. Kwong, Andrew Y. Yan, Simon X. Jiang	Gordon C.K. Kwong	Three supervisors attended as a non-voting delegate
Second Meeting of Audit Committee	28 April 2008	Beijing	Gordon C.K. Kwong, Andrew Y. Yan, Simon X. Jiang	Gordon C.K. Kwong	Telephone conference Three supervisors attended as a non-voting delegate
Third Meeting of Audit Committee	27 August 2008	Shenzhen	Gordon C.K. Kwong, Andrew Y. Yan, Simon X. Jiang	Gordon C.K. Kwong	Three supervisors attended as a non-voting delegate
Fourth Meeting of Audit Committee	27 October 2008	Beijing	Gordon C.K. Kwong, Simon X. Jiang	Gordon C.K. Kwong	One supervisor attended as a non-voting delegate
First Meeting of Remuneration Committee	27 March 2008	Shenzhen	Gordon C.K. Kwong, Andrew Y. Yan, Simon X. Jiang, Yuan Guangyu, Wu Mengfei	Andrew Y. Yan	
Second Meeting of Remuneration Committee	28 October 2008	Sanhe City, Hebei Province	Gordon C.K. Kwong, Simon X. Jiang, Yuan Guangyu, Wu Mengfei	Simon X. Jiang	Telephone conference
Third Meeting of Remuneration Committee	19 December 2008	Shenzhen	Gordon C.K. Kwong, Andrew Y. Yan, Simon X. Jiang, Yuan Guangyu, Wu Mengfei	Andrew Y. Yan	
First Meeting of Nomination Committee	27 March 2008	Shenzhen	Yuan Guangyu, Andrew Y. Yan, Simon X. Jiang	Yuan Guangyu	
Second Meeting of Nomination Committee	27 August 2008	Shenzhen	Yuan Guangyu, Andrew Y. Yan, Simon X. Jiang	Yuan Guangyu	

Table II:

Particulars of the Board resolutions

Meeting	Resolutions approved
First Meeting of Board of Directors 28 March 2008	1. Approval of the audited 2007 annual financial report of the Company; 2. Approval of related resolutions of the audit committee of the Board; 3. Approval of the 2007 annual self evaluation report on internal control of the Company; 4. Approval of the 2007 annual profit distribution and dividend plan of the Company; 5. Approval of the resolution on 2007 annual results announcement of the Company; 6. Approval of the 2007 annual work report of the Board and the Corporate Governance Report of the Company; 7. Approval of the resolution on the convening of the shareholders' Annual General Meeting; 8. Approval of the resolution on the authorization by the shareholders' general meeting to the Board to issue 20% of H shares; 9. Approval of related resolutions of the remuneration committee; 10. Approval of the undersea cable fleet project.
Second Meeting of Board of Directors 29 April 2008	1. Approval of the 2008 first quarterly report of the Company submitted by the management, and authorised the secretary to the Board to disclose such pursuant to supervisory requirements; 2. Approval of COSL Financial Management System; 3. Approval of the resolution on the connected transaction with regard to deposit and settlement services between the Company and CNOOC Finance.
Third Meeting of Board of Directors 28 August 2008	1. Approval of the audited 2008 interim financial report of the Company; 2. Approval of the resolution on the 2008 interim results announcement; 3. Approval of resolutions of the third meeting of the audit committee of the Board; 4. Approval of the resolution on the renewal arrangement for directors of the nomination committee; 5. Approval of the resolution on the use of part of the A share offering proceeds as working capital; 6. Approval of the resolution on the project to build 34 oilfield utility vessels; 7. Approval of the resolution on the disclosure of the self inspection report on corporate governance.
Fourth Meeting of Board of Directors 29 October 2008	1. Approval of the 2008 third quarterly report; 2. Approval of matters related to the performance assessment results regarding the management stock appreciation rights plan and the rights exercising plan; 3. Approval of the resolution on the loan from the Import and Export Bank of China.
Fifth Meeting of Board of Directors 19 December 2008	1. Approval of the 2009 budget plan of the Company; 2. Approval of the supplemental letter to H share shareholders for Norway acquisition.; 3. Approval of the resolution on authorizing Company management to enter into certain credit facility agreements; 4. Approval of the resolution on the disclosure of a connected transaction; 5. Approval of the remuneration committee's plan with regard to the second authorization of H share stock appreciation rights; 6. Approval of the resolution on the convening of the 2009 first interim meeting of shareholders.
Interim Meeting of Board of Directors 6 July 2008	Approval of the resolution on the acquisition of Norway AWO by COSL.

Meeting	Resolutions approved
Resolutions approved by fax in 2008	【COSL BOD motion (2008) No.1】 Approval to build three land drilling rigs (9 January) 【COSL BOD motion (2008) No.2】 Approval of the resolution on annual result forecast (29 January) 【COSL BOD motion (2008) No.3】 Approval of the resolution on five equipment investment projects (20 February) 【COSL BOD motion (2008) No.15】 Approval of the resolution on the purchase of a set of well testing devices (4 May) 【COSL BOD motion (2008) No.16】 Approval of the resolution on three capital investment projects (12 June) 【COSL BOD motion (2008) No.17】 Approval of the resolution on the listing and bidding of land of the COSL Core Industrial Park (16 June) 【COSL BOD motion (2008) No.18】 Approval of the resolution on a connected transaction (27 August) 【COSL BOD motion (2008) No.19】 Approval of the resolution on the Major Asset Reorganization Report and the Circular to H share shareholders of Project Seal (16 July) 【COSL BOD motion (2008) No.20】 Approval of the resolution on the convening of the interim shareholders' general meeting (16 July) 【COSL BOD motion (2008) No.21】 Approval of the resolution on financing from certain banks (16 July) 【COSL BOD motion (2008) No.30】 Approval of the resolution on the supplementary budget for a capital investment project (12 September) 【COSL BOD motion (2008) No.31】 Approval of the resolution on a project to build a 5,000 meter drilling machine (12 September) 【COSL BOD motion (2008) No.35】 Approval of the resolution on issuance of corporate bonds (24 November)

China Oilfield Services Limited
The Board of Directors
1 April 2009

Independence of the Company from its Controlling Shareholder on the Operations, Personnel, Assets, Structure and Finance

The Company and its controlling shareholder are well segregated on the operations, personnel, assets, structure and finance.

Implementation and Enhancement of the Company's Internal Control

Pursuant to related requirements of laws and regulations, and taking into consideration of the actual operation and management situation of the Company and the internal control evaluation results in the end of 2007, the Company continued with the enhancement of its internal control system to meet capital market supervisory and disclosure requirements. Based on the 10 major systems of 2007, the Company formed the 12 major internal control systems of COSL, with the completion of the Legal Support System and the IT Support Service System in the end of 2008.

The completion and implementation of the 12 major systems of COSL is another system building step of the Company in its journey towards a first class international oilfield service company. With the full operation of the 12 major systems covering various businesses of the Company, and corresponding systems and implementation rules of subordinate units, the Company enjoys a more standardised governance, a more transparent management, with outstanding results.

Disclosure by the Company of the self-evaluation report of the Board of Directors on internal verification control and opinions of auditors on evaluation

The Board approved the Internal Control Self Assessment Report of the Company on 1 April 2009. Ernst & Young Hua Ming, the auditor of the Company, has issued an opinion on the report. For details of the report, please refer to our website or the website of the Shanghai Stock Exchange.

Particulars of evaluation on senior officers during the reporting period and establishment and implementation of incentive plan

On 22 November 2006, the share appreciation rights plan for senior officers of COSL (the "SAR Plan") was approved by the shareholders by way of voting in the second Extraordinary General Meeting of 2006. The SAR Plan became effective on 22 November 2006 and the grant of the share appreciation rights was completed and became effective on 6 June 2007 when all the entitled senior officers agreed and signed individual performance contracts with the Company, with a grant price of HK$4.09. According to the plan, qualified senior officers' exercisable number of share appreciation rights was connected with their performance target to be reviewed comprehensively within two years from the effective date, so as to confirm the exercise ratio. The share appreciation rights have a vesting period of two years, and the senior officers can exercise their rights in four equal batches beginning year 3, 4, 5 and 6 from the approval date of the SAR Plan.

The SAR Plan further provides that if the gain from exercising the share appreciation rights exceeds HK$0.99 per share in any one year, the excess gain should be calculated using the following percentage:

(1) between HK$0.99 and HK$1.50, at 50%;

(2) between HK$1.51 and HK$2.00, at 30%;

(3) between HK$2.01 and HK$3.00, at 20%; and

(4) HK$3.01 or above, at 15%.

The total amount paid in cash as a result of exercising the SAR shall not exceed 10% of the net profit of the Company of the year. Cash payments from exercising share appreciation rights must be deposited into personal accounts of related grantees, with no less than 20% of such cash payment shall only be withdrawn after qualified upon expiry of employment term with the Company.

As of 31 December 2008, share appreciation rights granted to senior management of the Company are as follows:

			Value			
Title	Name	Shares granted	At 1 January 2008	Addition	Decrease	At 31 December 2008
Chief Executive Officer	Yuan Guangyu	964,200	1,560,395	–	(158,224)	1,402,171
Executive Vice President	Li Yong	704,300	1,139,791	–	(115,575)	1,024,216
Executive Vice President	Zhong Hua	704,300	1,139,791	–	(115,575)	1,024,216
Executive Vice President	Chen Weidong	704,300	1,139,791	–	(115,575)	1,024,216
Vice President	Li Xunke	656,900	1,063,082	–	(107,797)	955,285
Former Staff Supervisor	Tang Daizhi*	656,900	281,774	–	–	281,774
Union Chairman	Xu Xiongfei	609,100	985,724	–	(99,952)	885,772
		5,000,000	7,310,348	–	(712,698)	6,597,650

* *During 2007, Mr. Tang Daizhi resigned as a supervisor of the Company and joined CNOOC. According to the terms of the SAR Plan, he was entitled to his benefits up to the date of his resignation.*

As of 31 December 2008, share appreciation rights plan of the Company has recognised an estimated liability of RMB6,597,650.

During the reporting period, pursuant to the Performance Management Measures for SAR Plan, and entrusted by the remuneration committee of the Board and the CEO and President, the performance assessment group of the Company conducted a comprehensive assessment of performance targets achieved in 2006 and 2007 by staff in the first batch of SAR, as confirmed by the remuneration committee of the Board, such staff achieved outstanding results in the assessment. Such results have been approved by the shareholders' general meeting on 13 February 2009.

As approved by the Board, the first exercising date for share appreciation rights granted pursuant to the approval of shareholders' general meeting on 22 November 2006 shall be 22 November 2008. However, as the Company completed a major asset acquisition in the second half of 2008 (for details, please see related information disclosures of the Company from July to October 2008), the original exercising date shall be subject to the approval of SASAC of the State Council. The Company has filed an application with SASAC of the State Council, and has been waiting for a reply. Should there be any new requirements from SASAC of the State Council with regard to the exercising of such plan, the Company will disclose such information in a timely manner.

Summary of General Meetings

I. Annual General Meeting

The Company convened its annual general meeting for 2007 on 3 June 2008. Results announcement for the annual general meeting was published on the China Securities Journal, the Shanghai Securities News and the Securities Times on 4 June 2008.

The Annual General Meeting of 2007 was held on 3 June 2008 at the Conference Room 6B, Bank of Beijing Building, No. 17, Financial Street, Xicheng District, Beijing. The on-site and network voting shareholders and proxies attended the meeting represented 2,891,239,978 shares which amounted to 64.32% of total number of shares of the Company. The Annual General Meeting was chaired by Mr. Yuan Guang yu, Deputy Chairman and Chief Executive Officer of the Company. The Annual General Meeting considered and passed by site and Internet poll the following resolutions:

As ordinary resolutions

1. The audited financial statements and the auditor's report for the year ended 31 December 2007 were approved;
2. The profit distribution and allocation of dividends for 2007 was approved;
3. The director's report for the year ended 31 December 2007 was approved;
4. The report of the Supervisory Committee for the year ended 31 December 2007 was approved;
5. The re-appointment of Ernst & Young Hua Ming and Ernst & Young as the domestic and foreign auditors for 2008 respectively was approved and the Board was authorised to determine their remunerations.

As special resolutions

1. To authorize the Board to issue H shares not more than 20% of the total issued H shares within 12 months, this authorization shall be effective within 12 months from the date of approval by the shareholders' general meeting.

854,000 votes were against the above item 5 of the general resolutions (0.03% of total number of votes). Regarding item 1 of the special resolution, 219,237,258 votes against (7.58% of the total number of votes). The rest of the resolutions were approved unanimously.

II. Particulars of Extraordinary General Meetings

(I) Introduction

1. The first Extraordinary General Meeting:

The Company convened the first Extraordinary General Meeting for 2008 on 26 August 2008. Results announcement for the extraordinary general meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 27 August 2008.

2. The second Extraordinary General Meeting:

The Company convened the second Extraordinary General Meeting for 2008 on 29 December 2008. Results announcement for the extraordinary general meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 30 December 2008.

(II) Details

1. The first Extraordinary General Meeting in 2008

The first Extraordinary General Meeting in 2008 was held on 26 August 2008 at Conference Room 504, CNOOC Plaza, NO.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The on-site and Internet voting shareholders and proxy totally represented 3,086,343,991 shares which amounted to 68.66% of total number of shares of the Company. The extraordinary general meeting was chaired by Mr. Yuan Guangyu, Deputy Chairman and Chief Executive Officer of the Company. The extraordinary general meeting passed by site and network voting following resolutions:

Special resolution

(1) approval of the offer by COSL Norwegian AS, an wholly-owned subsidiary of the Company, to acquire all issued and outstanding shares in AWO (the "Offer", with details set out in the Major Asset Acquisition Report of the Company dated 22 July 2008), i.e. to implement the Offer pursuant to related requirements of the COSL Major Asset Acquisition Report ("Major Asset Acquisition Report"). (such related requirements comprising: (1) the method of acquisition, the subject matter of the acquisition, the party to the acquisition; (2) the offer price; (3) the pricing method or the pricing basis; (4) conditions to the acquisition; (5) items related to the transfer of equity rights of the subject matter, with details in Chapter V of the Major Asset Acquisition Report;

(2) the board of directors of the Company and any one director be and is hereby unconditionally and generally authorised to take any action and further actions on behalf of the Company it/he considers necessary, appropriate, desirable or expedient in connection with the Offer, including without limitation executing and delivering any and all agreements, documents and instruments, if any, to execute and/or perform all necessary and ancillary actions with respect to the Offer and to perfect the Offer, including without limitation making any amendments, revisions, supplements or waivers of any matters in relation to, in connection with or incidental to, the Offer which the board of directors consider are in the interest of the Company, provided that such amendments, revisions, supplements or waivers shall not result in a material change to the material terms of the Offer, and to authorize the board of directors to deal with any matters in connection with the financing of the Offer; and any and all past actions by the directors which they may deem or have deemed in their sole discretion to be necessary with respect to any of the matters contemplated by this resolution be and are hereby authorised, approved and, to the extent necessary, ratified and confirmed;

(3) This resolution is valid for a period of twelve (12) months from the date of passing.

The resolution mentioned above was passed unanimously (100% votes for the resolution) by the shareholders and proxies attending the general meeting.

2. The second Extraordinary General Meeting in 2008

The second Extraordinary General Meeting in 2008 was held on 29 December 2008 at Conference Room 504, CNOOC Plaza, No. 25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The shareholders and proxy totally represented 3,022,336,896 shares which amounted to 67.23% of total number of shares of the Company. The extraordinary general meeting was chaired by Mr. Yuan Guangyu, Deputy Chairman and Chief Executive Officer of the Company. The extraordinary general meeting considered and passed by poll the following resolutions:

Special resolution

(1) Approval of the public issuance of Corporate Bonds of the Company in the PRC, with a total proceed of not more than RMB6,000,000,000, and an aggregate bond balance of not more than 40% of the latest period net assets (for details of bond issuance, please see the circular and notice of this shareholders' general meeting).

3,020,961,896 shares voted for the above special resolution, and 1,375,000 shares against. As the shares voted for such resolution represented 99.95% of the shares with voting rights held by shareholders and proxies attending and voting in such meeting, such resolution was passed as a special resolution.

COSL Social Responsibility Report for 2008

In 2008, COSL thoroughly implemented the scientific development concept, firmly executed four core strategies, grasped development opportunities, proactively responded to and solved various challenges, serious performed its economic, environmental and social responsibilities, and moved forward on the road of scientific and harmonious development.

I. Fast development, return for shareholders

In 2008, COSL kept its good and fast development trend, with rapid expansion in capital size, rapid increase in operation income, rapid growth in economic efficiency, and a record high operation result. During the year, COSL achieved an operation income of RMB12,430,000,000, an operation profit of RMB3,340,000,000, a net profit of RMB3,100,000,000, representing an increase of 34.5%, 16.8% and 38.6% respectively compared with last year; EPS reached RMB0.69, increased by RMB0.15 compared with last year, so that shareholders may share the real benefit with the high speed development of COSL.

II. Human based, caring for staff

In the course of its high speed business development, COSL implemented quality, health, safety and environment protection policies with regard to staff health and safety, environment protection and product and service quality, emphasised "Safety first, prevention first; Human based, life caring; Reputation first, quality assurance; Respect nature, protect environment", and formulated effective annual quality, health, safety and environment protection management targets; the quality, health, safety and environment protection system (QHSE system) and the safety management system (SMS system) have been established pursuant to requirements of ISO9001, ISO14001, OHSAS 18001 and ISMC and related laws and regulations, and the effective operation of the two systems ensured product and service quality of COSL, as well as staff health and safety and environment protection. COSL has always maintained a good safety record, with an OSHA of 0.26 in 2008.

Based on the health management policy of "Human based, life caring", COSL formulated various regulations and systems like the Staff Health Record Management Regulations, to protect staff occupational health and safety systematically. Prevention and health evaluation have been emphasised in staff health management, and provided staff with the welfare of a comprehensive health check. COSL has held a health certificate system for offshore staff, and issued health certificates to staff qualified through health checks. An electronic filing for staff health has been established, with regular health evaluation of staff health conditions, so as to allow staff to review their body conditions and take effective prevention measures. In 2008, land staff of COSL reached a health check rate of above 99%, with 100% health certificate holding rate for frontline staff.

To ensure the implementation of health and safety management measures, an occupational health management seminar was held, and the COSL Occupational Health Management Implementation Rules have been formulated and issued by the Company. To ensure the effective implementation of such rules, occupational health management networks have been established at various levels of COSL, promotion and training of occupational health management staff have been arranged for various districts, duties of various units of COSL have been defined, occupational health checks and site occupational risk evaluations have been carried out throughout the

Company, occupational health files have been established, occupational health management of COSL has been standardised, pursuant to the real situation of COSL.

In 2008, COSL continued with "Warmth and caring" and other helping hand activities, cared about middle age single staff, built love links for young people, among other, and such corporate care enhance the sense of belonging of our staff.

III. Reputation first, tailored services

COSL has been focusing on clients, with its "Reputation first, tailored services" policy, it fully utilised various control measures to ensure product and service quality in service and production processes so as to meet demands of clients. COSL monitored market and client demand and development trend, to provide safe, quality and effective services for clients. In 2008, COSL had a 0 rate of major quality incident, a 0 rate of client unsatisfactory complaint, received more than 180 recommendation letters from domestic and overseas clients, with its service capability fully recognised and highly praised by clients.

IV. Environment protection, resources saving

COSL paid much emphasis on protection of ocean resources and environment, pollution prevention and nature caring. In 2008, COSL fully complied with the Ocean Environment Protection Law of the People's Republic of China, met management targets of ocean environment protection through the formulation and implementation of various systems. The State Oceanic Administration and the Maritime Bureau of the Ministry of Transportation have been responsible for the supervision and administration of environment protection works of drilling platforms and vessels of offshore operating units of COSL respectively, while land operating units have been supervised by local environment protection departments. COSL has achieved outstanding results in environment protection management works, without any pollution incident in recent years.

In 2008, environment protection works in overseas operations of COSL strived to achieve win-win situation for all parties. Besides QHSE and SMS systems of COSL, and requirements of local laws and regulations, we have higher standards for finer overseas environment protection works. Local governments launched the "Zero pollution industry" system on Mexico, where our environment protection works have been leading other companies.

V. Energy saving, emission reduction and efficiency enhancement

In 2008, COSL started the building of a first class international oilfield service company with the establishment of an energy saving and environment friendly enterprise. With increasing energy utilization rate and environment protection as the core, the Company enhanced management with a responsibility system, and commenced the 2008 energy saving works of COSL in a comprehensive, systematic and highly efficient way through technological innovation and productivity improvement. COSL improved energy saving institutions at various levels, with a basic systematic energy saving management system, refined responsibility system and energy saving targets, and ever changing energy saving methods.

VI. Education donation, help the underprivileged

While striving for self development into a stronger, bigger enterprise, COSL has always actively implemented three major responsibilities of state enterprises, participated in social welfare activities, and strived to be a responsible corporate entity. Senior management of COSL paid much attention to the social welfare business development of the Company, and specifically established the public welfare work committee, and formulated its working rules. In 2008, COSL and the staff contributed in aggregate more than RMB30,400,000 in cash and in kind for social welfare business, and represented a good image for a responsible listed enterprise. In addition, we proactively performed our local social responsibilities in overseas regions like Indonesia, through community services and donating and helping the underprivileged, we coexisted harmoniously with local communities.

1. **Friendly and supportive, donated in aggregate more than RMB26,000,000 for Sichuan Wenchuan earthquake**

   Upon the grade 8 earthquake in Wenchuan County, Sichuan Province, COSL moved quickly to donate immediately RMB2,000,000 to China Red Cross in the name of the Company, COSL staff subsequently held 4 large scale fund raising activities, and donated a total of RMB6,110,000. Meanwhile, COSL took various measures to save fees, explore potential, enhance efficiency reduce costs, and transferred such saved amount of RMB18,000,000 to the Sichuan earthquake district through related channels.

2. **Participation in sea rescue to save life**

   As instructed by the Maritime Rescue Centre, and in response to emergency calls of endangered vessels, COSL vessels participated 14 times in 2008 to rescue endangered vessels and personnel, saved 9 persons, with the body of a dead person.

3. **Real support for the Olympics**

   In May 2008, serious enteromorpha prolifera event occurred in the Olympic sailing area in Qingdao, pursuant to the request of the Shandong provincial government, COSL transferred two work vessels, Binhai 286 and COSL 655, to clear such enteromorpha prolifera, and made a contribution to the Qingdao sailing area.

4. **Hope project, RMB4,000,000 added for the COSL Hope Primary School in Hainan Province**

   COSL built hope primary schools for underprivileged areas in effective performing of its social responsibilities. In 2007, COSL donated RMB8,000,000 for the China Youth Development Fund, to build COSL Hope Primary Schools in Hainan and Yunnan Provinces. In 2008, COSL added another RMB4,000,000 to enhance the support and construction of COSL Hope Primary School in Hainan Province. Pursuant to the principle of "One hope school, one fine project", the Company specifically formulated the COSL Hope Primary School Construction Supervisory Management Regulations, and sent various inspection groups to conduct site evaluations. Thereby, the youth fund commented, "Upon completion, COSL Hope Primary Schools will be model schools for the fund, thus forming 'fine models' of COSL!"

5. **Continued with the support of COSL Hope Primary Schools in Mancheng and Luanping**

   With more COSL Hope Primary Schools under construction, the Company continued with the support of COSL Hope Primary Schools in Xunkou, Mancheng and in Wafang, Luanping County, Hebei Province. In June 2008, COSL organised youths in Yanjiao district to support teaching activities in the two schools, and donated new books of RMB10,000 for the schools. Upon learning the aging problem of the automatic water supply facilities (donated by COSL) in Mancheng Hope School, COSL organised technicians in a timely manner to conduct site maintenance and renovation for such facilities. In November, COSL again organised visits to the two schools, to present awards for outstanding teachers and pupils, and renovated and expanded classrooms, playgrounds, main doors and boiler rooms of the schools.

6. Caring for overseas staff, fulfilling overseas social responsibilities

Overseas branches and subsidiaries of COSL have also actively fulfilled local social responsibilities. COSL Indonesia branch organised a donation for Indonesian employees suffered from flood, raised fund for the mother of an overseas staff in need of operation, COSL Burma branch made donation to the tsunami damaged area in Burma; and two Chinese staff of COSL Philippines branch donated blood for local employees.

VII. Corporate culture, COSL brand

The ever lasting building of corporate culture is an indispensable important means in the formation of COSL spirit, the coherence of COSL people, the enhancement of soft strengths of COSL and the support for development of COSL. In 2008, COSL continued with its corporate ideology of "We must do better", strived to enrich its corporate culture, thereby cohere, train and encourage people, create a harmonious company atmosphere, enhance company competitiveness and further promote sustainable development of the Company.

In 2008, as COSL developed rapidly, brand image and social status of COSL have been increasingly enhanced, with expanded market and industry influence, recognition in the capital market, praises from the society and high attention from the media. In 2008, COSL has been selected as one of the 25 strongest performance stocks in S&P greater China selected stocks portfolio; awarded the "2008 Best Investors' Relationship" certificate by IR Magazine, the most authoritative one in the field of global investor relationship; selected into the 2008 Top 100 Chinese Blue-chips, and awarded the Top 2008 Chinese Blue-chip Oilfield Service Company at the first annual meeting of Chinese Blue-chips companies. In 2008, COSL has also been named the 2005-2007 Nationwide Internal Audit Advanced Unit by the State Auditing Administration; awarded the 2008 Chinese Creditworthy Enterprise and elected one of the 2008 Most Influential Chinese Enterprises at the 2009 Nationwide Enterprise Creditworthiness Building Conference organised by the Chinese Enterprise Association and the Chinese Entrepreneur Association.

In 2008, COSL created "Blue Dream", a large scale song and dance drama, to represent the hardship in start up and the glorious moments in the development history of COSL, with 13 tour presentations, more than 15,000 audience, it significantly enhancement staff coherence and strengthened the brand influence of COSL.

VIII. Employment opportunities, internal excellence

In 2008, based on its strategy of "Building COSL team, worldwide first class", COSL employed a total of more than 900 fresh graduates from universities, more than 120 mature talents from the society, and the introduction of talented people added fresh blood for the sustainable development of COSL. In addition, COSL will actively provide employment opportunities for the society, recruit a certain number of workers in Renqiu, Yixian of Hebei, Linyi, Yantai of Shandong, so as to reduce local employment pressure. The Company has completed the acquisition of AWO, with more foreign employees joining us, COSL provided more employment opportunities in overseas operation areas.

In 2008, the project of building a first class staff team and enhancing staff quality have been launched in full, COSL expanded young staff training, shortened new staff's growth cycle, strengthened professional retraining for key technical staff, enhanced staff foreign language training, established COSL Technical School for professional technique training.

IX. Sustainable development, future creation

In 2009, COSL will continue to expand its production capacity, service capability and market competitiveness. While work volume in the domestic market in China has been increasing, service prices have been stable. With enhanced overall strength, the leading position of COSL in the domestic oilfield service sector has been consolidated, with a strong development momentum in internationalization. The acquisition of Awilco enlarged our drilling rigs, improved equipment quality, expanded overseas client market, and added development room for related businesses.

In 2009, we will continue to enhance safety management with our safety culture; protect the environment, save energy and reduce emission, and firmly promote the sustainable development of the Company as a responsible corporate citizen.

Directors, Supervisors, Senior Management & Employees

I. Conditions of Directors, Supervisors, Senior Management

Change in shareholding and remunerations of directors, Supervisors and Senior Management

Name	Position	Sex	Age	Commencement and expiry of term	Number of shareholding at the beginning of year	Number of shareholding at the end of year	Reason of change	Total Remunerations received from the Company during report period (Yuan)	Condition of Share Appreciation right during report period*		Whether received in shareholders' company or other connected company
									Excisable shares (10,000 shares)	Year end value (Yuan)	
Fu Chengyu	Chairman	Male	57	20 Sep. 2005~19 Sep. 2008	20,000	20,000	N/A	–	–	–	Yes
Yuan Guangyu	Vice Chairman, Executive director CEO and president	Male	49	20 Sep. 2005~19 Sep. 2008	–	–	N/A	656,949	96.42	1,402,171	No
Li Yong	Executive director, executive vice president and COO	Male	45	26 May. 2006~25 May. 2009	–	–	N/A	485,668	70.43	1,024,216	No
Wu Mengfei	Non executive director	Male	53	27 May. 2007~26 May. 2010	–	–	N/A	–	–	–	Yes
Gorden C.K. Kwong	Independent non executive director	Male	59	30 Oct. 2005~29 Oct. 2008	–	–	N/A	400,000	–	–	No
Andrew Y. Yan	Independent non executive director	Male	51	20 Sep. 2005~19 Sep. 2008	–	–	N/A	400,000	–	–	No
Simon X. Jiang	Independent non executive director	Male	55	27 May. 2007~26 May 2010	–	–	N/A	400,000	–	–	No
Zhang Benchun	General Manager of Audit and Supervision Department	Male	58	20 Sep. 2007~19 Sep. 2010	–	–	N/A	–	–	–	Yes
Zhang Dunjie	Independent supervisor	Male	56	26 May. 2006~25 May. 2009	–	–	N/A	80,000	–	–	No
Yang Jinhong	Employee supervisor	Male	44	26 Jul. 2007~25 Jul.2010	–	–	N/A	438,878	–	–	No
Zhong Hua	Executive vice president and CFO	Male	48	Apr. 2006~	–	–	N/A	538,082	70.43	1,024,216	No
Chen Weidong	Executive vice president CSO and Secretary of the board	Male	53	Dec. 2005~	–	–	N/A	583,567	70.43	1,024,216	No
Dong Weiliang	Executive vice president and CTO	Male	51	Jun. 2007~	–	–	N/A	595,530	–	–	No
Li Xunke	Senior vice president	Male	52	Jun. 2007~	–	–	N/A	528,186	65.69	955,285	No
Xu Xiongfei	Vice president and chairman of Labour Committee	Male	47	Jun. 2007~	–	–	N/A	447,882	60.91	885,772	No
Xiao Guoqing	Vice president	Male	59	Jun. 2007~	–	–	N/A	556,121	–	–	No
Yu Zhanhai	Vice president	Male	54	Aug. 2007~	–	–	N/A	541,181	–	–	No
Total	/	/	/	/	20,000	20,000	/	6,652,044	434.41	6,315,876	/

* *Details are set out in Corporate Governance – Particulars of evaluation on senior officers during the reporting period and establishment and implementation of incentive plan.*

Major working experience of directors, supervisors and senior management in the past five years

Board of Directors

Mr. Fu Chengyu

Chinese, male, was born in 1951, Chairman and a Non-Executive Director of COSL. He received a Bachelor Degree in Geology from Northeast Petroleum Institute in China and a Master Degree in Petroleum Engineering from University of Southern California in the United States, and is a senior economist. Since November 2003, Mr. Fu has been serving as Chairman and a Non-Executive Director of COSL. He was appointed Chairman and Chief Executive Officer of CNOOC Ltd on 16 October 2003. In October 2003, Mr. Fu was appointed as General Manager of CNOOC. In September 2002, he was appointed as Chairman and a Chief Executive Officer of COSL. In 2001, Mr. Fu became Executive Vice President, President and Chief Operating Officer of CNOOC Ltd. In 2000, Mr. Fu was appointed as Deputy General Manager of CNOOC. In 1999, Mr. Fu became General Manager of China Offshore Oil Eastern South China Sea Corporation. In December 1995, he was appointed Vice President of Philips China Inc. and General Manager of the Xijiang Development Project. From 1994 to 1995, Mr. Fu was Deputy General Manager of China Offshore Oil Eastern South China Sea Corporation. He joined China National Offshore Oil Corporation in 1982 and was appointed as Chairman of the Management Committee of joint venture between CNOOC and BP Amoco, Chevron, Texaco, Philips Petroleum, Shell as well as Agip. Mr. Fu previously served in Daqing, Liaohe and Huabei oil fields in the PRC and has over 30 years of experience in the oil & natural gas industry of China. Mr. Fu also serves as General Manager of CNOOC, Chairman, an Executive Director and Chief Executive Officer of CNOOC Ltd. Chairman of CNOOC (China) Limited and CNOOC International Limited, as well as an Independent Director of Suntech, Wuxi.

Mr. Yuan Guangyu

Chinese, male, was born in 1959, Vice Chairman, an Non-Executive Director of COSL. Bachelor in Drilling Engineering, Mr. Yuan subsequently graduated from CEO Class, and Executive Master of Business Administration program of China Europe International Business School in 2005 and 2007, respectively. Mr. Yuan has been Vice Chairman, a Non-Executive Director of COSL since 2 March 2009. He has been serving as Vice Chairman, an Executive Director, Chief Executive Officer and President of COSL from March 2007 to 2 March 2009. Mr. Yuan also serves as Assistant to General Manager of CNOOC since November, 2006. Mr. Yuan served as an Executive Director, Chief Executive Officer and President of COSL from October 2003 to March 2007. From August 2002 to September 2003, he was an Executive Director, President and Chief Operating Officer of COSL. From October 2001 to July 2002, he was Chairman and General Manager of COSL before the Company was restructured as a limited liability entity. From September 1999 to September 2001, he served as General Manager of China Offshore Oil Northern Drilling Company. From March 1996 to August 1999, he was Deputy General Manager of CNOOC Operational Department. He was Deputy General Manager of China Offshore Oil Northern Drilling Company from January 1995 to February 1996. He served as Deputy General Manager of CNOOC Bohai Drilling Company from February 1993 to December 1994. He served in Bohai Drilling Company as a drilling-rig Team Head, Supervisor, Deputy Manager and then Manager from August 1982 to January 1993. Mr. Yuan joined CNOOC in 1982 and has worked in the PRC oil and natural gas industry for over 26 years.

Mr. Wu Mengfei

Chinese, male, was born in 1955, a Non-Executive Director of COSL. He received a bachelor degree and a master degree from East China Petroleum Institute, and an MBA from Massachusetts Institute of Technology in the United States. Mr. Wu is Chief Accountant of CNOOC and a Non-Executive Director of COSL from 1 April 2006. From May 2004 to March 2006, he was an Executive Director of COSL. Mr. Wu served as Executive Vice President and Chief Financial Officer of COSL between July 2002 and March 2006. From September 1999 to June 2002, Mr. Wu was Chief Financial Officer and Senior Vice President of CNOOC Ltd. Mr. Wu joined CNOOC in 1988 as Deputy Manager of Financial Planning Department and General Manager of the Funds Planning Department until September 1999. In addition, Mr. Wu is Chairman of China Blue Chemical Ltd., Aegon-CNOOC Life Insurance Co., Ltd., CNOOC Insurance Ltd. and CNOOC Investment Co., Ltd.

Mr. Li Yong

Chinese, male, was born in 1963, Executive Director, Executive Vice President and Chief Operating Officer of COSL. Bachelor in Petroleum Engineering, Mr. Li obtained a master degree in Oil Economics from the Scuola E Mattei of Italy in 1989, and an MBA from Peking University in 2001. Since May 2006, he has been serving as Executive Director, Executive Vice President and Chief Operating Officer of COSL. From October 2005 to May 2006, Mr. Li was Executive Vice President and Chief Operating Officer of the Company. From 2003 to 2005, Mr. Li served as Deputy General Manager of CNOOC (China) Ltd. – Tianjin Branch. He was Director of Drilling and Completion Well of CNOOC Ltd from 1999 to 2003. Between 1993 and 1999, Mr. Li was Head of Comprehensive Technology Division and Head of Well Testing Division of Exploration Department of CNOOC. Mr. Li joined CNOOC in 1984 and had served in various positions, including Assistant Engineer and Engineer at China Offshore Oil Exploration Project Planning Company, CNOOC Operational Department, and has worked in the oil and natural gas industry for over 24 years.

Mr. Gordon C.K. Kwong

China (Hong Kong) by nationality, male, was born in 1949, an Independent Non-Executive Director of COSL since October 2002. He received Bachelor Degree in Social Science from the University of Hong Kong in 1972, and is also a fellow member of the Institute of Chartered Accountants in England and the Hong Kong Institute of Certified Public Accountants. Mr. Kwong was a partner of PricewaterhouseCoopers from 1984 to 1998. From 1992 to 1997, Mr. Kwong was an independent member of the Hong Kong Stock Exchange Council. He currently serves as an Independent Non-Executive Director for a number of listed companies, including COSCO International Holdings Limited, Tianjin Development Holdings Limited, Beijing Capital International Airport Company Limited, Frasers Property (China) Limited, NWS Holdings Limited, Oriental Patron Financial Investments Limited, China Chengtong Development Group Limited, Global Digital Creations Holdings Limited, Ping An Insurance (Group) Company of China Limited, Quam Limited, China Power International Development Limited, Henderson Investment Limited, CITIC 1616 Holdings Limited and Agile Property Holdings Limited.

Mr. Andrew Y. Yan

An ethnic Chinese and an American citizen by nationality, male, was born in 1957, an Independent Non-Executive Director of COSL. He earned a bachelor degree in Nanjing Aeronautic Institute. He also received a Master Degree in Sociology and Economics from Peking University in 1986 and another Master Degree from Princeton University of the United States in 1989. Mr. Yan is an Independent Non-Executive Director of COSL since September 2002. He has been serving as Chief Partner of SAIF Asia Soft bank Asian Investment Fund since 2001. He was Director, General Manager as well as Head of Hong Kong Office of Emerging Markets Partnership from February 1995 to October 2001. From 1994 to 1995, he served in Sprint International Corporation as Director of Strategic Planning and Business Development in Asia Pacific Region.

Dr. Simon X. Jiang

Chinese, male, was born in 1953, an Independent Non-executive Director of COSL. He received a bachelor degree from Beijing Foreign Studies University and earned Master of Philosophy and Ph. D degrees in Economics from Cambridge University of England. He has been elected an Independent Non-executive Director of COSL since May 2004. From 1998 to 2003, Dr. Jiang founded Cyber City Holdings Limited ("CCH") in Hong Kong that invested in advanced technology and infrastructure projects. Subsequent to CCH's public listing through a merger and acquisition exercise in 2001, Dr. Jiang became CCH's Chairman of Board of Directors. Between 1992 and 1998, he was responsible for investment and management of pension fund schemes for the United Nations. Mr. Jiang holds independent directorships in Hong Kong-listed COSCO International and SPG Land, as well as serves as a trustee for Cambridge China Development Fund and a member of the United Nation's investment committee. In addition, Dr. Jiang previously served as Director of Zi Corporation of Candia, a NASDAQ-listed company; a consultant of US Capital Group and Senior Associate of the Judge in Institute of Management studies of Cambridge University.

Boards of Supervisors

Mr. Zhang Benchun

Chinese, male, was born in 1950, Chairman and a supervisor of the Board of Supervisors of COSL. He holds a Bachelor Degree of Arts majoring in Business Administration from the correspondence education section of the Party School of the Central Committee of Chinese Communist Party, and is a senior engineer. Since September 2002, he has been Chairman and a supervisor of the Board of Supervisors of COSL. He has been vice president of CNOOC Executive Management Institute since September 2007. Mr. Zhang was General Manager of Audit and Supervision Department of CNOOC from 1999 to September 2007. From 1997 to 1999, he served as Director of CNOOC's Ideological Affairs Department. He joined CNOOC in 1984, and has worked in the oil and natural gas industry for over 24 years.

Mr. Zhang Dunjie

Chinese, male, was born in 1952, an Independent Supervisor of COSL. He graduated from University of Shanxi Finance and Economics, and obtained an EMBA from Guang Hua Management School of Peking University. He has been elected an Independent Supervisor of COSL since May 2003. Mr. Zhang is currently Chairman of Global Resource EnviTech Co., Ltd. He had held various positions including Vice Chairman and General Manager of China Artex Import & Export Co. Ltd. President of China Long Co. SlL, Senior Vice President of the Power Generation Group (PG) of Siemens (China).

Mr. Yang Jinghong

Chinese, male, was born in 1964, an Employee Supervisor of COSL. He received a Bachelor Degree of Engineering in Drilling Engineering from Jianghan Petroleum Institute. In 2008, Mr. Yang received a master degree in the Executive Master of Business Administration programme at China Europe International Business School. Mr. Yang has been the president of COSL Engineering Institute since November 2008. He has been an Employee Supervisor of COSL since July 2007. Mr. Yang has been serving as General Manager of Human Resources Department of COSL since November 2005. Mr. Yang was Deputy General Manager of the Oilfield Technical Services Division at COSL between September 2002 and November 2005. From 2001 to 2002, he served as Manager of Human Resources Department of COSL before the Company was restructured as a limited liability entity. Mr. Yang served as Manager of Department of Health, Safety and Environmental Protection and Manager of Human Resources Department of China Offshore Oil Northern Drilling Company from 1995 and 2001. From 1984 to 1994, he served as a team leader of Bohai drilling rig No. 5 of Bohai Drilling Company and Officer of Department of Operational Safety and Environmental Protection. He has been working in the petroleum and natural gas industry for over 24 years.

Biographies of Company's Senior Management

Mr. Liu Jian

Chinese, was born in 1958, Chief Executive Officer of COSL. He graduated from Huazhong University of Science and Technology with a Bachelor of Science degree and received his MBA degree from Tianjin University in 2000. Mr. Liu is a senior engineer. Mr. Liu has been appointed as the Chief Executive Officer of COSL with effect from 2 March 2009. Since October 2005, he became the executive vice-president of CNOOC Limited and was primarily responsible for the offshore oilfield development and production of CNOOC Limited. Mr. Liu first joined CNOOC in 1982 and has over 27 years of experience in the oil and gas industry. He served as the manager of CNOOC Bohai Corporation Oil Production Company, the Deputy General Manager of the Tianjin Branch of CNOOC China Limited, the General Manager of the Zhanjiang Branch of CNOOC China Limited, the Senior Vice President and General Manager of the Development and Production Department of CNOOC Limited. Mr. Liu is currently a director of CNOOC China Limited, CNOOC International Limited, and CNOOC Southeast Asia Limited.

Mr. Li Yong

Please refer to Biographies of Directors.

Mr. Zhong Hua

Chinese, male, was born in 1960, Executive Vice President and Chief Financial Officer of COSL. He graduated from Southwest Petroleum Institute, with a bachelor's degree in Oil Exploration. He received a master's degree in Petroleum Engineering from Heriot-Watt University in the United Kingdom in 1988. From 1985 to 1987, he received staff training from Expro in United Kingdom. From 2005, he was Vice President, Executive Vice President, Executive Vice President and Chief Financial Officer of COSL. He was General Manager of the Administration Department of CNOOC Ltd, and General Manager of Development and Planning Department of CNOOC Ltd from 1999-2005. From 1982-1999, he was engineer, deputy Manager of Oilfield Optimization Co. of China Offshore Oil Nanhai West Corporation, and Manager of Wei 10-3 Mine of China Offshore Oil Nanhai West Corporation, a Director of CNOOC Indonesia Project, Supervisor of Testing of Yai 21-1-3 Well Project, Deputy Manager of Drilling and Exploration Department and Manager of Technology Development Department, Manager of Administration Department of China Offshore Oil Nanhai West Corporation. He joined CNOOC in 1982, and has been working in the petroleum and natural gas industry for over 26 years.

Mr. Chen Weidong

Chinese, male, was born in 1955, Executive Vice President and Secretary of Board of Directors, Chief Strategy Officer of COSL. Bachelor in Geophysical Exploration, and received an MBA from Peking University in July 2001. He graduated from China University of Political Science and Law with a master diploma in July 2005. He has been Executive Vice President of the Company and Secretary of Board of Directors, as well as Chief Strategy Officer since December 2005. He was Vice President of the Company and Secretary of Board of Directors from September 2002 to December 2005. From December 2001 to September 2002, he was Deputy General Manager of COSL before the Company was restructured into a limited liability entity. He served as China Offshore Geophysical Exploration Company from September 1999 to December 2001. From May 1998 to September 1999, he was Deputy Manager of Geophysical Exploration Department of CNOOC. He joined CNOOC in 1982 and has over 26 years of experience in the Offshore oil and natural gas industry.

Mr. Dong Weiliang

Chinese, male, was born in 1957, Executive Vice President of COSL. Bachelor in Petroleum Geology of Geological Department. Mr. Dong has been Executive Vice President of the Company since June 2007. He served as General Manager of Technology Development Department of CNOOC between July 2003 and June 2007. He subsequently held the position of CNOOC Research Center Director from May 2001 to July 2003. Between April 1999 and May 2001, Mr. Dong was Deputy General Manager at CNOOC China Limited – Zhanjiang Branch Company. Mr. Dong had held a number of positions in China Offshore Oil Nanhai West Corporation, including Chief Geologist from September 1996 to April 1999, President of Research Institute of Exploration and Development Science from May 1994 to September 1996, Vice President of Research Institute of Exploration and Development Science from May 1993 to May 1994, Assistant and Group Leader in Research Institute from 1982 to 1993. Mr. Dong has over 26 years of experience in the oil and natural gas industry.

Mr. Li Xunke

Chinese, male, was born in 1956, Senior Vice President of COSL. He graduated from Southwest Petroleum Institute with a bachelor degree in Drilling Engineering. He was appointed Senior Vice President of COSL since June 2007, and was Vice President of COSL between September 2002 and June 2007. Mr. Li served as Deputy General Manager of COSL between December 2001 and September 2002 before the Company restructured into a limited liability entity. He was Deputy General Manager of China Offshore Oil Southern Drilling Company between January 1995 and December 2001. Between May 1992 and December 1994, Mr. Li served as General Manager of China Offshore Oil Nanhai West Drilling Company. He had held a number of positions of China Offshore Oil Nanhai West Corporation, including Manager of Nanhai platforms No. 2 and No. 5 between August 1987 and April 1992 and Deputy Manager of Nanhai No. 4, No. 1 and No. 2 between March 1986 and July 1987. He joined CNOOC in 1982 and has over 26 years of experience in the oil and natural gas industry.

Mr. Xu Xiongfei

Chinese, male, was born in 1961, Vice President of COSL. MBA, Bachelor in Economics. He is Vice President of the Company since June 2007. He has been serving as Chairman of Labour Union of COSL since October 2005. From September 2002 to October 2005, Mr. Xu was General Manager of Human Resources Department of COSL. Since November 2001, he served as General Manager of Human Resources Department of COSL before the Company was restructured into a limited liability entity. He served as Party Committee Secretary and Discipline Committee Secretary of China Offshore Oil Northern Drilling Company between October 2000 and November 2001. From 1995 to 2000, Mr. Xu was Director of Party Office and Manager of Human Resources Department at China Offshore Oil Northern Drilling Company. He had held a number of positions in Bohai Oil Corporation, including Secretary and Deputy Director of Administration Office from 1993 to 1995, Party branch secretary of Bohai Platform No. 12 from 1991 to 1993, between 1977 and 1991, driller, mechanic, electrician and secretary in Team 3222 at Drilling Department, Bohai platform No. 8, and Party Committee Office. Mr. Xu has over 30 years of experience in the oil and natural gas industry.

Mr. Xiao Guoqing

Chinese, male, was born in 1949, Vice President of COSL. MBA, Bachelor in Oil Extraction. He was the Company's Vice President since June 2007. He served as Assistant to President of COSL from December 2004 to June 2007. He was General Manager of COSL's Tianjin Branch from September 2002 to December 2004. From January 2002 to September 2002, he was Deputy General Manager of the Tianjin Branch of COSL before the Company was restructured into a limited liability entity. Between 1993 and 2001 he was Manager of Petrotech Services, CNOOC (Tanggu). From 1992 to 1993, he served as Manager of Oil Testing Company of Bohai Oil Company. He worked in Bohai Oil Corporation as a technician from 1976 to 1992. Between 1971 and 1972, he served as a worker for Offshore Oil Command Department. Mr. Xiao has over 34 years of experience in the oil and natural gas industry.

Mr. Yu Zhanhai

Chinese, male, was born in 1954, Vice President of COSL. Bachelor in Geophysics. He was a Vice President of COSL since August 2007. He was General Manager of Geophysical Services Division of the Company from September 2002 to August 2007. Between January and September 2002, he served as General Manager of Geophysical Services Department of COSL before the Company was restructured into a limited liability entity. Mr. Yu was Deputy General Manager of China Offshore Oil Geophysical Corporation from January 1994 to December 2001. He also held various positions in Bohai Oil Geophysics Company, including Manager from September 1993 to January 1994 and Deputy Group Leader of Operation and Deputy Manager from November 1992 to August 1993. Between 1982 and 1992, Mr. Yu had held various positions in Geophysical Fleet of CNOOC, including technician, assistant engineer, engineer and manager of the fleet. From 1979 to 1982, he worked in the geophysical service fleet of Offshore Oil Exploration Bureau. Mr. Yu has over 29 years of experience in the oil and natural gas industry.

II. Work Positions in the Company of Shareholders

Name	Name of Shareholder	Position	Commencement of term	Termination of term	Remunerations and allowances received
Fu Chengyu	China National Offshore Oil Corporation	General Manager	10-2003	Until now	Yes
Yuan Guangyu	China National Offshore Oil Corporation	Assistant to General Manager	11-2006	Until now	No
Wu Mengfei	China National Offshore Oil Corporation	Chief Accountant	4-2006	Until now	Yes
Zhang Benchun	CNOOC Executive Management Institute	Vice President	9-2007	Until now	Yes

Work Positions in Other Units

Name	Names of other units	Title	Commencement of term	Termination of term	Whether Receiving Remunerations and allowances
Andrew Y. Yan	SAIF Asia Softbank Asian Investment Fund	Principal Partner	2001	Until now	Yes
Simon X. Jiang	Cyber City Holdings Limited	Chairman of the board	2001	Until now	Yes
Gordon C.K. Kwong	COSCO International Holdings Limited, etc.	Independent Non-Executive Director	1998	Until now	Yes

III. Remunerations of Directors, supervisors and senior management

(I) The decision-making procedures of remunerations of Directors, Supervisors and senior management: Remunerations of Directors and supervisors are subject to shareholders' approval at general meetings. Remunerations of senior management are determined by the board of directors.

(II) Reference for determining remunerations of Directors, Supervisors and senior management: Depends mainly on the duties and responsibilities of the Directors, supervisors and senior management, and the results of the Company.

Directors and supervisors who do not receive remunerations and allowances from the Company

Names of Directors and supervisors who do not receive remunerations and allowances from the Company	Whether receiving remunerations and allowances from the shareholder or other related units
Fu Chengyu	Yes
Wu Mengfei	Yes
Zhang Benchun	Yes

IV. Change of Directors, supervisors and senior management

During the reporting period, no director, supervisor or senior management left the Company.

V. Company's staff

As at the end of the reporting period, the Company had a total of 8,475 employees. There is no retired staff expenses that needs to be borne by the Company.

The structure of the employees is as follows:

(I) Professional compositions

Professional type	Number of employees
Management post	1,726
Technical post	4,496
Operational post	2,253

(II) Educational level

Education	Number of employees
Master degree of above	313
Undergraduate	3,490
College	2,125
Secondary	545
Technical college	506
Senior secondary or below	1,496

REPORT OF THE DIRECTORS

The directors present their 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 2008.

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 Corporate Governance of this annual report.

Principal Activities

The Company is principally engaged in the provision of offshore oilfield services including drilling services, well services, marine support and transportation services and geophysical services. The principal activities of the subsidiaries comprise investment holding, sale of logging equipment, leasing of geophysical vessels, provision of drilling fluids services and provision of drilling and work over 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 Management Discussion & Analysis of this annual report.

Results and Dividends

The Group's profit prepared under HKFRS for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements (Hong Kong) on pages 186 to 191.

The Directors recommend the payment of a final dividend of RMB0.14 (tax inclusive) per ordinary share in respect of the year to shareholders who are entitled to bonus and dividends. This recommendation has been incorporated in the financial statements as an allocation of retained profit within the equity section of the balance sheet. This dividend together with special interim dividend amounts to approximately RMB629,345,000. Further details of this accounting treatment are set out in the Note 12 to financial statements (Hong Kong).

Subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2008 are set out in Note 17 to the financial statements (Hong Kong).

Gearing Ratio

Details of the Group's gearing ratio are set out in Note 44 to the financial statements (Hong Kong).

Remuneration Policies

The Group adopts an incentive approach to enable an efficient human resources management. Different incentive schemes based on different kinds of professionals were used and the Company has established an appropriate appraisal system to create a fair competition environment, to maximize the development opportunities for quality staff. Besides, the Company also provided various benefits, including provisions of social insurance, to employees.

REPORT OF THE DIRECTORS

Summary Financial information

A summary of the published results and the assets, liabilities and minority interests of the Group for the last three years as extracted from the audited financial statements (Hong Kong) and reclassified as appropriate set out as below. This summary does not form part of the audited financial statements.

Results

Unit: RMB'000

	2008	2007	2006
Revenue	12,142,944	9,007,987	6,364,839
Other revenues	48,671	38,611	31,341
Operation expenses			
Depreciation of property, plant and equipment	(1,563,534)	(1,042,081)	(900,244)
Employee compensation costs	(2,106,497)	1,643,857	(936,936)
Repair and maintenance costs	(420,257)	(317,546)	(356,510)
Consumption of supplies, materials, fuel, services and others	(2,720,083)	(2,003,698)	(1,934,817)
Subcontracting expenses	(542,226)	(357,191)	(206,325)
Operating lease expenses	(356,136)	(365,706)	(313,431)
Other operating expenses	(693,870)	(387,108)	(274,444)
Other selling, general and administrative expenses	(158,523)	(102,003)	(81,231)
Total operating expenses	(8,561,126)	(6,219,190)	(5,003,938)
Profit from operations	3,630,489	2,827,408	1,392,242
Financial income/(expenses)			
Exchange gains/(losses), net	(91,358)	(113,868)	(46,694)
Finance costs	(638,985)	(31,563)	(36,708)
Interest income	191,433	71,437	27,856
Share of profits of jointly-controlled entities	215,707	113,153	113,505
Profit before tax	3,307,286	2,866,567	1,450,201
Tax	(205,045)	(628,983)	(321,966)
Net profit attributable to shareholders	3,102,241	2,237,584	1,128,235

Assets and liabilities

Unit: RMB'000

	2008	2007	2006
Total assets	56,587,103	23,088,985	13,130,170
Total liabilities	36,789,259	5,863,977	4,511,626

REPORT OF THE DIRECTORS

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in Note 14 to the financial statements (Hong Kong).

Share capital

The Company's share capital has no change during the year.

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 on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listing securities of the Company

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

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 36 to the financial statements (Hong Kong) and in the consolidated statement of changes in equity, respectively.

Dividend

The Group achieved a total net profit of RMB3,102,241,149 in 2008, together with RMB3,967,663,009 of undistributed profit at the beginning of the year, and after deduction of RMB322,440,718 of withdrawal of statutory reserve, and RMB539,438,400 cash dividend for 2007 distributed in June 2008 to all shareholders by the Group, the Group had an undistributed profit of RMB6,208,025,040 as at the end of 2008. Based on the total share capital of 4,495,320,000, the Group proposed a cash dividend of RMB1.4 (tax inclusive) per 10 shares, with a total cash dividend of RMB629,344,800, and an undistributed profit of RMB5,578,680,240 to be distributed in following years. Such distribution is subject to the review and approval of the 2008 shareholders' general meeting of the Company.

Dividend of the Group in the previous three years:

Dividend year	Cash dividend (tax inclusive)	Net profit of the year	Percentage (%)
2005	RMB164,207,652	RMB820,996,496	20
2006	RMB239,719,200	RMB1,128,236,223	21
2007	RMB539,438,400	RMB2,237,583,857	24

Charitable contributions

During the year, the Group made charitable donations totaling RMB24,700,000.

REPORT OF THE DIRECTORS

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 77% of the total sales for the year and sales to the largest customer included therein accounted for approximately 61%. Purchases from the Group's five largest suppliers accounted for approximately 31% 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 "Connected Transactions" below. Save as aforesaid, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, 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.

Assets Measured at Fair Value

The majority of the assets of the Group were valued using historical cost convention, except for available-for-sale investments, derivative financial instruments and the accounting for business combination, which have been measured at fair value, while internal control and review procedures have been taken by our audit and supervisory department on works of finance department. For details of fair value changes in available-for-sale investments and derivative financial instruments of the Company during the reporting period, please see accounting and other information related to fair value measurements in Management Discussion & Analysis. On 29 September 2008, the Company acquired a 98.8% equity interest of CDE through an indirectly controlled subsidiary established in Norway, COSL Norwegian AS. On 15 October 2008, COSL Norwegian AS exercised the mandatory acquisition offerring clause acquiring the remaining 1.2% shares of CDE at the time of the closing of Norway Oslo Security Exchange. The fair value of net assets of CDE as of the acquisition date was determined by evaluation. Such evaluated value was preliminary, and subject to further finalisation in the future.

Forecast for Future Development of the Company

For details, please see the forecast for future development of the Company set out in the Management Discussion and Analysis.

REPORT OF THE DIRECTORS

Use of fund raised

The Company publicly issued 500,000,000 A shares, raising a total of RMB6,740 million and a net fund of RMB6,599 million. As at the end of 2008, the proceeds from the A share issue used was RMB5,646 million, the remaining proceeds of RMB1,094 million was deposited in the A share account at the bank, with sufficient safety assurance.

Unit: RMB million

The total amount of fund raised	6,740		Amount of fund used Accumulated used for the year	3,899 5,646
Commitment	**Planned investment amount**	**Adjustment**	**Actual investment amount**	**Whether conform with the progress of the plan and estimated earnings**
Build the second drilling ship with 400 inches	1,448	No	1,302	Yes
Build 2 multi-function drilling platforms	599	No	530	No (note 1)
Build 2+2 drilling ships with 300 inches and automatic rising arm	2,938	No	1,934	Yes
Build 18 oilfield operation ships involving six types	1,923	No	1,380	Yes
Build 2 ships with three functions in deep sea	952	No	177	Yes
Rebuilt geophysical ship with 8 cables	530	No	517	Yes
Build geophysical ship with 12 cables	1,149	No	80	Yes
Build geophysical ship investing in deep sea	595	No	26	Yes
Purchase VSP	44	No	19	Yes
Purchase 2 sets of oil pile and nitrogen equipment	41	No	3	No (note 2)
Purchase 3 sets of LWD equipment items	245	No	191	Yes
Purchase equipment with nuclear magnetic resonance for inspecting well	27	No	25	Yes
Purchase equipment with function of scanning pictures for inspecting well	32	No	19	Yes
Total	10,523	–	6,203	–

Included in the use of proceeds of RMB3,899 million was an amount of RMB600 million used as supplement of working fund, which was approved by the Board of Directors on 28 August 2008, with a term of not more than 6 months from the date of withdrawal, and shall be returned to the raised fund special account upon expiry.

Notes to commitments with conforming to the progress of the plan:

note 1: The building of the first multi-function drilling platform commenced in February 2006, with the building contract entered into at the end of 2006. The project progress has been postponed, with the platform estimated to be completed and delivered in the second quarter of 2009.

The building of the second multi-functions drilling platform commenced in the first quarter of 2007, the project progress has been postponed, with the platform estimated to be completed and delivered in the third quarter of 2009.

note 2: The project commenced in the second quarter of 2007, and completed in March 2009, and is in the process of adjustment.

REPORT OF THE DIRECTORS

Significant Items Invested not by the Fund Raised from the A Shares Issued by the Company during the Reporting Period

1. The Company publicly issued corporate bonds of RMB1.5 billion on 14 May 2007, which were mainly used for construction of drilling rigs, well ships and upgrading for geophysical ships, among which, items of multi-function drilling platform construction and 18 well ships involving 6 types were under reconstruction. Construction of 931 drilling rig was completed in the third quarter of 2008, the second 400 feet drilling rig has been completed and delivered in the third quarter of 2008.

2. During the period, the Group borrowed a BOC syndicate loan of US$1.4 billion for the acquisition of AWO, and a bank loan of US$0.8 billion from the Import and Export Bank of China. On 29 September 2008, the Company acquired a 98.8% equity interest of CDE through an indirectly controlled subsidiary established in Norway, COSL Norwegian AS. On 15 October 2008, COSL Norwegian AS exercised the mandatory acquisition offering clause acquiring the remaining 1.2% shares of CDE at the time of the closing of Norway Oslo Security Exchange. On 30 October 2008, the de-listing of CDE was approved by Norway Oslo Security Exchange. On 31 October 2008, the transaction of CDE's shares was ceased, and CDE became a private company registered in Norway since 15 November 2008.

Charge on Assets

As at 31 December 2008, the Group had charges against its assets as set out in Note 6(18) to financial statements (PRC).

Contingent Liabilities

As at 31 December 2008, the Group had contingent liabilities as set out in Note 41 to financial statements (Hong Kong).

Directors and Supervisors

The directors and supervisors of the Company during the year were:

Executive directors:
Yuan Guangyu
Li Yong

Non-executive directors:
Fu Chengyu
Wu Mengfei

Independent non-executive directors:
Gordon C.K. Kwong
Andrew Y. Yan
Simon X. Jiang

Supervisors:
Zhang Benchun
Yang Jinghong (Employee supervisor)
Zhang Dunjie (Independent supervisor)

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

Pursuant to the Rule 3.13 of the Listing Rules of the Stock Exchanges of Hong Kong Limited, the Company had received annual confirmations of independence from Gordon C.K. Kwong, Andrew Y. Yan, Simon X. Jiang and Zhang Dunjie, and as at the date of this report, still considers them to be independent.

REPORT OF THE DIRECTORS

Directors, Supervisors and Senior Management Biographies

Biographical details of the directors and supervisors of the Company and the senior management of the Group are set out on pages 62 to 66 of the Annual Report.

Directors and Supervisors Service Contracts

Each of the independent non-executive directors and independent supervisors is required to enter into a service contract with the Company for a term of three years, renewable upon re-election. Details of the directors remunerations for the year 2008 are set out in Note 7 to financial statements (Hong Kong) of this Annual Report.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

Directors and supervisors fees are subject to shareholder' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to the duties and responsibilities of the directors, the remuneration committee's recommendation and performance and the results of the Group.

The remuneration committee reviewed the remuneration of directors, supervisors and senior management disclosed in the Annual Report, and in view of the remmuneration committee, the disclosure reflected the real condition of remuneration of the above parties. The committee also reviewed the implementation of the share appreciation plan for management personnel of the Company, which was approved by shareholders' general meeting on 9 November 2006, with related information set out in page 53 to 54 of this Annual Report.

Directors' and Supervisors' Interest in Contracts

None of the directors and supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Contracts of Significance

The Company has entered into several agreements with CNOOC Limited, a related company, and other companies within CNOOC Group other than CNOOC Limited, 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 42 to the financial statements (Hong Kong).

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

Directors', Chief Executives' and Supervisors' Interests and Short Position in Shares

As at 31 December 2008, none of the directors, chief executive and supervisors and their respective associates had registered an interest or short positions in the shares of the Company or any of its associated corporations which would fall to be notified to the Company, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers and the Administrative Rules of the Shares owned by Directors, Supervisors and Chief Executives of Listed Issuers and their changes issued by the CSRC. As at 31 December 2008, in respect of A share issued by the Company, Mr. Fu Chengyu, the Chairman of the Company has interest in 20,000 A share purchased by way of bidding in Shanghai Stock Exchange during the reporting period of 2007.

REPORT OF THE DIRECTORS

Directors', Supervisors' and Senior Management's 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, chief executive and supervisors 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 to acquire such rights in any other body corporate.

Substantial Shareholders' and Other Persons' Interests in Shares

As at 31 December 2008, so far as is known to any director, or the chief executive, 5% or more of the interest of the issued share capital of the Company as recorded in the register of interests maintained by the Company pursuant to the Section 336 of the SFO are as follows:

Name of shareholder	shares held or deemed to be held	number of shares in interest (share)	Shares in COSL's interest(%)
Commonwealth Bank of Australia	Interest in controlled corporation	137,548,000(L)	8.96(L)
JPMorgan Chase & Co.	Interest in controlled corporation	109,796,831(L)	7.15(L)
		77,563,119(P)	5.05(P)
Mirae Asset Global Investments (Hong Kong) Limited	Beneficial owner	104,462,840(L)	6.81(L)

Notes: "L"denotes long position.
"P" denotes short position.

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 (Defined and governed by the Listing Rules of HKSE)

Under the Listing Rules, connected transactions of the Company must be fully disclosed and may be subject to the requirement of independent shareholders' approval, if the transaction is over a certain amount. The Company has applied to the Stock Exchange of Hong Kong Limited ("HKSE") at the time of listing on the HKSE 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 HKSE has granted a waiver in respect of such requirements for a period of three years, subject to renewal upon expiry. In 2007, the Company renewed connected transactions expired at the end of 2007.

The Company and CNOOC entered into a new master agreement in respect of the continuing connected transactions from 1 January 2008 to 31 December 2010 of the Company on 7 November 2007. The agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 31 December 2007.

REPORT OF THE DIRECTORS

Connected Transactions (Defined and governed by the Listing Rules of HKSE) (continued)

For the year ended 31 December 2008, the Group had the following transactions:

Unit: RMB'000

	2008	2007
A. Included in revenue (not including operating tax)		
Revenue earned from provision of services to the following related parties:		
a. CNOOC Limited Group		
Provision of drilling services	3,321,950	2,568,662
Provision of well services	2,159,691	1,817,711
Provision of marine support and transportation services	1,141,586	979,403
Provision of geophysical services	1,013,630	484,806
	7,636,857	5,849,982
b. The CNOOC Group		
Provision of drilling services	109,750	6,063
Provision of well services	18,979	5,915
Provision of marine support and transportation services	225,455	193,487
Provision of geophysical services	135,118	158,061
	489,302	363,526
B. Included in operating expenses		
Services provided by the CNOOC Group:		
Labour services	25,554	18,484
Materials, utilities and other ancillary services	229,686	239,987
Transportation services	2,981	8,062
Leasing of office, warehouse, and berths	69,519	65,751
Repair and maintenance services	17,585	24,530
Management services	53,513	6,923
	398,838	363,737
C. Included in interest income/ expenses:		
CNOOC Finance Co., Ltd.		
Interest income	1,716	1
Interest expenses	836	780
D. Loans drawn down and repaid during the year		
CNOOC Finance Co., Ltd.	199,659	150,000
E. Deposits:		
Deposits placed with CNOOC Finance Co., Ltd. as at year end	539,821	105
F. Construction of 200 feet drilling rigs		
Offshore Oil Engineering Co. Ltd	107,038	–

Connected Transactions (Defined and governed by the Listing Rules of HKSE) (continued)

For items (A) and (B) above, the independent shareholders of the Company granted approval for the Company to enter into the connected transactions set out by ordinary resolutions at the extraordinary general meeting held on 31 December 2007. For item (C), the transactions were qualified as “De minimis transaction” as defined in the Listing Rules, item (D) qualified as “exempt financial assistance” as defined in the Listing Rules. The annual amount involved for Item E was lower than the 2.5% threshold provided in Rule 14A.66(2) of the Listing Rules, Item E was subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, and are exempt from the independent shareholders’ approval requirement. COSL has disclosed the transactions in Item E in its announcement dated 8 May 2008. For Item F, the transaction was announced by the Company in its announcements dated 5 September 2008 and 19 December 2008 and the independent shareholders of the Company have approved the transaction in the extraordinary general meeting of the Company held on 13 February 2009.

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 of their respective associates (where applicable) in the ordinary and usual course of its business;

(2) the transactions were entered into on normal commercial terms, or where there is no available comparison, on terms no less favourable than those available from or to independent third parties;

(3) the transactions were entered into in accordance with the relevant agreements governing such transactions, on terms that are fair and reasonable to the independent shareholders as a whole;

(4) for items (A) to (B) above, the transactions were entered into with the annual aggregate value of each category of connected transactions not exceeding the relevant annual limits as approved by the independent shareholders.

Auditors of the Company has written a letter to the board and stated that:

(a) Such transactions received approvals from the board;

(b) The value of such transactions complied with the pricing standard stated in related agreements;

(c) The terms of such transactions were made under the terms of agreement and documents for supervising such transactions;

(d) Related actual amount did not exceed exempt limit.

Related Party Transactions (for Stock Listing Rules of Shanghai Stock Exchange)

The disclosures and approval of the related transaction between the Company and CNOOC Limited or other members of CNOOC Group had complied with the related requirements of the Stock Listing Rules of Shanghai Stock Exchange.

Prospectus of the A Share made full disclosure to the above related transactions and agreements between the Company and CNOOC or other members of CNOOC Group. The Company entered into integrated service under a master agreement with CNOOC on 7 November 2007, making supplement for terms of certain related transactions. Please refer to the China Securities Journal, the Shanghai Securities, the Securities Times, Hong Kong’s Wenhui Pao and the Standard and website of HKSE, the Shanghai Stock Exchange and the website of the Company for details of continuing related transaction published on 8 November 2007. All related transactions made in 2008 have been complied with the related requirement of Stock Listing Rules of Shanghai Stock Exchange.

Related Party Transactions (for Stock Listing Rules of Shanghai Stock Exchange) (continued)

During the year ended 31 December 2008, the major transactions between the Company and related parties were as follows:

Unit: RMB Yuan

Financial Report (PRC)	2008	2007
Provision of drilling services		
CNOOC Limited Group	3,321,950,060	2,568,661,979
CNOOC Group Risk Exploration Project Team	94,999,381	–
CNOOC Energy Technology & Services Ltd. – Oilfield Construction Engineering Company	4,198,500	3,421,026
Other CNOOC Group companies	10,551,899	2,641,488
Jointly-controlled entities	4,688,951	5,262,461
Subtotal	3,436,388,791	2,579,986,954
Gross external revenue amount of provision of drilling services	6,038,878,560	4,020,171,440
Proportion in similar transactions	57%	64%
Provision of well services		
CNOOC Limited Group	2,132,006,625	1,797,711,242
CNOOC Group Risk Exploration Project Team	14,065,327	–
Other CNOOC Group companies	3,391,665	4,342,338
Jointly-controlled entities	11,081,151	11,218,080
Subtotal	2,160,544,768	1,813,271,660
Gross external revenue amount of provision of well services	2,798,360,958	2,323,452,207
Proportion in similar transactions	77%	78%
Provision of marine support and transportation services		
CNOOC Limited Group	1,141,586,066	979,403,351
Offshore Oil Engineering Co., Ltd	91,894,431	80,520,037
CNOOC and Shell Petrochemicals Co., Ltd.	62,054,501	60,150,462
CNOOC Group Risk Exploration Project Team	9,435,738	–
Bohai Material Supply Company	8,196,000	8,196,000
CNOOC Kingboard Chemical Ltd.	24,988,731	35,780,842
Shenzhen Weicheng Ocean Petroleum Technology Co., Ltd.	7,840,381	–
Other CNOOC Group companies	13,438,509	8,839,859
Jointly-controlled entities	4,637,273	2,848,242
Subtotal	1,364,071,630	1,175,738,793
Gross external revenue amount of provision of marine support and transportation services	1,665,446,658	1,417,668,593
Proportion in similar transactions	82%	83%
Provision of geophysical services		
CNOOC Limited Group	1,013,630,433	484,805,704
Offshore Oil Engineering Co., Ltd	119,534,593	132,518,503
Bohai Oil Harbor Engineering and Construction Company	33,000	19,023,492
CNOOC Oil Refinery and Petrochemical & Dongguan Oil Products Storage and Transportation Co., Ltd.	8,611,301	3,817,123
CNOOC Group Risk Exploration Project Team	1,400,000	–
Other CNOOC Group companies	5,539,455	2,702,223
Jointly-controlled entities	4,209,250	–
Subtotal	1,152,958,032	642,867,045
Gross external revenue amount of provision of geophysical services	1,927,566,415	1,480,602,592
Proportion in similar transactions	60%	43%

Related Party Transactions (for Stock Listing Rules of Shanghai Stock Exchange) (continued)

	2008	2007
Transactions with other CNOOC Group companies		
Costs for provision of contracted employees	23,702,339	16,994,003
Costs for purchase of materials, tools and low-value consumables as well as payment of charges for use of public facilities	229,210,428	236,587,787
Payment of transportation charges	2,980,996	8,062,168
Payment of premises rental and vessel berthage	69,519,340	65,750,657
Maintenance charges	13,795,278	24,529,697
Property management charges	53,513,100	6,923,061
Provision of construction project services	107,038,225	–
Related party transactions with CNOOC Finance Co., Ltd. (note 1)		
Interest Income	1,715,928	961
Interest expense	836,347	779,625
Loans and repayment of short term loans	199,658,674	150,000,000

note 1: Deposits at CNOOC Finance Co., Ltd. are interest bearing, at interest rates of comparable commercial bank rates; during the year, the loan interest rate from CNOOC Finance Co., Ltd. was 5.913%.

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.

Post balance sheet events

As of the date of this Report, the Group had no discloseable post balance sheet event.

Audit Committee

In accordance with requirements of related notices of CSRC, before the site audit of the auditors, the audit committee of the Group reviewed the annual audit work arrangement and other related information submitted by the Company, and approved the annual audit work schedule formulated by the Company and the auditors and confirmed effective communications with the auditors before and after such site audit, 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, internal control and financial reporting matters including the review of audited 2008 annual results with the management.

Code on Corporate Governance Practices and Model Code for Securities Transactions by Directors of Listed Issuers

For the year under review, compliance with the Code on Corporate Governance Practices by the Company is set out in the Corporate Governance on pages 44 to 54 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.

REPORT OF THE DIRECTORS

Auditors

This financial report has been audited by Ernst & Young and Ernst & Young Hua Ming. They will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Fu Chengyu
Chairman
1 April 2009

SUPERVISORY COMMITTEE REPORT

The Supervisory Committee of the Company for the year 2008 has diligently performed its responsibilities, supervised and examined the procedures for decision making, the operating situation according to the law and financial disclosure etc. for the Company, and provided necessary protection for the legal benefits of the shareholders, the Company and the staff 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.

1. Changes of Members of the Supervisory Committee during the Reporting Period

During the reporting period, there was no change of members of the Supervisory Committee. As of the date of this report, the Supervisory Committee of the Company comprises of:

Chairman: Zhang Benchun, Supervisor and Staff Representative; Yang Jinghong, elected as the Supervisor and Staff Representative of the Company at the Staff Representatives' Meeting on 26 July 2007 for a term until 25 July 2010; Independent Supervisor: Zhang Dunjie, for a term of 3 years until 26 May 2009.

Due to changes in the Articles of Association with regard to the commencement date of terms of directors and supervisors, the expiry dates of the two supervisors, Zhang Benchun and Zhang Dunjie, have been adjusted from September 2008 and May 2009 to the date of 2009 shareholders' Annual General Meeting. Yang Jinghong, the Supervisor and Staff Representative, has a term until July 2010.

2. Operation of the Supervisory Committee

(1) During the reporting period, supervisor Zhang Benchun attended all 5 regular Board meetings, supervisor Yang Jinghong attended 4 regular Board meetings, supervisor Zhang Dunjie attended 3 regular Board meetings, all three supervisors attended the extraordinary Board meeting on 6 July 2008. During the reporting period, 5 Supervisory Committee's meetings were convened. Each Supervisory Committee's meeting was convened on the same date after each Board meeting that the supervisors attended concluded. Procedures for calling the Board meeting and its resolutions were reviewed during the Committee's meetings;

(2) Members of the Supervisory Committee also attended meetings of the Audit Committee under the Board of Directors during the reporting period and listened to a specific report given by the management in respect of the financial results and internal control;

(3) The Supervisory Committee had given its professional audit advice in respect of the 2007 Annual Report, the 2008 Interim Report, the 1st quarterly report and the 3rd quarterly report for the year 2008 in compliance with the regulatory requirements of the issue of A shares during the reporting period.

(4) Zhang Benchun, Chairman of the Supervisory Committee, attended the Annual General Meeting on 3 June 2008, the first Extraordinary General Meeting on 26 August 2008, Yang Jinghong attended the second Extraordinary General Meeting on 29 December 2008, the two supervisors supervised and witnessed the procedures of the shareholders' general meetings.

3. Independent Opinions of the Supervisory Committee

(1) The Company's operating situation according to the law

After supervising and examining the operating situation of the Board of Directors of the Company and the senior management, and the management system of the Company, the Supervisory Committee of the Company is of the opinion that the procedures for calling the General Meeting and Board meetings and the relevant resolutions made during the reporting period were in compliance with the requirements of the laws, regulations and the Articles of Association. The Board of Directors and the senior management have earnestly performed their responsibilities for integrity and assumed their duties diligently. They also considered that the Company has established a strong internal control system as well as successfully taken measures against the management and financial risks. 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 conducting any behaviour that would damage the interests of the Company and the shareholders.

3. Independent Opinions of the Supervisory Committee (continued)

(2) Financial situation of the Company

The Supervisors have supervised and examined the financial management system and financial situation of the Company by participating the Board meetings and the meetings of the Audit Committee under the Board of Directors and have reviewed relevant financial information of the Company during the examination process. After such examination, the Supervisory Committee is of the opinion that the Company is in strict compliance with the financial laws and regulations and the financial system. The financial management system of the Company is healthy and effective, the accounting methods are consistent while the financial statements are true and reliable. Ernst & Young and Ernst & Young Hua Ming have audited the financial reports of the Company for year 2008 in accordance with HKFRS and CAS and have issued unqualified opinions on the reports. The Supervisory Committee considers the report to be objective and fairly reflects the financial position and the results of operation of the Company.

(3) Management situation of the Company

The Supervisory Committee is of the opinion that during the reporting period, the Company has been under the effective management and control of the Board and the management, with healthy systems and outstanding results.

(4) Use of raised fund

During the reporting period, the Supervisory Committee checked the use of the total net proceeds raised in 2007 by the Company from the issue of A shares amounted to RMB6.599 billion, and is of the opinion that such use was in accordance with the disclosure set out in the prospectus and the requirements of the China Securities Regulatory Commission. No improper use and appropriation of proceeds had occurred.

(5) Acquisitions and disposals of assets by the Company

During the reporting period, the Company completed the acquisition of a Norwegian drilling company (for details please see disclosure documents of the Company), the Supervisory Committee attended the Board meeting which approved the acquisition, and reviewed the report of the management with regard to the acquisition. The Supervisory Committee is of the opinion that the acquisition has been concluded with the Board, the Supervisory Committee and the shareholders well informed, and the Company conducted the acquisition in strict compliance with requirements of laws, regulations and the Articles of Association. During the reporting period, the Company did not dispose any major asset.

(6) 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 HKSE and the Shanghai Stock Exchange and those transactions were necessary for the production and operation of the Company and were at fair prices and in the interests of the Company and the shareholders as a whole.

For and on behalf of
Supervisory Committee
Zhang Benchun
Chairman of the Supervisory Committee
1 April 2009

SIGNIFICANT EVENTS

(I) Significant litigation or arbitration

There was no significant litigation or arbitration during the year.

(II) Bankruptcy or reorganization

There was no bankruptcy or reorganization during the year.

(III) Other major items and analysis and explanation of the influence and solution of such items

Security investment

No	Security code	Security Abbreviation	Initial investment ($)	Shares held	Carrying value at the end of the period ($)	Percentage to period end security investment (%)	Revenue/loss during the reporting period ($)
1	ISIN No0010244346	JACK	207,118,792	11,994,030	34,317,535	100%	106,508,218
Total			207,118,792	11,994,030	34,317,535	100%	106,508,218

The above mention financial asset was held by CDE acquired by the Company on 29 September 2008.

(IV) Acquisitions, disposal of assets and mergers of the Company during the reporting period

Transaction counterparty or ultimate controller	Asset acquired	Acquisition date	Asset acquisition price	Net profit attributed from the acquisition date to the end of the year	Pricing principles on asset acquisition	Whether all related property rights of assets have been transferred	Whether all related creditor' rights and liabilities have been transferred	Net profit attributed from the asset as a percentage to the total net profit of the Listed company (%)	Connected relationship
AWO	100% equity interest in AWO	29-9-2008	A tender price of 85 krones per share	RMB189,870,832	Market price	Yes	Yes	6%	N/A

The Company, COSL Norwegian AS, an indirect wholly owned subsidiary of the Company, and AWO, a company listed in the Oslo Stock Exchange of Norway, entered into a tender agreement on 7 July 2008, thereby COSL Norwegian AS acquired all issued shares of AWO on a voluntary cash offer acquisition basis, at a tender price of 85 Norwegian krones per share.

(V) Significant related party transactions of the Company during the reporting period

According to the connected agreement between the Group and CNOOC or other members of CNOOC Group, the particular details of the related party transactions were included as follows:

(1) Provisions of offshore oilfield services by the Group to CNOOC Group;

(2) Provisions of material, facilities, labor force and full set of logistics services by CNOOC Group to the Group;

(3) Provisions of offices and production plants and related property management services by CNOOC Group to the Company.

(V) Significant related party transactions of the Company during the reporting period (continued)

As of 31 December 2008, significant related party transactions of the Company are set out in related party transactions (applicable for Stock Listing Rules of Shanghai Stock Exchange) of the Report of the Directors.

The Company entered into a number of agreements with CNOOC upon restructuring in respect of employee's benefit arrangement, material provision, public utilities and ancillary service and provision of technology service, house leasing and other various commercial arrangements.

Prior to restructuring, the Group use certain properties of CNOOC without payment. The Company signed a number of leasing agreements with CNOOC on September 2002 to rent the above properties and other properties for one year. Such leasing contracts are renewed annually according to market price.

In view of directors of the Company, the above transactions with related parties were carried out in the normal course of business.

Statement of impact of related transactions on the Company's profit and its necessarity and continuity

There were many connected transactions between the Company and related parties such as CNOOC (China) Limited, due to CNOOC's exclusive regulation of corporation with foreign countries for exploring oil and its development history, which complied with the requirement of the policies in the industry. These related transactions constituted the major income source of the Company, making huge effect on the Company's development. Stable growth in the Company's business during the consecutive six years after listing of H share proved that these related transactions were a dispensable part for the Company's development. The related transaction of the Company confirmed the price of the contracts through public bidding or negotiation, reflecting the fair, justice, open principle and favorable for the development of the Company's main business and ensuring to maximize the interest of shareholders. The fact showed that these related transactions were necessary and should continue in future.

(V) Significant related party transactions of the Company during the reporting period (continued)

Related Parties' Balances

Financial Statements (PRC)

Unit: RMB Yuan

Group	31 December 2008	31 December 2007
Accounts Receivable		
CNOOC Limited Group	1,236,112,535	822,815,876
CNOOC	120,526,395	–
Offshore Oil Engineering Co., Ltd	59,366,522	76,023,676
CNOOC and Shell Petrochemicals Co., Ltd	5,962,685	14,200,360
Fugro	1,875	47,961
Atlantis Deepwater	–	129,340
COSL-Expro	2,426,922	520,856
China France Bohai	76,659	214,264
CNOOC-OTIS	25,134	125,600
Magcobar	623,444	1,761,225
Logging-Atlas	45,284	61,725
Others	11,930,259	12,147,296
	1,437,097,714	928,048,179

(V) Significant related party transactions of the Company during the reporting period (continued)

Unit: RMB Yuan

Group	31 December 2008	31 December 2007
Accounts Payable		
CNOOC Limited Group	1,071,670	–
CNOOC Enterprises Company	3,667,079	3,084,238
CNOOC Energy Technology & Services Ltd.		
– Beijing Human Resources Services Branch	13,190,000	–
Offshore Oil Engineering Co., Ltd	952,652	9,057,080
Fugro	8,332,671	9,278,428
China France Bohai	3,156,492	64,427
Magcobar	10,489,073	7,113,736
Eastern Marine	–	5,102,809
COSL-Expro	212,800	2,800,000
Logging-Atlas	26,786,115	2,463,274
Others	36,840,536	38,936,860
	104,699,088	77,900,852
Amounts payable to CNOOC		
CNOOC (note1)	–	200,000,000
Including: Non-current liability due within one year	–	200,000,000
Deposits kept in Related Company		
CNOOC Finance Co., Ltd	539,821,006	104,917
Other receivables		
CNOOC Limited Group	921,417	1,572,137
CNOOC	2,299,741	1,495,253
Atlantis Deepwater	26,694,570	–
Eastern Marine	–	3,915,266
China France Bohai	2,555,940	1,715,799
COSL-Expro	1,651,610	92,714
CNOOC-OTIS	(120)	41,514
Logging-Atlas	74,250	74,250
Fugro	–	2,145,536
Premium Drilling	71,919,890	–
Others	1,200,554	2,790,667
	107,317,852	13,843,136
Other payables		
CNOOC Limited Group	3,898,837	–
CNOOC	3,248,229	3,248,229
China Offshore Oil Int'l Engineering Company	14,668,495	14,634,459
China France Bohai	96,072	96,072
Premium Drilling	93,771,347	–
Others	16,496,087	9,837,666
	132,179,067	27,816,426
Receipts in advance		
CNOOC Limited Group	33,519,000	69,219,350

(V) Significant related party transactions of the Company during the reporting period (continued)

Unit: RMB Yuan

Group	31 December 2008	31 December 2007
Prepayments		
CNOOC Energy Technology & Services Ltd.		
– Oilfield Construction Engineering Company	24,600,000	–
Offshore Oil Engineering Co., Ltd	259,724,275	–
	284,324,275	–
Notes receivable		
CNOOC Limited Group	338,269,985	–
Notes payable		
Offshore Oil Engineering Co., Ltd	366,762,500	–

note 1:

As of 31 December 2007, accounts payable to CNOOC was unsecured and interest-free, with a repayment period of three years from 1 May 2005, in equal annual payments of RMB200,000,000. The Group has paid off such amount before 30 April 2008.

Besides the above mentioned long term accounts payable to CNOOC, other connected party receivables and payables between the Group and the Company are all interest free, unsecured, and without a defined repayment period.

(VI) Major contracts and their performance

1. Custodies, contracted operation and lease

(1) Custodies

The Company had not taken any custody during the year.

(2) Contracted operation

The Company had not undertaken any significant construction contract during the year.

(3) Lease

The Company had not entered into any significant lease during the year.

2. Guarantee

The Company had not provided significant guarantees during the year.

3. Entrusted fund

The Company had no fund entrustment during the year.

4. Other contracts of significance

The Company entered into a master agreement with CNOOC on 7 November 2007, making supplement for terms of certain connected transactions effective from 1 January 2008 to 31 December 2010. Please refer to China Securities Journal, Shanghai Securities, Securities Times, Hong Kong's Wenhui and THE STANDARD and website of HKSE, Shanghai Stock Exchange and the website of the Company for details of continuing connected transaction published on 8 November 2007.

(VII) Performance of commitments

The commitments of the Company or shareholders with over 5% during the reporting period or continuing to the reporting period.

Commitment	Commitment content	Performance
Commitment made at offering	CNOOC, the controlling shareholder of the Company, undertakes that shares of the Company indirectly held by it shall neither be transferred or entrusted to others for management, nor be acquired by the Company within the 36 months upon listing of A share.	During the reporting period, there was no breach of the commitments stated above.

(VIII) Engagement and dismissal of auditors of the Company

During the reporting period, the Company did not change its auditors. The Company has engaged Ernst & Young Hua Ming as domestic auditors of the Company and Ernst & Young as overseas auditors of the Company since 2002.

(IX) Penalizing and correcting listed companies and their directors, supervisors, senior management, shareholders and beneficial controller

During the reporting period, the Company, its directors, supervisors, senior management, shareholders of the Company and beneficial controller had not been examined, criticised, nor received administrative punishments by CSRC, nor were publicly reprimanded by the Stock Exchange.

(X) Other significant events

Share appreciation rights plan (for details, please see p158-159 of this Annual Report)

SIGNIFICANT EVENTS

(XI) Information disclosure reference

Event	Name of newspaper or interface of posting	Posting date	Link of Worldwide Web of posting
Legal opinion letter of the 2007 2nd Extraordinary General Meeting of COSL		2008-1-3	http://www.sse.com.cn http://www.cosl.com.cn/
Results of the 2007 2nd Extraordinary General Meeting of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-1-3	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Operational Data Announcement for the Full Year of 2007	China Securities Journal, Shanghai Securities News, Securities Times	2008-1-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement on the Estimated Increase in Revenue and Net Profits for the Year of 2007	China Securities Journal, Shanghai Securities News, Securities Times	2008-1-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Notice of Board Meeting		2008-3-15	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Internal Control Report		2008-3-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Annual Results Announcement for the Year ended 31 December 2007		2008-3-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement of Results of the Supervisory Committee	China Securities Journal, Shanghai Securities News, Securities Times	2008-3-31	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Special Explanation to COSL Accounts receivable from the Controlling Shareholder and Connected Parties		2008-3-31	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement of Results of the Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times	2008-3-31	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL A Share Annual Report		2008-3-31	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Annual Report Summary	China Securities Journal, Shanghai Securities News, Securities Times	2008-3-31	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Notice of Board Meeting		2008-4-21	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Annual General Meeting (H Share)		2008-4-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL 2007 H Share Annual Report		2008-4-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Circular of Annual General Meeting		2008-4-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

(XI) Information disclosure reference (continued)

Event	Name of newspaper or interface of posting	Posting date	Link of Worldwide Web of posting
Proxy Form and Reply Slip for 2007 Annual General Meeting		2008-4-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement of Results of the Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times	2008-4-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Circular of COSL H Share Annual General Meeting		2008-4-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL H Share Announcement		2008-4-30	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL 1st Quarterly Report	China Securities Journal, Shanghai Securities News, Securities Times	2008-4-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement for Convening of 2007 Annual General Meeting	China Securities Journal, Shanghai Securities News, Securities Times	2008-4-30	http://www.sse.com.cn http://www.cosl.com.cn/
COSL Announcement for Network Road Show Activities	China Securities Journal, Shanghai Securities News, Securities Times	2008-5-9	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Connected Transaction Announcement	China Securities Journal, Shanghai Securities News, Securities Times	2008-5-9	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Legal opinion letter of the 2007 Annual General Meeting of COSL		2008-6-4	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement for the Results of 2007 Annual General Meeting of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-6-4	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement for A Share 2007 Final Dividend	China Securities Journal, Shanghai Securities News, Securities Times	2008-6-18	http://www.sse.com.cn http://www.hkex.com.hk/index.htm
Declaration Announcement of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-6-24	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Suspension Announcement		2008-7-7	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Possible Major Transaction		2008-7-7	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reorganization Plan for Major Assets of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-7-8	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of Results of Interim Board Meeting of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-7-8	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

SIGNIFICANT EVENTS

(XI) Information disclosure reference (continued)

Event	Name of newspaper or interface of posting	Posting date	Link of Worldwide Web of posting
Proxy Form for the Extraordinary General Meeting		2008-7-21	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Slip for the Extraordinary General Meeting		2008-7-21	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Purchase Report for Major Assets of COSL (Summary)	China Securities Journal, Shanghai Securities News, Securities Times	2008-7-22	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Purchase Report for Major Assets of COSL		2008-7-22	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement for the 2008 1st Extraordinary General Meeting of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-7-22	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Progress Announcement with regard to the Acquisition of Equity Interests in AWO of Norway by COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-7-31	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Progress Announcement with regard to the Acquisition of Equity Interests in AWO of Norway by COSL (II)	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-13	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
H Share Announcement of COSL (Board Meeting Announcement)		2008-8-15	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Progress Announcement with regard to the Acquisition of Equity Interests in AWO of Norway by COSL (III)	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-19	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Legal opinion letter for the 2008 1st Extraordinary General Meeting of COSL		2008-8-27	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of Results of the 2008 1st Extraordinary General Meeting of COSL and Progress in Overseas Acquisition Project	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-27	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement for Adjustment of Disclosure Date of 2008 Interim Results of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-27	http://www.sse.com.cn http://www.cosl.com.cn/
COSL 2008 Interim Results Announcement		2008-8-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement of Results of the 2008 3rd Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-29	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Interim Report Summary	China Securities Journal, Shanghai Securities News, Securities Times	2008-8-29	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

(XI) Information disclosure reference (continued)

Event	Name of newspaper or interface of posting	Posting date	Link of Worldwide Web of posting
COSL Interim Report		2008-8-29	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement with regard to the Self Inspection Report on Corporate Governance Special Activities	China Securities Journal, Shanghai Securities News, Securities Times	2008-9-4	http://www.sse.com.cn http://www.cosl.com.cn/
COSL Connected Transaction Announcement	China Securities Journal, Shanghai Securities News, Securities Times	2008-9-6	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL H Share 2008 Interim Report		2008-9-16	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Progress Announcement with regard to the Acquisition of Equity Interests in AWO of Norway by COSL (IV)	China Securities Journal, Shanghai Securities News, Securities Times	2008-9-19	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Purchase Report for Major Assets of COSL (Summary, Revised)	China Securities Journal, Shanghai Securities News, Securities Times	2008-9-20	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Purchase Report for Major Assets of COSL (Revised)		2008-9-20	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Progress Announcement with regard to the Acquisition of Equity Interests in AWO of Norway by COSL (V)	China Securities Journal, Shanghai Securities News, Securities Times	2008-10-7	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement with regard to Income Tax Exemption in 2007	China Securities Journal, Shanghai Securities News, Securities Times	2008-10-16	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Progress Announcement with regard to the Acquisition of Equity Interests in AWO of Norway by COSL (VI)	China Securities Journal, Shanghai Securities News, Securities Times	2008-10-17	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL H Share Announcement (Announcement of Board Meeting)		2008-10-18	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Declaration Announcement with regard to Foreign Exchange Investment and Foreign Exchange Transaction Loss	China Securities Journal, Shanghai Securities News, Securities Times	2008-10-28	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL 3rd Quarterly Report	China Securities Journal, Shanghai Securities News, Securities Times	2008-10-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Progress Announcement with regard to the Acquisition of Equity Interests in AWO of Norway by COSL (VII)	China Securities Journal, Shanghai Securities News, Securities Times	2008-11-5	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

(XI) Information disclosure reference (continued)

Event	Name of newspaper or interface of posting	Posting date	Link of Worldwide Web of posting
Report on the Implementation of Reorganization of Major Assets of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-11-6	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Review Opinion of the Independent Financial Advisor on the Implementation of Reorganization of Major Assets of COSL		2008-11-6	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Legal Opinion on the Implementation of Reorganization of Major Assets of COSL		2008-11-6	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement on the Proposed Issuance of Domestic Corporate Bond in China and the Date of Suspension of Registration of Share Transfer		2008-11-25	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Circular on the Proposed Issuance of Domestic Corporate Bond in China and the Notice of Extraordinary General Meeting of Shareholders		2008-11-26	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Announcement of Results of Board Meeting	China Securities Journal, Shanghai Securities News, Securities Times	2008-11-26	http://www.sse.com.cn http://www.cosl.com.cn/
COSL Notice of 2008 2nd Extraordinary General Meeting of Shareholders	China Securities Journal, Shanghai Securities News, Securities Times	2008-11-27	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Extraordinary General Meeting		2008-11-27	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Slip for the Extraordinary General Meeting		2008-11-27	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proxy Form for the Extraordinary General Meeting		2008-11-27	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement on Irregular Changes in Share Price and Trading Volume		2008-12-10	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL Connected Transaction Announcement	China Securities Journal, Shanghai Securities News, Securities Times	2008-12-20	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Legal Opinion on 2008 2nd Extraordinary General Meeting of Shareholders of COSL		2008-12-30	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of Results of 2008 2nd Extraordinary General Meeting of Shareholders of COSL	China Securities Journal, Shanghai Securities News, Securities Times	2008-12-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Supplemental Circular on Major Transactions		2008-12-30	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

Report of the Auditors

ERNST & YOUNG

Ernst & Young Hua Ming (2009) Shen Zi No. 60157570_A01

To the shareholders of China Oilfield Services Limited:

We have audited the accompanying financial statements of China Oilfield Services Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated and company balance sheets as at 31 December 2008, the consolidated and company income statements, the consolidated and company statements of changes in equity and the consolidated and company cash flow statements for the year then ended and notes to these financial statements.

1. Management's Responsibility for the Financial Statements

The management of the Company is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

2. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considers internal control relevant to the entity's preparation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. Opinion

In our opinion, the financial statements of the Company and the Group have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material respects, the financial positions of the Group and the Company as of 31 December 2008 and the results of their operations and the consolidated cash flows and cash flows of the Company for the year then ended.

Ernst & Young Hua Ming

Certified Public Accountant
Registered in the People's Republic of China — Ge Ming
Certified Public Accountant
Registered in the People's Republic of China — Liu Lei

Beijing, the People's Republic of China — 1 April 2009

Consolidated Balance Sheet

31 December 2008
RMB Yuan

Assets	Note 6	31 December 2008	31 December 2007
Current Assets:			
Cash on hand and at bank	1	4,578,484,264	8,778,193,761
Notes receivable	2	354,869,985	2,250,000
Accounts receivable	3	2,735,024,686	1,404,781,484
Prepayments	4	1,281,548,540	48,641,339
Interest receivable	5	4,342,362	23,421,647
Dividend receivable	6	16,391,075	21,287,114
Other receivables	7	306,469,550	130,102,922
Inventories	8	780,870,653	417,766,036
Available-for-sale financial assets	10	–	607,337,984
Current portion of non-current assets	9	39,117,655	–
Total current assets		10,097,118,770	11,433,782,287
Non-current Assets:			
Available-for-sale financial assets	10	34,317,535	–
Long-term equity investments	11	589,449,106	485,171,185
Held-to-maturity investment	9	78,235,318	–
Fixed assets	12	24,068,861,634	7,183,359,447
Construction in progress	13	17,007,742,511	3,665,892,052
Intangible assets	14	533,599,646	67,922,090
Goodwill	15	3,480,541,331	–
Long-term deferred expenses	16	769,252,771	252,953,029
Total non-current assets		46,561,999,852	11,655,297,803
Total Assets		56,659,118,622	23,089,080,090

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

Consolidated Balance Sheet (continued)

31 December 2008
RMB Yuan

Liabilities and Shareholders' Equity	Note 6	31 December 2008	31 December 2007
Current Liabilities:			
Short-term bank borrowings	19	6,835,596,924	–
Notes payable	20	366,762,500	–
Accounts payable	21	2,376,732,369	1,667,848,434
Receipts in advance	22	38,818,223	78,080,001
Staff cost payable	23	485,875,262	397,450,682
Taxes payable	24	343,298,457	528,338,656
Interests payable		327,961,642	43,375,880
Other payables	25	636,027,209	210,689,089
Current portion of non-current liabilities	26	943,020,215	400,000,000
Other current liabilities		54,381,067	58,720,187
Total current liabilities		12,408,473,868	3,384,502,929
Non-current Liabilities:			
Derivate financial instruments	27	49,307,921	–
Long-term bank borrowings	28	16,355,446,023	744,000,000
Long-term bonds	29	4,028,341,874	1,500,000,000
Deferred tax liabilities	30	2,429,001,220	235,569,366
Staff cost payable	23	5,663,626	–
Other non-current liabilities	31	1,585,039,930	–
Total non-current liabilities		24,452,800,594	2,479,569,366
Total Liabilities		36,861,274,462	5,864,072,295
Shareholders' Equity			
Share capital	32	4,495,320,000	4,495,320,000
Capital reserve	33	8,074,565,726	8,074,565,726
Statutory reserve funds	34	1,000,055,668	677,614,950
Retained earnings	35	6,208,025,040	3,967,663,009
Including: Proposed Cash Dividends	36	629,344,800	539,438,400
Cumulative translation reserves		19,877,726	9,844,110
Equity attributable to equity holders of the Parent		19,797,844,160	17,225,007,795
Total Shareholders' Equity		19,797,844,160	17,225,007,795
Total Liabilities and Shareholders' Equity		56,659,118,622	23,089,080,090

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

The financial statements as set out on page 96 to 182 were signed by the following persons:

Chief Executive Officer:
Liu Jian
1 April 2009

Executive Vice President & Chief Financial Officer:
Zhong Hua
1 April 2009

General Manager (Finance Department):
Chen Linting
1 April 2009

Consolidated Income Statement

Year ended 31 December 2008
RMB Yuan

		Note 6	2008	2007
1.	**Revenue**	37	**12,430,252,591**	9,241,894,832
	Less: Operating costs		**7,929,906,369**	5,890,435,187
	Business taxes and surcharges	38	**287,308,569**	233,907,439
	Selling expenses		**6,206,044**	3,195,634
	General and administrative expenses		**378,653,079**	284,383,687
	Financial expenses	39	**366,105,924**	89,735,311
	Assets impairment losses	40	**159,493,125**	6,450,718
	Fair value losses	41	**52,983,938**	–
	Add: Investment income	42	**89,666,903**	125,036,694
	Including: Share of profits of jointly-controlled entities		**215,707,167**	113,152,456
2.	**Operating profit**		**3,339,262,446**	2,858,823,550
	Add: Non-operating income	43	**48,670,373**	38,610,931
	Less: Non-operating expenses	44	**80,646,406**	30,867,341
	Including: Loss on disposal of non-current assets		**55,541,786**	18,868,802
3.	**Profit before tax**		**3,307,286,413**	2,866,567,140
	Less: Income tax expenses	45	**205,045,264**	628,983,283
4.	**Net profit**		**3,102,241,149**	2,237,583,857
	Net profit attributable to equity holders of the Parent		**3,102,241,149**	2,237,583,857
5.	**Earnings per share**			
	Basic and diluted earnings per share	46	**0.69**	0.54

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2008
RMB Yuan

		2008							
		Attributable to equity holders of the Parent							
		Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Cumulative translation reserves	Subtotal	Minority interest	Total shareholders' equity
1.	1 January 2008	4,495,320,000	8,074,565,726	677,614,950	3,967,663,009	9,844,110	17,225,007,795	–	17,225,007,795
2.	Increase/(decrease) during the year								
	(1) Net profit	–	–	–	3,102,241,149	–	3,102,241,149	–	3,102,241,149
	(2) Profit and loss directly accounted for in shareholders' equity	–	–	–	–	–	–	–	–
	Subtotal of above (1) and (2)	–	–	–	3,102,241,149	–	3,102,241,149	–	3,102,241,149
	(3) Appropriation of profit								
	a. Transfer to statutory reserve funds	–	–	322,440,718	(322,440,718)	–	–	–	–
	b. Distribution to shareholders	–	–	–	(539,438,400)	–	(539,438,400)	–	(539,438,400)
	(4) Acquisition of a subsidiary	–	–	–	–	–	–	181,033,794	181,033,794
	(5) Acquisition of minority interests	–	–	–	–	–	–	(181,033,794)	(181,033,794)
3.	Cumulative translation reserve	–	–	–	–	10,033,616	10,033,616	–	10,033,616
4.	31 December 2008	4,495,320,000	8,074,565,726	1,000,055,668	6,208,025,040	19,877,726	19,797,844,160	–	19,797,844,160

		2007							
		Attributable to equity holders of the Parent							
		Share capital	Capital reserves	Statutory reserve funds	Retained earnings	Cumulative translation reserve	Subtotal	Minority interest	Total shareholders' equity
1.	1 January 2007	3,995,320,000	1,975,810,300	442,515,264	2,204,898,038	67,674	8,618,611,276	–	8,618,611,276
2.	Increase/(decrease) during the year								
	(1) Net profit	–	–	–	2,237,583,857	–	2,237,583,857	–	2,237,583,857
	(2) Profit and loss directly accounted for in shareholders' equity	–	–	–	–	–	–	–	–
	Subtotal of above (1) and (2)	–	–	–	2,237,583,857	–	2,237,583,857	–	2,237,583,857
	(3) Shareholders' capital contribution and reduction								
	a. Shareholders' capital contribution	500,000,000	6,098,755,426	–	–	–	6,598,755,426	–	6,598,755,426
	(4) Appropriation of profit								
	a. Transfer to statutory reserve funds	–	–	235,099,686	(235,099,686)	–	–	–	–
	b. Distribution to shareholders	–	–	–	(239,719,200)	–	(239,719,200)	–	(239,719,200)
3.	Cumulative translation reserves	–	–	–	–	9,776,436	9,776,436	–	9,776,436
4.	31 December 2007	4,495,320,000	8,074,565,726	677,614,950	3,967,663,009	9,844,110	17,225,007,795	–	17,225,007,795

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2008
RMB Yuan

	Note 6	2008	2007
1. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		10,833,451,160	8,852,457,196
Tax refund received		79,371,980	319,286,114
Other cash received relating to operating activities		22,504,710	76,303,892
Subtotal of cash inflows from operating activities		10,935,327,850	9,248,047,202
Cash paid for goods and services		(3,323,599,106)	(3,294,988,215)
Cash paid to and for employees		(2,130,827,606)	(1,554,342,261)
Cash paid for taxes		(772,859,396)	(916,253,032)
Other cash paid relating to operating activities	47	(671,379,872)	(518,185,656)
Subtotal of cash outflows from operating activities		(6,898,665,980)	(6,283,769,164)
Net cash flows from operating activities	48	4,036,661,870	2,964,278,038
2. Cash flows from investing activities:			
Cash received from disposal of investments		3,358,075,649	175,000,000
Cash received from return on investments		159,794,446	92,977,084
Cash received on interest income from bank deposits		183,697,977	38,738,832
Cash received from disposal of fixed assets		11,694,361	40,668,247
Subtotal of cash inflows from investing activities		3,713,262,433	347,384,163
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(7,630,571,357)	(3,128,404,366)
Net cash paid for acquisition of a subsidiary		(15,647,032,930)	(13,282,536)
Cash paid for acquisition of other investments		(1,060,000,000)	(2,550,104,310)
Subtotal of cash outflows from investing activities		(24,337,604,287)	(5,691,791,212)
Net cash flows from investing activities		(20,624,341,854)	(5,344,407,049)
3. Cash flows from financing activities:			
Cash received from scientific research grants		55,040,000	69,150,000
Cash received from new borrowings and bonds issue		15,781,718,567	1,994,000,000
Proceeds from issuance of shares		–	6,598,755,426
Subtotal of cash inflows from financing activities		15,836,758,567	8,661,905,426
Cash paid for repayment of borrowings		(570,865,000)	(1,350,000,000)
Cash paid for dividends		(539,438,400)	(239,719,200)
Cash paid for interest expenses		(408,705,878)	(43,719,646)
Other cash paid relating to financing activities		(77,872,754)	(20,353,730)
Subtotal of cash outflows from financing activities		(1,596,882,032)	(1,653,792,576)
Net cash flows from financing activities		14,239,876,535	7,008,112,850
4. Effect of foreign exchange rate fluctuation on cash		(153,830,399)	(23,174,909)
5. Net (decrease)/increase in cash and cash equivalents		(2,501,633,848)	4,604,808,930
Add: Cash and cash equivalents at beginning of year		6,797,121,900	2,192,312,970
6. Cash and cash equivalents at end of year	49	4,295,488,052	6,797,121,900

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

Balance Sheet

31 December 2008
RMB Yuan

Assets	Note 8	31 December 2008	31 December 2007
Current Assets:			
Cash on hand and at bank		3,042,002,086	8,335,437,789
Notes receivable		354,869,985	2,250,000
Accounts receivable	1	3,316,608,684	2,059,546,704
Prepayments		1,230,299,627	45,951,503
Interest receivable		3,024,938	23,421,647
Dividend receivable		16,391,075	21,287,114
Other receivables	2	527,892,570	503,521,163
Inventories		650,306,338	409,223,797
Available-for-sale financial assets		–	607,337,984
Total current assets		9,141,395,303	12,007,977,701
Non-current Assets:			
Long-term equity investments	3	7,216,576,177	305,827,269
Fixed assets		10,289,703,965	6,998,092,402
Construction in progress		4,217,663,329	3,665,853,952
Intangible assets		324,345,191	67,922,090
Long-term deferred expenses		754,460,662	252,953,029
Total non-current assets		22,802,749,324	11,290,648,742
Total Assets		31,944,144,627	23,298,626,443

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

Balance Sheet (continued)

31 December 2008
RMB Yuan

Liabilities and Shareholders' Equity	31 December 2008	31 December 2007
Current Liabilities		
Notes payable	366,762,500	–
Accounts payable	2,042,417,318	1,598,588,430
Receipts in advance	38,778,581	78,080,001
Staff cost payable	420,782,578	396,700,200
Taxes payable	249,251,395	511,807,277
Interests payable	49,579,424	43,375,880
Other payables	127,892,339	209,213,957
Current portion of non-current liabilities	244,000,000	400,000,000
Other current liabilities	54,175,828	58,720,187
Total current liabilities	3,593,639,963	3,296,485,932
Non-current Liabilities:		
Long-term bank borrowings	6,367,680,000	744,000,000
Long-term bonds	1,500,000,000	1,500,000,000
Deferred tax liabilities	281,827,779	235,569,366
Total non-current liabilities	8,149,507,779	2,479,569,366
Total Liabilities	11,743,147,742	5,776,055,298
Shareholders' Equity		
Share capital	4,495,320,000	4,495,320,000
Capital reserve	8,074,565,726	8,074,565,726
Statutory reserve funds	1,000,055,668	677,614,950
Retained earnings	6,636,246,905	4,273,718,845
Including: Proposed Cash Dividends	629,344,800	539,438,400
Cumulative translation reserve	(5,191,414)	1,351,624
Total Shareholders' Equity	20,200,996,885	17,522,571,145
Total Liabilities and Shareholders' Equity	31,944,144,627	23,298,626,443

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

The financial statements as set out on page 96 to 182 were signed by the following persons:

Chief Executive Officer:
Liu Jian
1 April 2009

Executive Vice President & Chief Financial Officer:
Zhong Hua
1 April 2009

General Manager (Finance Department):
Chen Linting
1 April 2009

Income Statement

Year ended 31 December 2008
RMB Yuan

		Note 8	2008	2007
1.	**Revenue**	4	**10,462,547,470**	8,563,898,999
	Less: Operating costs	5	**6,564,680,493**	5,171,121,984
	Business taxes and surcharges		**286,405,749**	233,668,338
	Selling expenses		**3,106,140**	2,117,897
	General and administrative expenses		**278,556,547**	249,656,468
	Financial expenses		**193,443,623**	102,420,574
	Assets impairment losses		**52,984,907**	2,873,931
	Add: Investment income	6	**238,225,395**	136,688,429
	Including: Share of profits of jointly-controlled entities		**208,246,552**	124,804,192
2.	**Operating profit**		**3,321,595,406**	2,938,728,236
	Add: Non-operating income		**48,670,373**	38,610,931
	Less: Non-operating expenses		**77,577,259**	30,843,735
	Including: Loss on disposal of non-current assets		**52,484,965**	18,868,802
3.	**Profit before tax**		**3,292,688,520**	2,946,495,432
	Less: Income tax expenses		**68,281,342**	595,498,568
4.	**Net profit**		**3,224,407,178**	2,350,996,864

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2008
RMB Yuan

	2008					
	Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Cumulative translation reserves	Total shareholders' equity
1. 1 January 2008	4,495,320,000	8,074,565,726	677,614,950	4,273,718,845	1,351,624	17,522,571,145
2. Increase/decrease during the year						
(1) Net profit	–	–	–	3,224,407,178	–	3,224,407,178
(2) Profit and loss directly accounted for in shareholders' equity	–	–	–	–	–	–
Subtotal of above (1) and (2)	–	–	–	3,224,407,178	–	3,224,407,178
(3) Appropriation of profits						
1. Transfer to statutory reserve funds	–	–	322,440,718	(322,440,718)	–	–
2. Distribution to shareholders	–	–	–	(539,438,400)	–	(539,438,400)
3. Cumulative translation reserve	–	–	–	–	(6,543,038)	(6,543,038)
4. 31 December 2008	4,495,320,000	8,074,565,726	1,000,055,668	6,636,246,905	(5,191,414)	20,200,996,885

	2007					
	Share capital	Capital reserves	Statutory reserve funds	Retained earnings	Cumulative translation reserves	Total shareholders' equity
1. 1 January 2007	3,995,320,000	1,975,810,300	442,515,264	2,397,540,867	67,674	8,811,254,105
2. Increase/decrease during the year						
(1) Net profit	–	–	–	2,350,996,864	–	2,350,996,864
(2) Profit and loss directly accounted for in shareholders' equity	–	–	–	–	–	–
Subtotal of above (1) and (2)	–	–	–	2,350,996,864	–	2,350,996,864
(3) Shareholders' capital contributions and reduction						
a. Shareholders' capital contribution	500,000,000	6,098,755,426	–	–	–	6,598,755,426
(4) Appropriation of profits						
1. Transfer to statutory reserve funds	–	–	235,099,686	(235,099,686)	–	–
2. Distribution to shareholders	–	–	–	(239,719,200)	–	(239,719,200)
3. Cumulative translation reserve	–	–	–	–	1,283,950	1,283,950
4. 31 December 2007	4,495,320,000	8,074,565,726	677,614,950	4,273,718,845	1,351,624	17,522,571,145

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

Cash Flow Statement

Year ended 31 December 2008
RMB Yuan

	Note 8	2008	2007
1. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		8,743,863,684	7,880,107,329
Tax refund received		79,371,980	308,220,331
Other cash received relating to operating activities		40,595,110	76,303,892
Subtotal of cash inflows from operating activities		8,863,830,774	8,264,631,552
Cash paid for goods and services		(3,008,519,342)	(2,819,127,498)
Cash paid to and for employees		(1,691,694,557)	(1,317,908,010)
Cash paid for taxes		(661,559,392)	(821,013,069)
Other cash paid relating to operating activities		(519,234,225)	(454,270,620)
Subtotal of cash outflows from operating activities		(5,881,007,516)	(5,412,319,197)
Net cash flows from operating activities		2,982,823,258	2,852,312,355
2. Cash flows from investing activities:			
Cash received from disposal of investments		3,360,755,000	175,000,000
Cash received from return on investments		159,794,446	92,977,084
Cash received on interest income from bank deposits		147,271,263	31,801,365
Cash received from disposal of fixed assets		9,684,256	33,727,579
Subtotal of cash inflows from investing activities		3,677,504,965	333,506,028
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(7,060,652,414)	(3,112,400,761)
Net cash paid for acquisition of a subsidiary		(1,060,000,000)	(2,552,074,571)
Cash paid for acquisition of other investments		(6,827,665,500)	–
Subtotal of cash outflows from investing activities		(14,948,317,914)	(5,664,475,332)
Net cash flows from investing activities		(11,270,812,949)	(5,330,969,304)
3. Cash flows from financing activities:			
Cash received from scientific research grants		55,040,000	69,150,000
Cash received from new borrowings and bonds issue		5,867,600,000	1,994,000,000
Proceeds from issue of shares		–	6,598,755,426
Subtotal of cash inflows from financing activities		5,922,640,000	8,661,905,426
Cash paid for repayment of borrowings		(400,000,000)	(1,350,000,000)
Cash paid for dividends		(539,438,400)	(239,719,200)
Cash paid for interest expenses		(192,894,262)	(43,516,955)
Other cash paid relating to financing activities		(54,676,000)	(20,353,730)
Subtotal of cash outflows from financing activities		(1,187,008,662)	(1,653,589,885)
Net cash flows from financing activities		4,735,631,338	7,008,315,541
4. Effect of foreign exchange rate fluctuation on cash		(40,322,350)	(38,312,688)
5. Net (decrease)/increase in cash and cash equivalents		(3,592,680,703)	4,491,345,904
Add: Cash and cash equivalents at beginning of year		6,362,919,489	1,871,573,585
6. Cash and cash equivalents at end of year		2,770,238,786	6,362,919,489

The accompanying notes on page 106 to 182 form an integral part of these financial statements.

Notes to the Financial Statements

31 December 2008
RMB Yuan

1. General Information of the Group

The establishment of China Oilfield Services Limited (the "Company") by China National Offshore Oil Corporation ("CNOOC") with a registered capital of RMB 2,600 million was approved by the State Economic and Trade Commission on 20 September 2002 vide Guo Jingmao Qigai (2002) No.694. On the date of incorporation of the Company, CNOOC contributed the net assets as owned by itself and the equity of the relevant companies held by its subsidiaries, based on valuations as of 30 April 2002 (the base date for the reorganization), equivalent to RMB 2,600 million in the form of domestic state-owned legal person shares and RMB 1,356.6543 million in the form of capital reserves of the Company as the capital investment. The Company has been registered as a joint stock limited liability company in the Peoples Republic of China ("PRC") on 26 September 2002 (registration number of 1000001003612); its business scope principally covers the provisions of the services for surveying, exploration, well drilling, development and exploitation for oil, gas and other minerals as well as providing vessel services. The registered office of the Company is located at No.3-1516, Hebei Road, Haiyang New and Hi-tech Development Zone, Tanggu, Tianjin 300451, PRC.

Based on the approval by China Securities Regulatory Commission ("CSRC") vide Zhengjian Faxing Zi (2002) No.30 dated 11 October 2002, the Company issued 1,395,320,000 shares of foreign capital ordinary shares with par value of RMB 1 each and at the price of HK$1.68 per share. Besides, 139,532,000 shares of state-owned shares were sold at the price of HK$ 1.68 per share. All such shares were purchased in Hong Kong dollar and were listed at Hong Kong Stock Exchange on 20 November 2002. The registered capital of the Company was changed to RMB 3,995,320,000 and the share capital amount was RMB 3,995,320,000 of RMB 1 per share, among which, the state promoter, CNOOC, held 2,460,468,000 shares of state-owned legal person shares while the public held 1,534,852,000 shares of overseas listed foreign capital shares.

Based on the approval by CSRC vide Zhengjian Faxing Zi (2007) No.284 dated 11 September 2007, the Company was authorised to issue 500,000,000 ordinary A shares ("ordinary shares") which were listed at Shanghai Stock Exchange on 28 September 2007 at the issue price of RMB 13.48 per share; after deduction of relevant listing expenses, the net amount raised through the issuance of A share was RMB 6,598,755,426. After such public offer of ordinary shares, the registered capital of the Company changed to RMB 4,495,320,000 and the share capital amount was RMB 4,495,320,000 with par value of RMB 1 per share, among which, CNOOC held 2,460,468,000 shares of state-owned legal person share while the public held 1,534,852,000 shares of overseas listed foreign capital shares and 500,000,000 shares of RMB ordinary shares.

The parent company and the ultimate company of the Company is China National Offshore Oil Corporation, a company incorporated in PRC.

2. Basis of preparation of financial statements

These financial statements have been prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance in February 2006, and the application guidance, interpretations and other related regulations issued subsequently (collectively as the "Accounting Standards for Business Enterprises" or "CAS").

As at 31 December 2008, the current liabilities of the Group exceeded its current assets by approximately RMB2,311,355,098. The financial statements have been prepared under the going concern basis as the directors believe the Group will have adequate funds to meet its liabilities as and when they fall due after taking into account the expected cash flows from its operations and unutilised banking facilities.

Statement of compliance with the Accounting Standards for Business Enterprises
These financial statements comply with the requirements of the Accounting Standards for Business Enterprises and fairly and completely reflect the financial positions of the Group and the Company as at 31 December 2008 and their operating results and cash flows for the year then ended.

3. Significant accounting policies and accounting estimates

The financial information contained in these financial statements of the Group and the Company for year ended 31 December 2008 are prepared according to the following significant accounting policies and accounting estimates, which are established in accordance with CAS.

(1) Accounting year
The accounting year of the Group is from 1 January to 31 December.

(2) Functional currency
These financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. All values are recorded to the nearest Yuan, except when otherwise indicated.

The subsidiaries and jointly-controlled entities of the Group determine its own functional currency based on the business environment; and translated to RMB in preparing these financial statements.

(3) Basis of accounting and measurement bases
The financial statements are prepared on accrual basis under the historical cost convention except for certain financial instruments. In case of impairment, the corresponding impairment provision shall be made in line with relevant regulations.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(4) Business combination

Business combination represents a transaction or matter of combining two or more individual enterprises into one reporting entity. Business combination comprises business combination under common control and business combination not under common control. The Company only have business combination not under common control for the relevant financial reporting period.

Business combinations involving enterprises not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. In such case, the entity that acquires the controlling right over the other entity on the date of business combination is the acquirer while the other entity is the acquiree. The acquisition date is the date on which the Group effectively obtains controls of the acquiree.

For business combination not under common control, the cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at the fair value at the acquisition date, equity instruments issued and liabilities incurred and assumed, in exchange for control of the acquiree plus costs directly attributable to the business combination. For a business achieved in stages by successive exchange, the cost of combination is the aggregate costs of individual transactions. If the business combination agreement provides for adjustments to the cost of combination that are contingent on one or more future events, and on the date of acquisition the future events are probable and the amount can measured reliably, the adjustments should include in the cost of combination.

The identifiable assets, liabilities or contingent liabilities under business combination not under common control shall be measured at fair value on the date of acquisition.

Any excess of cost of a business combination over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill. If the acquirer's interest in the fair value of the acquiree's identifiable net assets exceeds the cost of business combination, the fair value of the identifiable assets, liabilities or contingent liabilities as well as the cost of business combination is reassessed and after reassessment, any excess of the acquirer's interest in the fair value of the acquiree's identifiable net assets over the cost of business combination is recognised in the consolidated income statement.

(5) Consolidated financial statements

The consolidation scope is determined based on the control, the consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. Subsidiaries represent entities controlled by the Company.

When preparing the consolidated financial statements, same accounting period is applied to subsidiaries and the Company, and for any potential differences in accounting policies applied by the subsidiaries are adjusted in accordance with the accounting policies of the Company. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent interests outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries and are disclosed separately in the consolidated financial statements.

When the Company prepares consolidated financial statements, an acquisition of minority interests is accounted for by taking the difference between the long-term equity investment and the book value of the share of the net assets acquired to capital reserve, and in the event that the capital reserve is not sufficient to make this adjustment, the difference is adjusted to retained earnings.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities not under common control. The results and cash flows of the subsidiary are consolidated from the date of acquisition, being the date on which the Group obtains the control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, the identifiable assets, liabilities and contingent liabilities of the subsidiary are consolidated from the date that control commences, base on the fair value of those identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition.

(6) Cash equivalents

Cash equivalents represent short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(7) Foreign currency translation

The Group converts the amount of foreign currency transactions in to its functional currency.

Foreign currency transactions are initially recorded using the functional currency rate of exchange on the first day of the month of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rate at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined, and the differences are taken to the consolidated income statement or capital reserve.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, the shareholders' equity other than retained profits are translated into RMB at the spot exchange rate at the date of the transactions, and their income statements are translated into RMB of the weighted average exchange rates for the year. The resulting exchange differences are included in the cumulative translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statements, 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 weighted average exchange rate for the year. The differences are separately disclosed in consolidated cash flow statements.

(8) Inventories

Inventories consist of materials and supplies used for the repairs and maintenance of plant and equipment and daily operations. Inventories are stated at cost initially. Inventories costs comprise purchase cost. The actual cost of transfer or delivery of inventories is determined by weighted average method.

The Group adopts inventory perpetual physical count method.

On balance sheet date, inventories are stated at the lower of cost and net realisable value, the excess of the cost over the net realisable value of the inventories is recognised as a provision for diminution in the value of inventories in the consolidated income statements. If the factor for diminution in the value of inventories disappears and the net realisable value of inventories is higher than its carrying amount, the provision previously recognised can be reversed in the consolidated income statement to the extent of the previously recognised provision amount.

Net realisable value is based on the estimated selling price in the ordinary course of business, less any estimated costs to completion and estimated costs necessary to make the sale and relevant taxes. Inventories provision is made according to category of inventories.

(9) Long-term equity investments

Long-term equity investments comprise equity investments in subsidiaries, long-term equity investments in its jointly-controlled entities as well as other long-term equity investments where the Group does not have control, joint control or significant influence over the investees, and which are not quoted in an active market and whose fair value cannot be reliably measured. The initial recognition of long-term equity investment is stated at initial investment cost upon acquisition.

Other long-term equity investments where the Group does not have control, joint control or significant influence over the investee, and which are not quoted in an active market and whose fair value cannot be reliably measured are accounted for using the cost method. Long-term equity investments where the Company has the control over the investees are accounted for using the cost method when preparing the financial statements of the Company.

When cost method is used, long-term equity investments are stated at initial investment costs. Investment income is recognised in income statement to the extent of cash dividends or profit distribution declared by the investee. If such investment income exceeds the Group's shares of the investees' retained profits, the surplus is taken as a recovery of the initial cost of the investments.

In case the Group has joint control or significant influence over the investees, the Group's interests in these entities are accounted for using equity accounting method. Joint control represents the contractually agreement in sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). 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.

When equity accounting method is used, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in consolidated income statement for the current period and the cost of the long-term equity investment is adjusted accordingly.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(9) Long-term equity investments (continued)

The Group's share of net profit or loss of the investee is determined based on the fair value of identifiable assets of investee on the acquisition date and the Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset. The carrying amount of the investment is reduced by the Group's share of the profit or cash dividends declared by an investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has an obligation to assume additional losses. For changes in owner's equity of the investee other than those arising from its net profit or loss, the Group records directly in equity its share of net book value changes and charges to income statement when the investment is disposed.

When long-term equity investment is disposed, the differences between carrying amount and actual consideration received are recognised in the income statement. If long-term equity investments are accounted for using equity accounting, on disposal, the amounts previously recognised in equity and related to the portion disposed are transferred to income statement.

(10) Fixed assets

Fixed assets are tangible assets that are used in production, provision of services, for rental to others, or held for administrative purposes, which have useful lives of more than one year.

Fixed assets shall be recognised if, and only if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The subsequent expenditures of fixed assets, if the recognition conditions are satisfied, are recognised as cost of fixed assets and derecognised the carrying amount of replaced components. Otherwise, it is normally charged to the consolidated income statement in the period in which it is incurred.

Fixed assets are measured at cost initially, the cost of fixed assets comprises purchase price, including relevant taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write off the cost of each item of fixed assets to its residual value over its estimated useful life. The estimated useful lives, estimated residual value and annual depreciation rates of fixed assets are as follows:

Category	Useful lives	Estimated residual value rates	Annual depreciation rates
Buildings	20 years	10%	4.5%
Tank and Vessels	10-20 years	10%	4.5%-9%
Drilling rigs	25-30 years	10%	3%-3.6%
Machinery and equity (including components)	5-30 years	10%	3%-18%
Motor Vehicles	5 years	10%	18%

Where parts of an item of fixed assets 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 value, useful lives and depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

(11) Construction in progress

The cost of construction in progress is determined by actual construction expenditures, which comprise the direct expenditures of construction, capitalised borrowing costs before the construction is ready for use and other relevant expenses.

Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(12) Intangible assets

The intangible assets of the Group comprise land use rights, management system, software and contract value, which are initially measured at cost.

The useful lives of intangible assets are determined on the basis of useful economic life, if it is impossible to forecast the useful economic life, it is regarded as intangible asset with indefinite useful lives. Intangible assets with definite useful lives are amortised over their useful economic life on a straight-line basis.

The useful lives of various intangible assets are presented as follows:

	Useful lives
Land use rights	50 years
Management system	10 years
Software	3-5 years
Contract value	Contract period

The land use rights acquired by the Group are generally accounted for as intangible assets. Self development and construction of plant and buildings, the related land use rights and buildings are accounted for as intangible assets or fixed assets respectively.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

(13) Research and development costs

The Group categorises the research and development costs into research costs and development costs.

All research costs are charged to the consolidated income statement 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. No development costs were capitalised during the year.

(14) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and Derecognition of financial assets

The Group recognises a financial asset or a financial liability on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

(a) the rights to receive cash flows from the asset have expired;

(b) the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a " pass-through" arrangement; or

(c) the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(14) Financial instruments (continued)

Category and measurement of financial assets

Financial assets of the Group are categorised into the following four categories upon initial recognition: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; available-far-sale financial assets. When financial assets are recognised initially, they are measured at fair value, and in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include upon initial recognition financial assets held for trading and those measured at fair value through profits and losses. Financial assets are classified as held for trading if it satisfies one of the following conditions:

– the purpose to acquire such financial assets is to sell in the near term;

– belonging to part of identifiable combined financial instruments and objective evidence exists that it is acquired principally for the purpose of obtaining profit in the near term;

– derivatives, are also classified as held for trading unless they are designed as effective hedging instruments, financial guarantee agreement, or an equity instrument which has no quoted market price and its fair value cannot be measured reliably.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in the consolidated income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met:

(a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis;

(b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy;

(c) it contains one or more compound embedded derivative instruments, unless embedded derivative instrument will not change significantly the cash flows of compound instrument, or embedded derivative instrument shall not be separated from the relevant compound instrument obviously; and

(d) it contains a compound embedded derivative instrument that would need to be separately recorded, but it is impossible to measure it separately when it is acquired or subsequent on the balance sheet date.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition available-for-sale financial assets are measured at fair value. Its discount or premium are amortised using effective interest rate method and recognised as interest income or expense, and recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. Except that impairment loss and exchange differences of monetary financial assets denominated in foreign currency are recognised in the consolidated income statements. Interests and dividends earned are reported as interest income and dividend income, respectively and are recognised in the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured, such securities are stated at cost.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(14) Financial instruments (continued)

Category and measurement of financial liabilities

The financial liabilities of the Group are classified initially as financial liabilities at fair value through profit and loss and other financial liabilities. The transaction costs of financial liabilities at fair value through profit and loss are charged to the consolidated income statement, while the transaction costs of other financial liabilities are recognised as part of the initial amount of liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term, belongs to a part of a Group of identifiable financial instrument which is managed centrally, there is objective evidence indicating that the Group is managed for the purpose of making profit in a short term. Derivatives (including separated embedded derivatives) unless they are designated as effective hedging instruments, financial guarantee agreement and an equity instrument which is connect with no quoted market price and its fair value cannot be measured reliably, are also classified as held for trading. These financial liabilities are subsequently measured at fair value, and all the realised or unrealised gains or losses are recognised in the consolidated income statement.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met:

(a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;

(b) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

(c) it contains one or more compound embedded derivative instruments, unless embedded derivative instrument will not change significantly the cash flows of compound instrument, or embedded derivative instrument shall not be separated from the relevant compound instrument obviously;

(d) it contains a compound embedded derivative instrument that would need to be separately recorded, but it is impossible to measure it separately when it is acquired or subsequent on the balance sheet date.

If a financial liability is classified as financial liabilities at fair value through profit or loss at initial recognition, it cannot be reclassified as other financial liabilities; other financial liabilities cannot be reclassified as financial liability at fair value through profit and loss as well.

Other financial liabilities

The financial liabilities are subsequently measured at amortised cost using effective interest method.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

For the purpose of hedge accounting, hedges are classified as:

(a) fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

(b) cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(14) Financial instruments (continued)

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the consolidated income statement. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Fair value of financial instruments

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid price. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective if any objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists: impairment loss is provided. The objective evidence that an impairment loss exists when the present value of the estimated future cash flows is adversely affected after initial recognition, and the amount can be measured reliably.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, after taking into consideration of the value of the collaterals, if any.

Where impairment is assessed on an individual basis, an impairment loss is recognised in profit or loss when there is objective evidence that an impairment loss has been incurred. For the financial assets of individually significant, an impairment test is assessed on an individual basis. The assessment is made collectively for the financial assets share similar credit risk characteristics (including those with significant or individually insignificant and have not been individually assessed as impaired).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(14) Financial instruments (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement.

Impairment loss on debt instruments can be reversed through the consolidated income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement. Impairment losses on equity instruments are not reversed through consolidated income statement.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

According to the Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investment, the above accounting treatment should also apply to unlisted long-term equity investment whose active market and fair value cannot be reliably measured.

Derecognition of financial assets

A financial asset is derecognised if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party, otherwise, such financial assets are not derecognised.

Where the Group has neither transferred nor retained substantially all the risks and rewards of the asset, it should be recognised as follows:

- if the Group has transferred the ownership of the asset, the asset should be derecognised and the resulting assets or liabilities should be recognised; or
- if the Group has not transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

(15) Borrowing costs

Borrowing costs refer to the interest on or other cost of loan borrowed by the Group, including interest, amortisation of discount or premium, auxiliary expenses and exchange difference from loans in foreign currency, etc.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., fixed 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 the asset. Except for the above, other borrowing costs are recognised as financial expenses in the consolidated income statement when incurred.

Borrowing costs are capitalised when satisfying all of the following conditions:

- Capital expenditure incurred;
- Borrowing costs incurred;
- Construction or production activities for the assets to be ready for use or for sale has started.

The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale, subsequent borrowing costs are charged to consolidated income statement.

In the capitalisation period, the amount of interest to be capitalised in each accounting period is determined as follows:

- where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised is the interest expense incurred during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset;
- where funds are borrowed generally and used for the acquisition, construction or production of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditure on the asset over the above amounts of specific borrowings.

The capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs is suspended when the acquisition, construction or production activities are interrupted abnormally and the interruption lasts over three months and the borrowing costs are recognised in the consolidated income statement until the construction or production activities resume.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(16) Impairment of assets

The impairment of an asset other than inventories, deferred income tax, financial assets and long-term equity investments calculated with cost method and without quoted price in active market and the fair value cannot be measured reliably, is determined as follows:

The Group assesses if there is any indication that an asset may be impaired at the balance date. If there is any indication that an asset may be impaired, the Group will assess its recoverable amount and perform impairment test. Goodwill recognised from business combination and intangible assets with indefinite useful lives are tested at least annually for impairment, irrespective of whether there is any indication that the asset may be impaired.

An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the consolidated income statement in the period in which it arises. A provision for impairment loss of the asset is recognised accordingly.

For the purpose of impairment testing of goodwill, 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, which are expected to benefit from the synergies of the combination, and is within the business segment of the Group.

The Group first measures the recoverable amount of the cash-generating unit on groups of cash-generating units without allocated goodwill, and if it is less than the carrying amount, there is an indication that impairment may exist. The recoverable amount of cash-generating unit or groups of cash-generating units with allocated goodwill is compared with its carrying amount. If the impairment loss is recognised, it is first deducted from the carrying amount of goodwill allocated to the asset group or groups of asset group, and then deducted from the carrying amount of the remaining assets of the asset group or groups of asset group pro rata with goodwill.

An impairment loss recognised for goodwill is not reversed in subsequent periods.

(17) Provision

A provision is recognised when:

- a present obligation has arisen as a result of a past event;
- it is probable that a future outflow of resources will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions are initially measured based on the best estimate of the expenditure for performing the current obligation, taking into account the related risks, uncertainties and time value factor. At each balance sheet date, the amount of provisions is reassessed and if there is solid evidence that the carrying value cannot reflect the best estimate, the provisions should be adjusted based on the best estimate.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(18) Revenue

Revenue is recognised when it is probable that the economic benefit will flow to the Group, the revenue can be reliably measured and the following conditions are satisfied.

Revenue from rendering of services

At the balance sheet date, revenue from rendering of services is recognised in percentage of services rendered when it can be measured reliably; otherwise, the revenue is recognised on the basis of actual cost incurred and expected to be compensated. Revenue from rendering of services can be measured reliably when it is probable that the economic benefits will flow to the Group and the amount can be measured reliably, the percentage of services rendered can be measured reliably and the cost incurred or to be incurred can be measure reliably. The Group recognises revenue from rendering of services based on the percentage of services rendered to the total of services to be rendered.

Revenue from sale of goods

Revenue is recognised when the substantial risks and rewards of the ownership of the goods have been transferred to the purchaser, and the Group does not retain the control to the goods and the cost can be reliably measured.

Interest income

Interest income is recognised on a time proportion basis and the applicable effective interest rate.

Construction contract

When the outcome of a construction contract can be estimated reliably, the Group recognises construction contract revenue and cost based on percentage of completion method on the balance sheet date. The percentage of completion is measured by reference to the proportion of costs incurred to date to the estimated total cost. The outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the Group;
- both the contract costs to complete the contract and the stage of contract completion at the balance sheet date can be measured reliably; and
- the contract costs incurred attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

The estimated foreseeable loss is recognised in the consolidated income statement if estimated total contract cost exceeds estimated total contract revenue.

Revenue from turnkey contracts is recognised to the extent of costs incurred until the specific contract requirements are met. When the contract requirements are met, revenue on turnkey contracts is recognised based on the percentage of completion method. Provisions for future losses on turnkey contracts are recognised when they become apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Conversely, where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment has been established.

Rental income

Rental income under operating lease is recognised on a straight-line basis over the rental periods of such charters, as service is performed.

(19) Lease

Leases where substantially all the rewards and risks of ownership of assets transferred to the lessee are accounted for as financial leases, otherwise as operating leases.

As a lessee under operating lease

Rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

As a lessor under operating lease

Rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(20) Employee benefits

Employee benefits are all forms of considerations given and other related expenditure incurred in exchange for services rendered by employees. Employee benefits are recognised as a liability in the period which the associated services are rendered by employees. The amount of the employee benefits should be discounted to its present value if the amount is material and is due over one year after the balance sheet date.

All employees of the Group are covered by the social insurances administrated by the local government, including pension, medical care and unemployment insurance as well as housing fund, and the contributions are recognised as cost of assets or charged to consolidated income statement.

The welfares for internal retirements and supplementary pension are entirely undertaken by CNOOC; consequently, such cost is not recorded in the consolidated income statement of the Group (Note 9(6)).

The employees of acquired COSL Drilling Europe AS (hereafter "CDE" formerly known as AWO) enjoy pension and other post-retirement benefit, the relevant policies are as follows:

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly, and the net amount is classified as non-current liabilities or non-current assets. The changes of net amount of defined benefit liabilities are recognised as employee costs in the consolidated income statement. The changes of estimation, net amount of defined benefit liabilities and actuarial gains or losses are recognised as income or expense over the expected average remaining service periods of the employees participating in the plan.

The net amount of pension costs comprises present value of pension benefit of the period, interest expense arising from pension obligation, estimated return of pension fund and amortisation of change in estimation and plan.

(21) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in consolidated income statement as a tax expense or income, except that it is goodwill adjustment arising from business combination, or items directly recognised in equity, in which case they are recognised in equity.

Current income tax is calculated based on current period taxable income. Taxable income is determined by accounting profit of current year adjusted according to the relevant tax regulations.

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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and differences between carrying amount and its tax base of those items which are not recognised as assets and liabilities but its tax base can be determined according to relevant tax regulations.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) where the taxable temporary difference arises from the initial recognition of goodwill, or 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

(b) in respect of taxable temporary differences associated with investments in subsidiaries interests in jointly-controlled entities and investments in associates, where 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.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

(a) where 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

(b) in respect of deductible temporary differences associated with investments in subsidiaries, interests in jointly-controlled entities and investments in associates, 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.

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 at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reversed to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Notes to the Financial Statements

31 December 2008
RMB Yuan

3. Significant accounting policies and accounting estimates (continued)

(22) Share appreciation right payment settled in cash

The Company operates a share appreciation rights plan (the "SAR Plan") for its senior officers. The purpose of the SAR Plan is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Share-based payments transactions in the Group are cash-settled share-based payments. For details of the SAR Plan, please refer to Note 6(51).

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the consolidated income statement.

(23) Significant accounting judgements and estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities on the balance sheet date. However, 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 affected in future.

Estimates with uncertainty

On the balance sheet date, the following uncertainties about those key assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in future.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises changes of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated income statement.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units as well as the discount rate.

Deferred tax assets

Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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.

The estimated useful life and impairment of fixed assets

The estimated useful life of fixed assets including properties is based on the actual useful life of fixed assets with similar characteristics and functions. If the useful life of these fixed assets is less than previously estimated, the Group will accelerated the related depreciation or disposed of idle or obsolete fixed assets. For drilling rigs, the estimates may change reference to residual value, technology development, competition and provisions of relevant environment and laws. After taking into accounts those above factors, the Group will review future useful lives of components and residual value of rigs, any changes in estimate of useful lives and/or residual value will have effect to the depreciation of rigs.

An impairment loss is recognised only if the carrying amount of a fixed asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When calculating net amount of fair value less costs to sell, the fair value is determined by using prices of recent market transactions between knowledgeable, willing parties on arms length basis.

Provision for doubtful debts

The provision for doubtful debts is determined by the management based on available objective evidence, e.g. it becoming probable that a debtor will enter bankruptcy or significant financial difficulty of a debtor. The management will reassess the provision for doubtful debts on the balance sheet date.

Provision for inventories obsolescence

According to the Group's accounting policy of inventories, which are stated at the lower of cost and net realisable value, provision is made for obsolete and slow moving items, when its cost is higher than its net realisable value. The Group will reassess whether specific inventory is obsolete and slow moving, or its net realisable is lower than its cost on the balance sheet date.

Notes to the Financial Statements

31 December 2008
RMB Yuan

4. Taxation

The major taxes and tax rates applicable to the Group for the year ended 31 December 2008 are presented as follows:

(1) Value added tax

The Group's taxable revenue is subject to value added tax ("VAT") at tax rates of 8%, 10%, 14%, 17% and 25%, according to the operations in respective countries and regions. The VAT payable is determined by the output VAT net of deductible input VAT of the period.

(2) Business tax

Based on the state taxation regulations, the Group pays 3-5% of the income from rendering of services.

(3) Urban maintenance and construction tax

The Group pays 7% of turnover tax as urban maintenance and construction tax.

(4) Education surcharge

The Group pays 3% of turnover tax as education surcharge.

(5) Corporate income tax

The New Corporate Income Tax ("CIT") Law effective from 1 January 2008 introduces the income tax rate of 25%, which was previously 33%. During the year, the application by the Company as an advanced technology enterprise for tax exemption purpose was approved for the fiscal year 2007. The State Administrative of Taxation Circular Guoshuifa [2008] No. 17 confirms that enterprises which had been recognised as advanced technology enterprises prior to 1 January 2008 should pay provisional CIT at the tax rate of 25% pending a re-recognition process under the new CIT Law.

On 30 October 2008, the Company was certified as an advanced technology enterprise by the Science and Technology Commission, the Ministry of Finance and the State Administration of Taxation ("SAT"), which is effective for three years. Further, the Company obtained approval from Tianjin Offshore Oil Tax Bureau ("TOOTB") of the Tianjin Province Office of SAT in 2009. According to the Circular Jinguoshuihaishuijianmian [2009] No. 2, the corporate income tax rate was approved to be 15%, and therefore, the Company is subject to corporate income tax at 15%.

Income arising from the Group's overseas subsidiaries is subject to corporate income tax in accordance with the tax provisions of those countries which the subsidiaries are operating or domiciled.

The Group's business in Indonesia is subject to withholding income tax at 4.5% based on its gross service income, and a further branch corporate income tax at 10% on the remaining deemed profit for the year.

The Group's business in Australia is subject to corporate income tax at 33% based on the taxable profit.

The Group's business in Myanmar is subject to income tax at 3% based on the gross service income.

The Group's business in Mexico is subject to corporate income tax at 28% based on the taxable profit.

The Group's business in Norway is subject to corporate income tax at 28% based on the taxable profit.

The Group's business in United Kingdom is subject to corporate income tax at 30% based on the taxable profit.

The Group's business in Vietnam is subject to withholding income tax at 10% on income derived from the provision of drilling services and a further corporate income tax of 18%.

The Group's business in Libya is subject to income tax at 44% based on the deemed profit or at 16% based on gross income.

The customers bear the income tax for the Group's drilling activities in Saudi Arabia.

(6) Individual income tax

The Company withholds individual income tax ("IIT") on their behalf for the staff costs paid to the individuals.

Notes to the Financial Statements

31 December 2008
RMB Yuan

5. Principal subsidiaries and jointly-controlled entities of the Company

Subsidiaries	Place/date of registration	Registered capital	Investment cost of the Company RMB equivalent	Shareholding ratio Direct	Shareholding ratio Indirect	Voting right ratio	Business scope	Remark
COSL America Inc. ("COSL America")	United States 2 November 1994	US$100,000	2,712,100	100%	–	100%	Sale of logging equipment, spare parts and materials	(note 1)
China Oilfield Services (BVI) Limited ("COSL (BVI)")	British Virgin Islands 19 March 2003	US$1	8	100%	–	100%	Investment holding	(note 1)
COSL (Labuan) Company Limited ("COSL (Labuan)")	Malaysia 11 April 2003	US$1	8	–	100%	100%	Provision of drilling and oilfield technology service	(note 1)
China Oilfield Services Southeast Asia (BVI) Limited ("COSSA (BVI)")	British Virgin Islands 29 May 2003	US$1	24,830,708	–	100%	100%	Investment holding	(note 1)
COSL Chemicals (Tianjin) Ltd. ("COSL Chemicals") (Formerly known as Tianjin Jinlong Chemical Co., Ltd.)	Tianjin, China 7 September 1993	RMB 9,000,000	10,709,948	100%	–	100%	a	(note 1) (note 2)
COSL (Australia) Pty Ltd ("COSL (Australia)")	Australia 11 January 2006	A$ 10,000	59,262	–	100%	100%	Provision of drilling services in Australia	(note 1)
COSL Hong Kong International Limited	Hong Kong, China 3 December 2007	HK$ 2,227,770,001	6,827,665,500	100%	–	100%	Investment holding	(mote 1) (note 3)
COSL Norwegian AS ("COSL Norwegian")	Norway 23 June 2008	NOK 1,541,328,656	6,766,351,630	–	100%	100%	Investment holding	(note 1)
CDE (previously known as "AWO")	Norway 21 January 2005	NOK 1,494,415,487	16,094,229,578	–	100%	100%	b	(note 4)

a: Slurry lubricant and cement additive production; batch sale and retailing of chemical products (excluding dangerous goods and that for drug); repairing of chemical equipment; import and export (excluding the good and techniques forbidden by the state); storage (excluding coal, DG and contaminating goods).

b: Investment and operation of jack-up rigs, semi-submersible rigs and accommodation platforms.

Notes to the Financial Statements

31 December 2008
RMB Yuan

5. Principal subsidiaries and jointly-controlled entities of the Company (continued)

Subsidiaries	Place/date of registration	Registered capital	Investment cost of the Company RMB equivalent	Shareholding ratio Direct	Shareholding ratio Indirect	Voting right ratio	Business scope	Remark
COSL Rigmar AS	Norway 14 March 2002	NOK 100	413,321,000	–	100%	100%	Provision of accommodation support vessels	(note 5)
COSL Sea Beds AS	Norway 25 February 1991	NOK 100	8,860,000	–	100%	100%	Operation of accommodation support vessels	(note 5)
COSL Oil&Gas AS	Norway 11 September 1987	NOK 1,400	313,145,000	–	100%	100%	Operation of accommodation support vessels	(note 5)
COSL Sea BedsII AS	Norway 26 May 2003	NOK 100	9,609,000	–	100%	100%	Operation of accommodation support vessels	(note 5)
COSL Power AS	Norway 21 January 2005	NOK 100	149,000	–	100%	100%	Operational Management	(note 5)
COSL Craft AS	Norway 21 January 2005	NOK 100	149,000	–	100%	100%	Operational Management	(note 5)
COSL Drilling Ltd	Bermuda 29 March 2004	US$ 23,532	173,737,000	–	100%	100%	Operational Management	(note 5)
COSL Superior Ltd	Bermuda 15 February 2005	US$ 149,915	1,028,282,000	–	100%	100%	Operation of jack-up platforms	(note 5)
COSL Force Ltd	Bermuda 13 October 2005	US$ 153,080	1,049,991,000	–	100%	100%	Operation of jack-up rigs	(note 5)
COSL Power Ltd	Bermuda 1 April 2004	US$ 23,520	161,326,000	–	100%	100%	Operation of jack-up rigs	(note 5)
COSL Craft Ltd	Bermuda 1 April 2004	US$12	85,000	–	100%	100%	Operation of jack-up rigs	(note 5)
COSL Seeker Ltd	Bermuda 29 March 2006	US$ 110,770	759,783,000	–	100%	100%	Operation of jack-up rigs	(note 5)
COSL Strike Ltd	Bermuda 27 March 2006	US$ 12	82,000	–	100%	100%	Operation of jack-up rigs	(note 5)
COSL Boss Ltd	Bermuda 6 January 2006	US$ 142,470	977,216,000	–	100%	100%	Operation of jack-up rigs	(note 5)

Notes to the Financial Statements

31 December 2008
RMB Yuan

5. Principal subsidiaries and jointly-controlled entities of the Company (continued)

Subsidiaries	Place/date of registration	Registered capital	Investment cost of the Company RMB equivalent	Shareholding ratio Direct	Shareholding ratio Indirect	Voting right ratio	Business scope	Remark
COSL Rig Holding AS	Norway 9 October 2006	NOK 100	162,000	–	100%	100%	Operational Management	(note 5)
COSL Confidence Pte Ltd	Singapore 15 December 2006	US$ 69,100	473,964,000	–	100%	100%	Operation of jack-up rigs	(note 5)
COSL Drilling Semi AS	Norway 23 May 2005	NOK 12,561	1,815,066,000	–	100%	100%	Operational management	(note 5)
COSL Offshore Singapore Pte Ltd	Singapore 8 December 2006	US$ 167,250	1,147,184,000	–	100%	100%	Operation of jack-up rigs	(note 5)
COSL Strike Pte Ltd	Singapore 8 December 2006	US$ 95,300	653,672,000	–	100%	100%	Operation of jack-up rigs	(note 5)
COSL Pioneer Pte Ltd	Singapore 8 December 2006	US$ 208,045	1,426,999,000	–	100%	100%	Operation of semi-submersible rigs	(note 5)
COSL Promoter Pte Ltd	Singapore 8 December 2006	US$ 86,486	593,217,000	–	100%	100%	Operation of semi-submersible rigs	(note 5)
COSL Innovator Pte Ltd	Singapore 8 December 2006	US$ 216,652	1,486,040,000	–	100%	100%	Operation of semi-submersible rigs	(note 5)
COSL Drilling Singapore Pte Ltd	Singapore 27 February 2007	US$ 100,375	688,484,000	–	100%	100%	Operation of semi-submersible rigs	(note 5)
Wilrig AS	Norway 18 May 2006	NOK 100	118,000	–	100%	100%	Operation of semi-submersible rigs	(note 5)
COSL Offshore Management AS	Norway 18 December 2006	NOK 100	149,000	–	100%	100%	Operation of semi-submersible rigs	(note 5)

note 1: The above companies are wholly owned by the Company, the voting right ratio of the Company is consistent with the shares held by the Company. The Company combined these subsidiaries into the consolidation scope and consolidated the results of operation and financial positions of the above subsidiaries into the Group's consolidated financial statements. Except for COSL Chemicals, the Company's investment amount on the above subsidiaries has not changed during the financial statement reporting period.

note 2 According to the resolution passed during COSL Chemicals' general meeting which was held as at 5 June 2008, its undistributed profits of RMB 4.4 million were converted into capital. As a result, COSL Chemicals' registered capital increased from RMB 4.6 million to RMB 9 million.

note 3: COSL Hong Kong International Limited was established as an investment holding company on 3 December 2007, which was acquired by the Company on 8 January 2008. The Company made additional investment of US$ 999 million in September 2008 (equivalent of RMB 6,827,665,500).

note 4: As at 29 September 2008, the Company acquired CDE, please refer to details in Note 6.(50).

note 5: The above companies are wholly owned by CDE.

Compared to that of 2007, the Group's consolidation scope include CDE and its subsidiaries, which is a result of the Group's acquisition of CDE through the business combination by a company not under common control.

Notes to the Financial Statements

31 December 2008
RMB Yuan

5. Principal subsidiaries and jointly-controlled entities of the Company (continued)

Jointly-controlled entities	Place/date of registration	Registered capital	Investment cost of the Company RMB equivalent	Shareholding ratio Direct	Shareholding ratio Indirect	Voting right ratio	Business scope	Remark
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	Shenzhen, China 25 October 1984	RMB 4,640,000	25,170,585	60%	–	50%	a	(note 6) (note 7)
China France Bohai Geoservice Co., Ltd. ("China France Bohai")	Tianjin, China 30 November 1983	US$ 6,650,000	36,984,406	50%	–	50%	b	(note 7)
CNOOC-OTIS Well Completion Service Ltd. ("CNOOC-OTIS")	Tianjin, China 14 April 1993	US$ 2,000,000	27,520,607	50%	–	50%	c	(note 7)
China Petroleum Logging-Atlas Cooperation Service Company ("Logging-Atlas")	Shenzhen, China 10 May 1984	US$ 2,000,000	10,167,012	50%	–	50%	d	(note 7)
China Offshore Fugro Geo Solutions (Shenzhen) Co., Ltd. ("Fugro")	Shenzhen, China 24 August 1983	US$ 1,720,790	10,134,627	50%	–	50%	e	(note 7)
PT Tritunggal Sinergi ("PTTS")	Indonesia 30 December 2004	US$ 700,000	3,186,453	–	55%	50%	Provision of oilfield maintenance services	(note 6) (note 7)
Eastern Marine Services Ltd. ("Eastern Marine")	Hong Kong, China 10 March 2006	HK$ 1,000,000	163,113,033	–	51%	50%	Provision of marine transportation services	(note 6) (note 7)
COSL-Expro Testing Services (Tianjin) Company Ltd. ("COSL-Expro")	Tianjin, China 28 February 2007	US$ 5,000,000	19,352,250	50%	–	50%	f	(note 7)
Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater")	Hong Kong, China 28 August 2006	HK$ 1,000	52,407,155	–	50%	50%	Provision of artificial Buoyant seabed unit	(note 7) (note 8)
Premium Drilling	Norway June 2005	NOK 100,000	24,644,100	–	50%	50%	Operation of jack-up rigs	(note 7) (note 9)

a: Provision of drilling slurry services inside or outside China; provision of slurry treatment agent products to the oil companies working in the Chinese sea areas as well as provision of slurry treatment, equipment, spare parts etc and drilling liquid for drilling on land.

b: Provision of slurry, steel wire services, production testing and measurement services as well as ground and under well sampling and testing; data collection, transmission and interpretation; equipment calibration and maintenance; use of various services and tools of Slick Line.

c: Provision of professional technical services for oil, natural gas, geo-thermal development and mining industry; provision of rental, maintenance of tools, equipment, chemicals and materials for oil and gas, geo-thermal development and mining industries (in case of dangerous chemical involved, the approval certificate shall govern).

d: Provision of well exploration services for sea and land cooperation, including well exploration, boring and well completion.

e: Undertaking of offshore oil exploration and development in the sea areas of China (including exploration, well field investigation, pipeline and cable laying, engineering geology investigation, maintenance of sea bed facility); Provision of ROV testing, orientation and surveying services.

f: Provision of oil exploration, drilling system testing services in the territory of the PRC, and other services including ground and DST data obtaining and related services.

Notes to the Financial Statements

31 December 2008
RMB Yuan

5. Principal subsidiaries and jointly-controlled entities of the Company (continued)

note 6: Although the Company's shareholding ratio in Magcobar, PTTS, Eastern Marine exceeds 50%, according to the Articles of Associations, the Company does not have control over their financial and operational decisions, therefore, these financial statements are not consolidated into the Group's financial statements and equity method is adopted in accordance with the Accounting Standard for Business Enterprises No.33 – Consolidated Financial Statements.

note 7: When preparing the consolidated financial statements, equity method is adopted in accordance with the Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements.

note 8: Atlantis Deepwater was established by Atlantis Deepwater Technology Holding AS for the purposes of provision of artificial buoyant seabed ("ABS") units and other related services. On 8 June 2007, Atlantis Deepwater became a jointly-controlled entity of the Group, as a result of the Group's contribution of US$ 6,270,000 (equivalent to RMB 46,771,639), including assets transferred of RMB 33,489,103 and cash of RMB 13,282,536 in return for a 50% equity interest in Atlantis Deepwater. In December 2008, the Group's investment cost on Atlantis Deepwater increased to RMB 52,407,155.

note 9: Premium Drilling AS was established and invested by CDE for the purposes of provision of operational services of jack-up drilling platforms.

During the financial statement reporting period, except for Atlantis Deepwater and Premium Drilling AS as set up by CDE, the Company's initial investment amounts on the jointly-controlled entities had not changed, and the shares held and voting right ratios remain the same.

6. Notes to the major items of the consolidated financial statements

(1) Cash on hand and at bank

	31 December 2008			31 December 2007		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash on hand						
– RMB	231,855	1.0000	231,855	211,312	1.0000	211,312
– US$	288,390	6.8346	1,971,029	37,034	7.3046	270,518
– Libya Dinar	949	5.4742	5,197	–	–	–
– Philippine Peso	211,772	0.1440	30,495	45,071	0.1761	7,937
– A$	448	4.7350	2,120	–	–	–
– UAE Dirham	38	1.8618	70	–	–	–
– Myanmar Kyat	3,351,575	0.0059	19,926	–	–	–
– Indonesia Rupiah	76,447,004	0.0006	47,642	–	–	–
– NOK	5,531	0.9763	5,400	–	–	–
			2,313,734			489,767
Cash at bank						
– RMB	2,656,122,215	1.0000	2,656,122,215	7,760,761,432	1.0000	7,760,761,432
– US$	241,718,847	6.8346	1,652,051,633	129,778,587	7.3046	948,887,522
– HK$	213,316	0.8819	188,124	1,157,088	0.9364	1,083,474
– Indonesia Rupiah	2,062,036,499	0.0006	1,279,457	3,370,708,521	0.0008	2,622,872
– Euro	398,306	9.6590	3,847,242	285,244	10.6669	3,042,669
– A$	575,105	4.7350	2,723,128	51,031	6.3893	326,055
– Philippine Peso	90,313,832	0.1440	13,003,852	47,539,683	0.1761	8,402,117
– Malaysia Ringit	62,778	1.9665	123,453	62,826	2.1870	137,401
– Mexican Peso	16,835,439	0.5048	8,499,109	59,433,621	0.6722	39,953,142
– Libya Dinar	9,494	5.4742	51,973	–	–	–
– NOK	214,664,616	0.9763	209,576,958	–	–	–
– SGD	177,491	4.7530	843,616	–	–	–
– UAE Dirham	33,064	1.8618	61,558	141,445	1.9898	281,449
			4,548,372,318			8,765,498,133

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements

(1) Cash on hand and at bank (continued)

	31 December 2008			31 December 2007		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other monetary funds						
– RMB	322,254	1.0000	322,254	222,050	1.0000	222,050
– US$	1,526,823	6.8346	10,435,227	1,640,584	7.3046	11,983,811
– NOK	17,454,401	0.9763	17,040,731	–	–	–
			27,798,212			12,205,861
Total			4,578,484,264			8,778,193,761

As at 31 December 2008, the restricted cash at banks amounted to RMB 14,650,212 (Note 6(18)).

As at 31 December 2008, cash at banks placed in overseas banks amounted to RMB 1,531,306,630.

The Group's deposits in CNOOC Finance Co., Ltd. amounted to RMB 539,821,006 as at 31 December 2008. (Note 9(5))

Interest income from saving deposits in banks was accrued based on the saving deposit interest rate from banks. Short term deposit period varies from seven days to six months, depending on the Group's cash demand, and earns interest at the respective term deposit rates.

(2) Notes receivable

	31 December 2008	31 December 2007
Banker's acceptances	16,600,000	2,250,000
Trade acceptances	338,269,985	–
	354,869,985	2,250,000

Balance of notes receivable as at 31 December 2008 did not include notes from shareholders holding 5% or more voting shares of the Company (31 December 2007: nil). The notes receivable balance as at 31 December 2008 included an amount of RMB 338,269,985 due from a related party, CNOOC Limited (31 December 2007: nil). Please refer to Note 9(5) for details.

(3) Accounts receivable

	31 December 2008	31 December 2007
Accounts receivable	2,788,333,300	1,409,579,210
Less: provision for impairment of accounts receivable	53,308,614	4,797,726
	2,735,024,686	1,404,781,484

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(3) Accounts receivable (continued)

The ageing analysis of accounts receivable is as follows:

	31 December 2008				31 December 2007			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Bad debt provision	Provision ratio
Within 1 year	2,777,863,894	100%	48,723,771	2%	1,399,706,608	99%	–	–
1-2 years	7,750,638	–	2,143,850	28%	7,322,721	1%	2,247,845	31%
2-3 years	277,775	–		–	–	–	–	–
Over 3 years	2,440,993	–	2,440,993	100%	2,549,881	–	2,549,881	100%
Total	2,788,333,300	100%	53,308,614		1,409,579,210	100%	4,797,726	

	31 December 2008				31 December 2007			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Bad debt provision	Provision ratio
Items with significance	2,387,832,777	86%	–	–	1,253,668,658	89%	–	–
Other insignificant items	400,500,523	14%	53,308,614	13%	155,910,552	11%	4,797,726	3%
Total	2,788,333,300	100%	53,308,614		1,409,579,210	100%	4,797,726	

Provision for impairment of accounts receivable is analyzed below:

	31 December 2008	31 December 2007
Balance at the beginning of the year	4,797,726	2,645,401
Provision during the year	49,215,720	4,059,133
Written-back during the year	(482,346)	(1,787,826)
Exchange realignment	(222,486)	(118,982)
Balance at the end of the year	53,308,614	4,797,726

As at 31 December 2008, the accounts receivable due from the Group's jointly-controlled entities and other related parties are not overdue, thus no bad debt provision is made for such accounts.

	31 December 2008	31 December 2007
Total amount for top 5 debtors	1,836,331,102	1,179,183,972
Ratio to total accounts receivable	66%	84%
Ageing	Within 1 year	Within 1 year

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(3) Accounts receivable (continued)

The accounts receivable balance as at 31 December 2008 included an amount of RMB 120,526,395 due from CNOOC, a shareholder holding 54.74% voting rights of the Company (31 December 2007: nil). The accounts receivable due from other related parties amounted to RMB 1,316,571,319 (31 December 2007: RMB 928,048,179). Please refer to Note 9(5) for details.

The Group's accounts receivable are mainly denominated in RMB and US$. As at 31 December 2008, the accounts receivable denominated in US$ was US$ 187,991,502 (equivalent to RMB 1,284,846,720) (31 December 2007: the balance denominated in US$ was US$ 51,556,161, equivalent to RMB 376,597,136).

(4) Prepayments

As at 31 December 2008, the Group's prepayment balance did not include amount due from a shareholder holding 5% or more voting rights of the Company (31 December 2007: nil), and the prepayments are aged within 1 year. The prepayment item with significance is as follows:

	31 December 2008	Nature
China Merchants Heavy Industry (Shenzhen) Co., Ltd.	480,544,812	Prepayment for construction project

The balance of prepayments as at 31 December 2008 included an amount of RMB 284,324,275 (31 December 2007: nil) prepaid to related parties. Please refer to Note 9(5) for details.

(5) Interest receivable

Interests receivable as at 31 December 2008 and 31 December 2007 was all bank deposit interests receivable ageing within 1 year.

(6) Dividend receivable

Dividend receivable as at 31 December 2008 and 31 December 2007 was all dividend receivable from jointly-controlled entities ageing within 1 year.

(7) Other receivables

	31 December 2008	31 December 2007
Other receivables	309,257,212	132,492,289
Less: Provision for impairment of other receivables	2,787,662	2,389,367
	306,469,550	130,102,922

Ageing analysis of other receivables of the Group is as follows:

	31 December 2008				31 December 2007			
	Amount	Ratio	Provision for impairment of other receivables	Provision ratio	Amount	Ratio	Provision for impairment of other receivable	Provision ratio
Within 1 year	303,995,616	98%	–	–	128,717,794	98%	–	–
1-2 years	2,532,452	1%	427,345	17%	1,451,338	1%	357,531	25%
2-3 years	922,069	–	553,242	60%	614,410	–	332,883	54%
Over 3 years	1,807,075	1%	1,807,075	100%	1,708,747	1%	1,698,953	99%
Total	309,257,212	100%	2,787,662		132,492,289	100%	2,389,367	

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(7) Other receivables (continued)

	31 December 2008				31 December 2007			
	Amount	Ratio	Provision for impairment of other receivables	Provision ratio	Amount	Ratio	Bad debt provision	Provision ratio
Items with significance	153,534,943	50%	–	–	62,195,328	47%	–	–
Other insignificant items	155,722,269	50%	2,787,662	2%	70,296,961	53%	2,389,367	3%
Total	309,257,212	100%	2,787,662		132,492,289	100%	2,389,367	

Analysis of provision for impairment of other receivables is as follows:

	31 December 2008	31 December 2007
Balance at the beginning of the year	2,389,367	2,064,147
Provision during the year	728,141	673,126
Written-back during the year	(329,846)	(347,906)
Balance at the end of the year	2,787,662	2,389,367

The other receivable balance as at 31 December 2008 included an amount of RMB 2,299,741 due from CNOOC, a shareholder holding 54.74% voting rights of the Company (2007: RMB1,495,253), The other receivables due from other related parties amounted to RMB 105,018,111 (31 December 2007: RMB 12,347,883) as at 31 December 2008. Please refer to Note 9(5) for details.

As at 31 December 2008, the other receivables due from the Group's jointly-controlled entities and other related parties are not overdue, thus no bad debt provision is made for such accounts.

	31 December 2008	31 December 2007
Total amount for top 5 debtors	153,534,943	68,610,869
Ratio to total other receivables	50%	52%
Ageing	Within 1 year	Within 1 year

(8) Inventories

	31 December 2008	31 December 2007
Materials and spare parts for production	796,564,470	429,606,615
Less: Provision for impairment of inventories	15,693,817	11,840,579
	780,870,653	417,766,036

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(8) Inventories (continued)

The analysis for the provision for impairment of inventories is as follows:

	31 December 2008	31 December 2007
Balance at the beginning of the year	11,840,579	7,986,388
Provision during the year	3,853,238	3,854,191
Written-back during the year	–	–
Balance at the end of the year	15,693,817	11,840,579

(9) Held-to-maturity investment

	31 December 2008	31 December 2007
Held-to-maturity investment	78,235,318	–
Current portion of non-current assets	39,117,655	–
Total	117,352,973	–

This investment represents a CDE's term deposit with an annual interest rate of 5.386% placed in the account of the agent bank of DnBNOR which was pledged for a loan obtained from Eksportfinans, a Norway export credit institution. Please refer to Note 6(28) for details.

(10) Available-for-sale financial assets

	31 December 2008	31 December 2007
Monetary fund investments	–	607,337,984
Available-for-sale financial assets (note 1)	140,825,753	–
Less: Provision for impairment of financial assets	106,508,218	–
	34,317,535	607,337,984

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(10) Available-for-sale financial assets (continued)

note 1:

	31 December 2008	31 December 2007
Equity percentage attributable to the Group	18.5%	–
Share investment, cost	140,366,447	–
Exchange realignment	459,306	–
Less: Provision for impairment of financial assets	106,508,218	–
Net carrying value	34,317,535	–

The Group's available-for-sale financial assets represents an investment in Petrojack ASA made by CDE (CDE was acquired by the Company on 28 September 2008). Petrojack ASA is listed in Norway Security Exchange, and fair value is calculated according to the listed price at the period/year end times the shares as held by CDE. The change in its fair value is accounted for directly into equity. The fair value of this investment as at the Group's acquisition was RMB 140,366,447. As at 31 December 2008, the market value of CDE's investment in Petrojack ASA declined significantly. The Group deemed it as an impairment and an impairment provision amounting to RMB 106,508,218 was made. Please refer to Note 6(40) for details. This investment has been pledged as security for CDE's short-term borrowings of US$ 70,000,000 obtained from Nordea Bank. Please refer to Note 6(19) for details.

(11) Long-term equity investments

					Change in equity during the year					
31 December 2008	Proportion in registered capital	Initial investment	Balance at the beginning of year	Additional investment during the year	Increase/ (decrease) during the year	Exchange realignment	Cash dividend during the year	Subtotal	Reclassification of shared excess losses to other non-current liabilities (note 1)	Balance at the end of year
Equity method :										
Jointly-controlled entities										
China France Bohai	50%	56,336,656	54,368,365	-	75,510,676	-	(44,305,380)	31,205,296	-	85,573,661
Magcobar	60%	25,170,585	136,829,535	-	50,626,984	-	(57,413,160)	(6,786,176)	-	130,043,359
CNOOC-Otis	50%	27,520,607	27,208,916	-	7,542,479	-	(1,366,900)	6,175,579	-	33,384,495
Logging-Atlas	50%	10,167,012	17,632,506	-	8,282,982	-	(5,144,325)	3,138,657	-	20,771,163
Fugro	50%	10,134,627	26,952,665	-	23,496,470	-	(8,294,052)	15,202,418	-	42,155,083
PTTS	55%	3,186,453	1,696,684	-	(166,672)	(102,806)	-	(269,478)	-	1,427,206
Eastern Marine	51%	163,113,033	150,605,567	-	58,170,554	(10,709,697)	-	47,460,857	-	198,066,424
COSL-Expro	50%	19,352,250	33,773,907	-	42,786,961	-	(13,000,000)	29,786,961	-	63,560,868
Atlantis Deepwater	50%	46,771,639	36,103,040	5,635,516	(26,070,962)	(1,200,747)	-	(27,271,709)	-	14,466,847
Premium Drilling (note 1)	50%	24,644,100	-	-	(24,472,305)	(84,399)	-	(24,556,704)	24,556,704	-
		386,396,962	485,171,185	5,635,516	215,707,167	(12,097,649)	(129,523,817)	74,085,701	24,556,704	589,449,106

note 1: This investment was held by CDE. Premium Drilling ("PD") consists of Premium Drilling AS, Premium Drilling Inc. and Premium Drilling (Cayman) Ltd.. The loss shared according to the equity investment ratio was reclassified as other non-current liabilities as at year end. Please refer to Note 6(31) for details.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(11) Long-term equity investments (continued)

31 December 2007	Proportion in registered capital	Initial investment	Balance at the beginning of year	Additional investment during the year	Change in equity during the year				Balance at the end of year
					Increase/ (decrease) during the year	Exchange realignment	Cash dividend during the year	Subtotal	
Equity method :									
Jointly-controlled entities									
China France Bohai	50%	56,336,656	88,731,192	(19,352,250)	36,646,383	–	(51,656,960)	(15,010,577)	54,368,365
Magcobar	60%	25,170,585	122,218,356	–	56,164,719	–	(41,553,540)	14,611,179	136,829,535
CNOOC-Otis	50%	27,520,607	28,700,584	–	2,948,152	–	(4,439,820)	(1,491,668)	27,208,916
Logging-Atlas	50%	10,167,012	14,732,522	–	2,899,984	–	–	2,899,984	17,632,506
Fugro	50%	10,134,627	15,229,368	–	11,723,297	–	–	11,723,297	26,952,665
PTTS	55%	3,186,453	2,383,715	–	(381,228)	(305,803)	–	(687,031)	1,696,684
Eastern Marine	51%	163,113,033	163,113,033	–	(1,427,750)	(11,079,716)	–	(12,507,466)	150,605,567
COSL-Expro	50%	19,352,250	–	19,352,250	14,421,657	–	–	14,421,657	33,773,907
Atlantis Deepwater	50%	46,771,639	–	46,771,639	(9,842,758)	(825,841)	–	(10,668,599)	36,103,040
		361,752,862	435,108,770	46,771,639	113,152,456	(12,211,360)	(97,650,320)	3,290,776	485,171,185

Please refer to Note 5 for the information of registration place, business nature, registered capital as well as the proportion of shares and voting rights as held by the Group in the jointly-controlled entities.

Key financial information of the jointly-controlled entities:

	31 December 2008		2008	
	Total assets	**Total liabilities**	**Revenue**	**Net profit/(loss)**
China France Bohai	215,682,168	44,534,846	358,809,753	120,741,981
Magcobar	297,314,561	80,575,630	463,558,247	102,416,887
CNOOC-Otis	85,726,389	18,957,399	73,710,092	14,277,552
Logging-Atlas	86,882,718	45,340,392	130,742,796	18,820,276
Fugro	126,441,987	42,131,821	153,141,786	46,729,570
PTTS	2,608,043	13,124	–	(271,778)
Eastern Marine	414,713,105	26,347,568	211,170,703	112,616,137
COSL-Expro	187,197,450	60,075,714	280,058,102	85,573,921
Atlantis Deepwater	90,813,658	61,879,964	–	(59,127,774)
Premium Drilling	589,326,291	734,136,613	187,946,729	(41,308,944)

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(11) Long-term equity investments (continued)

	31 December 2007		2007	
	Total assets	Total liabilities	Revenue	Net profit/(loss)
China France Bohai	191,136,045	82,399,314	279,600,389	84,645,610
Magcobar	321,857,360	93,808,136	407,856,440	106,919,706
CNOOC-Otis	61,450,056	7,032,223	57,954,976	13,495,401
Logging-Atlas	40,607,216	5,342,204	38,370,962	9,373,647
Fugro	92,823,922	38,918,592	115,513,519	26,838,729
COSL-Expro	86,335,683	18,787,870	100,471,048	28,843,313
PTTS	3,204,221	202,374	120,895	(693,138)
Eastern Marine	349,494,979	52,649,541	33,783,378	(6,961,448)
Atlantis Deepwater	81,542,857	8,979,815	–	(19,685,524)

There is no significant difference in the key accounting policies and accounting estimates applied between jointly-controlled entities and the Company.

There is no impairment for the long-term equity investments as at 31 December 2008; therefore, no provision for impairment of long-term equity investment is required.

(12) Fixed assets

2008	Land and buildings	Tankers and vessels	Drilling rigs	Machinery and equipment	Other vehicles	Total
Cost:						
Amount at the beginning of year	38,882,067	6,022,002,365	6,695,650,088	4,076,881,422	62,184,587	16,895,600,529
Purchases	206,800	–	37,764,511	323,519,266	9,007,699	370,498,276
Transfer from construction in progress	–	977,566,638	3,739,339,544	1,285,054,803	2,210,655	6,004,171,640
Acquisition of a subsidiary	–	–	11,877,478,600	7,025,288	–	11,884,503,888
Disposal and write-off	–	(92,170,191)	–	(68,369,332)	(1,935,098)	(162,474,621)
Transfer to construction in progress		(72,988,397)	–	–	–	(72,988,397)
Exchange realignment	–	(6,566,953)	28,394,600	(6,752,708)	(707,315)	14,367,624
Amount at the end of year	39,088,867	6,827,843,462	22,378,627,343	5,617,358,739	70,760,528	34,933,678,939
Accumulated depreciation:						
Amount at the beginning of year	3,793,986	3,478,550,594	4,694,425,826	1,503,430,725	32,039,951	9,712,241,082
Provision	2,661,827	243,553,408	527,852,818	498,228,180	10,070,961	1,282,367,194
Disposal and write-off	–	(47,301,098)	–	(48,546,944)	(1,502,764)	(97,350,806)
Transfer to construction in progress	–	(26,644,804)	–	–	–	(26,644,804)
Exchange realignment	–	(677,877)	(3,088,539)	(1,649,884)	(379,061)	(5,795,361)
Amount at the end of year	6,455,813	3,647,480,223	5,219,190,105	1,951,462,077	40,229,087	10,864,817,305
Impairment provision:						
Amount at the beginning of year	–	–	–	–	–	–
Provision	–	–	–	–	–	–
Write-off	–	–	–	–	–	–
Amount at the end of year	–	–	–	–	–	–
Carrying amount:						
Amount at the end of year	32,633,054	3,180,363,239	17,159,437,238	3,665,896,662	30,531,441	24,068,861,634
Amount at the beginning of year	35,088,081	2,543,451,771	2,001,224,262	2,573,450,697	30,144,636	7,183,359,447

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(12) Fixed assets (continued)

2007	Land and buildings	Tankers and vessels	Drilling rigs	Machinery and equipment	Other vehicles	Total
Cost:						
Amount at the beginning of year	14,077,289	5,578,820,209	6,983,856,885	2,711,490,745	53,200,910	15,341,446,038
Purchases	–	50,294,020	91,930,148	62,959,563	12,176,947	217,360,678
Transfer from construction in progress	25,026,557	423,292,736	4,513,799	1,514,912,581	3,467,906	1,971,213,579
Disposals and write-off	(221,779)	(30,404,600)	(26,642,670)	(202,960,576)	(6,661,176)	(266,890,801)
Transfer to construction in progress	–	–	(358,008,074)	–	–	(358,008,074)
Exchange realignment	–	–	–	(9,520,891)	–	(9,520,891)
Amount at the end of year	38,882,067	6,022,002,365	6,695,650,088	4,076,881,422	62,184,587	16,895,600,529
Accumulated depreciation:						
Amount at the beginning of year	1,998,495	3,275,003,551	4,397,318,191	1,308,861,857	34,074,140	9,017,256,234
Provision	1,976,340	233,227,965	362,399,749	334,548,232	3,892,606	936,044,892
Disposal and write-off	(180,849)	(29,680,922)	(17,244,052)	(138,487,026)	(5,926,795)	(191,519,644)
Transfer to construction in progress	–	–	(48,048,062)	–	–	(48,048,062)
Exchange realignment	–	–	–	(1,492,338)	–	(1,492,338)
Amount at the end of year	3,793,986	3,478,550,594	4,694,425,826	1,503,430,725	32,039,951	9,712,241,082
Impairment provision:						
Amount at the beginning of year	–	–	–	–	–	–
Provision	–	–	–	–	–	–
Write-off	–	–	–	–	–	–
Amount at the end of year	–	–	–	–	–	–
Carrying amount:						
Amount at the end of year	35,088,081	2,543,451,771	2,001,224,262	2,573,450,697	30,144,636	7,183,359,447
Amount at the beginning of year	12,078,794	2,303,816,658	2,586,538,694	1,402,628,888	19,126,770	6,324,189,804

As at 31 December 2008, fixed assets of an original cost of RMB 3,491,973,839 have been fully depreciated but continue to be used by the Group, and the net carrying value of such assets amounted to RMB 158,951,560.

The Group had no significant temporarily-idle fixed assets as at 31 December 2008.

As at 31 December 2008, the ownership right for drilling rigs with a net carrying value of RMB 13,531,780,107 recorded in CDE's accounts was restricted. Please refer to Note 6(28) for details.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(13) Construction in progress

2008	Budget	At the beginning of the year	Increase during the year: Purchases	Increase during the year: Transfer from fixed assets	Acquisition of a subsidiary	Decrease during the year: Transfer to fixed assets	Decrease during the year: Transfer to intangible assets	Decrease during the year: Transfer to long-term equity investments	Exchange realignment	At the end of the year	Capital source	Project investment as proportion of budget
Marine oil 942	1,447,670,000	1,239,136,997	62,789,384	-	-	(1,301,926,381)	-	-	-	-	Self-financing, bonds and fund raised from issue of A share	100%
Two liftboat multi-functional drilling platforms	599,330,000	215,882,260	314,091,262	-	-	-	-	-	-	529,973,522	Self-financing, bonds and fund raised from issue of A share	88%
6-type-3-purpose workboat	1,922,766,000	584,194,255	796,292,876	-	-	(412,000,000)	-	-	-	968,487,131	Self-financing, bonds and fund raised from issue of A share	72%
Marine oil 931 renovation	312,577,000	452,735,087	202,445,960	-	-	(655,136,785)	-	-	-	44,262	Bonds and fund raised from issue of A share	99%
8 cable ship renovation	530,230,000	446,092,240	70,590,529	46,343,593	-	(563,026,362)	-	-	-	-	Self-financing, bonds and fund raised from issue of A share	100%
350ft drilling platform	2,938,200,000	313,323,815	911,315,107	-	-	-	-	-	-	1,224,638,922	Self-financing and fund raised from issue of A share	41%
Indonesia barge	689,810,000	98,819	369,759,948	-	-	-	-	-	-	369,858,767	Self-financing and loans	54%
Lybia land drilling machine	402,802,000	-	374,702,978	-	-	(210,750,231)	-	-	-	163,952,747	Self-financing	93%
200ft platform	2,960,000,000	24,413	129,793,017	-	-	-	-	-	-	129,817,430	Self-financing	4%
Exploration 12 cable ship construction	1,148,990,000	377,226	79,715,480	-	-	-	-	-	-	80,092,706	Fund raised from issue of A share	7%
Jack-up rigs												
- COSL Confidence	1,772,733,198	-	141,770,368	-	713,355,835	-	-	-	1,705,366	856,831,569	Self-financing and loans	48%
- COSL Seeker	1,740,674,776	-	21,185,336	-	1,745,484,800	(1,770,842,936)	-	-	4,172,800	-	Self-financing and loans	100%
- COSL Strike	1,740,674,776	-	41,293,128	-	868,067,201	-	-	-	2,075,223	911,435,552	Self-financing and loans	52%
Semi-submersible rigs												
- COSL Innovator	3,808,158,217	-	49,690,736	-	1,962,387,450	-	-	-	4,691,333	2,016,769,519	Self-financing and loans	53%
- COSL Pioneer	3,539,171,099	-	295,632,507	-	1,848,908,254	-	-	-	4,420,047	2,148,960,808	Self-financing and loans	61%
- COSL Promoter	3,822,266,779	-	148,863,215	-	1,361,938,736	-	-	-	3,255,885	1,514,057,836	Self-financing and loans	40%
Drilling packages	3,417,300,000	-	14,556,088	-	771,082,142	-	-	-	1,843,368	787,481,598	Self-financing and loans	23%
Others	-	414,026,940	1,441,807,810	-	4,543,265,624	(1,090,488,945)	(8,497,020)	(5,635,516)	10,861,249	5,305,340,142		
Total	32,793,353,845	3,665,892,052	5,466,295,729	46,343,593	13,814,490,042	(6,004,171,640)	(8,497,020)	(5,635,516)	33,025,271	17,007,742,511		

Capitalised interest expenditure of the Group in 2008 amounted to RMB150,853,959 (Note 6(39)), and the capitalisation rate of capitalised amount of borrowing cost was 8.59%.

As at 31 December 2008, the drilling rigs being constructed by CDE with a value of RMB 12,789,663,755 have been pledged as security for its bank loans and bonds. Please refer to Note 6(28)&(29) for details.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(13) Construction in progress (continued)

2007	Budget	At the beginning of the year	Increase during the year: Purchase	Increase during the year: Transfer from fixed assets	Decrease during the year: Transfer to fixed assets	Decrease during the year: Transfer to intangible assets	Decrease during the year: Transfer to long-term equity investments	At the end of the year	Capital source	Project investment as proportion of budget
FET Formation Evaluation Tool	25,950,000	17,144,702	1,172,774	-	18,317,476	-	-	-	Self-financing	100%
CPTDC instrument renovation	17,542,745	5,847,582	10,465,694	-	16,313,276	-	-	-	Self-financing	100%
BH7 gliding base renovation	15,000,000	2,409,000	-	-	2,409,000	-	-	-	Self-financing	100%
Marine Oil 942	1,447,670,000	670,740,147	568,396,850	-	-	-	-	1,239,136,997	Self-financing	86%
Stainless steel ship	166,000,000	129,659,629	34,383,481	-	164,043,110	-	-	-	Self-financing	100%
ASDD deep water project	70,370,000	33,781,187	24,253,566	-	-	-	33,489,103	24,545,650	Self-financing	82%
Blowout preventer	31,285,000	11,200,150	19,517,748	-	29,437,898	-	-	1,280,000	Self-financing	98%
Two liftboat multi-functional drilling platforms	581,953,000	52,800,288	163,081,972	-	-	-	-	215,882,260	Self-financing	37%
Specialised vessel for methanol	264,180,000	243,817,655	15,371,357	-	259,189,012	-	-	-	Self-financing	100%
Gulfian module drilling machine	1,020,300,000	707,341,293	265,132,666	-	970,362,000	-	-	2,111,959	Bank loans	95%
6-type-3-purpose workboat	2,402,300,000	318,616,813	265,577,442	-	-	-	-	584,194,255	Self-financing and bonds	24%
Sieve tube factory workshop	31,504,476	28,079,378	3,425,098	-	27,554,518	3,949,958	-	-	Self-financing	100%
6 3/4 CTN neutron probe	17,200,000	7,830,666	9,164,724	-	16,995,390	-	-	-	Self-financing	100%
Marine oil 931 renovation	284,968,000	7,320,294	135,454,781	309,960,012	-	-	-	452,735,087	Self-financing	50%
ERP system	75,000,000	7,582,371	39,121,245	-	1,285,356	45,418,260	-	-	Self-financing	100%
8 cable ship renovation	524,300,000	25,093,271	420,998,969	-	-	-	-	446,092,240	Fund raised from issue of A share	85%
Well cementing skid-mounted equipment	69,460,000	20,000,000	48,140,000	-	55,360,000	-	-	12,780,000	Self-financing	98%
Auxiliary equipment	14,197,100	3,403,741	7,729,771	-	8,999,808	-	-	2,133,704	Self-financing	78%
350ft drilling platform	2,335,710,000	-	313,323,815	-	-	-	-	313,323,815	Self-financing	13%
Land drilling platform	240,000,000	-	170,058,034	-	98,841,796	-	-	71,216,238	Self-financing	71%
ELIS system	90,000,000	-	82,412,487	-	71,975,702	-	-	10,436,785	Self-financing	92%
Others	-	129,993,390	391,432,730	-	230,129,237	1,273,821	-	290,023,062		
Total	9,724,890,321	2,422,661,557	2,988,615,204	309,960,012	1,971,213,579	50,642,039	33,489,103	3,665,892,052		

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(14) Intangible assets

The Group's intangible assets principally comprise land use rights, management system, software and contract value.

	31 December 2008				31 December 2007		
	Land use rights	Management system and software	Contract value (note 1)	Total	Land use rights	Management system and software	Total
Cost:							
Amount at the beginning of the year	4,670,258	90,122,212	–	94,792,470	–	37,237,945	37,237,945
Purchases	257,518,425	10,409,120	–	267,927,545	4,670,258	2,242,228	6,912,486
Transfer from construction in progress	–	8,497,020	–	8,497,020	–	50,642,039	50,642,039
Acquisition of a subsidiary	–	130,331,804	122,702,127	253,033,931	–	–	–
Decrease	–	–	–	–	–	–	–
Exchange realignment	–	311,576	293,335	604,911	–	–	–
Amount at the end of the year	262,188,683	239,671,732	122,995,462	624,855,877	4,670,258	90,122,212	94,792,470
Accumulated amortization:							
At the beginning of the year	321,759	26,548,621	–	26,870,380	–	14,652,317	14,652,317
Provision	584,949	22,735,405	41,118,302	64,438,656	321,759	11,896,304	12,218,063
Write-off	–	–	–	–	–	–	–
Exchange realignment	–	(52,805)	–	(52,805)	–	–	–
Amount at the end of the year	906,708	49,231,221	41,118,302	91,256,231	321,759	26,548,621	26,870,380
Impairment provision:							
At the beginning of the year	–	–	–	–	–	–	–
Provision	–	–	–	–	–	–	–
Write-off	–	–	–	–	–	–	–
Exchange realignment	–	–	–	–	–	–	–
Carrying amount:							
Amount at the end of the year	261,281,975	190,440,511	81,877,160	533,599,646	4,348,499	63,573,591	67,922,090
Amount at the beginning of the year	4,348,499	63,573,591	–	67,922,090	–	22,585,628	22,585,628

note 1: Please refer to Note 6(31) for details.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(15) Goodwill

	2008	2007
Carrying value at beginning of the year	–	–
Acquisition of a subsidiary	3,472,240,505	–
Exchange realignment	8,300,826	–
Carrying value at end of the year	3,480,541,331	–
At the end of the year:		
Cost	3,480,541,331	–
Accumulated impairment	–	–
Carrying amount	3,480,541,331	–

The Group acquired CDE as at 28 September 2008, resulting in a goodwill amounting to RMB 3,472,240,505. Please refer to Note 6(50) for relevant calculation.

(16) Long-term deferred expenses

The long-term deferred expenses of the Group include large scale drilling tools in use, logging tools and vessel cables, etc.

	31 December 2008	31 December 2007
Cost:		
Amount at the beginning of the year	637,140,827	397,827,104
Purchases	733,028,439	239,313,723
Amount at the end of the year	1,370,169,266	637,140,827
Accumulated amortization:		
At the beginning of the year	384,187,798	290,370,260
Provision	216,728,697	93,817,538
Amount at the end of the year	600,916,495	384,187,798
Impairment provision:		
At the beginning of the year	–	–
Provision	–	–
Write-off	–	–
Amount at the end of the year	–	–
Carrying amount:		
Amount at the end of the year	769,252,771	252,953,029
Amount at the beginning of the year	252,953,029	107,456,844

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(17) Provision for impairment of assets

31 December 2008	Amount at the beginning of the year	Provision during the year	Decrease during the year		Exchange realignment	Amount at the end of the year
			Write-back	Write-off		
Provision for impairment of accounts receivable and other receivables	7,187,093	49,943,861	(812,192)	–	(222,486)	56,096,276
Provision for impairment of inventories	11,840,579	3,853,238	–	–	–	15,693,817
Impairment provision for available-for-sale financial assets	–	106,508,218	–	–	–	106,508,218
Total	19,027,672	160,305,317	(812,192)	–	(222,486)	178,298,311

31 December 2007	Amount at the beginning of the year	Provision during the year	Decrease during the year		Exchange realignment	Amount at the end of the year
			Write-back	Write-off		
Provision for impairment of accounts receivable and other receivables	4,709,548	4,732,259	(2,135,732)	–	(118,982)	7,187,093
Provision for impairment of inventories	7,986,388	3,854,191	–	–	–	11,840,579
Total	12,695,936	8,586,450	(2,135,732)	–	(118,982)	19,027,672

(18) Ownership-restricted assets:

2008	Amount at the beginning of the year	Increase in the year	Decrease in the year	Exchange realignment	Amount at the end of the year	Remark
Assets pledged as security:						
Cash on hand and at bank	11,983,811	4,421,985	(1,285,782)	(469,802)	14,650,212	note 1
Current portion of non-current assets	–	39,024,366	–	93,289	39,117,655	note 3
Held-to-maturity investment	–	78,048,733	–	186,585	78,235,318	note 3
Available-for-sale financial assets	–	140,366,447	(106,508,218)	459,306	34,317,535	note 4
Fixed assets	–	13,531,780,107	–	–	13,531,780,107	note 2
Construction in progress	–	14,560,506,691	(1,770,842,936)	–	12,789,663,755	note 2
Subtotal	11,983,811	28,354,148,329	(1,878,636,936)	269,378	26,487,764,582	

2007	Amount at the beginning of the year	Increase in the year	Decrease in the year	Exchange realignment	Amount at the end of the year	Remark
Assets pledged as security:						
Cash on hand and at bank	15,249,413	166,125	(2,513,776)	(917,951)	11,983,811	

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the major items of the consolidated financial statements (continued)

(18) Ownership-restricted assets: (continued)

note 1: The restricted cash on hand and at bank of the Group was mainly guarantees paid for letters of credit in relation to the purchases of equipment and materials overseas.

note 2: CDE, which was acquired by the Group, pledged fixed assets with carrying amount of RMB 13,531,780,107 and construction in progress with carrying amount of RMB 12,789,663,755 as security for the purposes of obtaining bank loans of RMB 7,856,068,800 and second security priority bond of RMB 1,366,649,193. See Note 6(19), (28)&(29). The depreciation charges for the above fixed assets amounted to RMB 749,785,930 for the period from the date of acquisition till the balance sheet date.

note 3: Please refer to Note 6(9) for explanations.

note 4: Please refer to Note 6(19) for explanations.

CDE's equity held by the Group was pledged as security for a syndicated bank borrowing. Please refer to Note 6(19) for details.

(19) Short-term bank borrowings

	31 December 2008	Interest rate	Security	31 December 2007
Syndicated bank borrowing (note 1)	6,359,458,608	LIBOR+1.7%	Secured	–
Nordea Bank Norge ASA (note 2)	476,138,316	LIBOR+2.25%	Secured	–
	6,835,596,924			–

As at 31 December 2008, the Group has no overdue short-term borrowings.

note 1: The Group obtained a syndicated bank borrowing of US$ 1.4 billion for the purposes of the acquisition of CDE. The borrowing period is from 24 September 2008 to 24 September 2009. Bank of China had committed that, part of the loans, amounting to US$ 466,670,000, could be repaid in January 2010, hence, the remaining syndicated borrowing of US$ 933,330,000 is still classified as short-term borrowings. This borrowing bears interest rate at LIBOR plus 1.7%. The syndicated bank borrowing is secured by the equity of CDE as held by the Group.

note 2: CDE, which was acquired by the Group, entered into a loan agreement with Nordea Bank Norge ASA amounting to US$ 70 million, which is to be repaid by 30 March 2009. This loan bears interest rate at LIBOR plus 2.25%, which is secured by the drilling packages being constructed by CDE and CDE's investment in Petrojack ASA.

(20) Notes payable

	31 December 2008	31 December 2007
Banker's acceptances	366,762,500	–

The notes payable as at 31 December 2008 did not include amount payable to the shareholders holding 5% or more voting rights of the Company (31 December 2007: nil). The notes payable balance as at 31 December 2008 included an amount of RMB 366,762,500 payable to the related parties (31 December 2007: nil). Please refer to Note 9(5) for details.

(21) Accounts payable

The accounts payable as at 31 December 2008 did not include notes payable to the shareholders holding 5% or more voting rights of the Company (31 December 2007: nil). The accounts payable balance as at 31 December 2008 included an amount of RMB 104,699,088 payable to the related parties (31 December 2007: RMB 77,900,852). Please refer to Note 9(5) for details.

The Group has no significant balance of accounts payable which is aged over one year as at 31 December 2008.

The Group's accounts payable are mainly denominated in RMB or US$. At 31 December 2008, accounts payable included balances denominated in US$ of US$ 103,799,670 (equivalent to RMB 709,429,228) (31 December 2007: US$ 33,015,313 (equivalent to RMB 241,163,658)).

(22) Receipts in advance

Balance of receipts in advance as at 31 December 2008 does not include any advances received from the shareholders holding 5% or more voting rights of the Company (31 December 2007: nil). The receipts in advance balance as at 31 December 2008 included an amount of RMB 33,519,000 received from a related party, CNOOC Limited (31 December 2007: RMB69,219,350).

The Group has no significant balance of receipts in advance which is aged over one year as at 31 December 2008.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(23) Staff cost payable

31 December 2008	Amount at the beginning of the year	Current year additions	Acquisition of a subsidiary	Current year payments	Amount at the end of the year
Current:					
Salaries, bonuses, allowances and subsidies	330,634,253	1,788,719,745	–	1,686,913,882	432,440,116
Staff welfares	20,510,348	120,144,264	–	134,025,505	6,629,107
Social insurances	29,548,102	214,744,862	–	214,500,145	29,792,819
Housing fund	(214,847)	52,877,121	–	52,684,764	(22,490)
Union fees and education fees	16,972,826	40,611,207	–	40,548,323	17,035,710
Sub-total	397,450,682	2,217,097,199	–	2,128,672,619	485,875,262
Non-current:					
Pension costs, defined benefit/ contribution scheme (note 1)	–	4,751,442	3,067,171	2,154,987	5,663,626
Total	397,450,682	2,221,848,641	3,067,171	2,130,827,606	491,538,888

31 December 2007	Amount at the beginning of the year	Current year additions	Current year payments	Amount at the end of the year
Salaries, bonuses, allowances and subsidies	237,529,765	1,229,012,019	1,135,907,531	330,634,253
Staff welfares	106,298	125,455,648	105,051,598	20,510,348
Social insurances	6,641,043	181,288,037	158,380,978	29,548,102
Housing fund	43,731	37,667,438	37,926,016	(214,847)
Union fees and education fees	14,779,385	32,093,554	29,900,113	16,972,826
Total	259,100,222	1,605,516,696	1,467,166,236	397,450,682

Balance of other payables as at 31 December 2008 included unpaid service fees amounting to RMB 12,618,716 for contracted workers (31 December 2007: RMB 90,565,162).

There was no accrued payrolls in arrears or performance-linked compensation in the consolidated financial statements of the Group as at the balance sheet date.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(23) Staff cost payable (continued)

note 1: Explanation of defined benefit scheme

CDE, a subsidiary of the Company, has various pension plans for its employees.

CDE has a defined benefit scheme set up together with a life insurance company for the provision of pension benefits for certain employees in Norway. The scheme provides entitlement to benefits based on future service from the commencement date of the scheme. These benefits principally depend on an employee's pension qualifying period, salary at retirement age and the size of benefits from the National Insurance Scheme. Full retirement pension will amount to approximately 70% of the scheme pension-qualifying income (limited to the Norway National Insurance Basic Amount as the terms agreed). The scheme also includes entitlement to disability, spouses and children's pensions. The retirement age under the scheme is 67 years old.

CDE may at any time make alterations to the terms and conditions of the pension scheme and undertake that they will inform the employees of any such changes. The benefits accruing under the scheme are funded obligations.

Changes in the pension obligations as a result of changed actuarial assumptions and variations between actual and anticipated return on pension funds, will be entered on the average remaining earnings period according to the "corridor" regulations.

	31 December 2008 RMB'000
Pension cost	
Service cost	3,468,788
Interest cost	685,683
Estimated returns on plan assets	(465,241)
Administrative expenses	67,641
Amortization of past service cost	–
Amortization of actuarial gains	474,390
Net pension cost	4,231,261
Social security tax	520,181
Total	4,751,442
Benefit assets/(obligation)	
Benefit obligation	(21,715,902)
Plan assets	9,489,444
Funded status	(12,226,458)
Social security tax	(1,723,931)
Unamortised actuarial gains, past service cost	8,286,763
Net obligation	(5,663,626)
Movements in the benefit asset/(obligation) during the year	
Benefit asset/(obligation), balance at the beginning of the year	–
Acquisition of a subsidiary	(3,067,171)
Benefit expense	(4,751,442)
Contributions	2,154,987
Benefit asset/(obligation), balance at the end of the year	(5,663,626)

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(23) Staff cost payable (continued)

note 1: Explanation of defined benefit scheme (continued)

	2008
Assumptions	
Estimated return on plan assets	6%
Discount rate	5%
Salary increase	5%
Increase of National Insurance	4%
Rate of pension increase	1.75%-4.25%
Voluntary resignations	0-8%
Social security tax	14%
Analysis of the plan assets	
The asset allocation at the end of the period is set out as follows:	
Debt instruments	52%
Equity instruments	27%
Money market and similar	9%
Property	12%
Total	100%

(24) Taxes payable

	31 December 2008	31 December 2007
Corporate income tax	252,460,375	472,145,594
Business tax	56,029,365	33,938,893
Value added tax	(8,199,026)	(863,878)
Urban maintenance and construction tax	4,429,050	1,905,885
Individual income tax	23,606,967	6,156,046
Education surcharge	2,059,820	1,107,818
Other overseas taxes	12,911,906	13,948,298
Total	343,298,457	528,338,656

The respective basis of provision and tax rates for taxes payables are set out in Note 4 to the financial statements.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(25) Other payables

	31 December 2008	31 December 2007
Amounts due to CNOOC	3,248,229	3,248,229
Marine meal fees payable	27,996,746	24,489,442
Service fees for contracted workers	12,618,716	90,565,162
Equipment cost payable	4,982,749	535,979
Amounts due to other related parties	22,263,953	24,472,125
Deposits and quality guarantee fees	3,238,892	18,622,103
Scientific research cooperation fees payable	4,126,572	5,268,188
Amounts due to the jointly-controlled entities	93,867,419	96,072
Service fees payable	177,318,856	16,138,810
Fuel payable	3,435,066	3,266,377
Others	282,930,011	23,986,602
Total	636,027,209	210,689,089

The balance of other payables as at 31 December 2008 includes an amount of RMB 3,248,229 (31 December 2007: RMB 3,248,229) due to CNOOC, which holds 54.74% voting rights of the Company. The other payables balance as at 31 December 2008 also includes an amount of RMB 128,930,838 payable to the other related parties (31 December 2007: RMB 24,568,197). Please refer to Note 9(5) for details.

The Group has no significant balance of other payables which is aged over one year as at 31 December 2008.

(26) Current portion of non-current liabilities

	31 December 2008	31 December 2007
Amounts due to CNOOC	–	200,000,000
Long-term borrowings (Note 6(28))	943,020,215	200,000,000
	943,020,215	400,000,000

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(27) Derivative financial instruments

	31 December 2008	31 December 2007
Cross currency interest rate swap	49,307,921	–

The carrying amount of the interest rate swap is the same as the fair value.

Through a business combination, the Group acquired a cross currency interest swap agreement relating to the NOK500 million bond notes. This swap receives NOK and pays US$ for a total amount of NOK250 million and has a maturity of 6 July 2010 (matching the maturity of the underlying bond).

In addition, part of the NOK bond (NOK250 million), subject to a rate of 3 month NIBOR + 2.25%, has been swapped with a 3 month US LIBOR + 2.40%. This swap agreement has been entered into to minimize the exposure to fluctuations in the US$/NOK exchange rate.

The Group recognised a fair value loss as finance costs from this agreement amounting to RMB 52,983,938 (2007: Nil).

Forward currency contracts – cash flow hedges

In 2008, the Group had three forward currency contracts designated as hedges of the acquisition of CDE. The terms of the forward currency contracts have been negotiated to match the terms of the acquisition consideration. The cash flow hedges were assessed to be highly effective and a realised net loss of RMB 497,473,430 was included in the acquisition cost.

(28) Long-term bank borrowings

Bank (Institution)		31 December 2008 Original currency	31 December 2008 RMB equivalent	31 December 2007 Original currency	31 December 2007 RMB equivalent	Interest rate	Term	Maturity date
Export-Import Bank of China	US$	800,000,000	5,467,680,000	–	–	LIBOR+1.7%	Unsecured	2 September 2020
Export-Import Bank of China *(note 1)*	RMB	744,000,000	744,000,000	944,000,000	944,000,000	note 1	Unsecured	note 1
Export-Import Bank of China *(note 2)*	RMB	400,000,000	400,000,000	–	–	note 2	Unsecured	19 November 2017
Bank of China *(Note 6(19), note 1)*	US$	466,670,000	3,189,502,781	–	–	LIBOR+1.7%	Secured	23 January 2010
Nordea Bank *(note 3)*	US$	984,089,671	6,725,859,262	–	–	LIBOR+1.625%	Secured	22 February 2010
Commercial facility borrowings *(note 5)*	US$	95,700,000	654,071,222	–	–	LIBOR+1.625%	Secured	31 October 2018
Eksportfinans *(note 4)*	US$	17,170,424	117,352,973	–	–	3.2%	Secured	24 August 2011
Total			17,298,466,238		944,000,000			
Less: Current portion of long-term borrowings			(943,020,215)		(200,000,000)			
			16,355,446,023		744,000,000			

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(28) Long-term bank borrowings (continued)

note 1: The Group obtained specific borrowings from the Export-Import Bank of China with principals of RMB 600,000,000 and RMB 344,000,000 in June 2006 and February 2007 respectively, for the purpose of financing the construction of certain modular drilling rigs in Mexico. The above borrowings are unsecured and bear annual interest rate at 4.05% for the first year, then applies current market interest rate of similar loan type quoted by the People's Bank of China from the second year. Those borrowings shall be repaid from 30 June 2008 to 30 June 2013 by installments as follows: RMB 200 million on every 30 June from 2008 to 2011, RMB 100 million on 30 June 2012, and RMB 44 million on 30 June 2013.

note 2: In November 2008, the Group obtained a borrowing of RMB 400 million from the Export-Import Bank of China for the purpose of financing the construction of vessels for the workover operation in Indonesia. The borrowing shall be repaid from 19 November 2009 to 19 November 2017. The borrowing bears annual interest rate at 4.86% for the first quarter and applies market interest rate of similar loan type quoted by the People's Bank of China from the second quarter.

note 3: In July 2007, the loan agreement was entered into with a syndicate of financial institutions. The borrowing is secured by mortgages on the Group's accommodation rigs, jack up drilling rigs and semi-submersibles drilling rigs. The carrying amounts of the secured assets are set out as Note6(12)&(13).

note 4: In August 2006, the loan was granted based on a subsidiary's extensive use of Norwegian suppliers in the construction of the jack-up drilling rig, WilPower. In return, the loan carries a fixed interest rate of 3.2%. The loan is to be repaid in semi-annual installments beginning six months after the loan drawdown date. Proceeds of the loan were deposited in an account with the agent bank, which serve as a security for the loan and are classified as a loan pledge in the balance sheet. Please refer to Note 6(9) for the deposits in the agent bank as at 31 December 2008.

note 5: The loan agreement was entered into by a subsidiary of CDE, WilPromoter Pte. Ltd. (currently known as "COSLPromoter Pte. Ltd."), relating to a loan facility of up to US$335,600,000 for drilling rig construction. The facility is secured by a semi-submersible drilling rig, COSL Promoter.

(29) Long-term bonds

31 December 2008

Bond name	Amount at the beginning of the year	Current year additions	Arising from acquisition of a subsidiary	Exchange realignment	Amount at the end of the year
COSL corporate bond *(note 1)*	1,500,000,000	–	–	–	1,500,000,000
Senior unsecured NOK bond *(note 2)*	–	–	580,300,815	(94,557,014)	485,743,801
Senior unsecured US$ bond *(note 3)*	–	2,806,076	671,537,410	1,605,394	675,948,880
Second security priority US$ bond *(note 4)*	–	26,622	1,363,363,280	3,259,291	1,366,649,193
Total	1,500,000,000	2,832,698	2,615,201,505	(89,692,329)	4,028,341,874

note 1: On 18 May 2007, the Group issued 15-year corporate bonds, with a nominal value of RMB100.00 per bond, amounting to RMB 1,500 million. The bonds carry interest at a fixed coupon rate of 4.48% per annum, which is payable annually in arrears on 14 May, and the redemption or maturity date is 14 May 2022.

note 2: COSL Drilling Europe AS issued the unsecured bonds in July 2007, with a book value of NOK 500 million, and an interest rate of LIBOR+2.25%. The bullet maturity is three years.

note 3: COSL Drilling Europe AS issued the bonds in February 2006, with a book value of US$100 million. The notes are unsecured, have a five-year bullet maturity and carry a fixed coupon rate of 9.75%.

note 4: COSL Drilling Semi AS (formerly known as Offrig Drilling ASA) issued the bonds in April 2006, with a book value of US$200 million and with a second security priority mortgage in the construction contracts relating to semi-submersible rigs. The company incurred debt issuance costs of US$4.5 million, which are capitalised and amortised as a component of interest expense over the term of the notes. The notes are shown net of issue costs on the balance sheet. The bonds carry a fixed coupon rate of 9.75% and have a five-year bullet maturity.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(30) Deferred tax liabilities

	31 December 2008	31 December 2007
Deferred tax assets:		
Provision for staff bonuses (note 1)	(112,551,940)	(111,100,980)
Amortisation of intangible assets	(1,135,456)	–
Accrued liabilities	(3,533,488)	–
Tax losses carried forward	(29,299,930)	–
Others	(19,307,744)	–
	(165,828,558)	(111,100,980)
Deferred tax liabilities:		
Accelerated depreciation (note 2)	641,254,966	216,345,346
Revaluation surplus on reorganisation (note 3)	100,250,000	130,325,000
Fair value adjustment arising from acquisition of a subsidiary (note 4)	1,851,691,343	–
Others	1,633,469	–
	2,594,829,778	346,670,346
Net deferred tax liabilities	2,429,001,220	235,569,366
Amount at the beginning of the year	235,569,366	348,756,159
Recognised in income statement	111,445,887	(113,186,793)
Acquisition of a subsidiary	2,116,870,809	–
Exchange realignment	(34,884,842)	-
Amount at the end of the year	2,429,001,220	235,569,366

note 1: The Group made provision for staff bonuses at end of year, pursuant to the tax laws and regulations, any unpaid wages, bonuses and the relating provisions of welfares and union fees are non-deductible from the taxable income for the year, but will be deducted from the taxable income when those wages and bonus are actually paid in future period. Accordingly, deferred tax assets are recognised for the deductible temporary differences.

note 2: Pursuant to the tax laws and regulations, vessels and drilling rigs are depreciated over 10 years and 6 years respectively, which can be deducted for corporate income tax purpose. However, the Company's management considers that the reasonable estimated useful lives of vessels and drilling rigs are 10 to 20 years and 25 years respectively. Accordingly, the deferred tax liabilities are calculated by the differences between the book value of these fixed assets and tax base as well as its future applicable tax rate.

note 3: The Group appointed China Consultants of Accounting and Financial Management Co., Ltd. to perform valuation for the fixed assets as injected into the Company by CNOOC upon the reorganization of the Group in 2002, China Consultants of Accounting and Financial Management Co., Ltd. issued the Report of Assessment for Establishing China Oilfield Service Limited (Preparation) (Zhong Hua Ping Bao Zi No.[2002] 066) on 30 August 2002, which was put on records in the Ministry of Finance. Pursuant to the provisions of PRC tax laws, the relevant depreciation charges arising from the revaluation surplus of such fixed assets cannot be deducted for corporate income tax purpose before relevant approval is obtained. Accordingly, deferred income tax liability arising from different basis between tax and accounting is recognised on the balance sheet.

note 4: During the year, the fair values of various identifiable assets and liabilities are initially recognised on consolidation for acquisition of CDE. As the difference between tax base and initial recognition amount is a temporary difference, the relevant deferred income tax assets or deferred income tax liabilities are recognised in accordance with the provisions of income tax accounting principles. The differences between the fair values of identifiable assets and liabilities acquired and its carrying amounts include fixed assets, construction in progress (mainly representing drilling rigs and accommodation rigs) and intangible assets including management system, software and service contracts as well as the service contracts as included in the non-current liabilities. In the opinion of the Company's management, the composite tax rate of 18.6% is applied to those drilling rigs and accommodation rigs as they are located in various countries/regions with various tax rates. The deferred income tax liabilities relating to service contracts are recognised using a tax rate of 27.6%, where drilling rigs with significant fair value difference service contracts are working which is close to the applicable tax rate in Norway, while a tax rate of 28% is applied for the management system and software which are mainly used in Norway. The details of acquisition are set out in Note 6(50).

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(30) Deferred tax liabilities (continued)

Recognised deferred tax assets and deferred tax liabilities:

2008	Deferred tax assets: Provision for staff bonuses	Amortisation of intangible assets	Accrued liabilities	Tax losses carried forward	Others	Total
At 1 January 2008	(111,100,980)	–	–	–	–	(111,100,980)
Recognised in the consolidated income statement	(1,450,960)	(1,135,456)	(193,631)	73,344,732	(10,193,299)	60,371,386
Acquisition of a subsidiary	–	–	(3,334,149)	(101,544,942)	(9,211,524)	(114,090,615)
Exchange realignment	–	–	(5,708)	(1,099,720)	97,079	(1,008,349)
At 31 December 2008	(112,551,940)	(1,135,456)	(3,533,488)	(29,299,930)	(19,307,744)	(165,828,558)

2008	Deferred tax liabilities: Accelerated depreciation	Revaluation surplus on reorganisation	Fair value adjustment arising from acquisition of a subsidiary	Others	Total
At 1 January 2008	216,345,346	130,325,000	–	–	346,670,346
Recognised in the consolidated income statement	113,236,957	(30,075,000)	(25,884,342)	(6,203,114)	51,074,501
Acquisition of a subsidiary	350,419,710	–	1,872,796,124	7,745,590	2,230,961,424
Exchange realignment	(38,747,047)	–	4,779,561	90,993	(33,876,493)
At 31 December 2008	641,254,966	100,250,000	1,851,691,343	1,633,469	2,594,829,778
Net total					2,429,001,220

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(30) Deferred tax liabilities (continued)

Recognised deferred tax assets and deferred tax liabilities: (continued)

2007	Deferred tax assets					
	Provision for staff bonuses	Amortisation of intangible assets	Accrued liabilities	Tax losses carried forward	Others	Total
At 1 January 2007	(111,567,911)	–	–	–	–	(111,567,911)
Recognised in the consolidated income statement	466,931	–	–	–	–	466,931
Including: changes of tax rate	13,121,574	–	–	–	–	13,121,574
At 31 December 2007	(111,100,980)	–	–	–	–	(111,100,980)

2007	Deferred tax liabilities				
	Accelerated depreciation	Revaluation surplus on reorganisation	Long-term investments	Deferred revenue	Total
At 1 January 2007	248,596,070	211,728,000	–	–	460,324,070
Recognised in the consolidated income statement	(32,250,724)	(81,403,000)	–	–	(113,653,724)
Including: changes of tax rate	(57,048,527)	(41,704,000)	–	–	(98,752,527)
At 31 December 2007	216,345,346	130,325,000	–	–	346,670,346
Net total					235,569,366

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(31) Other non-current liabilities

	31 December 2008	31 December 2007
Losses shared from a jointly-controlled entity (note 1)	72,405,161	–
Deferred revenue (note 2)	1,512,634,769	–
	1,585,039,930	–

note 1: Represents the excess losses undertaken by CDE after its sharing of the losses from a jointly-controlled entity, Premium Drilling AS, using equity accounting method based on the equity ratio held.

note 2: Deferred revenue was generated in the process of the acquisition of CDE, arising from the difference of contracted day rates and market day rates of the drilling rigs owned by COSL Drilling Europe AS. Amongst which, for those contract day rates of 4 jack-up drilling rigs and 1 accommodation rig higher than their market day rates, deferred revenue is recognised as an intangible asset (Note 6(14)); for those contracted day rates of 1 jack-up drilling rig, 4 semi-submersible drilling rigs and the remaining accommodation rigs lower than their market day rates, deferred revenue is recognised as a liability. Deferred assets and liabilities shall be amortised according to the related contract period using straight-line method.

(32) Share capital

The Company's registered and paid-in share capital is RMB 4,495,320,000, with par value of RMB 1 for each share. The categories of shares and its structure are presented as follows:

31 December 2008	Amount at the beginning of the year Shares	Amount at the beginning of the year Percentage	Amount at the end of the year Shares	Amount at the end of the year Percentage
1. Restricted circulating shares				
(1) Shares held by government	–	–	–	–
(2) Shares held by state-owned legal persons	2,460,468,000	54.74%	2,460,468,000	54.74%
(3) Shares held by other domestic investors	–	–	–	–
Including:				
Shares held by domestic legal persons	–	–	–	–
Shares held by domestic residents	–	–	–	–
(4) Shares held by foreign investors	–	–	–	–
Including:				
Shares held by legal persons abroad	–	–	–	–
Shares held by residents abroad	–	–	–	–
Total shares subject to trading restrictions	2,460,468,000	54.74%	2,460,468,000	54.74%
2. Non-restricted circulating shares				
(1) Ordinary shares in RMB	500,000,000	11.12%	500,000,000	11.12%
(2) Domestic listed foreign shares	–	–	–	–
(3) Overseas listed foreign shares	1,534,852,000	34.14%	1,534,852,000	34.14%
(4) Others	–	–	–	–
Total shares not subject to trading restrictions	2,034,852,000	45.26%	2,034,852,000	45.26%
3. Total shares	4,495,320,000	100.00%	4,495,320,000	100.00%

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(33) Capital reserve

	31 December 2008	31 December 2007
Capital reserve arising from Reorganisation (note 1)	999,354,310	999,354,310
Share premium (note 2)	7,075,211,416	7,075,211,416
Including: Capital raised from A shares	6,098,755,426	6,098,755,426
Capital raised from H shares	976,455,990	976,455,990
Total	8,074,565,726	8,074,565,726

note 1: The revaluation surplus arising from the injection of assets and businesses to the Company by CNOOC upon reorganization amounted to RMB 1,356,654,310, amongst which a deferred income tax liability of RMB 357,300,000 arose from the revaluation surplus of the fixed assets acquired from CNOOC by the Company during the reorganization. The corporate income tax effect arising from such revaluation surplus was recognised as deferred income tax liabilities offsetting of the relevant capital surplus, given that the depreciation arising from revaluation of fixed assets is non-deductible from the future taxable income of the Company for the purpose of calculation of corporate income tax.

note 2: This item represents the shares premium arising from the public offering of the Company's shares, including the pubic offering of H shares overseas in 2002 and the domestic public offering of A shares on 25 September 2007. Share premium was recorded under the account of capital surplus according to the amount of proceeds raised net of the par value of shares and share issuance costs.

(34) Statutory reserve funds

31 December 2008	Amount at the beginning of the year	Provision in the year	Transferred in the year	Amount at the end of the year
Statutory reserve funds	677,614,950	322,440,718	–	1,000,055,668

31 December 2007	Amount at the beginning of the year	Provision in the year	Transferred in the year	Amount at the end of the year
Statutory reserve funds	442,515,264	235,099,686	–	677,614,950

Pursuant to the PRC Company Law as well as the provisions of the Articles of Associations of the Company, the statutory reserve funds are provided according to 10% of the Company's net profit, the provision of statutory reserve funds shall cease if the accumulated amount of statutory reserve funds provided reaches 50% of the Company's registered capital.

The Company may provide discretionary reserve funds after the provision of statutory reserve funds. Discretionary reserve funds can be used to offset prior years' accumulated losses or converted into share capital upon approval.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(35) Retained earnings

	31 December 2008	31 December 2007
Retained earnings at the beginning of the year	**3,967,663,009**	**2,204,898,038**
Net profit for the year	**3,102,241,149**	**2,237,583,857**
Less: provision for statutory reserve funds	**(322,440,718)**	**(235,099,686)**
Cash dividends paid	**(539,438,400)**	**(239,719,200)**
Retained earnings at the end of the year	**6,208,025,040**	**3,967,663,009**

(36) Proposed cash dividends

	31 December 2008	31 December 2007
Category of shares:		
State-owned shares	**344,465,520**	295,256,160
Ordinary shares ("H shares") listed abroad	**214,879,280**	184,182,240
Ordinary shares ("A shares") in RMB	**70,000,000**	60,000,000
	629,344,800	539,438,400

The balances of proposed cash dividends on each balance sheet date of the financial statements are in accordance with the respective years' profit distribution scheme approved by the Board of Directors of the Company, which will be paid upon approval by the general meeting of shareholders.

(37) Revenue

	2008	2007
Revenue from main business	**12,430,252,591**	9,241,894,832

	2008	2007
Total amount of revenue from top 5 customers	**9,612,441,597**	7,507,415,324
Ratio to revenue	**77%**	81%

The segment information of the Group's revenue from main business and cost of main business is set out in Note 7 – Segment reporting.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(38) Business taxes and surcharges

	2008	2007
Business tax	258,412,715	212,161,500
Urban maintenance and construction tax	17,193,913	13,769,291
Education surcharge	8,631,922	6,864,342
Flood control expenses and others	3,070,019	1,112,306
Total	287,308,569	233,907,439

(39) Financial expenses

	2008	2007
Borrowing costs	585,196,131	89,678,864
Less: Capitalised interests	150,853,959	58,115,498
Less: Interest income	164,618,692	59,723,733
Exchange loss	91,358,207	113,868,444
Others	5,024,237	4,027,234
Total	366,105,924	89,735,311

The interest capitalised was recorded in construction in progress (Note 6(13)).

(40) Assets impairment losses

	2008	2007
Provision for impairment of accounts receivable and other receivables *(Note 6(17))*	49,131,669	2,596,527
Provision for impairment of inventories	3,853,238	3,854,191
Impairment provision for available-for-sale financial assets *(Note 6(10))*	106,508,218	–
Total	159,493,125	6,450,718

(41) Fair value losses

	2008	2007
Derivative financial instruments *(Note 6(27))*	52,983,938	–

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(42) Investment income

	2008	2007
Investment income from long-term equity investments adopting equity method of accounting *(Note 6(11))*	215,707,167	113,152,456
Loss arising from disposal of financial instruments	(151,658,433)	–
Income arising from redemption of government bonds and other investment income	25,618,169	11,884,238
Total	89,666,903	125,036,694

There is no significant restriction on the remittance of the Group's investment income from overseas on the balance sheet date.

(43) Non-operating income

	2008	2007
Gains from fixed assets count and disposal of fixed assets	2,112,332	1,804,159
Insurance claims received	19,895,224	4,490,822
Government subsidies	24,258,570	31,150,282
Others	2,404,247	1,165,668
Total	48,670,373	38,610,931

(44) Non-operating expenses

	2008	2007
Losses from fixed assets count and disposal of fixed assets	55,541,786	20,672,961
Charity donation	24,700,000	8,123,707
Extraordinary losses	2,142	58,973
Others	402,478	2,011,700
Total	80,646,406	30,867,341

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(45) Income tax expenses

	2008	2007
Income tax expenses for the year	617,604,725	1,014,479,315
Income tax refund for prior year received during current year (Note 4(5))	(524,005,348)	(272,309,239)
Deferred income tax (Note 6(30))	111,445,887	(113,186,793)
	205,045,264	628,983,283

The relation between income tax expenses and profits for the year is presented as follows:

	2008	2007
Profit before tax	3,307,286,413	2,866,567,140
Tax at the statutory tax rate of 25% (2007: 33%)	826,821,603	945,967,156
Tax refund/reduction as an advanced technology enterprise		
– current year	(220,793,287)	–
– prior year	(524,005,348)	(272,309,239)
Income not subject to tax	(145,376,583)	(28,703,981)
Effect of different tax rates for overseas subsidiaries	63,164,875	70,002,912
Tax benefit for qualifying research and development expense	(14,735,072)	(10,346,255)
Change in PRC Statutory tax rate	–	(85,630,952)
Unrecognised tax losses	464,172,797	–
Translation adjustment *(note 1)*	(311,387,575)	–
Expenses not deductible for tax and others	67,183,854	10,003,642
Income tax charge at the Group's effective tax rate	205,045,264	628,983,283

The Group's income tax is calculated based on its estimated taxable income derived from the PRC and the applicable tax rate. The taxations sourced from other countries/regions' taxable income are provided by reference to the respective applicable laws, interpretations and general practices as well as the applicable tax rates where the Group's operations are domiciled and operated.

note 1: Translation adjustment includes tax effect of differences arising from foreign exchange effects to Norwegian Krone, which is the basis for taxation of some group companies. The translation adjustment mainly relates to differences between the taxable income under the Norwegian Krone tax basis and the US dollar functional currency income statement.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(46) Earnings per share

The basic earnings per share is calculated based on the net profit attributable to the ordinary equity holders of the Company and weighted average number of the ordinary shares in issue. The newly issued ordinary shares is included from the date that the considerations became receivable (normally the issuing date of shares), in accordance with the detailed issuing contractual terms set out in the contract.

The detailed calculation information for basic earnings per share is presented as follows:

	2008	2007
Earnings		
Net profits attributable to the ordinary equity holders of the Company	3,102,241,149	2,237,583,857
Shares		
Weighted average of ordinary shares issued by the Company	4,495,320,000	4,128,196,712

The Company does not have any potential diluted ordinary shares, and therefore the diluted earnings per share is equal to the basic earnings per share.

(47) Other cash paid relating to operating activities

Including significant cash flows listed as follows:

	2008	2007
Domestic and overseas traveling expenses	173,758,454	279,818,953
Entertainment, office and conference expenses	104,883,920	94,822,368
Technical research transfer expenses	88,432,436	58,825,561
Fees paid to agent institutions	43,563,745	45,603,522
Greening, environmental protection and sewage charges	31,705,805	5,317,241
Charity donation	24,700,000	–
Others	204,335,512	33,798,011
Total	671,379,872	518,185,656

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(48) Cash flows from operating activities

	2008	2007
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	**3,102,241,149**	2,237,583,857
Add: Provision for asset impairments	**159,493,125**	6,450,718
Change in fair value	**52,983,938**	–
Depreciation of fixed assets	**1,282,367,194**	936,044,892
Amortisation of intangible assets	**64,438,656**	12,218,063
Amortisation of long-term deferred expenses	**216,728,697**	93,817,538
Amortisation of deferred revenue	**(10,100,442)**	–
Net losses on disposal of fixed assets, intangible assets and other long-term assets	**53,429,454**	18,868,801
Financial expenses	**361,081,687**	89,735,311
Investment income	**(89,666,903)**	(125,036,694)
Increase/(decrease) in deferred income tax liabilities	**111,445,887**	(113,186,793)
Decrease in inventories	**(288,301,945)**	(128,459,799)
Decrease in operating receivables	**(1,579,670,527)**	(565,577,330)
Increase in operating payables	**600,191,900**	501,819,474
Net amount of cash flows from operating activities	**4,036,661,870**	2,964,278,038

(49) Cash and cash equivalents

	31 December 2008	31 December 2007
Cash	**4,578,484,264**	8,778,193,761
Including: Cash on hand	**2,313,734**	489,767
Bank deposits payable at any time	**4,548,372,318**	8,765,498,133
Other monetary funds payable at any time	**13,148,000**	12,205,861
Cash equivalents	**–**	–
Cash and cash equivalents at the end of the year	**4,578,484,264**	8,778,193,761
Less: Time deposits pledged	**(14,650,212)**	(11,983,811)
Less: Unpledged time deposits due after 3 months from the purchases	**(268,346,000)**	(1,969,088,050)
Cash and cash equivalents in the consolidated cash flow statement	**4,295,488,052**	6,797,121,900

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(50) Business combination not under common control

On 29 September 2008, the Company acquired a 98.8% equity interest of CDE through an indirectly controlled subsidiary established in Norway, COSL Norwegian AS, with a cash consideration of RMB 15,913,195,784. According to the valuation report, the fair value of CDE's net assets amounted to RMB 12,621,989,073 on the date of the acquisition.

On 15 October 2008, COSL Norwegian AS exercised the mandatory acquisition offering clause acquiring the remaining 1.2% shares of CDE at the time of the closing of Norway Oslo Security Exchange, an additional consideration equivalent to RMB 181,033,794 was paid in cash. Accordingly, the considerations for the acquisition of CDE amounted to RMB 16,094,229,578 in total. On 23 October 2008, the shares acquired through the mandatory acquisition offering clause were transferred under the name of COSL Norwegian AS.

On 30 October 2008, the de-listing of CDE was approved by Norway Oslo Security Exchange. On 31 October 2008, the trading of CDE's shares had ceased, and CDE became a private company registered in Norway since 15 November 2008.

The fair value and carrying amount of the identifiable assets and liabilities of CDE on the date of acquisition are presented as follows:

	Fair value	Carrying amount
Cash on hand and at bank	447,196,648	447,196,648
Held-to-maturity investments	117,073,099	117,073,099
Held-for-trading financial assets	3,667,250	3,667,250
Accounts receivable	300,504,560	300,504,560
Other receivables	292,477,081	292,477,081
Inventories	78,655,909	78,655,909
Available-for-sale financial assets	140,366,447	140,366,447
Fixed assets *(Note 6(12))*	11,884,503,888	5,674,580,848
Construction in progress *(Note 6(13))*	13,814,490,042	8,057,526,116
Intangible assets *(Note 6(14))*	253,033,931	–
Subtotal of assets	27,331,968,855	15,112,047,958
Accounts payable	166,384,712	166,384,712
Staff cost payable	3,067,171	3,067,171
Taxes payables	105,646,927	105,646,927
Interests payable	165,604,207	165,604,207
Other payables	209,675,427	209,675,427
Current portion of non-current liabilities	1,040,456,069	1,040,456,069
Long-term bank borrowings	6,720,120,895	6,720,120,895
Long-term bonds	2,615,201,505	2,615,201,505
Deferred tax liabilities *(Note 6(30))*	2,116,870,809	244,074,712
Other non-current liabilities	1,566,952,060	47,848,457
Subtotal of liabilities	14,709,979,782	11,318,080,082
Net assets	12,621,989,073	3,793,967,876
Goodwill on acquisition *(Note 6(15))*	3,472,240,505	–
Cost of business combination	16,094,229,578	–

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(50) Business combination not under common control (continued)

The operating results and cash flows for the period from 29 September 2008 (the date of acquisition) till 31 December 2008 are presented as follows:

Revenue	**912,682,611**
Net profit	**189,870,832**
Net cash flows	**(21,347,900)**
Net cash flows for the acquisition of the above subsidiary	
Consideration for the acquisition of the subsidiary	**16,094,229,578**
Consideration paid in cash for the acquisition of the subsidiary	**16,094,229,578**
Less: Cash on hand and at bank at maintained by the subsidiary	**(447,196,648)**
Net cash flows for the acquisition of the subsidiary	**15,647,032,930**

The purchase price allocation is still preliminary pending for the finalization of the valuation of the assets and liabilities of CDE.

(51) Share appreciation rights plan

On 22 November 2006, the Company's share appreciation rights plan for senior officers (the "SAR Plan") was approved by the shareholders in the Second Extraordinary General Meeting of the year.

The grant of the share appreciation rights, with an exercise price of HK$4.09 per share, was completed and became effective on 6 June 2007 when all the entitled senior officers agreed and signed individual performance contracts with the Company.

SAR Plan was effective from 22 November 2006, and according to the plan, the exact number of share that the eligible senior officers will be entitled to is dependent on a number of performance targets that will be assessed two years after the effective date. The vesting period is two years, and the senior officers can exercise their rights in four equal batches, beginning year 3 (first exercisable date: the first trading day after 22 November 2008), 4, 5 and 6 from the approval date of the SAR Plan.

The SAR Plan further provides that if the gain from exercising the share appreciation rights exceeds HK$0.99 per share in any one year, the excess gain should be calculated using the following percentage:

1) between HK$0.99 and HK$1.50, at 50%;
2) between HK$1.51 and HK$2.00, at 30%;
3) between HK$2.01 and HK$3.00, at 20%; and
4) HK$3.01 or above, at 15%.

The total amount paid in cash as a result of exercising the SAR shall not exceed 10% of the profit of the year of the Company. The cash payment made in respect of the SAR must be deposited into the personal accounts of the eligible senior of officers and not less than 20% of these payments should remain in the accounts until the recipient has completed his service terms.

Notes to the Financial Statements

31 December 2008
RMB Yuan

6. Notes to the consolidated financial statements (continued)

(51) Share appreciation rights plan (continued)

As at 31 December 2008, the details of the share appreciation rights plan are as follows:

Position	Name	Shares granted (shares in Thousand)	Value: Amount at the beginning of the year	Value: Current year increase	Value: Current year decrease	Value: Amount at the end of the year
Chief Executive Officer	Yuan Guangyu	964.2	1,560,395	–	(158,224)	1,402,171
Executive Vice President	Li Yong	704.3	1,139,791	–	(115,575)	1,024,216
Executive Vice President	Zhong Hua	704.3	1,139,791	–	(115,575)	1,024,216
Executive Vice President	Chen Weidong	704.3	1,139,791	–	(115,575)	1,024,216
Vice President	Li Xunke	656.9	1,063,082	–	(107,797)	955,285
Supervisor	Tang Daizhi *	656.9	281,774	–	–	281,774
Labour union Chairman	Xu Xiongfei	609.1	985,724	–	(99,952)	885,772
		5,000.0	7,310,348	–	(712,698)	6,597,650

* During 2007, Mr. Tang Daizhi resigned as a supervisor of the Company and joined CNOOC. According to the terms of the SAR Plan, he was entitled to his benefits of SAR up to the date of his resignation.

As at 31 December 2008, the staff cost payable in relation to the SAR plan as recognised by the Company amounted to RMB 6,597,650.

Notes to the Financial Statements

31 December 2008
RMB Yuan

7. Segment reporting

(1) Business segments

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the geophysical services segment is engaged in the provision of off shore seismic data collection, marine surveying and data processing services;

(b) the drilling services segment is engaged in the provision of oilfield drilling services;

(c) the well services segment is engaged in the provision of logging and downhole services, such as drilling fluids, directional drilling, cementing and well completion, sales of well chemical materials and well workovers; and

(d) the marine support and transportation services segment is engaged in the transportation of materials, supplies and personnel to off shore facilities, moving and positioning drilling structures, the transportation of crude oil and refined products and the transportation of methanol or other petrochemical products.

The Group's revenue, operating expense, business tax and surcharges and operating profits are presented below following different business segments:

2008	Geophysical services	Drilling services	Well services	Marine support and transportation services	Total
Revenue	2,231,122,304	6,768,483,198	2,931,771,578	1,732,599,926	13,663,977,006
Inter-segment revenue	(303,555,889)	(729,604,638)	(133,410,620)	(67,153,268)	(1,233,724,415)
External revenue	1,927,566,415	6,038,878,560	2,798,360,958	1,665,446,658	12,430,252,591
Operating expense	1,289,148,123	3,806,184,531	2,333,790,728	1,172,950,679	8,602,074,061
Unallocated operating expense					488,916,084
Subtotal of operating expense	1,289,148,123	3,806,184,531	2,333,790,728	1,172,950,679	9,090,990,145
Operating profit	638,418,292	2,232,694,029	464,570,230	492,495,979	3,339,262,446
Including: Segmental profit	638,418,292	2,232,694,029	464,570,230	492,495,979	3,828,178,530
Unallocated profit					(488,916,084)

2007	Geophysical services	Drilling services	Well services	Marine support and transportation services	Total
Revenue	1,666,970,972	4,783,274,253	2,506,214,702	1,523,728,089	10,480,188,016
Inter-segment revenue	(186,368,380)	(763,102,814)	(182,762,495)	(106,059,495)	(1,238,293,184)
External revenue	1,480,602,592	4,020,171,439	2,323,452,207	1,417,668,594	9,241,894,832
Operating expense	945,116,141	2,528,826,660	1,926,857,448	1,011,121,698	6,411,921,947
Unallocated operating expense					(28,850,665)
Subtotal of operating expense	945,116,141	2,528,826,660	1,926,857,448	1,011,121,698	6,383,071,282
Operating profit	535,486,451	1,491,344,779	396,594,759	406,546,896	2,858,823,550
Including: Segmental profit	535,486,451	1,491,344,779	396,594,759	406,546,896	2,829,972,885
Unallocated profit					28,850,665

Notes to the Financial Statements

31 December 2008
RMB Yuan

7. Segment reporting (continued)

(1) Business segments (continued)

Group

2008	Geophysical services	Drilling services	Well services	Marine support and transportation services	Total
Total assets					
Segmental assets	1,930,262,227	43,534,642,908	3,997,365,544	4,482,218,452	53,944,489,131
Unallocated assets					2,714,629,491
Subtotal					56,659,118,622
Total liabilities					
Segmental liabilities	417,863,687	26,382,633,638	1,293,334,934	324,363,762	28,418,196,021
Unallocated liabilities					8,443,078,441
Subtotal					36,861,274,462
Other segment information:					
Capital expenditure	503,873,066	3,754,649,184	1,287,256,033	1,291,971,706	6,837,749,989
Depreciation of property, plant and equipment and amortization of intangible assets	194,845,169	913,558,126	262,287,887	192,843,365	1,563,534,547
Provision for impairment of accounts receivable	47,413,779	760,919	351,235	207,441	48,733,374
Provision for impairment of other receivable	71,107	163,661	100,784	62,743	398,295
Provision for impairment of inventories	595,474	1,878,528	867,115	512,121	3,853,238
Impairment provision for available-for-sale financial assets	–	106,508,218	–	–	106,508,218
Fair value losses on derivative instruments, net	–	52,983,938	–	–	52,983,938
Realised losses of derivative instruments	–	151,658,433	–	–	151,658,433

Notes to the Financial Statements

31 December 2008
RMB Yuan

7. Segment reporting (continued)

(1) Business segments (continued)

Group

2007	Geophysical services	Drilling services	Well services	Marine support and transportation services	Total
Total assets					
Segmental assets	1,522,263,073	6,795,299,798	2,835,670,627	3,145,901,933	14,299,135,431
Unallocated assets					8,789,944,659
Subtotal					23,089,080,090
Total liabilities					
Segmental liabilities	383,662,920	1,048,206,655	720,607,768	328,933,800	2,481,411,143
Unallocated liabilities					3,382,661,152
Subtotal					5,864,072,295
Other segment information:					
Capital expenditure (note 1)	576,522,868	1,825,589,111	651,432,119	411,940,529	3,465,484,627
Depreciation of property, plant and equipment and amortization of intangible assets	133,675,399	514,370,682	194,343,687	199,690,725	1,042,080,493
Provision/(reversal) for impairment of accounts receivable	3,356,731	(542,945)	(327,400)	(215,079)	2,271,307
Provision for impairment of other receivable	52,054	141,585	81,957	49,624	325,220
Provision for impairment of inventories	649,675	1,602,946	966,588	634,982	3,854,191

note 1: Capital expenditure in 2007 includes an equity investment in Atlantis Deepwater amounting to US$ 1,740,000 (equivalent to RMB 13,300,000).

(2) Geographical segments

Group

The Group classifies geographical segments based on the location that where the Group's revenue source customers are located. Approximately 76% of the Group's revenue is generated from domestic customers, and overseas businesses are mainly located at Indonesia, Australia, Mexico, Norway, Vietnam and Myammar etc, which are individually less than 10%, thus no further analysis on Geographical segments is conducted.

Revenue from principal operation	2008	2007
Domestic	**9,386,849,237**	7,596,919,227
Overseas	**3,043,403,354**	1,644,975,605
Total	**12,430,252,591**	9,241,894,832

The Company's revenue from principal operation mainly derived from operations in offshore China, and the Company deemed China as one geographic area with similar economic risks and returns, therefore no geographical segment information is presented.

Notes to the Financial Statements

31 December 2008
RMB Yuan

8. Notes to the major financial statement items of the Company

(1) Accounts receivable

	31 December 2008	31 December 2007
Accounts receivable	3,366,681,979	2,060,886,625
Less: Provision for impairment of accounts receivable	50,073,295	1,339,921
	3,316,608,684	2,059,546,704

The ageing analysis of the Company's accounts receivable is as follows:

	31 December 2008				31 December 2007			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Bad debt provision	Provision ratio
Within 1 year	3,364,184,576	100%	48,723,771	1%	2,058,591,325	100%	–	–
1-2 years	1,639,828	–	491,949	30%	1,437,725	–	482,346	34%
2-3 years	–	–	–	–	–	–	–	–
Over 3 years	857,575	–	857,575	100%	857,575	–	857,575	100%
Total	3,366,681,979	100%	50,073,295		2,060,886,625	100%	1,339,921	

	31 December 2008				31 December 2007			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Bad debt provision	Provision ratio
Items with significance	3,106,927,120	92%	–	–	1,901,458,277	92%	–	–
Other insignificant items	259,754,859	8%	50,073,295	19%	159,428,348	8%	1,339,921	1%
Total	3,366,681,979	100%	50,073,295		2,060,886,625	100%	1,339,921	

Provision for impairment of accounts receivable is analyzed below:

	31 December 2008	31 December 2007
Balance at the beginning of the year	1,339,921	2,645,401
Provision during the year	49,215,720	482,346
Written-back during the year	(482,346)	(1,787,826)
Balance at the end of the year	50,073,295	1,339,921

As at 31 December 2008, the accounts receivable due from the Company's related parties are not overdue (including the amounts due from jointly-controlled entities and other related parties), thus no bad debt provision is made for such accounts.

Notes to the Financial Statements

31 December 2008
RMB Yuan

8. Notes to the major financial statement items of the Company (continued)

(1) Accounts receivable (continued)

	31 December 2008	31 December 2007
Total for top 5 debtors	2,452,653,603	1,553,629,378
Ratio to total accounts receivable	73%	75%
Ageing	Within 1 year	Within 1 year

The accounts receivable balance as at 31 December 2008 includes an amount of RMB 120,526,395 due from CNOOC, a shareholder holding 54.74% voting rights of the Company (31 December 2007: nil).

As at 31 December 2008, the Company's accounts receivable denominated in US$ was US$ 271,974,040 (equivalent to RMB 1,858,833,775) (31 December 2007: the balance denominated in US$ was US$ 139,981,874, equivalent to RMB 1,022,511,597).

(2) Other receivables

	31 December 2008	31 December 2007
Other receivables	530,680,232	505,910,530
Less: Provision for impairment of other receivables	2,787,662	2,389,367
	527,892,570	503,521,163

The ageing of the Company's other receivable is analyzed below:

	31 December 2008				31 December 2007			
	Amount	Ratio	Provision for impairment of other receivables	Provision ratio	Amount	Ratio	Bad debt provision	Provision ratio
Within 1 year	526,523,535	100%	–	–	502,150,565	99%	–	–
1-2 years	1,427,553	–	427,345	30%	1,436,808	–	357,531	25%
2-3 years	922,069	–	553,242	60%	614,410	–	332,883	54%
Over 3 years	1,807,075	–	1,807,075	100%	1,708,747	1%	1,698,953	99%
Total	530,680,232	100%	2,787,662		505,910,530	100%	2,389,367	

	31 December 2008				31 December 2007			
	Amount	Ratio	Provision for impairment of other receivables	Provision ratio	Amount	Ratio	Bad debt provision	Provision ratio
Items with significance	412,220,747	78%	–	–	451,610,671	89%	–	–
Other insignificant items	118,459,485	22%	2,787,662	2%	54,299,859	11%	2,389,367	4%
Total	530,680,232	100%	2,787,662		505,910,530	100%	2,389,367	

Notes to the Financial Statements

31 December 2008
RMB Yuan

8. Notes to the major financial statement items of the Company (continued)

(2) Other receivables (continued)

Provision for impairment of other receivables is analyzed below:

	31 December 2008	31 December 2007
Balance at the beginning of the year	2,389,367	2,064,147
Provision during the year	728,141	673,126
Written-back during the year	(329,846)	(347,906)
Balance at the end of the year	2,787,662	2,389,367

The other receivable balance as at 31 December 2008 include an amount of RMB 2,299,741 (31 December 2007: RMB 1,495,253) due from CNOOC, mainly for the expenses of the internally retired persons and supplementary pension insurance as undertaken by CNOOC. Except for the above, there is no balance due from any shareholder holding 5% or more voting shares.

As at 31 December 2008, in items of inter company receivables (including jointly controlled entities and other related parties), there has been no balances over due, thus no bad debt provision is made for such accounts.

	31 December 2008	31 December 2007
Total for top 5 debtors	412,220,747	451,610,671
Ratio to the total other receivables	78%	89%
Ageing	Within 1 year	Within 1 year

(3) Long-term equity investments

	31 December 2008	31 December 2007
Cost method	6,841,087,548	9,061,375
Equity method	375,488,629	296,765,894
	7,216,576,177	305,827,269

Notes to the Financial Statements

31 December 2008
RMB Yuan

8. Notes to the major financial statement items of the Company (continued)

(3) Long-term equity investments (continued)

2008	Initial investment amount	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of The year
Cost method:					
Subsidiaries					
COSL Chemicals	6,349,275	6,349,275	4,360,673	–	10,709,948
COSL America	2,712,100	2,712,100	–	–	2,712,100
COSL Hong Kong International	6,827,665,500	–	6,827,665,500	–	6,827,665,500
COSL (BVI)	–	–	–	–	–
	6,836,726,875	9,061,375	6,832,026,173	–	6,841,087,548

2008	Proportion in registered capital	Initial investment amount	Balance at the beginning of the year	Additional investment in the year	Change in equity during the year: Increase/ (decrease) during the year	Change in equity during the year: Cash dividends during the year	Subtotal	Balance at the end of the year
Equity method:								
Jointly-controlled entities								
China France Bohai	50%	56,336,656	54,368,365	–	75,510,676	(44,305,380)	31,205,296	85,573,661
Magcobar	60%	25,170,585	136,829,535	–	50,626,984	(57,413,160)	(6,786,176)	130,043,359
CNOOC-OTIS	50%	27,520,607	27,208,916	–	7,542,479	(1,366,900)	6,175,579	33,384,495
Logging-Atlas	50%	10,167,012	17,632,506	–	8,282,982	(5,144,325)	3,138,657	20,771,163
Fugro	50%	10,134,627	26,952,665	–	23,496,470	(8,294,052)	15,202,418	42,155,083
COSL-Expro	50%	19,352,250	33,773,907	–	42,786,961	(13,000,000)	29,786,961	63,560,868
		148,681,737	296,765,894	–	208,246,552	(129,523,817)	78,722,735	375,488,629

Notes to the Financial Statements

31 December 2008
RMB Yuan

8. Notes to the major financial statement items of the Company (continued)

(3) Long-term equity investments (continued)

2007	Initial investment amount	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of The year
Cost method:					
Subsidiaries					
COSL Chemicals	6,349,275	6,349,275	–	–	6,349,275
COSL America	2,712,100	2,712,100	–	–	2,712,100
COSL (BVI)	–	–	–	–	–
Total	9,061,375	9,061,375	–	–	9,061,375

					Change in equity during the year			
2007	Proportion in registered capital	Initial investment amount	Balance at the beginning of the year	Additional investment in the year	Increase/ (decrease) during the year	Cash dividends during the year	Subtotal	Balance at the end of the year
Equity method:								
Jointly-controlled entities								
China France Bohai	50%	56,336,656	88,731,192	(19,352,250)	36,646,383	(51,656,960)	(15,010,577)	54,368,365
Magcobar	60%	25,170,585	122,218,356	–	56,164,719	(41,553,540)	14,611,179	136,829,535
CNOOC-OTIS	50%	27,520,607	28,700,584	–	2,948,152	(4,439,820)	(1,491,668)	27,208,916
Logging-Atlas	50%	10,167,012	14,732,522	–	2,899,984	–	2,899,984	17,632,506
Fugro	50%	10,134,627	15,229,368	–	11,723,297	–	11,723,297	26,952,665
COSL-Expro	50%	19,352,250	–	19,352,250	14,421,657	–	14,421,657	33,773,907
Total		148,681,737	269,612,022	–	124,804,192	(97,650,320)	27,153,872	296,765,894

There is no impairment for the Company's long-term equity investments as at 31 December 2008; therefore, no provision for impairment of long-term equity investment is required.

Key financial information of the Company's subsidiaries:

	31 December 2008		2008	
	Total assets	**Total liabilities**	**Revenue**	**Net profit/(loss)**
COSL America	**224,166,880**	**293,958,382**	**525,125,333**	**23,371,950**
COSL (BVI)	**1,675,427,188**	**1,734,264,576**	**1,653,081,953**	**130,581,892**
COSL HK International	**31,549,338,272**	**25,007,486,964**	**922,601,514**	**(286,134,503)**
COSL Chemicals	**59,455,957**	**34,603,180**	**100,620,736**	**14,375,304**

	31 December 2007		2007	
	Total assets	Total liabilities	Revenue	Net profit/(loss)
COSL America	208,582,774	309,979,739	445,876,610	(110,754,397)
COSL (BVI)	940,611,074	1,138,053,182	829,707,501	(5,583,647)
COSL Chemicals	24,082,768	13,605,295	43,912,649	2,925,039

Key financial information of the Company's jointly-controlled entities is set out in Note 6(11).

Notes to the Financial Statements

31 December 2008
RMB Yuan

8. Notes to the major financial statement items of the Company (continued)

(4) Revenue

	2008	2007
Geophysical services	1,867,874,412	1,443,559,427
Drilling services	4,299,082,522	3,561,699,626
Well services	2,647,435,590	2,147,730,991
Marine support and transportation services	1,648,154,946	1,410,908,955
Total	10,462,547,470	8,563,898,999

(5) Operating costs

	2008	2007
Geophysical services	1,153,087,490	855,842,702
Drilling services	2,295,986,832	1,745,235,753
Well services	2,041,828,353	1,644,413,803
Marine support and transportation services	1,073,777,818	925,629,726
Total	6,564,680,493	5,171,121,984

(6) Investment income

	2008	2007
Investment income from long-term equity investments using equity method	208,246,552	124,804,192
Return on government bonds and other investment income	29,978,843	11,884,237
Total	238,225,395	136,688,429

As of balance sheet date, there were no material restrictions on the repatriation of investment income of the Company.

Notes to the Financial Statements

31 December 2008
RMB Yuan

9. Related party relationships and transactions

(1) Related parties

A related party is a party which controls or in common control of another party or gives its significant influence, or two or more parties which are controlled or under common control of another party or one under significant influence of another party.

The following parties shall constitute related parties of the Group

(1) Parent company of the Company;

(2) Subsidiaries of the Company;

(3) Other enterprises under the control of the same parent company in together with the Company;

(4) The investor in joint control of the Company;

(5) The investor placing significant influence over the Company;

(6) Joint ventures of the Group;

(7) Affiliated enterprises of the Group;

(8) Major individual investor of the Company as well as his or her intimate family members;

(9) Key managerial personnel of the Company or the parent company as well as his or her intimate family members;

(10) Major individual investors, key managerial personnel or their intimate family members or other enterprises in joint control of or placing significant influence over the Company.

Enterprises under the control of the State concurrently that subject to no other affiliated relationships shall not constitute related parties.

(2) Parent company and subsidiary

Parent company name	Place of registration	Business nature	Share proportion in the Company	Voting proportion in the Company	Registered capital	Organization code
CNOOC	Beijing, PRC	Exploration, development, production and fabrication of ocean petroleum and natural gas	54.74%	54.74%	RMB94,931,614,000	100001043

The Group's subsidiaries are listed in Note 5 – Principal Subsidiaries and Jointly-controlled Entities of the Company.

Notes to the Financial Statements

31 December 2008
RMB Yuan

9. Related party relationships and transactions (continued)

(3) Other related parties

Information on related parties conducting related transactions with the Group but without control relationship is provided as follows:

Company Name	Affiliated Relationship	Organization Code
China France Bohai	Jointly-controlled entity	60055009-X
CNOOC-OTIS	Jointly-controlled entity	60056885-5
Fugro	Jointly-controlled entity	600550081
Magcobar	Jointly-controlled entity	618896128
Logging-Atlas	Jointly-controlled entity	618834787
COSL-Expro	Jointly-controlled entity	79727432-3
Atlantis Deepwater	Jointly-controlled entity	Not applicable
Eastern Marine	Jointly-controlled entity	Not applicable
Premium Drilling	Jointly-controlled entity	Not applicable
CNOOC Limited Group	Company under control of the same ultimate holding company	Not applicable
China Offshore Oil Int'l Engineering Company	Company under control of the same ultimate holding company	100017547
Offshore Oil Engineering Co., Ltd.	Company under control of the same ultimate holding company	722950227
CNOOC Finance Co., Ltd.	Company under control of the same ultimate holding company	710929818
CNOOC Enterprises Company	Company under control of the same ultimate holding company	101694419
CNOOC and Shell Petrochemicals Co., Ltd.	Company under control of the same ultimate holding company	710939725
CNOOC Research Center (note 1)	Company under control of the same ultimate holding company	710926078
CNOOC Bohai Company (note 1)	Company under control of the same ultimate holding company	103063338
CNOOC Nanhai West Corporation (note 1)	Company under control of the same ultimate holding company	19034361X
CNOOC Energy Technology & Services Ltd. (note 1)	Company under control of the same ultimate holding company	771554423
CNOOC Hainan Petroleum Transportation Service Co., Ltd. (note 1)	Company under control of the same ultimate holding company	730065834
China BlueChemical Ltd. (note 1)	Company under control of the same ultimate holding company	721234704
China Ocean Oilfields Services (HK) Ltd. (note 1)	Company under control of the same ultimate holding company	344000012
CNOOC Kingboard Chemical Ltd. (note 1)	Company under control of the same ultimate holding company	754363393
Shenzhen Weisheng Ocean Petroleum Technology Co., Ltd. (note 1)	Company under control of the same ultimate holding company	27926621-9
CNOOC Oil Refinery and Petrochemical Dongguan Oil Products Storage and Transportation Co., Ltd. (note 1)	Company under control of the same ultimate holding company	66152344X
Bohai Material Supply Company (note 1)	Company under control of the same ultimate holding company	103626049
Bohai Oil Harbor Engineering and Construction Company (note 1)	Company under control of the same ultimate holding company	103624940

note 1: Other affiliated companies of CNOOC Group.

Notes to the Financial Statements

31 December 2008
RMB Yuan

9. Related party relationships and transactions (continued)

(4) Major transactions between the Group and related parties are stated as follows:

	2008	2007
Provision of drilling services		
CNOOC Limited Group	3,321,950,060	2,568,661,979
CNOOC Group Risk Exploration Project Team	94,999,381	–
CNOOC Energy Techology & Services Ltd. – Oilfield Construction Engineering Company	4,198,500	3,421,026
Other CNOOC Group companies	10,551,899	2,641,488
Jointly-controlled entities	4,688,951	5,262,461
Subtotal	3,436,388,791	2,579,986,954
Gross external revenue amount of provision of drilling services	6,038,878,560	4,020,171,440
Proportion in similar transactions	57%	64%
Provision of well services		
CNOOC Limited Group	2,132,006,625	1,797,711,242
CNOOC Group Risk Exploration Project Team	14,065,327	–
Other CNOOC Group companies	3,391,665	4,342,338
Jointly-controlled entities	11,081,151	11,218,080
Subtotal	2,160,544,768	1,813,271,660
Gross external revenue amount of provision of well services	2,798,360,958	2,323,452,207
Proportion in similar transactions	77%	78%
Provision of marine support and transportation services		
CNOOC Limited Group	1,141,586,066	979,403,351
Offshore Oil Engineering Co., Ltd.	91,894,431	80,520,037
CNOOC and Shell Petrochemicals Co., Ltd.	62,054,501	60,150,462
CNOOC Group Risk Exploration Project Team	9,435,738	–
Bohai Material Supply Company	8,196,000	8,196,000
CNOOC Kingboard Chemical Ltd.	24,988,731	35,780,842
Shenzhen Weisheng Ocean Petroleum Technology Co., Ltd.	7,840,381	–
Other CNOOC Group companies	13,438,509	8,839,859
Jointly-controlled entities	4,637,273	2,848,242
Subtotal	1,364,071,630	1,175,738,793
Gross external revenue amount of provision of marine support and transportation services	1,665,446,658	1,417,668,593
Proportion in similar transactions	82%	83%

Notes to the Financial Statements

31 December 2008
RMB Yuan

9. Related party relationships and transactions (continued)

(4) Major transactions between the Group and related parties are stated as follows (continued):

	2008	2007
Provision of geophysical services		
CNOOC Limited Group	1,013,630,433	484,805,704
Offshore Oil Engineering Co., Ltd.	119,534,593	132,518,503
Bohai Oil Harbor Engineering and Construction Company	33,000	19,023,492
CNOOC Oil Refinery and Petrochemical Dongguan Oil Products Storage and Transportation Co., Ltd.	8,611,301	3,817,123
CNOOC Group Risk Exploration Project Team	1,400,000	–
Other CNOOC Group companies	5,539,455	2,702,223
Jointly-controlled entities	4,209,250	–
Subtotal	1,152,958,032	642,867,045
Gross external revenue amount of provision of geophysical services	1,927,566,415	1,480,602,592
Proportion in similar transactions	60%	43%

Transactions with other CNOOC Group companies

	2008	2007
Costs for provision of contracted employees	23,702,339	16,994,003
Cost for purchase of materials, tools and low-value consumables as well as payment of charges for use of public facilities	229,210,428	236,587,787
Payment of transportation charges	2,980,996	8,062,168
Payment of premises rental and vessel berthage	69,519,340	65,750,657
Maintenance charges	13,795,278	24,529,697
Property management charges	53,513,100	6,923,061
Provision of construction project services	107,038,225	–
Related party transactions with CNOOC Finance Co., Ltd. (note 1)		
Interest income	1,715,928	961
Interest expense	836,347	779,625
Loans and repayment of short term loans	199,658,674	150,000,000

note 1: The time deposits placed in CNOOC Finance Co., Ltd. bear interest income at the commercial bank interest rates over the same period. The annual interest rate for the loans obtained from CNOOC Finance Co., Ltd is 5.913% for the year ended 31 December 2008.

The Company concluded numerous agreements with CNOOC in the course of the Company's reorganization, including arrangement of employee welfare, provision of materials, public facilities and supporting services, as well as provision of technology services, premises rental and other various commercial arrangements.

The Group occupied certain properties for use owned by CNOOC free of charges prior to reorganization. In September 2002, the Company concluded numerous lease agreements with CNOOC on lease of the aforesaid properties and other properties for a period of one year. These lease agreements shall be renewed on an annual basis by reference to market price.

The Company's directors believe that the aforesaid transactions with related parties are conducted in the normal course of business operation.

Notes to the Financial Statements

31 December 2008
RMB Yuan

9. Related party relationships and transactions (continued)

(5) Balance of receivables/(payables) from/(to) related parties

Group

	31 December 2008	31 December 2007
Accounts receivable		
CNOOC Limited Group	1,236,112,535	822,815,876
CNOOC	120,526,395	–
Offshore Oil Engineering Co., Ltd.	59,366,522	76,023,676
CNOOC and Shell Petrochemicals Co., Ltd.	5,962,685	14,200,360
Fugro	1,875	47,961
Atlantis Deepwater	–	129,340
COSL-Expro	2,426,922	520,856
China France Bohai	76,659	214,264
CNOOC-OTIS	25,134	125,600
Magcobar	623,444	1,761,225
Logging-Atlas	45,284	61,725
Others	11,930,259	12,147,296
	1,437,097,714	928,048,179
Accounts payable		
CNOOC Limited Group	1,071,670	–
CNOOC Enterprises Company	3,667,079	3,084,238
CNOOC Energy Technology & Services Ltd.		
– Beijing Human Resource Service Branch Company	13,190,000	–
Offshore Oil Engineering Co., Ltd.	952,652	9,057,080
Fugro	8,332,671	9,278,428
China France Bohai	3,156,492	64,427
Magcobar	10,489,073	7,113,736
Eastern Marine	–	5,102,809
COSL-Expro	212,800	2,800,000
Logging-Atlas	26,786,115	2,463,274
Others	36,840,536	38,936,860
	104,699,088	77,900,852
Accounts payable to CNOOC Group		
CNOOC (note 1)	–	200,000,000
Including: Non-current liabilities due within one year	–	200,000,000
Deposits deposited in related companies		
CNOOC Finance Co., Ltd.	539,821,006	104,917

Notes to the Financial Statements

31 December 2008
RMB Yuan

9. Related party relationships and transactions (continued)

(5) Balance of receivables/(payables) from/(to) related parties (continued)

Group

	31 December 2008	31 December 2007
Other receivables		
CNOOC Limited Group	921,417	1,572,137
CNOOC Group	2,299,741	1,495,253
Atlantis Deepwater	26,694,570	–
Eastern Marine	–	3,915,266
China France Bohai	2,555,940	1,715,799
COSL-Expro	1,651,610	92,714
CNOOC-OTIS	(120)	41,514
Logging-Atlas	74,250	74,250
Fugro	–	2,145,536
Premium Drilling	71,919,890	–
Others	1,200,554	2,790,667
	107,317,852	13,843,136
Other payables		
CNOOC Limited Group	3,898,837	–
CNOOC Group	3,248,229	3,248,229
China Offshore Oil Int'l Engineering Company	14,668,495	14,634,459
China France Bohai	96,072	96,072
Premium Drilling	93,771,347	–
Others	16,496,087	9,837,666
	132,179,067	27,816,426
Receipts in advance		
CNOOC Limited Group	33,519,000	69,219,350
Prepayments		
CNOOC Energy Technology & Services Ltd.		
– Oilfield Construction Engineering Company	24,600,000	–
Offshore Oil Engineering Co., Ltd.	259,724,275	–
	284,324,275	–

Notes to the Financial Statements

31 December 2008
RMB Yuan

9. Related party relationships and transactions (continued)

(5) Balance of receivables/(payables) from/(to) related parties (continued)

Group

	31 December 2008	31 December 2007
Notes receivable		
CNOOC Limited Group	338,269,985	–
Notes payable		
Offshore Oil Engineering Co., Ltd.	366,762,500	–

note 1 The amount due to CNOOC as at 31 December 2007 was unsecured, free of interest, and repayable in three years at an equal amount of RMB 200,000,000 annually commencing from 1 May 2005. The Group has repaid this amount in full before 30 April 2008.

In addition to the aforesaid long-term payable to CNOOC, the remaining accounts of the Group and the Company receivable or payable to related parties are free of interest, unsecured and have no fixed repayment term.

(6) Other disclosures

All the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme, and are entitled to receive pensions 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 at a fixed proportion of the employees' basic salaries. The related pension charges are expensed as incurred.

CNOOC and the Group agree that following the reorganization and public listing overseas in 2002, CNOOC will continue to bear the supplementary pension benefits of the Group's retired employees as well as the supplementary pension benefits of the Group's existing employees attributable to the period prior to the Company's public listing in Hong Kong. Given that cost for the aforesaid supplementary pension benefits will continue to be borne by CNOOC in full, such costs have not been recorded in the Group's financial statements for the year ended 31 December 2008.

Following reorganization and public listing, except for the pension to be paid by the Group as per relevant regulations as specified by the government, the Group shall not be liable for any welfare expenses for existing employees after their retirement.

10. Contingency

In 2006, AWO (currently known as "CDE") signed a Management Agreement with Polycrest AS for the operation and management of the semi-submersible drilling rigs working in Norway. During 2007, AWO decided that the Company itself operate and manage the semi submersible drilling rigs. CDE and Polycrest are therefore in negotiations on how to terminate this Management Agreement, and in discussions of the termination scheme. Awilco Offshore has a contingent liability to Polycrest in connection with Polycrest's previous planned role as manager for CDE's semi submersible drilling units.

Due to the nature of the different solutions being discussed, it is difficult to estimate the amount of the liabilities to be provided in connection with the above contingency.

Notes to the Financial Statements

31 December 2008
RMB Yuan

11. Lease Arrangement

Major Operating Leases – the Group as lessee

According to the lease contracts concluded with the lessers, the minimum amount of lease payment for irrevocable lease of the Group is stated as follows:

	31 December 2008	31 December 2007
Within 1 year (including 1 year)	127,419,741	64,939,455
1-2 years (including 2 years)	112,031,386	68,429,945
2-3 years (including 3 years)	109,357,185	68,257,265
Over 3 years	82,776,020	67,987,565
Total	431,584,332	269,614,230

Major Operating Leases – the Group as lesser

According to the lease contracts concluded with the lessees, the future minimum rental receivable for irrevocable lease is stated as follows:

	31 December 2008	31 December 2007
Within 1 year (including 1 year)	170,482,631	–
1-2 years (including 2 years)	170,482,631	–
2-3 years (including 3 years)	113,655,087	–
Total	454,620,349	–

12. Capital commitments

The Group has the following capital commitments as at the balance sheet date:

	31 December 2008	31 December 2007
Contracted, but not provided for	6,384,560,345	4,593,536,000
Authorised, but not contracted for	18,990,186,807	6,103,395,000
Total	25,374,747,152	10,696,931,000

Notes to the Financial Statements

31 December 2008
RMB Yuan

13. Financial instruments and related risks

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, long-term bonds, cash on hand and at bank and available-for-sale financial assets. 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 accounts receivable and accounts payable.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance. During the year, the Group adopts a policy to forbid any derivative transactions conducted for speculation purpose.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk.

(1) Financial instruments by category

The carrying amount of each of the categories of financial instruments of the Group as at the balance sheet date are as follows:

Financial assets

2008	Held-to-maturity investment	Loans and receivables	Available-for-sale financial assets	Total
Current assets:				
Cash on hand and at bank	–	4,578,484,264	–	4,578,484,264
Notes receivable	–	354,869,985	–	354,869,985
Accounts receivable	–	2,735,024,686	–	2,735,024,686
Interest receivable	–	4,342,362	–	4,342,362
Dividend receivable	–	16,391,075	–	16,391,075
Other receivables	–	306,469,550	–	306,469,550
Current portion of non-current assets	39,117,655	–	–	39,117,655
Non-current assets:				
Available-for-sale financial assets	–	–	34,317,535	34,317,535
Held-to-maturity investments	78,235,318	–	–	78,235,318
Total financial assets	117,352,973	7,995,581,922	34,317,535	8,147,252,430

2007	Loans and receivables	Available-for-sale financial assets	Total
Current assets:			
Cash on hand and at bank	8,778,193,761	–	8,778,193,761
Notes receivable	2,250,000	–	2,250,000
Accounts receivable	1,404,781,484	–	1,404,781,484
Interest receivable	23,421,647	–	23,421,647
Dividend receivable	21,287,114	–	21,287,114
Other receivables	130,102,922	–	130,102,922
Available-for-sale financial assets	–	607,337,984	607,337,984
Total financial assets	10,360,036,928	607,337,984	10,967,374,912

Notes to the Financial Statements

31 December 2008
RMB Yuan

13. Financial instruments and related risks (continued)

(1) Financial instruments by category (continued)

Financial liabilities

2008	Financial liabilities accounted for at fair value and the changes in fair value recognised into profit or loss	Other financial liabilities	Total
Short-term bank borrowings	–	6,835,596,924	6,835,596,924
Notes payable	–	366,762,500	366,762,500
Accounts payable	–	2,376,732,369	2,376,732,369
Interests payable	–	327,961,642	327,961,642
Other payables	–	636,027,209	636,027,209
Current portion of non-current liabilities	–	943,020,215	943,020,215
Derivative financial instruments	49,307,921	–	49,307,921
Long-term bank borrowings	–	16,355,446,023	16,355,446,023
Long-term bonds	–	4,028,341,874	4,028,341,874
Total financial liabilities	49,307,921	31,869,888,756	31,919,196,677

2007	Other financial liabilities
Accounts payable	1,667,848,434
Interests payable	43,375,880
Other payables	210,689,089
Current portion of non-current liabilities	400,000,000
Long-term bank borrowings	744,000,000
Long-term bonds	1,500,000,000
Total financial liabilities	4,565,913,403

(2) Credit risk

Credit risk represents the risk that one party of financial instruments fails to fullfill its obligation, resulting in the financial loss of the counterparty.

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 and the Group's exposure to bad debts is not significant. For transactions denominated in currencies other than the functional currency of the related entity, no credit term is provided except for any specific approval received from the Group's credit control department.

The Group's other financial assets mainly comprise cash on hand and at bank, available-for-sale financial assets, other receivables and certain derivatives. The credit risk of these assets arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. The Group's accounts receivable do not have other concertration credit risk except those amounts due from CNOOC Limited and amounts due from other companies controlled by CNOOC. The Group's largest customer is CNOOC Limited, of which the information of relevant accounts receivable is disclosed in Note 9(5) and Note 6(3), together with the receivables due from the Group's top 5 customers.

Notes to the Financial Statements

31 December 2008
RMB Yuan

13. Financial instruments and related risks (continued)

(2) Credit risk (continued)

As at 31 December 2007 and 2008, the Group does not have any significant accounts receivable past due but not impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Please refer to Note 6(3)&(7) for the quantitative data for the Group's credit risk exposure in relation to the accounts receivable and other receivables.

(3) Liquidity risk

Liquidity risk represents the risk that an entity encounters difficulty in meeting obligations associated with financial liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through long-term bonds and bank borrowings. 32% (2007: 57%) of the Group's debts will mature within one year as at 31 December 2008.

The Group's strategy is to maintain a balance between continuing of funding and flexibility through both short-term and long-term financing activities (including short-term borrowings, long-term bank borrowings together with the issuance of bonds).

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

31 December 2008

Financial assets	Within one year	One to two years	Over two years	Total
Cash on hand and at bank	4,578,484,264	–	–	4,578,484,264
Notes receivable	354,869,985	–	–	354,869,985
Accounts receivable	2,735,024,686	–	–	2,735,024,686
Interest receivable	4,342,362	–	–	4,342,362
Dividend receivable	16,391,075	–	–	16,391,075
Other receivables	306,469,550	–	–	306,469,550
Available-for-sale financial assets	34,317,535	–	–	34,317,535
Held-to-maturity investments	39,117,655	39,117,659	39,117,659	117,352,973
	8,069,017,112	39,117,659	39,117,659	8,147,252,430

Financial liabilities	Within one year	One to two years	two to five years	Over five years	Total
Short-term bank borrowings	6,835,596,924	–	–	–	6,835,596,924
Notes payable	366,762,500	–	–	–	366,762,500
Accounts payable	2,376,732,369	–	–	–	2,376,732,369
Interests payable	327,961,642	–	–	–	327,961,642
Other payables	636,027,209	–	–	–	636,027,209
Current portion of non-current liabilities	943,020,215	–	–	–	943,020,215
Derivate financial instruments	49,307,921	–	–	–	49,307,921
Long-term bank borrowings	–	9,619,691,749	2,486,814,327	4,248,939,947	16,355,446,023
Long-term bonds	–	488,150,000	2,050,380,000	1,500,000,000	4,038,530,000
	11,535,408,780	10,107,841,749	4,537,194,327	5,748,939,947	31,929,384,803

Notes to the Financial Statements

31 December 2008
RMB Yuan

13. Financial instruments and related risks (continued)

(3) Liquidity risk (continued)

31 December 2007

Financial assets	Within one year	One to two years	Over two years	Total
Cash on hand and at bank	8,778,193,761	–	–	8,778,193,761
Notes receivable	2,250,000	–	–	2,250,000
Accounts receivable	1,404,781,484	–	–	1,404,781,484
Interest receivable	23,421,647	–	–	23,421,647
Dividend receivable	21,287,114	–	–	21,287,114
Other receivables	130,102,922	–	–	130,102,922
Available-for-sale financial assets	607,337,984	–	–	607,337,984
	10,967,374,912	–	–	10,967,374,912

Financial liabilities	Within one year	One to two years	Two to five years	Over five years	Total
Accounts payable	1,667,848,434	–	–	–	1,667,848,434
Interests payable	43,375,880	–	–	–	43,375,880
Other payables	210,689,089	–	–	–	210,689,089
Current portion of non-current liabilities	400,000,000	–	–	–	400,000,000
Long-term bank borrowings	–	200,000,000	200,000,000	344,000,000	744,000,000
Long-term bonds	–	–	–	1,500,000,000	1,500,000,000
	2,321,913,403	200,000,000	200,000,000	1,844,000,000	4,565,913,403

Notes to the Financial Statements

31 December 2008
RMB Yuan

13. Financial instruments and related risks (continued)

(4) Market risk

Market risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate with changes in market price. Market risk principally comprises interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate with changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of its fixed and floating rate debts. Moreover, based on analysis of the development of interest rate market, the Group enters into various contracts (including interest rate swap contract) to minimize the risk associated with its floating interest debts.

The table below shows the sensitivity analysis of interest rate, which reflects, with other variables held constant and when the interest rate changes in a reasonable and probable basis, the relevant effect to profit before tax (through effect on floating interest borrowings) and shareholders' equity.

2008	Basic point increase/(decrease)	Profit before tax increase/(decrease)	Shareholders' equity increase/(decrease)*
RMB and US$	(50)	26,600,000	21,154,000
	50	(26,600,000)	(21,154,000)

The Group was not exposed to any interest rate risk as it had no bank borrowings bearing floating interest rate during the year of 2007.

Foreign currency risk

Foreign currency risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate with changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB, the aforesaid currency is defined as the Group's functional currency. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group's significant business operations are in Mainland China, and its revenue and expenses are mainly denominated in the RMB. The effect of the fluctuations in the exchange rate of RMB against foreign currencies arising from this aspect on the Group's results of operations is therefore not expected to be significant and the Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regard. However, the Group is exposed to foreign currency risk as the Group had obtained debts denominated in US dollars.

The table below shows the sensitivity analysis of foreign exchange risk, which reflects, with other variables held constant and when exchange rate of US$ changes in a reasonable and probable basis, the relevant effect to profit before tax and shareholders' equity.

2008	Exchange rate of US$ increase/(decrease)	Profit before tax increase/(decrease)	Shareholders' equity increase/(decrease)*
RMB appreciates against US$	5%	255,000,000	216,750,000
RMB depreciates against US$	(5%)	(255,000,000)	(216,750,000)

2007	Exchange rate of US$ increase/(decrease)	Profit before tax increase/(decrease)	Shareholders' equity increase/(decrease)*
RMB appreciates against US$	5%	26,000,000	17,420,000
RMB depreciates against US$	(5%)	(26,000,000)	(17,420,000)

* Excluding retained earnings.

Notes to the Financial Statements

31 December 2008
RMB Yuan

13. Financial instruments and related risks (continued)

(5) Fair value

The carrying amount and fair value of the Group's financial instruments are as follows:

	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Current assets:				
Cash on hand and at bank	4,578,484,264	4,578,484,264	8,778,193,761	8,778,193,761
Notes receivable	354,869,985	354,869,985	2,250,000	2,250,000
Accounts receivable	2,735,024,686	2,735,024,686	1,404,781,484	1,404,781,484
Interest receivable	4,342,362	4,342,362	23,421,647	23,421,647
Dividend receivable	16,391,075	16,391,075	21,287,114	21,287,114
Other receivables	306,469,550	306,469,550	130,102,922	130,102,922
Available-for-sale financial assets	–	–	607,337,984	607,337,984
Current portion of non-current assets	39,117,655	39,117,655	–	–
Non-current assets:				
Available-for-sale financial assets	34,317,535	34,317,535	–	–
Held-to-maturity investments	78,235,318	78,235,318	–	–
Financial liabilities				
Short-term bank borrowings	6,835,596,924	6,835,596,924	–	–
Notes payable	366,762,500	366,762,500	–	–
Accounts payable	2,376,732,369	2,376,732,369	1,667,848,434	1,667,848,434
Interests payable	327,961,642	327,961,642	43,375,880	43,375,880
Other payables	636,027,209	636,027,209	210,689,089	210,689,089
Current portion of non-current liabilities	943,020,215	943,020,215	400,000,000	400,000,000
Derivate Financial Instruments	49,307,921	49,307,921	–	–
Long-term bank borrowings	16,355,446,023	16,355,446,023	744,000,000	744,000,000
Long-term bonds (note 1)	4,028,341,874	3,384,366,500	1,500,000,000	1,500,000,000

note 1: The fair value of long-term bonds as at 31 December 2008 is determined by reference to market price.

14. Comparative Data

Certain comparative figures have been re-presented to conform with the current year's presentation.

15. Approval of Financial Statements

These financial statements shall be submitted for review at shareholders' general meeting pursuant to the Articles of Association of the Company. These financial statements have been approved by the Board of Directors on 1 April 2009.

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2008

RMB Yuan

1. Reconciliation statement for differences between PRC and Hong Kong financial statements

In connection with the basis for preparation of the financial statements as mentioned in the notes to the financial statements, the directors of the Company believe that there is no material difference in terms of the accounting policies between the financial statements for the year ended 31 December 2008 and 2007 as prepared by the Group in accordance with the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance of the People's Republic of China in February 2006 (the "Financial Statements") and the corresponding periods' financial statements of the Group prepared in accordance with the Hong Kong Financial Reporting Standards. As such, the net profits or net assets as reported in these financial statements are substantially similar with these reported in the financial statements prepared in accordance with the Hong Kong Financial Reporting Standards, and no reconciliation on adjustments is required.

The overseas auditors of the Group is Ernst & Young.

2. Return on net assets and earnings per share

	Return on net assets ratio		Earnings per share	
2008	**Fully diluted**	**Weighted Average**	**Basic**	**Diluted**
Net profit attributable to the ordinary share shareholders of the Parent	**15.67%**	**16.76%**	**0.69**	**0.69**
Net profit, after deduction of extraordinary gains and losses, attributable to the ordinary share shareholders of the Parent	**16.84%**	**18.02%**	**0.74**	**0.74**

	Return on net assets ratio		Earnings per share	
2007	**Fully diluted**	**Weighted Average**	**Basic**	**Diluted**
Net profit attributable to the ordinary share shareholders of the Parent	12.99%	19.86%	0.54	0.54
Net profit, after deduction of extraordinary gains and losses, attributable to the ordinary share shareholders of the Parent	12.96%	19.81%	0.54	0.54

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises (continued)

31 December 2008

RMB Yuan

2. Return on net assets and earnings per share (continued)

The net profit, after deduction of the extraordinary gains and losses, attributable to the ordinary share shareholders of the Company

	2008	2007
Net profit attributable to the ordinary share shareholders of the Parent	3,102,241,149	2,237,583,857
Less: losses on disposal of non-current assets	(53,429,454)	(18,868,802)
Subsidy Income	24,258,570	31,150,282
Fair value losses on derivate financial instruments	(52,983,938)	–
Losses from swap and forward exchange rate contracts	(151,658,433)	–
Net amount of other non-operating income/(expenses)	(2,805,149)	(4,537,890)
Total of extraordinary gain and loss	(236,618,404)	7,743,590
Tax effect	4,796,405	(2,555,385)
Net amount affecting under extraordinary gain and loss	(231,821,999)	5,188,205
Net profit, after deduction of extraordinary gains and losses, attributable to the ordinary share shareholders of the Parent	3,334,063,148	2,232,395,652

The Group's recognition of extraordinary profit and loss items follows the Circular [2008] No. 43 issued by China Securities Regulatory Commission – "Information Disclosure Explanatory Notice No.1 – Extraordinary Gains and Losses for the Companies Conducting Public Offering of Securities".

Net assets attributable to the ordinary share shareholders of the Company:

	2008	2007
Net assets attributable to the ordinary share shareholders of the Company as at the end of the year	19,797,844,160	17,225,007,795
Weighted average net assets attributable to the ordinary share shareholders of the Parent	18,506,409,170	11,267,232,461

The Company does not have any potential diluted ordinary shares.

Independent Auditors' Report

ERNST & YOUNG

To the shareholders of China Oilfield Services Limited

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

We have audited the financial statements of China Oilfield Services Limited set out on pages 186 to 250, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

1 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	4	**12,142,944**	9,007,987
Other revenues	4	**48,671**	38,611
		12,191,615	9,046,598
Operating expenses			
Depreciation of property, plant and equipment and amortisation of intangible assets	5	**(1,563,534)**	(1,042,081)
Employee compensation costs	5	**(2,106,497)**	(1,643,857)
Repair and maintenance costs	5	**(420,257)**	(317,546)
Consumption of supplies, materials, fuel, services and others		**(2,720,083)**	(2,003,698)
Subcontracting expenses		**(542,226)**	(357,191)
Operating lease expenses	5	**(356,136)**	(365,706)
Other operating expenses		**(693,870)**	(387,108)
Other selling, general and administrative expenses		**(158,523)**	(102,003)
Total operating expenses		**(8,561,126)**	(6,219,190)
PROFIT FROM OPERATIONS		**3,630,489**	2,827,408
Financial income/(expenses)			
Exchange losses, net		**(91,358)**	(113,868)
Finance costs	6	**(638,985)**	(31,563)
Interest income		**191,433**	71,437
Financial expenses, net		**(538,910)**	(73,994)
Share of profits of jointly-controlled entities	18	**215,707**	113,153
PROFIT BEFORE TAX	5	**3,307,286**	2,866,567
Tax	10	**(205,045)**	(628,983)
PROFIT FOR THE YEAR		**3,102,241**	2,237,584
Attributable to:			
Equity holders of the Parent	11	**3,102,241**	2,237,584
DIVIDENDS			
Proposed final dividend	12	**629,345**	539,438
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**69.01 cents**	54.24 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	41,855,657	11,118,005
Goodwill	15	3,480,541	-
Intangible assets	16	523,799	52,122
Interests in jointly-controlled entities	18	620,329	493,060
Available-for-sale investments	25	34,318	–
Pledged time deposits	26	78,235	–
Total non-current assets		46,592,879	11,663,187
CURRENT ASSETS			
Inventories	19	780,871	417,766
Prepayments, deposits and other receivables	20	1,501,434	209,611
Accounts receivable	21	2,735,025	1,404,781
Notes receivable	22	354,870	2,250
Due from the ultimate holding company	23	2,300	1,495
Due from other CNOOC group companies	24	2,122	4,363
Available-for-sale investments	25	–	607,338
Pledged time deposits	26	53,768	12,206
Cash and cash equivalents	26	4,563,834	8,765,988
Total current assets		9,994,224	11,425,798
CURRENT LIABILITIES			
Trade and other payables	27	3,759,343	2,087,098
Salary and bonus payables	30	485,875	397,451
Tax payable		252,460	472,146
Interest-bearing bank borrowings	32	7,778,617	200,000
Due to the ultimate holding company	23	3,248	203,248
Due to other CNOOC group companies	24	35,063	24,465
Total current liabilities		12,314,606	3,384,408
NET CURRENT (LIABILITIES)/ASSETS		(2,320,382)	8,041,390
TOTAL ASSETS LESS CURRENT LIABILITIES		44,272,497	19,704,577
NON-CURRENT LIABILITIES			
Deferred tax liabilities	31	2,429,001	235,569
Interest-bearing bank borrowings	32	16,355,446	744,000
Long term bonds	33	4,028,342	1,500,000
Deferred revenue	34	1,512,635	–
Defined benefit obligations	9	5,664	–
Derivate financial instruments	28	49,308	–
Other non-current liabilities	29	94,257	–
Total non-current liabilities		24,474,653	2,479,569
Net assets		19,797,844	17,225,008
EQUITY			
Equity attributable to equity holders of the Parent			
Issued capital	35	4,495,320	4,495,320
Reserves	36	14,673,179	12,190,250
Proposed final dividend	12	629,345	539,438
Total equity		19,797,844	17,225,008

Director: Fu Chengyu

Director: Li Yong

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Attributable to equity holders of the Parent									
	Issued capital RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Cumulative translation reserve RMB'000	Other reserve RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	3,995,320	1,975,810	442,515	1,965,180	239,719	–	–	8,618,544	–	8,618,544
Final 2006 dividend declared	–	–	–	–	(239,719)	–	–	(239,719)	–	(239,719)
Issue of shares *(Note 35)*	500,000	6,240,000	–	–	–	–	–	6,740,000	–	6,740,000
Share issue expenses *(Note 35)*	–	(141,245)	–	–	–	–	–	(141,245)	–	(141,245)
Profit for the year	–	–	–	2,237,584	–	–	–	2,237,584	–	2,237,584
Exchange realignment	–	–	–	–	–	9,844	–	9,844	–	9,844
Proposed final 2007 dividend *(Note 12)*	–	–	–	(539,438)	539,438	–	–	–	–	–
Transfer to statutory reserve funds	–	–	235,100	(235,100)	–	–	–	–	–	–
At 31 December 2007 and 1 January 2008	4,495,320	8,074,565*	677,615*	3,428,226*	539,438	9,844*	–	17,225,008	–	17,225,008
Final 2007 dividend declared	–	–	–	–	(539,438)	–	–	(539,438)	–	(539,438)
Profit for the year	–	–	–	3,102,241	–	–	–	3,102,241	–	3,102,241
Exchange realignment	–	–	–	–	–	10,033	–	10,033	–	10,033
Proposed final 2008 dividend *(Note 12)*	–	–	–	(629,345)	629,345	–	–	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	181,034	181,034
Acquisition of minority interests**	–	–	–	–	–	–	–	–	(181,034)	(181,034)
Transfer to statutory reserve funds	–	–	322,441	(322,441)	–	–	–	–	–	–
At 31 December 2008	4,495,320	8,074,565*	1,000,056*	5,578,681*	629,345	19,877*	–	19,797,844	–	19,797,844

* These reserve accounts comprise the consolidated reserves of approximately RMB15,302,524,000 (2007: RMB12,190,250,000) in the consolidated balance sheet.

** On 29 September 2008, the Group acquired a 98.8% interest in AWO (currently known as COSL Drilling Europe AS, "CDE"). On 15 October 2008, the Group acquired the rest of the interest thereby holding a 100% interest in CDE.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	39	**4,456,808**	3,298,057
Taxes paid:			
Mainland China corporate income tax paid		**(418,969)**	(574,210)
Mainland China corporate income tax refund		**55,113**	272,309
Overseas income taxes paid		**(55,151)**	(22,273)
Net cash inflow from operating activities		**4,037,801**	2,973,883
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(7,630,571)**	(3,128,404)
Purchase of available-for-sale investments		**(1,060,000)**	(708,628)
Sale of available-for-sale investments		**1,692,956**	176,298
Proceeds from disposal of items of property, plant and equipment		**11,694**	40,667
Decrease in net balances with jointly-controlled entities		**(1,140)**	(9,502)
Decrease/(increase) in time deposits with original maturity of more than three months		**1,700,520**	(1,851,735)
(Increase)/decrease in pledged time deposits		**(2,444)**	10,260
Interest received		**183,698**	46,466
Dividends received from jointly-controlled entities		**126,838**	83,781
Investment in jointly-controlled entities		**–**	(13,282)
Acquisition of a subsidiary	37	**(15,647,033)**	–
Net cash outflow from investing activities		**(20,625,482)**	(5,354,079)
Net cash outflow before financing activities		**(16,587,681)**	(2,380,196)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	6,740,000
Proceeds from issue of long term bonds		**–**	1,500,000
Receipt of research and development subsidy		**55,040**	69,150
New bank loans		**15,781,719**	494,000
Repayment of short term loans		**(370,865)**	(1,150,000)
Settlements of balance due to the ultimate holding company		**(200,000)**	(200,000)
Share issue expenses		**–**	(141,245)
Bonds issue expenses		**–**	(20,354)
Dividends paid		**(539,438)**	(239,719)
Loans arrangement fees		**(77,873)**	–
Interest paid		**(408,706)**	(43,719)
Net cash inflow from financing activities		**14,239,877**	7,008,113

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(2,347,804)**	4,627,917
Cash and cash equivalents at beginning of year		**6,797,122**	2,192,312
Effect of foreign exchange rate changes, net		**(153,830)**	(23,107)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**4,295,488**	6,797,122
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	*26*	**4,695,837**	8,778,194
Less: Pledged time deposits	*26*	**(132,003)**	(12,206)
CASH AND CASH EQUIVALENTS FOR THE CONSOLIDATED BALANCE SHEET	*26*	**4,563,834**	8,765,988
Less: Non-pledged time deposits at banks with original maturity of more than three months when acquired		**(268,346)**	(1,968,866)
CASH AND CASH EQUIVALENTS FOR THE CONSOLIDATED CASH FLOW STATEMENT		**4,295,488**	6,797,122

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	15,271,628	10,932,699
Intangible assets	16	314,545	52,122
Investments in subsidiaries	17	6,841,088	9,061
Interests in jointly-controlled entities	18	133,515	133,304
Total non-current assets		22,560,776	11,127,186
CURRENT ASSETS			
Inventories	19	650,306	409,224
Prepayments, deposits and other receivables	20	1,768,905	584,253
Accounts receivable	21	3,316,609	2,059,547
Notes receivable	22	354,870	2,250
Due from the ultimate holding company	23	2,300	1,495
Due from other CNOOC group companies	24	2,122	4,363
Available-for-sale investments	25	–	607,338
Pledged time deposits	26	3,417	3,874
Cash and cash equivalents	26	3,038,585	8,331,564
Total current assets		9,137,114	12,003,908
CURRENT LIABILITIES			
Trade and other payables	27	2,729,263	2,010,620
Salary and bonus payables	30	420,783	396,700
Tax payable		161,665	461,908
Interest-bearing bank borrowings	32	244,000	200,000
Due to the ultimate holding company	23	3,248	203,248
Due to other CNOOC group companies	24	34,585	23,914
Total current liabilities		3,593,544	3,296,390
NET CURRENT ASSETS		5,543,570	8,707,518
TOTAL ASSETS LESS CURRENT LIABILITIES		28,104,346	19,834,704
NON-CURRENT LIABILITIES			
Deferred tax liabilities	31	281,828	235,569
Interest-bearing bank borrowings	32	6,367,680	744,000
Long term bonds	33	1,500,000	1,500,000
Total non-current liabilities		8,149,508	2,479,569
Net assets		19,954,838	17,355,135
EQUITY			
Issued capital	35	4,495,320	4,495,320
Reserves	36	14,830,173	12,320,377
Proposed final dividend	12	629,345	539,438
Total equity		19,954,838	17,355,135

Director: Fu Chengyu　　　　Director: Li Yong

Notes to Financial Statements

31 December 2008

1. Corporate information

China Oilfield Services Limited (the "Company") is a limited liability company incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at 3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin 300451, 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.

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

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

2.1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

As at 31 December 2008, the current liabilities of the Group exceeded its current assets by approximately RMB2,320,382,000. The financial statements have been prepared under the going concern basis as the directors believe the Group will have adequate funds to meet its liabilities as and when they fall due after taking into account the expected cash flows from its operations and unutilised banking facilities.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Notes to Financial Statements

31 December 2008

2.2. Impact of new and revised Hong Kong financial reporting standards

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures-Reclassification of Financial Assets*
HK(IFRIC) – Int 11	HKFRS2 – Group and Treasury Share Transactions

The adoption of these new interpretations and amendments has had no significant effect on these financial statements.

2.3. Impact of issued but not yet effective Hong Kong financial reporting standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements –Cost of an Investment a Subsidiary, Jointly-Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 *Effective for annual periods beginning on or after 1 January 2009*
2 *Effective for annual periods beginning on or after 1 July 2009*
* *Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.*

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. 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, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

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 income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Tankers and vessels	10 to 20 years
Drilling rigs (including drilling rig components)	25 to 30 years
Machinery and equipment	5 to 10 years
Motor vehicles	5 years
Land and buildings	20 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 balance sheet date.

An item of property, plant and equipment 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 the consolidated income statement 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 is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction.

Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets other than goodwill

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 balance sheet date.

The estimated useful life of intangible assets is as follow:

Prepaid land lease payments	50 years
Management software	10 years
Software	3 to 5 years
Contract value	Contract period

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies (continued)

Leases

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

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

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designed as effective hedging instruments. Gains or losses on these financial assets are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. Interests and dividends earned are reported as interest income and dividend income, respectively and are recognised in the consolidated income statement as "Interest income". Losses arising from the impairment of such investments, if any, are recognised in the consolidated income statement as "Impairment losses on available-for-sale financial assets" and are transferred from other reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investment carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to accounts and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. A provision for impairment is made for available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as share price volatility. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

2.4. Summary of significant accounting policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

(1) the rights to receive cash flows from the asset have expired;

(2) the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

(3) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies (continued)

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the consolidated income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies (continued)

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. 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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost.

The outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

(a) total contract revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the contract will flow to the entity;

(c) both the contract costs to complete the contract and the stage of contract completion at the balance sheet date can be measured reliably; and

(d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, 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 balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement or in equity if it relates to items that are recognised in the same or a different period 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.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date 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:

(1) where 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

(2) in respect of taxable temporary differences associated with investments in subsidiaries and interests in jointly-controlled entities, where 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.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

(1) where 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

(2) in respect of deductible temporary differences associated with investments in subsidiaries and interests in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from day rate contracts is recognised as and when services have been performed;

(b) income from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above; income from turnkey contracts is recognised to the extent of costs incurred until the specific turnkey depth and other contract requirements are met. When the turnkey depth and contract requirements are met, revenue on turnkey contracts is recognised based on the percentage of completion. Provisions for future losses on turnkey contracts are recognised when they become apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract;

(c) revenues from time charters and bareboat charters accounted for as operating leases under HKAS 17 are recognised on a straight-line basis over the rental periods of such charters, as service is performed.

(d) reimbursables relate to purchases of supplies, equipment, personnel services and other services provided at the request of our customers, with the related expense recorded as an operating expense. Income is recognised when the goods are delivered or services rendered.

(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipt through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(f) dividend income when the shareholders' right to receive payment has been established.

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies (continued)

Share-based payment transactions

The Company operates a share appreciation rights plan (the "SAR Plan") for its senior officers. The purpose of the SAR Plan is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula, taking into account the terms and conditions upon which the instruments were granted (Note 30). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the consolidated income statement.

Retirement benefits costs

The Group's employees in Mainland China are required to participate in a central pension scheme operated by local municipal governments. The Group is required to contribute 19% to 22% of its payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund for its employees of COSL Drilling Europe AS, a wholly-owned subsidiary of the Company. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for the plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the plan.

Past service costs are recognised as an expense on the straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Research and development costs

All research costs are charged to the consolidated income statement 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. No development costs were capitalised during the year.

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. Investment income earned on the temporary of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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 balance sheet, 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.

Foreign currencies

These financial statements are presented in Renminbi ("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 are initially recorded using the functional currency rate of exchange on the first day of the month of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements

31 December 2008

2.4. Summary of significant accounting policies (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the cumulative translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, 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 weighted average exchange rates for the year.

2.5. Significant accounting judgements and estimates

Significant accounting estimates with uncertainty

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, 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 affected in future.

The most significant judgements and estimates pertain to the determination of the estimated useful lives and impairment of property, plant and equipment, provisions for doubtful debts and inventories obsolescence, impairment of goodwill, impairment of available-for-sale financial assets, deferred tax assets, defined benefit pension plan as well as the judgement on the eligibility for the tax rate reduction as further described in Note 10 to the financial statements. Actual amounts could differ from those estimates and assumptions.

(1) *The estimated useful life and impairment of property, plant and equipment*

The estimated useful life of property, plant and equipment is based on the actual useful life of property, plant and property with similar characteristics and functions. If the useful life of these property, plant and equipment is less than previously estimated, the Group will accelerated the related depreciation or disposed of idle or obsolete property, plant and equipment. This requires management to use past experience in estimating the appropriate useful life.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell. This requires the management to make assumptions about the future cash flows and pre-tax discount rate and hence they are subject to uncertainty. As at 31 December 2008, none of the property, plant and equipment of the Group was assessed to be significantly impaired.

(2) *The provisions for doubtful debts and inventories obsolescence*

The impairment of accounts receivable is determined by the management based on available objective evidence, e.g. it becoming probable that a debtor will enter bankruptcy or significant financial difficulty of a debtor. The Group bases on its accounting policy for inventories, determines the provision for inventories obsolescence required by comparing the cost and net realisable for obsolete or slow-moving items.

The impairment or provision amount is subject to management's assessment at each balance sheet date, hence the provision amount is subject to uncertainty. At 31 December 2008, impairment losses of approximately RMB48,733,000 have been recognised for accounts receivable (2007: RMB2,272,000) and losses of approximately RMB3,853,000 have been recognised for inventories (2007: RMB3,855,000).

Notes to Financial Statements

31 December 2008

2.5. Significant accounting judgements and estimates (continued)

Significant accounting estimates with uncertainty (continued)

(3) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also the discount rate and hence they are subject to uncertainty. As at 31 December 2008, no impairment of goodwill was recognised.

(4) Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated income statement. At 31 December 2008, impairment losses of approximately RMB106,508,000 have been recognised for available-for-sale assets (2007: Nil).

(5) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2008 was approximately RMB29,300,000 (2007: Nil). The amount of unrecognised tax losses at 31 December 2008 was approximately RMB2,120,745,000 (2007: Nil). Further details are contained in Note 31 to the financial statements.

3. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group is engaged in a broad range of petroleum related activities through its four major business segments: drilling services, well services, marine support and transportation services, and geophysical services.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the drilling services segment is engaged in the provision of oilfield drilling services;

(b) the well services segment is engaged in the provision of logging and downhole services, such as drilling fluids, directional drilling, cementing and well completion, sales of well chemical materials and well workovers;

(c) the marine support and transportation services segment is engaged in the transportation of materials, supplies and personnel to offshore facilities, moving and positioning drilling structures, the transportation of crude oil and refined products and the transportation of methanol or other petrochemical products; and

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31 December 2008

3. Segment information (continued)

(a) Business segments

The following table presents revenue net of sales surtaxes, profit and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2008 and 2007:

	Year ended 31 December 2008				
	Drilling Services RMB'000	Well Services RMB'000	Marine support and transportation Services RMB'000	Geophysical Services RMB'000	Total RMB'000
Segment revenue:					
Sales (including intersegment)	6,649,523	2,866,005	1,681,031	2,180,110	13,376,669
Less: Intersegment sales	(729,605)	(133,411)	(67,153)	(303,556)	(1,233,725)
Net sales to external customers	5,919,918	2,732,594	1,613,878	1,876,554	12,142,944
Segment results	2,117,845	470,787	491,249	550,608	3,630,489
Exchange losses, net					(91,358)
Finance costs					(638,985)
Interest income					191,433
Share of profits of jointly-controlled entities					215,707
Profit before tax					3,307,286
Tax					(205,045)
Profit for the year					3,102,241
Assets and liabilities:					
Segment assets	43,421,562	3,658,323	4,284,153	1,888,107	53,252,145
Interests in jointly-controlled entities	41,161	338,946	198,067	42,155	620,329
Unallocated assets					2,714,629
Total assets					56,587,103
Segment liabilities	26,310,714	1,293,239	324,364	417,864	28,346,181
Unallocated liabilities					8,443,078
Total liabilities					36,789,259
Other segment information:					
Capital expenditure	3,754,649	1,287,256	1,291,972	503,873	6,837,750
Depreciation of property, plant and equipment and amortisation of intangible assets	912,144	262,871	193,270	195,249	1,563,534
Provision for impairment of accounts receivable	761	351	207	47,414	48,733
Provision for impairment of other receivables	164	101	63	71	399
Provision for impairment of inventories	1,879	867	512	595	3,853
Impairment provision for an available-for sale investment	106,508	–	–	–	106,508
Fair value losses on derivative instruments, net	52,984	–	–	–	52,984
Realised losses of derivative instruments	151,659	–	–	–	151,659

Notes to Financial Statements

31 December 2008

3. Segment information (continued)

(a) Business segments (continued)

	Year ended 31 December 2007				
	Drilling Services RMB'000	Well Services RMB'000	Marine support and transportation Services RMB'000	Geophysical Services RMB'000	Total RMB'000
Segment revenue:					
Sales (including intersegment)	4,684,771	2,452,805	1,480,540	1,628,163	10,246,279
Less: Intersegment sales	(763,103)	(182,762)	(106,059)	(186,368)	(1,238,292)
Net sales to external customers	3,921,668	2,270,043	1,374,481	1,441,795	9,007,987
Segment results	1,489,371	390,601	409,453	537,983	2,827,408
Exchange losses, net					(113,868)
Finance costs					(31,563)
Interest income					71,437
Share of profits of jointly-controlled entities					113,153
Profit before tax					2,866,567
Tax					(628,983)
Profit for the year					2,237,584
Assets and liabilities:					
Segment assets	6,795,301	2,833,746	3,141,987	1,520,118	14,291,152
Interests in jointly-controlled entities	36,103	273,338	154,521	29,098	493,060
Unallocated assets					8,304,773
Total assets					23,088,985
Segment liabilities	1,048,207	720,512	328,934	383,663	2,481,316
Unallocated liabilities					3,382,661
Total liabilities					5,863,977
Other segment information:					
Capital expenditure	1,825,589*	651,430	411,941	576,524	3,465,484
Depreciation of property, plant and equipment and amortisation of intangible assets	514,371	194,344	199,691	133,675	1,042,081
(Reversal)/provision for impairment of accounts receivable	(543)	(327)	(215)	3,357	2,272
Provision for impairment of other receivables	141	82	50	52	325
Provision for impairment of inventories	1,603	966	635	651	3,855

* *The balance included a capital contribution of US$1.74 million (approximately RMB13.3 million), which represented the cash portion of the investment in Atlantis Deepwater.*

Notes to Financial Statements

31 December 2008

3. Segment information (continued)

(b) Geographical segments

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical services in offshore China. Any activities outside the PRC are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway and Vietnam.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the Group's customers, and assets are attributed to the segments based on the location of the Group's assets. No further analysis of geographical segment information is presented for revenues as over 74.9% of the Group's revenues are generated from customers in Mainland China, and revenues generated from customers in other locations are individually less than 10%.

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

	Year ended 31 December 2008		
	Mainland China RMB'000	**Others RMB'000**	**Total RMB'000**
Segment revenue:			
Sales to external customers	**9,099,541**	**3,043,403**	**12,142,944**

	Year ended 31 December 2007		
	Mainland China RMB'000	Others RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	7,363,011	1,644,976	9,007,987

4. Revenue and other revenues

Revenue mainly represents the net invoiced value of offshore oilfield services rendered, net of sales surtaxes.

An analysis of revenue and other revenues are as follows:

	2008 RMB'000	**2007 RMB'000**
Revenue:		
Rendering of services	**12,062,412**	9,007,987
Gross rental income	**80,532**	–
Total revenue	**12,142,944**	9,007,987

Notes to Financial Statements

31 December 2008

4. Revenue and other revenues (continued)

	2008 RMB'000	2007 RMB'000
Other revenues:		
Gain on disposal of scrap materials	2,112	1,804
Insurance claims received	19,895	4,491
Government subsidies	24,259	31,150
Others	2,405	1,166
Total other revenues	48,671	38,611

5. Profit before tax

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

	2008 RMB'000	2007 RMB'000
Auditors' remuneration:		
Audit	10,922	6,399
Non-audit	11,572	2,422
Employee compensation costs (including directors' remuneration *(Note 7)*):		
Wages, salaries and bonuses	1,706,715	1,258,807
Social security costs	294,281	294,955
Retirement benefits and pensions	106,215	82,785
Share appreciation rights *(Note 30)*	(714)	7,310
	2,106,497	1,643,857
Depreciation of property, plant and equipment and amortisation of intangible assets	1,563,534	1,042,081
Loss on disposal of property, plant and equipment, net	53,429	18,868
Lease payments under operating leases in respect of land and buildings, berths and equipment	356,136	365,706
Provision for impairment of accounts receivable, net	48,733	2,272
Provision for impairment of other receivables, net	399	325
Provision for impairment of inventories	3,853	3,855
Impairment provision for an available-for-sale investment *(Note 25)*	106,508	-
Repair and maintenance costs	420,257	317,546
Research and development costs, included in	144,553	275,247
Depreciation of property, plant and equipment	18,143	13,731
Employee compensation costs	1,349	33,348
Consumption of supplies, materials, fuel, services and others	123,023	186,015
Other operating expenses	2,038	42,153

Notes to Financial Statements

31 December 2008

6. Finance costs

	Group 2008 RMB'000	2007 RMB'000
Interest on bank borrowings		
Wholly repayable within five years	**229,166**	2,583
Wholly repayable after five years	**197,396**	45,095
Interest on long term bonds	**158,634**	42,000
Total interests	**585,196**	89,678
Less: Interest capitalised	**(150,854)**	(58,115)
	434,342	31,563
Other finance costs:		
Fair value losses on derivative instruments	**52,984**	–
Realised losses of derivative instruments	**151,659**	–
	638,985	31,563

7. Directors' and supervisors' remuneration

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2008 RMB'000	2007 RMB'000
Fees	**1,280**	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	**866**	1,051
Bonuses	**861**	1,075
Share appreciation rights *(Note 30)*	**(274)**	2,982
Pension scheme contributions	**128**	138
	1,581	5,246
	2,861	6,526

Notes to Financial Statements

31 December 2008

7. Directors' and supervisors' remuneration (continued)

(a) Independent non-executive directors and a supervisor

The fees paid/payable to independent non-executive directors and an independent supervisor during the year are as follows:

	Group 2008 RMB'000	2007 RMB'000
Independent non-executive directors:		
Gordon C. K. Kwong	400	400
Andrew Y. Yan	400	400
Simon X. Jiang	400	400
	1,200	1,200
Independent supervisor:		
Zhang Dunjie	80	80
	1,280	1,280

There were no other emoluments payable to the independent non-executive directors and the independent supervisor during the year (2007: Nil).

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

2008	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Share appreciation rights RMB'000	Total RMB'000
Executive directors:					
Yuan Guangyu	390	375	50	(158)	657
Li Yong	271	289	41	(116)	485
	661	664	91	(274)	1,142
Non-executive directors:					
Fu Chengyu	–	–	–	–	–
Wu Mengfei	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
Zhang Benchun	–	–	–	–	–
Yang Jinghong	205	197	37	–	439
	205	197	37	–	439
Total	866	861	128	(274)	1,581

Notes to Financial Statements

31 December 2008

7. Directors' and supervisors' remuneration (continued)

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

2007	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Share appreciation rights RMB'000	Total RMB'000
Executive directors:					
Yuan Guangyu	410	340	48	1,560	2,358
Li Yong	254	265	38	1,140	1,697
	664	605	86	2,700	4,055
Non-executive directors:					
Fu Chengyu	10	–	–	–	10
Wu Mengfei	10	–	–	–	10
	20	–	–	–	20
Supervisors:					
Zhang Benchun	9	–	–	–	9
Xiao Jianwen (i)	12	–	–	–	12
Tang Daizhi (ii)	99	191	19	282	591
Yang Jinghong (iii)	180	279	33	–	492
	300	470	52	282	1,104
Total	984	1,075	138	2,982	5,179

Share appreciation rights were granted to certain executive directors and supervisors in respect of their services to the Group, further details of which are included in the disclosures in Note 30 to the financial statements.

Notes:

(i) Resigned on 4 June 2007
(ii) Resigned on 25 July 2007
(iii) Elected on 26 July 2007

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year. There was no emolument paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

Notes to Financial Statements

31 December 2008

8. Five highest paid employees

The five highest paid employees during the year do not include any directors (2007: two), details of whose remuneration are set out in Note 7 to the financial statements. Details of the remuneration of the five (2007: three) non-director, non-supervisor, highest paid employees for the year are as follows:

	Group 2008 RMB'000	2007 RMB'000
Basic salaries, allowances and benefits in kind	4,172	3,620
Bonuses	8,445	1,362
Shares appreciation rights	–	4,980
Pension scheme contributions	152	334
	12,769	10,296

The number of non-director, non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2008	2007
RMB1,500,001 to RMB2,000,000	–	2
RMB2,000,001 to RMB2,500,000	3	–
RMB2,500,001 to RMB3,000,000	1	–
RMB3,000,001 to RMB3,500,000	1	1
	5	3

During 2007, share appreciation rights were granted to certain executive directors and supervisors in respect of their services to the Group, further details of which are included in the disclosures in Note 30 to the financial statements.

There was no emolument paid by the Group to the employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

9. Retirement benefits and pensions

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 at rates ranging from 19% to 22% of the employees' basic salaries. The related pension costs are expensed as incurred.

As part of the CNOOC group, the employees of the Group as at the time of the Reorganisation were entitled to the supplementary pension benefits (the "Supplementary Pension Benefits") provided by CNOOC in addition to the benefits under the government-regulated pension fund described above. The Supplementary Pension Benefits were calculated based on factors including the number of years of service and salary level on the date of retirement of the employee. Following the Reorganisation, CNOOC agreed with the Group that the Supplementary Pension Benefits of the Group's existing employees attributed to the period prior to the Company's public listing in Hong Kong and the Supplementary Pension Benefits of the Group's retired employees will continue to be assumed by CNOOC. As the obligations under the Supplementary Pension Benefits have been fully assumed by CNOOC, the costs of such Supplementary Pension Benefits have not been recorded in the Group's financial statements for the year ended 31 December 2008 (2007: Nil).

Notes to Financial Statements

31 December 2008

9. Retirement benefits and pensions (continued)

The expenses attributed to the PRC government-regulated pension scheme are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Contributions to the PRC government – regulated pension scheme	**96,038**	82,785

At 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2007: Nil).

The Group has various pension plans for its employees who are located outside of Mainland China.

The Group also has a defined benefit scheme with a life insurance company to provide pension benefits for certain employees in Norway. The scheme provides entitlement to benefits based on future service from the commencement date of the scheme. These benefits are principally dependent on an employees pension qualifying period, salary at retirement age and the size of benefits from the National Insurance Scheme. Full retirement pension will amount to approximately 70% of the scheme pension-qualifying income (limited to the stipulated Norwegian National Insurance Basic Amount). The scheme also includes entitlement to disability, spouses and children's pensions. The retirement age under the scheme is 67 years.

The Group may at any time make alterations to the terms and conditions of the pension scheme and undertake that they will inform the employees of any such changes. The benefits accruing under the scheme are funded obligations.

All pension schemes are calculated in accordance with HKAS19. Changes in the pension obligations as a result of changed actuarial assumptions and variations between actual and anticipated return on pension funds, will be entered on the average remaining earnings period according to the "corridor" regulations.

Notes to Financial Statements

31 December 2008

9. Retirement benefits and pensions (continued)

	Group 2008 RMB'000	2007 RMB'000
Pension cost		
Service cost	3,469	–
Interest cost	686	–
Estimated return on plan assets	(465)	–
Administrative expenses	68	–
Amortisation of past service cost	–	–
Amortisation of actuarial gains	474	–
Net pension cost	4,232	–
Social security tax	520	–
Total	4,752	–
Benefit assets/(obligation)		
Benefit obligation	(21,716)	–
Plan assets	9,489	–
Funded status	(12,227)	–
Social security tax	(1,724)	–
Unamortised actuarial gains, past service cost	8,287	–
Net obligation	(5,664)	–
Movements in the benefit asset/(obligation) during the period		
Benefit asset/(obligation), opening balance	–	–
Acquisition of a subsidiary	(3,067)	–
Benefit expense	(4,752)	–
Contributions	2,155	–
Benefit asset/(obligation) ending balance	(5,664)	–
Assumptions		
Estimated return on plan assets	6%	–
Discount rate	5%	–
Salary increase	5%	–
Increase of National Insurance	4%	–
Rate of pension increase	1.75%-4.25%	–
Voluntary resignations	0-8%	–
Social security tax	14%	–
Analysis of the plan assets		
The asset allocation at the end of the period is set out below:		
Debt instruments	52%	–
Equity instruments	27%	–
Money market and similar	9%	–
Property	12%	–
Total	100%	–

Notes to Financial Statements

31 December 2008

10. Tax

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it does not have assessable income currently sourced from Hong Kong.

The new Corporate Income Tax ("CIT") Law effective from 1 January 2008 introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

In addition, the new detailed Implementation Rules of the Corporate Income Tax Law (CITLIR) were approved on 28 November 2007 and are effective from 1 January 2008 onwards.

During the year, the application by the Company as an advanced technology enterprise for tax exemption purposes was approved and the Company's corporate income tax rate for the fiscal year 2007 was reduced from 33% to 15%. As a result, a tax refund of approximately RMB524 million (2007: RMB272 million) relating to fiscal year 2007 has been recorded by the Company.

The State Administration of Taxation Circular Guoshuifa [2008] Number 17 confirms that enterprises which had been recognised as advanced technology enterprises prior to 1 January 2008 should pay provisional CIT at the rate of 25% pending a re-recognition process under the New CIT Law.

On 30 October 2008, the Company was certified as an advanced technology enterprise by the Science and Technology Commission, the Ministry of Finance and the State Administration of Taxation ("SAT"), which is effective for three years. Further, the Company obtained the approval from the Tianjin Offshore Oil Tax Bureau ("TOOTB") of the Tianjin Provincial Office of SAT in 2009. According to the Circular Jinguoshuihaishuijianmian [2009] Number 2, the corporate income tax rate was approved to be 15%.

As such, the management consider it is appropriate to use the rate of 15% to accrue for the income tax liability of the Company for the year ended 31 December 2008.

The Company's drilling activities in Indonesia are mainly subject to a deemed profit withholding tax of 4.5% based on its gross service income generated from its drilling activities in Indonesia, and a further branch corporate income tax of 10% on the remaining deemed profit for the year. The Group's drilling activities in Australia are subject to income tax of 33% based on its taxable profit generated. The Group's drilling activities in Mexico are subject to an income tax rate of 28%. The Group's drilling activities in Myanmar are subject to income tax of 3% based on its gross service income generated from its drilling activities in Myanmar. The Group's activities in the United Kingdom are mainly subject to a corporate income tax of 30%, based on its taxable profit generated. The Group's activities in Norway are mainly subject to a corporate income tax of 28%, based on its taxable profit. The Group's activities in Vietnam are subject to withholding tax of 10% on income derived from the provision of drilling services and a further corporate income tax of 18%. The Group's drilling activities in Libya are subject to income tax of 44% based on its deemed profit (16% of gross income). The Group's taxes pertaining to drilling activities in Saudi Arabia are borne by the customer.

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

	Group	
	2008 RMB'000	**2007 RMB'000**
Hong Kong profits tax	–	–
Overseas income taxes:		
Current income taxes	**67,928**	43,338
PRC corporate income taxes:		
Current income taxes	**770,469**	971,141
Tax refund/reduction as an advanced technology enterprise		
– current year	**(220,793)**	–
– prior year	**(524,005)**	(272,309)
Deferred income taxes *(Note 31)*	**111,446**	(113,187)
Total tax charge for the year	**205,045**	628,983

Notes to Financial Statements

31 December 2008

10. Tax (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for Mainland China where the Company and its jointly-controlled entities are domiciled to the tax expense at the effective tax rate and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate are as follows:

	2008 RMB'000	2008 %	2007 RMB'000	2007 %
Profit before tax	3,307,286		2,866,567	
Tax at the statutory tax rate of 25% (2007: 33%)	826,822	25.0	945,967	33.0
Tax refund/reduction as an advanced technology enterprise				
– current year	(220,793)	(6.7)	–	–
– prior year	(524,005)	(15.8)	(272,309)	(9.5)
Income not subject to tax	(145,377)	(4.4)	(28,704)	(1.0)
Tax benefit for qualifying research and development expense	(14,735)	(0.3)	(10,346)	(0.4)
Effect of different tax rates for overseas subsidiaries	63,165	1.9	70,003	2.4
Unrecognised tax losses	464,173	14.0	–	–
Translation adjustment*	(311,388)	(9.4)	–	–
Change in PRC statutory tax rate	–	–	(85,631)	(3.0)
Expenses not deductible for tax and others	67,183	2.0	10,003	0.3
Total tax charge at the Group's effective rate	205,045	6.3	628,983	21.8

The share of tax attributable to jointly-controlled entities amounting to approximately RMB58,277,000 (2007: RMB25,740,000) is included in "Share of profits of jointly-controlled entities" on the face of the consolidated income statement.

* *Translation adjustment includes tax effect of differences arising from foreign exchange effects to Norwegian Krone, which is the basis for taxation of some group companies. The translation adjustment mainly relates to differences between the taxable income under the Norwegian Krone tax basis and the US dollar functional currency income statement.*

11. Profit attributable to equity holders of the Parent

The consolidated profit attributable to equity holders of the Parent for the year ended 31 December 2008 includes a profit of approximately RMB3,145,684,000 (2007: RMB2,327,298,000) which has been dealt with in the financial statements of the Company (Note 36(b)).

12. Dividends

	2008 RMB'000	2007 RMB'000
Proposed final dividend – 14.00 Fen per ordinary share (2007: 12.00 Fen per ordinary share)	629,345	539,438

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

Notes to Financial Statements

31 December 2008

12. Dividends (continued)

Following the establishment of the Company, 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. 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 PRC Accounting Standards for Business Enterprises ("CAS") and related regulations and (ii) the net profit determined in accordance with HKFRSs.

13. Earnings per share attributable to ordinary equity holders of the Parent

The calculation of basic earnings per share amounts is based on the net profit attributable to equity holders of the Parent for the year ended 31 December 2008 of approximately RMB3,102,241,000 (2007: RMB2,237,584,000) and the weighted average 4,495,320,000 shares (2007: 4,128,196,712 shares) in issue during the year.

There were no potentially diluting events for the years ended 31 December 2008 and 2007.

Notes to Financial Statements

31 December 2008

14. Property, plant and equipment

Group

31 December 2008	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Land and buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2007 and at 1 January 2008:							
Cost	6,022,002	6,695,650	4,663,866	62,185	38,882	3,665,892	21,148,477
Accumulated depreciation	(3,478,551)	(4,694,426)	(1,821,661)	(32,040)	(3,794)	–	(10,030,472)
Net carrying amount	2,543,451	2,001,224	2,842,205	30,145	35,088	3,665,892	11,118,005
At 1 January 2008, net of accumulated depreciation	2,543,451	2,001,224	2,842,205	30,145	35,088	3,665,892	11,118,005
Acquisition of a subsidiary *(Note 37)*	–	11,877,479	7,025	–	–	13,814,490	25,698,994
Additions	–	37,765	1,056,548	9,008	207	5,466,294	6,569,822
Depreciation provided during the year	(243,553)	(527,853)	(720,956)	(10,071)	(2,662)	–	(1,505,095)
Disposals/write-offs	(44,869)	–	(19,822)	(432)	–	–	(65,123)
Transfers from/(to) construction in progress ("CIP")	931,223	3,739,340	1,285,055	2,210	–	(5,957,828)	–
CIP transfers to intangible assets	–	–	–	–	–	(8,497)	(8,497)
CIP transfers to a jointly-controlled entity	–	–	–	–	–	(5,636)	(5,636)
Exchange realignment	(5,889)	31,482	(5,106)	(328)	–	33,028	53,187
At 31 December 2008, net of accumulated depreciation	3,180,363	17,159,437	4,444,949	30,532	32,633	17,007,743	41,855,657
At 31 December 2008							
Cost	6,854,488	22,378,627	6,937,370	70,761	39,089	17,007,743	53,288,078
Accumulated depreciation	(3,674,125)	(5,219,190)	(2,492,421)	(40,229)	(6,456)	–	(11,432,421)
Net carrying amount	3,180,363	17,159,437	4,444,949	30,532	32,633	17,007,743	41,855,657

Notes to Financial Statements

31 December 2008

14. Property, plant and equipment (continued)

Group

31 December 2007	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Land and buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2006 and at 1 January 2007:							
Cost	5,578,819	6,983,857	3,059,160	53,202	14,077	2,422,661	18,111,776
Accumulated depreciation	(3,275,003)	(4,397,319)	(1,526,489)	(34,074)	(1,997)	–	(9,234,882)
Net carrying amount	2,303,816	2,586,538	1,532,671	19,128	12,080	2,422,661	8,876,894
At 1 January 2007, net of accumulated depreciation	2,303,816	2,586,538	1,532,671	19,128	12,080	2,422,661	8,876,894
Additions	50,294	91,930	302,273	12,176	–	2,937,974	3,394,647
Depreciation provided during the year	(233,228)	(362,400)	(435,151)	(3,893)	(1,977)	–	(1,036,649)
Disposals/write-offs	(724)	(9,398)	(64,472)	(734)	(41)	–	(75,369)
Transfers from/(to) CIP	423,293	(305,446)	1,514,913	3,468	25,026	(1,661,254)	–
CIP transfers to a jointly-controlled entity	–	–	–	–	–	(33,489)	(33,489)
Exchange realignment	–	–	(8,029)	–	–	–	(8,029)
At 31 December 2007, net of accumulated depreciation	2,543,451	2,001,224	2,842,205	30,145	35,088	3,665,892	11,118,005
At 31 December 2007							
Cost	6,022,002	6,695,650	4,663,866	62,185	38,882	3,665,892	21,148,477
Accumulated depreciation	(3,478,551)	(4,694,426)	(1,821,661)	(32,040)	(3,794)	–	(10,030,472)
Net carrying amount	2,543,451	2,001,224	2,842,205	30,145	35,088	3,665,892	11,118,005

Notes to Financial Statements

31 December 2008

14. Property, plant and equipment (continued)

Company

31 December 2008	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Land and buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2007 and at 1 January 2008:							
Cost	5,944,977	6,695,650	4,504,987	60,525	34,997	3,665,854	20,906,990
Accumulated depreciation	(3,470,269)	(4,694,426)	(1,775,073)	(31,376)	(3,147)	–	(9,974,291)
Net carrying amount	2,474,708	2,001,224	2,729,914	29,149	31,850	3,665,854	10,932,699
At 1 January 2008, net of accumulated depreciation	2,474,708	2,001,224	2,729,914	29,149	31,850	3,665,854	10,932,699
Additions	–	–	933,443	5,865	189	4,746,406	5,685,903
Depreciation provided during the year	(235,197)	(333,733)	(699,321)	(7,889)	(2,279)	-	(1,278,419)
CIP transfers to intangible assets	–	–	–	–	–	(8,497)	(8,497)
Disposals/write-offs	(44,869)	–	(14,757)	(432)	–	–	(60,058)
Transfers from/(to) CIP	931,223	1,968,497	1,284,170	2,210	–	(4,186,100)	–
At 31 December 2008, net of accumulated depreciation	3,125,865	3,635,988	4,233,449	28,903	29,760	4,217,663	15,271,628
At 31 December 2008							
Cost	6,784,030	8,664,148	6,660,022	66,665	35,186	4,217,663	26,427,714
Accumulated depreciation	(3,658,165)	(5,028,160)	(2,426,573)	(37,762)	(5,426)	–	(11,156,086)
Net carrying amount	3,125,865	3,635,988	4,233,449	28,903	29,760	4,217,663	15,271,628

Notes to Financial Statements

31 December 2008

14. Property, plant and equipment (continued)

Company

31 December 2007	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Land and buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2006 and at 1 January 2007:							
Cost	5,552,149	6,983,855	2,915,516	52,827	12,739	2,421,479	17,938,565
Accumulated depreciation	(3,275,003)	(4,397,319)	(1,501,476)	(33,641)	(1,452)	–	(9,208,891)
Net carrying amount	2,277,146	2,586,536	1,414,040	19,186	11,287	2,421,479	8,729,674
At 1 January 2007, net of accumulated depreciation	2,277,146	2,586,536	1,414,040	19,186	11,287	2,421,479	8,729,674
Additions	–	91,933	278,168	10,829	–	2,935,870	3,316,800
Depreciation provided during the year	(224,947)	(362,400)	(419,393)	(3,606)	(1,876)	–	(1,012,222)
Disposals/write-offs	(723)	(9,399)	(57,173)	(728)	(41)	(33,489)	(101,553)
Transfers from/(to) CIP	423,232	(305,446)	1,514,272	3,468	22,480	(1,658,006)	–
At 31 December 2007, net of accumulated depreciation	2,474,708	2,001,224	2,729,914	29,149	31,850	3,665,854	10,932,699
At 31 December 2007							
Cost	5,944,977	6,695,650	4,504,987	60,525	34,997	3,665,854	20,906,990
Accumulated depreciation	(3,470,269)	(4,694,426)	(1,775,073)	(31,376)	(3,147)	–	(9,974,291)
Net carrying amount	2,474,708	2,001,224	2,729,914	29,149	31,850	3,665,854	10,932,699

15. Goodwill

	Group RMB'000
Cost at 1 January 2008, net of accumulated impairment	–
Acquisition of a subsidiary *(Note 37)*	3,472,241
Impairment during the year	–
Exchange realignment	8,300
Cost and carrying amount at 31 December 2008	3,480,541
At 31 December 2008	
Cost	3,480,541
Accumulated impairment	–
Net carrying amount	3,480,541

Notes to Financial Statements

31 December 2008

15. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the Drilling services cash-generating unit, which is reportable in the drilling segment, for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The post-tax discount rate applied to the cash flow projections is 8.5%, and the cash flow over a five-year period is extrapolated using a constant growth rate.

Key assumptions were used in the value in use calculation of the cash-generating unit for 31 December 2008. The following describes the key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Discount rates – The discount rates used reflect specific risks relating to the relevant unit.

The values assigned to key assumptions which includes rig utilisation rate, day rate and projected expenses are consistent with external information sources and historical trends.

16. Intangible assets

Group

31 December 2008	Prepaid land lease payments RMB'000	Management system & software RMB'000	Contract value RMB'000	Total RMB'000
Cost at 1 January 2008, net of accumulated amortisation	4,348	47,774	–	52,122
Additions	257,518	10,410	–	267,928
Transferred from CIP	–	8,497	–	8,497
Acquisition of a subsidiary *(Note 37)*	–	130,332	122,702	253,034
Amortisation provided during the year	(585)	(16,736)	(41,118)	(58,439)
Exchange realignment	–	364	293	657
At 31 December 2008	261,281	180,641	81,877	523,799
At 31 December 2008:				
Cost	262,188	202,435	122,995	587,618
Accumulated amortisation	(907)	(21,794)	(41,118)	(63,819)
Net carrying amount	261,281	180,641	81,877	523,799

Notes to Financial Statements

31 December 2008

16. Intangible assets (continued)

Group (continued)

31 December 2007	Prepaid land lease payments RMB'000	Management system & software RMB'000	Contract value RMB'000	Total RMB'000
Cost at 1 January 2007, net of accumulated amortisation	–	–	–	–
Additions	4,670	52,884	–	57,554
Amortisation provided during the year	(322)	(5,110)	–	(5,432)
At 31 December 2007	4,348	47,774	–	52,122
At 31 December 2007:				
Cost	4,670	52,884	–	57,554
Accumulated amortisation	(322)	(5,110)	–	(5,432)
Net carrying amount	4,348	47,774	–	52,122

Company

31 December 2008	Prepaid land lease payments RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2008, net of accumulated amortisation	4,348	47,774	52,122
Additions	257,518	10,410	267,928
Transferred from CIP	–	8,497	8,497
Amortisation provided during the year	(585)	(13,417)	(14,002)
At 31 December 2008	261,281	53,264	314,545
At 31 December 2008:			
Cost	262,188	71,791	333,979
Accumulated amortisation	(907)	(18,527)	(19,434)
Net carrying amount	261,281	53,264	314,545

Notes to Financial Statements

31 December 2008

16. Intangible assets (continued)

Company (continued)

31 December 2007	Prepaid land lease payments RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2007, net of accumulated amortisation	–	–	–
Additions	4,670	52,884	57,554
Amortisation provided during the year	(322)	(5,110)	(5,432)
At 31 December 2007	4,348	47,774	52,122
At 31 December 2007:			
Cost	4,670	52,884	57,554
Accumulated amortisation	(322)	(5,110)	(5,432)
Net carrying amount	4,348	47,774	52,122

17. Investments in subsidiaries

	Company	
	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	**6,841,088**	9,061

Notes to Financial Statements

31 December 2008

17. Investments in subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name of entity	Place and date of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity directly attributable to the Group		Principal activities
			Direct	Indirect	
COSL America Inc.	United States of America 2 November 1994	US$100,000	100	–	Sale of logging equipment
China Oilfield Services (BVI) Limited	British Virgin Islands 19 March 2003	US$1	100	–	Investment holding
COSL (Labuan) Company Limited	Malaysia 11 April 2003	US$1	–	100	Provision of drilling services in Indonesia
COSL Services Southeast Asia (BVI) Limited	British Virgin Islands 29 May 2003	US$1	–	100	Investment holding
COSL Chemicals (Tianjin), Ltd. (formerly known as Tianjin Jinlong Petro-Chemical Company Ltd.)	Tianjin, PRC 7 September 1993	RMB9,000,000	100	–	Provision of drilling fluids services
COSL (Australia) Pty Ltd.	Australia 11 January 2006	A$10,000	–	100	Provision of drilling services in Australia
COSL Hong Kong International Limited	Hong Kong 3 December 2007	HK$2,227,770,001	100	–	Investment holding
COSL Norwegian AS	Norway 23 June 2008	NOK1,541,328,656	–	100	Investment holding
COSL Drilling Europe AS ("CDE")*(formerly known as AWO)	Norway 21 January 2005	NOK1,494,415,487	–	100	Provision of drilling services

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

* *CDE was acquired through COSL Norwegian AS on 29 September 2008 as further described in Note 37.*

Notes to Financial Statements

31 December 2008

18. Interests in jointly-controlled entities

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	–	–	129,330	129,330
Share of net assets	589,449	485,171	–	–
Due from jointly-controlled entities	30,976	7,985	4,281	4,070
Due to jointly-controlled entities	(96)	(96)	(96)	(96)
	620,329	493,060	133,515	133,304

The amounts due from and due to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from and due to jointly-controlled entities approximate to their fair values.

Particulars of the principal jointly-controlled entities are as follows:

Name	Nominal value of issued and paid up capital	Place and date of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
China France Bohai Geoservices Co., Ltd. ("China France")	US$6,650,000	Tianjin, PRC 30 November 1983	50	50	Provision of logging services
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	RMB 4,640,000	Shenzhen, PRC 25 October 1984	60(b)	60	Provision of drilling fluids services
CNOOC-OTIS Well Completion Services Ltd. ("CNOOC-OTIS")	US$2,000,000	Tianjin, PRC 14 April 1993	50	50	Provision of well completion services
China Petroleum Logging-Atlas Cooperation Service Company ("Logging-Atlas")	US$2,000,000	Shenzhen, PRC 10 May 1984	50	50	Provision of logging services
China Offshore Fugro Geo Solutions (Shenzhen) Company Ltd. ("China Offshore Fugro")	US$1,720,790	Shenzhen, PRC 24 August 1983	50	50	Provision of geophysical services
Eastern Marine Services Ltd. ("Eastern Marine")	HK$1,000,000	Hong Kong 10 March 2006	51(b)	51	Marine transportation services
PT Tritunggal Sinergy Company Ltd. ("PTTS")	US$700,000	Indonesia 30 December 2004	55(b)	55	Provision of oilfield repair services
COSL-Expro Testing Services (Tianjin) Company Ltd. ("COSL-Expro")	US$5,000,000	Tianjin, PRC 28 February 2007	50(a)	50	Provision of well testing services
Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater")	HK$1,000	Hong Kong 28 August 2006	50(c)	50	Provision of artificial buoyant seabed unit services
Premium Drilling AS ("Premium Drilling")	NOK 100,000	Norway 1 June 2005	50(d)	50	Management of jack-up drilling rigs

Notes to Financial Statements

31 December 2008

18. Interests in jointly-controlled entities (continued)

All of the above investments in jointly-controlled entities are directly held by the Company except for Eastern Marine, PTTS and Atlantis Deepwater, which are indirectly held through China Oilfield Services (BVI) Limited, and Premium Drilling which is indirectly held through COSL Drilling Europe AS.

(a) COSL-Expro was spun off from China France on 6 February 2007.

(b) In the opinion of the directors, the Company does not have control over Magcobar's, PTTS's and Eastern Marine's financial and operating decisions, and accordingly, the financial statements of Magcobar, PTTS and Eastern Marine have not been incorporated into the Group's consolidated financial statements as subsidiaries. The financial statements of Magcobar, PTTS and Eastern Marine have been dealt with in the Group's consolidated financial statements using the equity accounting method.

(c) Atlantis Deepwater was established by Atlantis Deepwater Technology Holding AS to provide artificial buoyant seabed ("ABS") units and other associated services. On 8 June 2007, Atlantis Deepwater became a jointly-controlled entity of the Group, when the Group contributed US$6.27 million (equivalent to RMB46.77 million, including RMB13.28 million cash paid and RMB33.49 million of transfer of property, plant and equipment) in return for a 50% equity interest in Atlantis Deepwater.

(d) Premium Drilling ("PD") consists of Premium Drilling AS, Premium Drilling Inc. and Premium Drilling (Cayman) Ltd.. Premium Drilling was set up by COSL Drilling Europe AS and Sinvest AS (formerly known as Sinvest ASA)in June 2005 to manage the operations of jack-up drilling rigs. The joint venture is accounted for using the equity accounting method and was acquired through the acquisition of CDE as further described in Note 37.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2008 RMB'000	2007 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	763,533	397,844
Non-current assets	318,829	251,146
Current liabilities	(508,956)	(163,819)
Non-current liabilities	(56,363)	–
Net assets	517,043*	485,171
Share of the jointly-controlled entities' results:		
Revenue	981,761	523,153
Other revenues	13,481	1,109
Total expenses	(721,258)	(375,951)
Tax	(58,277)	(35,158)
Share of profits of jointly-controlled entities	215,707	113,153

* *The share of the jointly-controlled entities' net assets includes the net liabilities of Premium Drilling as at 31 December 2008, amounting to approximately RMB72,406,000, which is classified as other non-current liability in the consolidated balance sheet.*

Notes to Financial Statements

31 December 2008

19. Inventories

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Gross inventory	796,565	429,607	666,000	421,065
Less: Provisions	(15,694)	(11,841)	(15,694)	(11,841)
	780,871	417,766	650,306	409,224

Inventories consist of materials and supplies.

20. Prepayments, deposits and other receivables

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Prepayments	1,281,549	48,641	1,230,300	45,952
Deposits	76,407	59,022	76,407	59,022
Other receivables	146,266	104,337	464,986	481,668
	1,504,222	212,000	1,771,693	586,642
Less: Provision for impairment of other receivables	(2,788)	(2,389)	(2,788)	(2,389)
	1,501,434	209,611	1,768,905	584,253

21. Accounts receivable

The general credit terms of the Group range from 30 to 45 days upon the issuance of the invoices. The Group's accounts receivable relate to a large number of diversified customers. Other than the accounts receivable related to the CNOOC Group and the CNOOC Limited Group as disclosed below, there is no significant concentration of credit risk of the Group's accounts receivable. All accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable based on the invoiced date as at the balance sheet date is as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Outstanding balances aged:				
Within one year	2,777,864	1,399,706	3,364,184	2,058,591
One to two years	7,751	7,323	1,640	1,438
Two to three years	278	–	–	–
Over three years	2,441	2,550	858	858
	2,788,334	1,409,579	3,366,682	2,060,887
Less: Provision for impairment of accounts receivable	(53,309)	(4,798)	(50,073)	(1,340)
	2,735,025	1,404,781	3,316,609	2,059,547

Notes to Financial Statements

31 December 2008

21. Accounts receivable (continued)

The movements in provision for impairment of accounts receivable are as follows:

	Group	
	2008 RMB'000	2007 RMB'000
At 1 January	**4,798**	2,645
Impairment losses recognised	**49,215**	4,059
Impairment losses reversed	**(482)**	(1,787)
Exchange realignment	**(222)**	(119)
At 31 December	**53,309**	4,798

Included in the above provision for impairment of accounts receivable is a provision for impaired accounts receivable of approximately RMB53,309,000 (2007: RMB4,798,000) against total carrying amounts of approximately RMB58,451,000 (2007: RMB9,873,000). The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2007 and 2008, the Group does not have any significant accounts receivable past due but not impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the accounts receivable are the following amounts due from CNOOC Limited, its subsidiaries and associates (collectively known as the "CNOOC Limited Group") and CNOOC, its subsidiaries and associates other than the CNOOC Limited Group (collectively known as the "CNOOC Group"), which arose from the ordinary course of business are repayable on similar credit terms to those offered to independent third party customers:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Due from CNOOC Limited Group	**1,236,113**	822,816	**948,982**	732,457
Due from CNOOC Group	**197,786**	102,371	**197,786**	102,371
	1,433,899	925,187	**1,146,768**	834,828

Included in the Company's accounts receivable at 31 December 2008 was an amount due from its subsidiaries of approximately RMB1,498,958,000 (2007: RMB903,829,000) which is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

22. Notes receivable

	Group and Company	
	2008 RMB'000	2007 RMB'000
Trade acceptances	**338,270**	–
Banker's acceptances	**16,600**	2,250
	354,870	2,250

Included in the Group's notes receivable at 31 December 2008 was an amount due from CNOOC Limited Group of approximately RMB338,270,000 (2007:Nil).

Notes to Financial Statements

31 December 2008

23. Due from/to the ultimate holding company

The balances with CNOOC at 31 December 2008 under current assets and liabilities of the Group are unsecured, interest-free and have no fixed repayment terms.

24. Balances with other CNOOC group companies

The balances with other CNOOC group companies at 31 December 2008 are unsecured, interest-free and have no fixed terms of repayment.

25. Available-for-sale investments

Current:

	Group and Company	
	2008 RMB'000	2007 RMB'000
Unlisted investments, at fair value:		
Mainland China	–	607,338

Non-current:

	Group	
	2008 RMB'000	2007 RMB'000
Listed equity investment, at acquired cost	140,366	–
Less: Provision for impairment	(106,508)	–
Exchange realignment	460	–
Net carrying amount, at fair value	34,318	–

The non-current available-for-sale investment consists of an investment in a listed equity security, Petrojack ASA. Fair value equals the listed price at the year end.

26. Cash and cash equivalents and pledged time deposits

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash and balances with banks	3,885,093	1,445,733	2,233,835	1,011,309
Deposit with CNOOC Finance Corporation Ltd. ("CNOOC Finance Co., Ltd.")	539,821	105	539,821	105
Time deposits at banks	270,923	7,332,356	268,346	7,324,024
Cash and balances with banks and financial institutions	4,695,837	8,778,194	3,042,002	8,335,438
Less:				
Pledged time deposits-current	(53,768)	(12,206)	(3,417)	(3,874)
Pledged time deposits-non-current	(78,235)	–	–	–
Cash and cash equivalents	4,563,834	8,765,988	3,038,585	8,331,564

Notes to Financial Statements

31 December 2008

26. Cash and cash equivalents and pledged time deposits (continued)

At the balance sheet date, the cash and bank balances and time deposits at banks of the Group denominated in RMB amounted to approximately RMB2,651,255,000 (2007:RMB7,761,195,000). 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 foreign currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2008, included in the time deposits at banks of the Group were non-pledged time deposits with original maturity of more than three months when acquired of approximately RMB268,346,000 (2007: RMB1,968,866,000).

Cash at banks earns interest based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates.

27. Trade and other payables

An aging analysis of the trade and other payables as at the balance sheet date is as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Outstanding balances aged:				
Within one year	**3,460,452**	2,030,967	**2,610,530**	1,935,636
One to two years	**288,836**	45,628	**108,956**	59,401
Two to three years	**2,847**	4,608	**2,569**	3,655
Over three years	**7,208**	5,895	**7,208**	11,928
	3,759,343	2,087,098	**2,729,263**	2,010,620

Trade and other payables are non-interest-bearing. Trade and other payables are normally settled on terms ranging from one month to two years. As at 31 December 2008, included in the trade and other payables was a balance for a research and development subsidy of approximately RMB54.18 million (2007: RMB58.72 million).

28. Derivative financial instruments

	Group	
	2008 RMB'000	2007 RMB'000
Non-current:		
Cross currency interest rate swap	**49,308**	–

The carrying amount of the interest rate swap is the same as the fair value.

Through a business combination, the Group acquired a cross currency interest swap agreement relating to the NOK500 million bond notes. This swap receives NOK and pays US$ for a total amount of NOK250 million and has a maturity of 6 July 2010 (matching the maturity of the underlying bond).

In addition, part of the NOK bond (NOK250 million), subject to a rate of 3 month NIBOR + 2.25%, has been swapped with a 3 months US LIBOR + 2.40%. This swap agreement has been entered into to minimise the exposure to fluctuations in the US$/NOK exchange rate.

The Group recognised a fair value loss as finance costs from this agreement amounting to RMB52,984,000 (2007: Nil).

Forward currency contracts – cash flow hedges

In 2008, the Group had three forward currency contracts designated as hedges of the acquisition of a subsidiary in Norway. The terms of the forward currency contracts have been negotiated to match the terms of the acquisition consideration. The cash flow hedges were assessed to be highly effective and a realised net loss of RMB497.5 million was included in the acquisition cost.

Notes to Financial Statements

31 December 2008

29. Other non-current liabilities

	Group 2008 RMB'000	2007 RMB'000
Negative interest in a jointly-controlled entity (Note 18)	72,406	–
Due to a jointly-controlled entity	93,771	–
Due from a jointly-controlled entity	(71,920)	–
	94,257	–

The share of net liabilities in Premium Drilling were recognised as other non-current liability since the Group has a constructive obligation on behalf of Premium Drilling as Premium Drilling was established to manage the operations of some of the Group's jack-up drilling rigs.

30. Share appreciation rights plan

On 22 November 2006, the share appreciation rights plan for senior officers (the "SAR Plan") was approved by the shareholders in an extraordinary general meeting. A total of five million share appreciation rights with an exercise price of HK$4.09 per share were awarded under the SAR Plan to seven senior officers, including the chief executive officer (general manager), three executive vice general managers, and three other non-executive vice general managers. The share appreciation rights will become vested upon completion of two years service period, and the senior officers can exercise their rights in four equal batches, beginning year 3 (first exercisable date: the first trading day after 22 November 2008), 4, 5 and 6 from the approval date of the SAR Plan.

The SAR Plan further provides that if the gain from exercising the share appreciation rights exceeds HK$0.99 per share in any one year, the excess gain should be calculated using the following percentage:

(1) between HK$0.99 and HK$1.50, at 50%;
(2) between HK$1.51 and HK$2.00, at 30%;
(3) between HK$2.01 and HK$3.00, at 20%; and
(4) HK$3.01 or above, at 15%.

The grant of the share appreciation rights was completed and became effective on 6 June 2007 when all the entitled senior officers agreed and signed individual performance contracts with the Company.

The fair value of the share appreciation rights granted as at 31 December 2008 was measured at HK$1.67 per share. The fair value of the rights is calculated using the Black-Scholes model with the following assumptions: expected dividend yield of 1.96%, expected life of two years, expected volatility of 93.34% and a risk-free interest rate of 4.48%. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

The decrease of the share appreciation rights liability amounted to approximately RMB714,000 for the year ended 31 December 2008, and was recorded in salary and bonus payables under general and administrative expenses:

		Shares granted	At 1 January 2008 RMB'000	Addition RMB'000	Decrease RMB'000	At 31 December 2008 RMB'000
Chief Executive Officer	Yuan Guangyu	964,200	1,560	–	(158)	1,402
Executive Vice President	Li Yong	704,300	1,140	–	(116)	1,024
Executive Vice President	Zhong Hua	704,300	1,140	–	(116)	1,024
Executive Vice President	Chen Weidong	704,300	1,140	–	(116)	1,024
Vice President	Li Xunke	656,900	1,063	–	(108)	955
Supervisor	Tang Daizhi*	656,900	282	–	–	282
Vice President	Xu Xiongfei	609,100	985	–	(100)	885
		5,000,000	7,310	–	(714)	6,596

* *During 2007, Mr. Tang Daizhi resigned as a supervisor of the Company and joined CNOOC. According to the terms of the SAR Plan, he was entitled to his benefits up to the date of his resignation.*

The assumptions of the valuation model are based on the subjective estimation of the directors.

Notes to Financial Statements

31 December 2008

31. Deferred tax liabilities

The movements of deferred tax liabilities during the year are as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	235,569	348,756	235,569	348,756
Acquisition of a subsidiary during the year *(Note 37)*	2,116,871	–	–	–
Charged/credited to the consolidated income statement during the year *(Note 10)*	111,446	(113,187)	46,259	(113,187)
Exchange realignment	(34,885)	–	–	–
Balance at end of year	2,429,001	235,569	281,828	235,569

The principal components of the provision for deferred tax are as follows:

Group

	Balance at 1 January 2007 RMB'000	Recognised in consolidated income statement RMB'000	Included: Change in PRC statutory tax rate RMB'000	Balance at 31 December 2007 RMB'000	Balance at 1 January 2008 RMB'000	Acquisition of a subsidiary RMB'000	Recognised in consolidated income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2008 RMB'000
Deferred tax assets:									
Provision for staff bonus	(111,568)	467	13,122	(111,101)	(111,101)	–	(1,451)	–	(112,552)
Accelerated amortisation	–	–	–	–	–	–	(1,135)	–	(1,135)
Accrued liabilities	–	–	–	–	–	(3,334)	(194)	(6)	(3,534)
Tax loss carried forward	–	–	–	–	–	(101,545)	73,345	(1,100)	(29,300)
Others	–	–	–	–	–	(9,212)	(10,194)	97	(19,309)
Deferred tax liabilities:									
Accelerated depreciation	248,596	(32,251)	(57,049)	216,345	216,345	350,420	113,237	(38,747)	641,255
Revaluation surplus on reorganisation	211,728	(81,403)	(41,704)	130,325	130,325	–	(30,075)	–	100,250
Fair value adjustment arising from acquisition of a subsidiary	–	–	–	–	–	1,872,796	(25,884)	4,780	1,851,692
Others	–	–	–	–	–	7,746	(6,203)	91	1,634
Net deferred tax liabilities	348,756	(113,187)	(85,631)	235,569	235,569	2,116,871	111,446	(34,885)	2,429,001

Notes to Financial Statements

31 December 2008

31. Deferred tax liabilities (continued)

Company

	Balance at 1 January 2007 RMB'000	Recognised in income statement RMB'000	Included: Change in PRC statutory tax rate RMB'000	Balance at 31 December 2007 RMB'000	Balance at 1 January 2008 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2008 RMB'000
Deferred tax assets:							
Provision for staff bonus	(111,568)	467	13,122	(111,101)	(111,101)	(1,451)	(112,552)
Accelerated amortisation	–	–	–	–	–	(1,135)	(1,135)
Deferred tax liabilities:							
Accelerated depreciation	248,596	(32,251)	(57,049)	216,345	216,345	78,920	295,265
Revaluation surplus on reorganisation	211,728	(81,403)	(41,704)	130,325	130,325	(30,075)	100,250
Net deferred tax liabilities	348,756	(113,187)	(85,631)	235,569	235,569	46,259	281,828

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be deducted from the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entities as the Group has no asset to additional tax should such amounts be remitted.

The Group has tax losses arising in Norway of approximately RMB2,120,745,000 (2007:Nil) 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.

32. Interest-bearing bank borrowings

Current:

	Effective interest rate *(%)*	Maturity	31 December 2008 *RMB'000*	31 December 2007 *RMB'000*
Syndicated bank loan – secured (a)	LIBOR+170pts	2009	6,359,459	–
Bank Loans – secured (b)	LIBOR+225pts	2009	476,138	–
			6,835,597	–
Current portion of long-term loan			943,020	200,000
			7,778,617	200,000

Notes to Financial Statements

31 December 2008

32. Interest-bearing bank borrowings (continued)

Non-current:

	Effective interest rate (%)	Maturity	31 December 2008 RMB'000	31 December 2007 RMB'000
Bank loans – unsecured (c)	LIBOR+170pts	2020	5,467,680	–
Bank loans – unsecured (d)	*	2013	744,000	944,000
Bank loans – unsecured (e)	**	2014	400,000	–
Syndicated bank loan – secured (a)	LIBOR+170pts	2010	3,189,503	–
Bank loans – secured (f)	3.20%	2011	117,353	–
Syndicated bank loan – secured (g)	LIBOR+162.5 pts	2010	6,725,859	–
Commercial facility loan – secured (h)	LIBOR+162.5 pts	2018	654,071	–
			17,298,466	944,000
Less: current portion of long term loan			(943,020)	(200,000)
			16,355,446	744,000

* *Market interest rate of similar loan type quoted by the People's Bank of China.*

** *4.86% for the first quarter and thereafter the market interest rate of similar loan type quoted by the People's Bank of China.*

(a) The Group obtained a syndicated bank loan with a total facility of US$1,500 million. As at 31 December 2008, the utilised bank loan amounted to approximately US$1,400 million (equivalent to RMB9,568 million). The share of the subsidiary, COSL Drilling Europe, were pledged as the security for the borrowing.

(b) The loan agreement was entered into by CDE relating to a revolving credit facility of up to US$70 million. The borrowing is to be repaid by 30 March 2009. The facility is secured by the drilling rig and the available-for-sale investment of CDE.

(c) The Company borrowed a US$800 million loan for the purpose of funding the acquisition of a subsidiary. The repayment will start on 2 September 2011, with installments amounting to US$42.1 million bi-annually.

(d) The Company borrowed a RMB dominated bank loan for the purpose of financing the construction of certain modular drilling rigs. The borrowings are to be repaid from 30 June 2008 to 30 June 2013 by instalments as follows: RMB200 million on every 30 June from 2008 to 2011, RMB100 million on 30 June 2012, and RMB44 million on 30 June 2013.

(e) The Company borrowed a RMB400 million loan for the purpose of financing the construction of boats for the workover operation in Indonesia. The borrowing should be repaid from 19 November 2009 to 19 November 2017 by installments as follows: RMB44 million on every 19 November from 2009 to 2016, RMB48 million on 19 November 2017.

(f) The loan was granted based on a subsidiary's extensive use of Norwegian suppliers in the construction of the jack-up drilling rig, WilPower. In return, the loan carries a fixed interest rate of 3.2%. The loan is to be repaid in semi-annual installments beginning six months after the loan drawdown date. Proceeds of the loan were deposited in an account with the agent bank, which serve as a security for the loan and are classified as a loan pledge in the balance sheet.

(g) The loan agreement was entered into with a syndicate of financial institutions. The borrowing is secured by mortgages on the Group's accommodation rigs, jack up drilling rigs and semi-submersibles drilling rigs.

(h) The loan agreement was entered into by a subsidiary of CDE, WilPromoter Pte. Ltd. (currently known as "COSLPromoter Pte. Ltd."), relating to a loan facility of up to US$335,600,000 for drilling rig construction. The facility is secured by a semi-submersible drilling rig.

Notes to Financial Statements

31 December 2008

32. Interest-bearing bank borrowings (continued)

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Bank borrowings repayable:				
Within one year, inclusive	7,778,617	200,000	244,000	200,000
In the second year	9,619,692	200,000	244,000	200,000
In the third to fifth year	2,486,814	200,000	2,202,420	200,000
Beyond five years	4,248,940	344,000	3,921,260	344,000
	24,134,063	944,000	6,611,680	944,000

As at 31 December 2008, the carrying amount of the long term bank borrowings approximate their fair values of approximately RMB17,298,466,000 (2007: RMB944,300,000), which was the present value of the loans' future cash flows discounted by the prevailing market interest rates quoted by the respective banks.

	31 December 2008 RMB'000	31 December 2007 RMB'000
Security:		
Drilling rigs pledged	13,531,780	–
Construction in progress pledged	12,789,664	–
Total	26,321,444	–

Certain of the Group's bank loans are secured by pledged time deposits amounting to RMB117 million, a charge over the shares of CDE and the available-for-sale investment of CDE.

33. Long term bonds

(i) Corporate bonds:
On 18 May 2007, the Group issued 15-year corporate bonds, with a nominal value of RMB100.00 per bond, amounting to RMB1,500 million. The bonds carry interest at a fixed coupon rate of 4.48% per annum, which is payable annually in arrears on 14 May, and the redemption or maturity date is 14 May 2022.

(ii) Senior unsecured US$ bonds:
COSL Drilling Europe AS issued the bonds in February 2006, with a book value of US$100 million. The notes are unsecured, have a five year bullet maturity and carry a fixed coupon rate of 9.75%. The bonds are flexible in that they (1) have no change of control provisions; and (2) allow for a possible demerger of the Group in connection with possible future corporate transactions, which is pre-approved by the bond holders.

(iii) Second security priority US$ bonds:
COSL Drilling Semi AS (formerly known as Offrig Drilling ASA) issued the bonds in April 2006, with book value of US$200 million and with a second security priority mortgage in the construction contracts relating to semi-submersible rigs. The company incurred debt issuance costs of US$4.5 million, which are capitalised and amortised as a component of interest expense over the term of the notes. The notes are shown net of issue costs in the balance sheet. The bonds carry a fixed coupon rate of 9.75% and have a five year bullet maturity.

(iv) Senior unsecured NOK bonds:
COSL Drilling Europe AS issued the bonds in July 2007, with a book value of NOK 500 million, and an interest rate of LIBOR+2.25%. The bullet maturity is three years.

As at 31 December 2008, the estimated fair value of the long term bonds using the effective interest rate totalled approximately RMB3,384 million.

Notes to Financial Statements

31 December 2008

34. Deferred revenue

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	–	–
Acquisition of subsidiary during the year	**1,519,104**	–
Credited to the consolidated income statement during the year	**(10,100)**	–
Exchange realignment	**3,631**	–
Balance at end of year	**1,512,635**	–

Deferred revenue was generated in the process of the acquisition, arising from the difference of contracted day rates and market day rates of the drilling rigs owned by COSL Drilling Europe AS. The deferred revenue were amortised according to the related contract period.

35. Issued capital

	2008 RMB'000	2007 RMB'000
Registered, issued and fully paid:		
2,460,468,000 state legal person shares of RMB1.00 each	**2,460,468**	2,460,468
1,534,852,000 H shares of RMB1.00 each	**1,534,852**	1,534,852
500,000,000 A shares of RMB1.00 each	**500,000**	500,000
	4,495,320	4,495,320

In September 2007, the Company issued 500,000,000 new A shares, with a nominal value of RMB1.00 each, to the public at an issue price of RMB13.48 per share, and these A shares were listed on the Shanghai Stock Exchange ("SSE") on 28 September 2007. After deducting the share issue expenses of approximately RMB141 million, the Company raised net proceeds of approximately RMB6,599 million. The excess of the net proceeds over the paid-up capital of RMB500 million, amounting to approximately RMB6,099 million, was credited to capital reserve.

The A shares rank *pari passu*, in all material respects, with the state legal person shares and H shares of the Company.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue Thousand	Registered, issued and fully paid share capital RMB'000
At 1 January 2007	3,995,320	3,995,320
Issue of new ordinary shares, A shares	500,000	500,000
31 December 2007	4,495,320	4,495,320
At 1 January 2008 and 31 December 2008	**4,495,320**	**4,495,320**

The Company does not have any share option scheme but does have a share appreciation rights plan for senior officers (Note 30).

Notes to Financial Statements

31 December 2008

36. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity on page 188.

(b) Company

	Notes	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Cumulative translation reserve RMB'000	Total RMB'000
Balance at 1 January 2007		1,975,810	442,515	2,014,085	–	4,432,410
Issue of shares	*35*	6,240,000	–	–	–	6,240,000
Share issue expenses	*35*	(141,245)	–	–	–	(141,245)
Profit for the year		–	–	2,327,298	–	2,327,298
Exchange realignment		–	–	–	1,352	1,352
Proposed final 2007 dividend	*12*	–	–	(539,438)	–	(539,438)
Transfer to statutory reserve funds	*(i)*	–	235,100	(235,100)	–	–
At 31 December 2007		8,074,565	677,615	3,566,845	1,352	12,320,377
Balance at 1 January 2008		**8,074,565**	**677,615**	**3,566,845**	**1,352**	**12,320,377**
Profit for the year		**–**	**–**	**3,145,684**	**–**	**3,145,684**
Exchange realignment		**–**	**–**	**–**	**(6,543)**	**(6,543)**
Proposed final 2008 dividend	*12*	**–**	**–**	**(629,345)**	**–**	**(629,345)**
Transfer to statutory reserve funds	*(i)*	**–**	**322,441**	**(322,441)**	**–**	**–**
At 31 December 2008		**8,074,565**	**1,000,056**	**5,760,743**	**(5,191)**	**14,830,173**

Note:

(i) As detailed in note 12 to the financial statements, the Company is required to transfer a minimum percentage of after-tax profit, if any, to the statutory common reserve fund. The Company transferred 10% of after-tax profit under CAS to the statutory common reserve fund in 2008.

As at 31 December 2008, in accordance with PRC Company Law, an amount of approximately RMB8,075 million (2007: RMB8,075 million) standing to the credit of the Company's capital reserve account and an amount of approximately RMB1,000 million (2007: RMB678 million) standing to the credit of the Company's statutory reserve funds, as determined under PRC accounting principles and financial regulations, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained profits of approximately RMB6,390 million (2007: RMB3,567 million) available for distribution as a dividend. Save as the aforesaid, the Company did not have any reserves available for distribution to its shareholders at 31 December 2008.

The retained profits of the Company determined under the relevant PRC accounting standards and financial regulations amounted to approximately RMB6,636 million as at 31 December 2008.

Notes to Financial Statements

31 December 2008

37. Business combination

On 29 September 2008, the Group acquired a 98.8% interest in AWO (currently known as COSL Drilling Europe AS, "CDE"). On 15 October 2008, the Group acquired the rest of the interest thereby holding a 100% interest in CDE. CDE was a public limited liability company incorporated and domiciled in Norway. The principal activity of CDE is the investment in and operation of jack up drilling rigs, semi-submersible drilling rigs and accommodation rigs. The purchase consideration for the acquisition was in the form of cash, amounting to approximately US$2,333,894,927.

The fair value of identifiable assets and liabilities of CDE as of the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised RMB'000	Carrying amount RMB'000
Drilling rigs	*14*	11,884,504	5,674,581
Construction in progress	*14*	13,814,490	8,057,526
Intangible assets	*16*	253,034	–
Cash and cash equivalents		447,197	447,197
Pledged time deposits		117,073	117,073
Other assets		815,671	815,671
Interest-bearing bank borrowings		(7,760,577)	(6,720,121)
Trade and other payables		(541,664)	(541,664)
Long term bonds		(2,615,202)	(2,615,202)
Deferred tax liabilities	*31*	(2,116,871)	(244,075)
Deferred revenue	*34*	(1,519,104)	–
Other non-current liabilities		(47,848)	(47,848)
Other liabilities		(108,714)	(1,149,170)
Total net assets acquired		12,621,989	3,793,968
Goodwill on acquisition	*15*	3,472,241	
Satisfied by cash		16,094,230	
Total cash consideration including direct acquisition cost (together with acquisition of minority interest)		16,094,230	
Cash and cash balances acquired		(447,197)	
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary		15,647,033	

Since its acquisition, CDE contributed RMB912.7 million to the Group's revenue and a profit of RMB189.9 million to the consolidated profit for the year ended 31 December 2008.

If the combination had taken place at the beginning of the year 2008, the net profit for the Group would have been RMB3,323.9 million and the revenue would have been RMB14,664.9 million.

The purchase price allocation is still preliminary pending for the finalisation of the valuation of the assets and liabilities.

Notes to Financial Statements

31 December 2008

38. Operating lease arrangements

(a) Group and Company as lessee

The Group and the Company lease certain of their office properties and equipment under operating lease arrangements. Leases for properties and equipment are negotiated for terms ranging from one to five years.

At 31 December 2008, the Group had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within one year	127,420	64,939	119,652	64,939
In the second to fifth year, inclusive	275,668	204,675	251,754	204,675
After five years	28,497	–	–	–
	431,585	269,614	371,406	269,614

(b) Group as lessor

The Group has entered into a bareboat lease with a lease term of five years.

At 31 December 2008, the Group had the following minimum lease receivables under a non-cancellable operating lease falling due as follows:

	Group	
	2008 RMB'000	2007 RMB'000
Within one year	170,483	–
In the second to fifth year, inclusive	284,138	–
	454,621	–

Notes to Financial Statements

31 December 2008

39. Notes to the consolidated cash flow statement

Reconciliation of profit before tax to cash generated from operations

	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	3,307,286	2,866,567
Adjustments for:		
Financial costs	638,985	31,563
Interest income	(191,433)	(71,437)
Share of profits of jointly-controlled entities	(215,707)	(113,153)
Exchange losses, net	91,358	113,868
Loss on disposal of items of property, plant and equipment, net	53,429	18,868
Depreciation of property, plant and equipment and amortisation of intangible assets	1,563,534	1,042,081
Impairment of available-for-sale investment	106,508	–
Impairment of accounts receivable and other receivables	49,132	2,272
Provision against inventories	3,853	3,855
	5,406,945	3,894,484
Increase in inventories	(288,302)	(128,460)
Increase in accounts receivable	(1,078,472)	(508,638)
Increase in notes receivable	(352,620)	(2,250)
Decrease in net balances with the ultimate holding company and other CNOOC group companies	12,035	29,870
Decrease/(increase) in prepayments, deposits and other receivables	209,187	(93,025)
Increase/(decrease) in trade and other payables, net of payables for property, plant and equipment purchases	463,483	(53,739)
Decrease in deferred revenue	(6,469)	–
Increase in salary and bonus payables	91,021	159,815
Cash generated from operations	4,456,808	3,298,057

Notes to Financial Statements

31 December 2008

40. Capital commitments

The Group and the Company had the following capital commitments, principally for construction and purchases of property, plant and equipment at the balance sheet date:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Contracted, but not provided for	**6,384,560**	4,593,536	**806,499**	4,593,536
Authorised, but not contracted for	**18,990,187**	6,103,395	**18,990,187**	6,103,395
	25,374,747	10,696,931	**19,796,686**	10,696,931

41. Contingent liabilities

In 2006, AWO (currently known as COSL Drilling Europe AS) signed a Management Agreement with Polycrest AS for the operation and management of the semi-submersible drilling rigs on the Norwegian Continental Shelf.

During 2007, AWO decided that the Company itself should operate and manage the semi-submersible drilling rigs. AWO and Polycrest are therefore in negotiations on how to terminate this Management Agreement and different alternatives are being discussed.

In accordance with HKAS37, AWO has a contingent liability to Polycrest AS in connection with Polycrest's previous planned role as manager for the Group's semi-submersible drilling units.

Due to the nature of the different solutions being discussed it is difficult to give an expected value of this contingency.

Notes to Financial Statements

31 December 2008

42. Related party transactions

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company, or exercise significant influence on the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

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 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; and (iii) the Group's jointly-controlled entities.

	2008 RMB'000	2007 RMB'000
A. Included in revenue – gross revenue earned from provision of services to the following related parties:		
a. The CNOOC Limited Group		
Provision of drilling services	3,321,950	2,568,662
Provision of well services	2,132,007	1,797,711
Provision of marine support and transportation services	1,141,586	979,403
Provision of geophysical services	1,013,630	484,806
	7,609,173	5,830,582
b. The CNOOC Group		
Provision of drilling services	109,750	6,063
Provision of well services	17,457	4,342
Provision of marine support and transportation services	217,848	193,487
Provision of geophysical services	135,118	158,061
	480,173	361,953
c. Jointly-controlled entities		
Provision of drilling services	4,689	5,262
Provision of well services	11,081	11,218
Provision of marine support and transportation services	4,637	2,848
Provision of geophysical services	4,209	–
	24,616	19,328
B. Included in operating expenses for services provided by the CNOOC Group:		
Labour services	23,702	16,994
Materials, utilities and other ancillary services	229,210	236,588
Transportation services	2,981	8,062
Leasing of offices, warehouses and berths	69,519	65,751
Repair and maintenance services	13,795	24,530
Management services	53,513	6,923
	392,720	358,848
C. Included in interest income/expenses CNOOC Finance Co., Ltd.		
Interest income	1,716	1
Interest expenses	836	780

Notes to Financial Statements

31 December 2008

42. Related party transactions (continued)

	2008 RMB'000	2007 RMB'000
D. Loans drawn down and repaid during the year:		
CNOOC Finance Co., Ltd.	199,659	150,000
E. Construction progress billing:		
Drilling rigs construction provided by CNOOC Group	107,038	–

	31 December 2008	31 December 2007
F. Deposits:		
Deposits placed with CNOOC Finance Co., Ltd. as at year end	539,821	105

The Company and the above related parties are within the CNOOC Group and are under common control by the same ultimate holding company.

In connection with the Reorganisation, the Company entered into several agreements with the CNOOC Group which govern the employee benefits arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the leasing of properties and various other commercial arrangements.

During the year, all pension scheme payments relating to the Supplementary Pension Benefits of approximately RMB38 million (2007: RMB38 million) were borne by CNOOC (Note 9).

Prior to the Reorganisation, the Group occupied certain properties owned by CNOOC at nil consideration. The Company entered into various property lease agreements in September 2002 with the CNOOC Group to lease the aforesaid properties together with other properties for a term of one year. These leases have been renewed annually on terms based upon corresponding market prices.

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

Details of the compensation of key management personnel of the Group are disclosed in Note 7 to the financial statements.

G. Transactions with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively the "State-owned Enterprises"). During the year ended 31 December 2008, the Group had transactions with the State-owned Enterprises including, but not limited to, the rendering of services and purchases of raw materials. The directors consider that transactions with such other State-owned Enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and such other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

Notes to Financial Statements

31 December 2008

43. Financial instruments

Financial instruments by category

The carrying amounts of each of the categories of financial instruments of the Group as at the balance sheet date are as follows:

	Group						
	2008				2007		
	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets							
Available-for-sale investments (Note 25)	–	–	34,318	34,318	–	607,338	607,338
Accounts receivable (Note 21)	–	2,735,025	–	2,735,025	1,404,781	–	1,404,781
Notes receivable (Note 22)	–	354,870	–	354,870	2,250	–	2,250
Financial assets included in deposits and receivables (Note 20)	–	219,885	–	219,885	160,970	–	160,970
Pledged deposits (Note 26)	117,353	14,650	–	132,003	12,206	–	12,206
Cash and cash equivalents (Note 26)	–	4,563,834	–	4,563,834	8,765,988	–	8,765,988
Due from the ultimate holding company (Note 23)	–	2,300	–	2,300	1,495	–	1,495
Due from other CNOOC group companies (Note 24)	–	2,122	–	2,122	4,363	–	4,363
Total	117,353	7,892,686	34,318	8,044,357	10,352,053	607,338	10,959,391

	Group			
	2008			2007
	Financial liabilities at fair value through profit or loss-designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Financial liabilities at amortised cost RMB'000
Financial liabilities				
Trade and other payables *(Note 27)*	–	3,759,343	3,759,343	2,087,098
Long term bonds *(Note 33)*	–	4,028,342	4,028,342	1,500,000
Interest-bearing bank and other borrowings *(Note 32)*	–	24,134,063	24,134,063	944,000
Due to the ultimate holding company *(Note 23)*	–	3,248	3,248	203,248
Due to other CNOOC group companies *(Note 24)*	–	35,063	35,063	24,465
Derivative financial instruments (non-current) *(Note 28)*	49,308	–	49,308	–
Total	49,308	31,960,059	32,009,367	4,758,811

Notes to Financial Statements

31 December 2008

43. Financial instruments (continued)

The carrying amounts of each of the categories of financial instruments of the Company as the balance sheet date are as follows:

	Company					
	2008			2007		
	Loans and receivables RMB'000	Available-for-sales financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sales financial assets RMB'000	Total RMB'000
Financial assets						
Interest in jointly-controlled entities *(Note 18)*	4,281	–	4,281	4,070	–	4,070
Available-for-sale investments *(Note 25)*	–	–	–	–	607,338	607,338
Accounts receivable *(Note 21)*	3,316,609	–	3,316,609	2,059,547	–	2,059,547
Notes receivable *(Note 22)*	354,870	–	354,870	2,250	–	2,250
Financial assets included in deposits and receivables *(Note 20)*	538,605	–	538,605	538,301	–	538,301
Pledged deposits *(Note 26)*	3,417	–	3,417	3,874	–	3,874
Cash and cash equivalents *(Note 26)*	3,038,585	–	3,038,585	8,331,564	–	8,331,564
Due from the ultimate holding company *(Note 23)*	2,300	–	2,300	1,495	–	1,495
Due from other CNOOC group companies *(Note 24)*	2,122	–	2,122	4,363	–	4,363
Total	7,260,789	–	7,260,789	10,945,464	607,338	11,552,802

	2008 Financial liabilities at amortised cost RMB'000	2007 Financial liabilities at amortised cost RMB'000
Financial liabilities		
Interest in jointly-controlled entities *(Note 18)*	96	96
Trade and other payables *(Note 27)*	2,729,263	2,010,620
Long term bonds *(Note 33)*	1,500,000	1,500,000
Interest-bearing bank borrowings *(Note 32)*	6,611,680	944,000
Due to the ultimate holding company *(Note 23)*	3,248	203,248
Due to other CNOOC group companies *(Note 24)*	34,585	23,914
Total	10,878,872	4,681,878

Notes to Financial Statements

31 December 2008

44. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise short term bank borrowings, long term bank borrowings, cash and short term deposits, placements with other financial institutions and available-for-sale investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board 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, the aforesaid currency is defined as the Group's functional currency. 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.

During the year, as the Group's significant business operations are in Mainland China, its revenue and expenses are mainly denominated in the RMB. The effect of the fluctuations in the exchange rate of RMB against foreign currencies arising from this aspect on the Group's results of operations is therefore not expected to be significant and the Group has not entered into any hedging transactions in order to reduce the Group's exposure to foreign currency risk in this regard. However, the Group is exposed to foreign currency risk as the Group had obtained debts denominated in US dollars.

The management has assessed the Group's exposure to foreign currency risks by using a sensitivity analysis on the change in the foreign exchange rates of US dollars, to which the Group is mainly exposed to as at 31 December 2007 and 2008. Based on the management's assessment at 31 December 2008, if the Renminbi had weakened 5 percent against the US dollar with all other variables held constant, profit before tax for the year would have been RMB255 million (2007: RMB26 million) lower. Conversely, if the Renminbi had strengthened 5 percent against the US dollar with all other variables held constant, profit before tax would have been RMB255 million (2007: RMB26 million) higher. The foreign currency exchange rate sensitivity in profit before tax in 2008 compared with 2007 is attributable to an increase in foreign currency denominated debt.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2008, most of the Group's interest-bearing bank borrowings bore interest at floating rates.

Based on management's assessment, at 31 December 2008, if interest rates at that date had been 50 basis points lower with all other variables held constant, profit before tax for the year would have been RMB26.6 million (2007: Nil) higher, arising mainly as a result of lower interest expense on floating rate bank borrowings. If interest rate had been 50 basis points higher with all other variables held constant, profit before tax for the year would have been RMB26.6 million (2007: Nil) lower arising mainly as a result of higher interest expense on floating rate bank borrowings.

Credit risk

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 and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents and available-for-sale investments, arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group manages this credit risk by only dealing with reputable financial institutions.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector.

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

Notes to Financial Statements

31 December 2008

44. Financial risk management objectives and policies (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations. In addition, bank facilities have been put in place for contingency purposes.

The Group's objective is to maintain a balance between continuity of funding and flexibility through long term bonds and interest-bearing loans. 32% of the Group's debts would mature in less than one year as at 31 December 2008 (2007: 57%) based on the carrying value of borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group						2008
	On demand RMB'000	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
Interest-bearing bank and other borrowings	–	7,778,617	9,619,692	2,486,814	4,248,940	24,134,063
Long term bonds	–	–	488,150	2,050,380	1,500,000	4,038,530
Trade and other payables	–	3,759,343	–	–	–	3,759,343
Due to the ultimate holding company	3,248	–	–	–	–	3,248
Due to CNOOC Group companies	35,063	–	–	–	–	35,063
Derivative financial instruments	–	49,308	–	–	–	49,308
	38,311	11,587,268	10,107,842	4,537,194	5,748,940	32,019,555

Group						2007
	On demand RMB'000	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
Interest-bearing bank and other borrowings	–	200,000	200,000	200,000	344,000	944,000
Long term bonds	–	–	–	–	1,500,000	1,500,000
Trade and other payables	–	2,087,098	–	–	–	2,087,098
Due to the ultimate holding company	203,248	–	–	–	–	203,248
Due to CNOOC Group companies	24,465	–	–	–	–	24,465
	227,713	2,287,098	200,000	200,000	1,844,000	4,758,811

Notes to Financial Statements

31 December 2008

44. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows: (continued)

Company	On demand RMB'000	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	2008 Total RMB'000
Interest-bearing bank and other borrowings	–	244,000	244,000	2,202,420	3,921,260	6,611,680
Long term bonds	–	–	–	–	1,500,000	1,500,000
Trade and other payables	–	2,729,263	–	–	–	2,729,263
Interest in jointly-controlled entities	–	96	–	–	–	96
Due to the ultimate holding company	3,248	–	–	–	–	3,248
Due to CNOOC Group companies	34,585	–	–	–	–	34,585
	37,833	2,973,359	244,000	2,202,420	5,421,260	10,878,872

Company	On demand RMB'000	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	2007 Total RMB'000
Interest-bearing bank and other borrowings	–	200,000	200,000	200,000	344,000	944,000
Long term bonds	–	–	–	–	1,500,000	1,500,000
Trade and other payables	–	2,010,620	–	–	–	2,010,620
Interest in jointly-controlled entities	–	96	–	–	–	96
Due to the ultimate holding company	203,248	–	–	–	–	203,248
Due to CNOOC Group companies	23,914	–	–	–	–	23,914
	227,162	2,210,716	200,000	200,000	1,844,000	4,681,878

Notes to Financial Statements

31 December 2008

44. Financial risk management objectives and policies (continued)

Capital management

The primary objective of the Group's capital management is 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 shareholder 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 2008 and 31 December 2007.

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 and other borrowings, long term bonds, an amount due to the ultimate holding company and other CNOOC group companies, trade and other payables, less cash and cash equivalents. Capital represents equity attributable to equity holders of the Parent. The gearing ratios as at the balance sheet dates were as follows:

Group	2008 RMB'000	2007 RMB'000
Interest-bearing bank and other borrowings *(Note 32)*	**24,134,063**	944,000
Trade and other payables *(Note 27)*	**3,759,343**	2,087,098
Long term bonds *(Note 33)*	**4,028,342**	1,500,000
Due to the ultimate holding company *(Note 23)*	**3,248**	203,248
Due to other CNOOC group companies *(Note 24)*	**35,063**	24,465
Less: Cash and cash equivalents *(Note 26)*	**(4,563,834)**	(8,765,988)
Net debt/(funds)	**27,396,225**	(4,007,177)
Equity attributable to equity holders of the Parent	**19,797,844**	17,225,008
Total capital	**19,797,844**	17,225,008
Capital and net debt/(funds)	**47,194,069**	13,217,831
Gearing ratio	**58%**	N/A

45. Comparative amounts

Certain comparative amounts have been re-presented to conform with the current year's presentation.

46. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 1 April 2009.

COMPANY INFORMATION

Legal name
中海油田服务股份有限公司

English Name
China Oilfield Services Limited

Short Name
COSL

Authorised Representative
Mr. Yuan Guangyu

First registration Address
3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin

The registration date
26 September 2002

Changed registration Address
3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin

Changed registration date
4 March 2008

Business Address
Room 610, CNOOC Plaza,
No. 25 Chaoyangmen
North Avenue, Dongcheng District,
Beijing
Postal Code: 100010
Tel: 86-10-84521687
Fax: 86-10-84521325
Website: www.cosl.com.cn
Email: cosl@cnoocs.com

Hong Kong Office
65/F, Bank of China Tower,
One Garden Road,
Central, Hong Kong
Tel: (852)2213 2500
Fax: (852)2525 9322

Corporate Secretary & Secretary to the Board of Directors
Mr. Chen Weidong
Tel: 010-8452 1993
Fax: 010-8452 1325
E-mail: chenwd@cnoocs.com
Contact Address: Room 610,
CNOOC Plaza,
No. 25 Chaoyangmen North Avenue,
Dongcheng
District, Beijing

Representative of Securities affairs
Mr Yang Haijiang
Tel: 010-8452 1129
Fax: 010-8452 1325
E-mail: yanghj@cnoocs.com
Contact Address: Room 610,
CNOOC Plaza,
No. 25 Chaoyangmen North Avenue,
Dongcheng
District, Beijing
Postal Code: 100010

Newspapers for disclosure of information
China Securities Journal
Shanghai Securities News
Securities Times
Website designated by CSRC on which the Company's annual report is posted:
www.sse.com.cn

Legal Adviser
China:
Jun He Law Offices
China Resources Building,
20/F 8 Jiangusmembei Avenue, Beijing
Tel: 86-10-85191300
Fax: 86-10-85191350

Hong Kong:
Sidley Austin
39/F Two International Finance Centre,
8 Finance Street, Central, Hong Kong
Tel: (852)2509 7888
Fax: (852)25093110

The financial statements and the report of auditors set out on pages 95 to 182 of this annual report have been translated from the statutory financial statements prepared in accordance with CAS. In the event of any differences in interpreting the financial statements, the original Chinese version, as disclosed on the website of the Shanghai Stock Exchange (www.sse.com.cn), shall prevail.

Share Registrar
H Share:
Computershare Hong Kong
Investor Services limited
Shops 1712-1716, 17/F,
Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong

A Share:
China Securities Depository and
Clearing Corporation Limited
Shanghai Branch
China Insurance Building,
166 East Lujiazui Road, Shanghai

Place where this annual report is available
Room 610, CNOOC Plaza,
No. 25 Chaoyangmen North Avenue,
Dongcheng District,
Beijing

Place of Listing of Shares, Stock Name and Stock Code
Place of Listing of H Share
Hong Kong Exchanges and Clearing Limited
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

Business license registration number of corporate legal person:
1000001003612

Tax Registration Number
12011871092921X

Corporate Business Number
71092921X

Name and Office Address of the Company's Auditor
Domestic: Ernst & Young Hua Ming
Address: Level 16,
Tower E3, The Towers, Oriental Plaza,
No. 1 East Chang An Ave.,
Dongcheng
District, Beijing
International: Ernst & Young
Address: 18/F,
Two International finance Centre,
8 Finance Street, Central, Hong Kong

DOCUMENTS FOR INSPECTION

1. **Financial statements signed and sealed by authorised representative, person in charge of auditing and person in-charge of audit firm.**

2. **Original copy of auditors' report (PRC) with seals of audit firm and registered accountants.**

3. **Original copy of auditors' report (Hong Kong) signed by registered accountants.**

4. **Original copy of all documents of the Company and Announcements disclosed on the newspaper designated by CSRC during the reporting period.**

China Oilfield Services Limited

Fu Chengyu
Chairman
1 April 2009

GLOSSARY

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 from, 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
AWO	Awilco Offshore ASA, currently known as COSL Drilling Europe AS, "CDE"
CDE	COSL Drilling Europe AS
CNA	COSL Norwegian AS
Crude oil	Crude oil, including condensate and natural gas liquids
Day rate	Fixed daily fee charged with respect to the services provided by a drilling rig or offshore support vessel
Directional drilling	Intentional drilling of a well at a non-vertical or deviated angle, in order to improve reach or exposure to petroleum reservoirs; such drilling is especially common for offshore wells, given the multiple number of wells which may be drilled from a single production platform
E&P	Exploration and production
ERSC	ELIS Rotary Sidewall Coring Tool
FCT	Formation Characteristic Tool
FET	Formation Evaluation Tool
Field	A specified area within a block, which is designated under a PSC for development and production
HTHP	High-temperature and high-pressure downwell conditions, which typically includes temperatures greater than 200 degrees Celsius and 10,000psi; HTHP conditions make drilling more difficult
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, or hull. Jack-ups are towed to the drill site with the hull, which is actually a water-tight barge that floats on the water's surface, lowered to the water level, and the legs extended above the hull. 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.
LWD	Logging-while-drilling; advanced logging tools which are attached near the drill bit string and measure the location of the drill bit and nature of adjacent geological structures, typically during the directional drilling process
MWD	Measuring-while-drilling; advanced tools which measure the pitch and orientation of the drill bit and other factors such as weight on the bit and rotary speed of the bit, typically during the directional drilling process
OPEC	Organization of the Petroleum Exporting Countries
PSC	A production sharing contract offshore China
PSC partners	Foreign parties to PSCs
QHSE	Quality, health, safety environment
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
Semi-submersibles	Semi-submersibles do not rest on the sea floor as jack-up 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 semi-submersible. With much of its bulk below the water's surface, the semi-submersible becomes a stable platform for drilling, moving only slightly with wind and currents. Like jack-ups, most semi-submersibles are towed to the drill site. Because of their exceptional stability, "semis" are well suited for drilling in rough waters. Semisubmersibles can drill in water as deep as 10,000 feet. Drillships are specially built seagoing vessels that also drill in water as deep as 10,000 feet. Drilling equipment is installed on the deck, with the derrick normally placed in the middle of the ship. The well is drilled through an opening (called a "moon pool") that extends to the water's surface below the derrick.
SMS	Safety management system
Streamers	Clear flexible tubing containing numerous hydrophones used for marine seismic surveys; streamers are owed behind seismic vessels at controlled shallow water depths to collect seismic data
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 fracing
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, fracing, acidizing
bbl	A barrel, which is equivalent to approximately 158, 988 liters or 0.134 tons of oil (at a API gravity of 33 degrees)
Kw	Kilowatts used to measure offshore supply vessel engine power capacity, which is equivalent to 1,36 horsepower

Designed and produced by : Equity Financial Press Limited   Printed by : Asia One Printing Limited

中海油田服务股份有限公司 2009
CHINA OILFIELD SERVICES LIMITED 2009

www.cosl.com.cn