COSL

CHINA OILFIELD SERVICES LIMITED

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

ANNUAL REPORT 2009

1. Company Profile

China Oilfield Services Limited (the "Company" or "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 2009, COSL operated and managed 27 drilling rigs (of which 23 are jack-up drilling rigs (one leased) and 4 are semi-submersible drilling rigs, (one managed)), 2 accommodation rigs, 4 module rigs and 6 land drilling rigs. In addition, COSL also owns and operates the largest and most diverse fleets in offshore China, including 80 working vessels, 3 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 (Formation Characteristic Tool), FET (Formation Evaluation Tool), LWD (Logging-While-Drilling) and ERSC (ELIS Rotary Sidewall Coring Tool), 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. In 2009, COSL's SMS (Safe Management System) complied with the ISMC (International Safety Management Code), and was granted an annual certificate of DOC (Document of Compliance) approved by Maritime Safety Administration of the People's Republic of China. In addition, COSL maintained the QHSE (Quality, Health, Safety and Environment) management system certificates issued by DNV (Det Norske Veritas) through the annual review in compliance with ISO9001, ISO14001 and OHSAS18001 standards.

With the drive of "ALWAYS 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 2009 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. Liu Zhenyu, General Manager of Accounting Department, have declared that they assure for the truthfulness, accuracy and completeness of the financial statements in the Annual Report 2009.

Contents

2. Principal Financial Data and Financial Indicators

Financial data prepared in accordance with CAS

1. Principal Financial Data for the Year 2009 (Consolidated)

Unit: Million Currency: RMB

Item	amount
Profit from operations	4,166.4
Profit for the year	3,759.6
Net profit attributable to owners of the Parent	3,135.3
Net profit excluding non-recurring gain and loss for the year attributable to owners of the Parent	3,389.2
Net cash flow from operating activities	5,604.9

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

Unit: Million Currency: RMB

Item	2009	2008	Increase/ Decrease (%)	2007
Revenue	18,345.4	12,430.3	47.6	9,241.9
Profit for the year	3,759.6	3,307.3	13.7	2,866.6
Net profit attributable to owners of the Parent	3,135.3	3,102.2	1.1	2,237.6
Net profit excluding non-recurring gain and loss for the year attributable to owners of the Parent	3,389.2	3,334.1	1.7	2,232.4
Basic earnings per share (RMB Yuan)	0.70	0.69	1.4	0.54
Diluted earnings per share (RMB Yuan)	0.70	0.69	1.4	0.54
Basic earnings per share after deduction of non-recurring gain and loss (RMB Yuan)	0.75	0.74	1.4	0.54
Fully diluted net assets earnings ratio (%)	14.06	15.67	(1.61 bp)	12.99
Weighted average net assets earnings ratio (%)	14.89	16.76	(1.87 bp)	19.86
Ratio of fully diluted net assets earnings after deduction of non-recurring gain and loss (%)	15.19	16.84	(1.65 bp)	12.96
Ratio of weighted average net assets earnings after deduction of non-recurring gain and loss (%)	16.10	18.02	(1.92 bp)	19.81
Net cash flow from operating activities	5,604.9	4,036.7	38.8	2,964.3
Net cash flow from operating activities per share (RMB Yuan)	1.25	0.90	38.9	0.72

	At the end of 2009	At the end of 2008	Increase/ Decrease (%)	At the end of 2007
Total assets	60,933.3	56,272.9	8.3	23,089.1
Shareholders' equity	22,305.6	19,797.8	12.7	17,225.0
Net assets per share attributable to owners of the Parent (RMB Yuan)	4.96	4.40	12.7	4.17

3. Items and amounts net of non-recurring gain and loss (Consolidated)

Unit: Yuan Currency: RMB

Items of non-recurring gain and loss	2009 Income/(Loss)
Loss on disposal of non-current assets	(19,017,422)
Subsidy income	6,489,526
Loss on swap and forward exchange rate contract	49,298,437
Fees received from non-financial entities for funds occupied	1,355,275
Write back of provision on receivables tested individually	48,723,772
Net amounts of other non-operating income/loss	(394,242,858)
Total of non-recurring gain and loss	(307,393,270)
Tax effect	53,503,756
Net amounts affecting under non-recurring gain and loss	(253,889,514)

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

The Directors confirmed that when preparing the consolidated financial statements of the Group (the Company and its subsidiaries) for the year ended 2009 and 2008, 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 2008 and 2009, 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.

3. 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 2,410,468,000 shares, representing approximately 53.63% of the Company's total issued share capital; National Council for Social Security Fund held 50,000,000 shares, representing approximately 1.11% 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

Unit: share

Names of shareholders	Number of restricted shares at the beginning of the year	Number of shares released from restrictions on sale during the year	Increase/(decrease) in the number of restricted shares during the year	Number of restricted shares at the end of the year	Reasons for restrictions on sale	Releasing date
Transferred Holding Account No.1 of National Council for Social Security Fund	–	–	50,000,000	50,000,000	State-owned shares transferred to National Council for Social Security Fund	28 September 2013
CNOOC	2,460,468,000	–	(50,000,000)	2,410,468,000	The commitment of controlling shareholder made during the IPO of A Shares of the Company	28 September 2010
Total	2,460,468,000	–	–	2,460,468,000	–	–

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

Details of securities issuance in the last 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 shares	28 September 2007	500,000,000	–
Corporate bonds	14 May 2007	100	RMB1,500,000,000	–	–	11 May 2022

- 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 [2007] 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.

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 2009, 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
172,735	260

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	53.63	2,410,468,000	(50,000,000)	2,410,468,000	–
Hong Kong Securities Clearing Company Nominees Limited	Others	34.07	1,531,373,899	(410,000)	–	–
Transferred Holding Account No.1 of National Council for Social Security Fund	State-owned	1.11	50,000,000	50,000,000	50,000,000	–
Great Wall Brand Prime Stock Securities Investment Fund	Others	0.39	17,478,844	–	–	–
Yifangda Value Growth Mixed Securities Investment Fund	Others	0.18	8,005,861	–	–	–
Franklin Guohai Potential Combination Equity-type Securities Investment Fund	Others	0.15	6,821,228	–	–	–
Wu Xiangfen	Others	0.14	6,344,533	–	–	–
Hua Xia SSE-SZSE 300 Index Security Investment Fund	Others	0.10	4,367,710	–	–	–
Invesco Great Wall Selected Blue Chip Stock Fund	Others	0.09	4,062,799	–	–	–
Harvest SSE-SZSE 300 Index Security Investment Fund	Others	0.09	3,853,076	–	–	–

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	1,531,373,899	H shares
Great Wall Brand Prime Stock Securities Investment Fund	17,478,844	A shares
Yifangda Value Growth Mixed Securities Investment Fund	8,005,861	A shares
Franklin Guohai Potential Combination Equity-type Securities Investment Fund	6,821,228	A shares
Wu Xiangfen	6,344,533	A shares
Hua Xia SSE-SZSE 300 Index Security Investment Fund	4,367,710	A shares
Invesco Great Wall Selected Blue Chip Stock Fund	4,062,799	A shares
Harvest SSE-SZSE 300 Index Security Investment Fund	3,853,076	A shares
Wang Hua	3,467,642	A shares
Tong Zhi Securities Investment Fund	3,278,778	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 among 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.

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	2,410,468,000	28 September 2010	–	36 months
2	Transferred Holding Account No.1 of National Council for Social Security Fund	50,000,000	28 September 2013	–	3-year extension based on original moratorium for state-owned shareholders
3	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(%)
JPMorgan Chase & Co.	Interest in controlled corporation	215,427,976 (L)	14.04 (L)
		527,000 (S)	0.03 (S)
		90,101,906 (P)	5.87 (P)
Commonwealth Bank of Australia	Interest in controlled corporation	89,886,000 (L)	5.86 (L)
Morgan Stanley	Interest in controlled corporation	78,043,833 (L)	5.08 (L)
		1,284,931 (S)	0.08 (S)
Mirae Asset Global Investments (Hong Kong) Limited	Direct beneficial owner	77,265,573 (L)	5.03 (L)

Note:

(a) "L" means long position

(b) "S" means short position

(c) "P" means lending pool

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

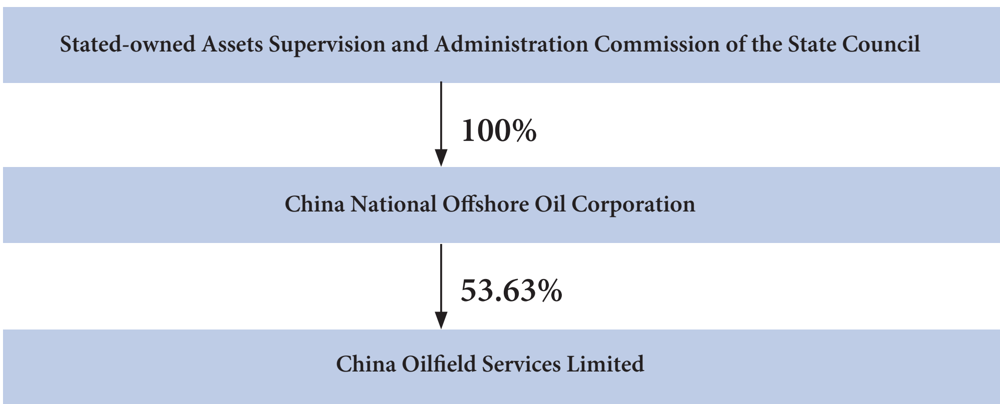
(1) The controlling shareholder and the beneficial controller

- Name of Company: China National Offshore Oil Corporation ("CNOOC")
- Corporate Representive: Fu Chengyu
- Establishment Date: 15 February 1982
- Registered Capital: RMB94,931,614,000
- 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



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.

Fu Chengyu *Chairman*

4. Chairman's Statement

Dear Shareholders,

The past 2009 was merely a year in the history but it was also an extraordinary year to all of us. The global financial crisis significantly impacted the oilfield services industry, which posed an unprecedented challenge to the Company. During the year, staying realistic and pragmatic and forging ahead with determination, we endeavored to develop domestic and foreign markets while ensuring the high utilization rate of the major equipment. The Company paid attention to the implementation of QHSE management system and its work on quality, health, safety and environmental protection kept improving. The enhanced cost management and reduced cost led to a steady growth in economic efficiency. Besides, the gradual progress of integrating CDE (COSL Drilling Europe AS) accomplished a staged achievement. All the above facilitated the development of the Company to a new phase.

Operating Result

In 2009, under the backdrop of financial crisis, the Company revealed strong risk resistance capacity. The international market demand for upstream oilfield services declined sharply. However, benefited from the continuous momentum of the offshore exploration and development of domestic market in China, the Company developed steadily. While proactively developing foreign markets, the Company endeavored to develop the domestic market, so as to maintain the leading position of the Company in offshore oilfield services market within China and to ensure a highly efficient operation of large scale equipment. Under the Hong Kong Financial Reporting Standards, at the end of 2009, the total assets of the Company amounted to approximately RMB60,777 million, representing an 8.1% increase compared with that at the beginning of the year; our revenue amounted to RMB17,879 million, representing an 47.2 % increase compared with that for the same period of last year; our profit before tax amounted to RMB3,760 million, representing an increase of 13.7% compared with that for the same period of last year; our net profit for the year amounted to RMB3,135 million, representing an increase of 1.1% compared with that for the same period of last year and basic earnings per share amounted to RMB0.70, representing an increase of 1.4% compared with that for the same period of last year.

Consolidating CDE with high efficiency and satisfactory result

The Company moved forward steadily within the exploration. After more than 1 year of integration, we achieved initial success by accomplishing smooth transition over the control of CDE, which ensured the operation generally remained stable. We optimized the management system of CDE and made it in line with the management system of the Group. We completed the debt restructuring of CDE, minimized the operational risk and reduced the cost of debt. All the above secured the effective operation of our acquired assets. With the contribution from CDE's drilling rigs, the revenue from drilling services segment increased by 67.1% and created a synergy to marine support and transportation services segment and well services segment. We have gained experience and trained up our team through the acquisition and integration of CDE, which lays a solid foundation for our rapid growth.

Board of Directors and Senior Management

In 2009, Mr. Yuan Guangyu and Mr. Andrew Y. Yan resigned as the Directors of the Company due to change of job and expired term of office respectively while the terms of Mr. Li Yong and I expired during the year. On 3 June 2009, the Company convened the 2008 Annual General Meeting, at which Mr. Liu Jian and Mr. Tsui Yiu Wa were elected as new members to the Board and Mr. Li Yong and I renewed our terms of office through the election. On 4 June 2009, Mr. Liu Jian and I were elected as the Vice-Chairman and Chairman of the Company respectively through a voting by facsimile. The Board would like to express our sincere gratitude to Mr. Yuan and Mr. Yan for their contribution to the Company.

In 2009, under the leadership of CEO Liu Jian, the senior management team of the Group firmly put the decisions of the Board into practice, explored each business segment and responded confidently to the market challenges, in order to bring a higher value to shareholders. I am pleased to see that we have such professional, work-respecting and enthusiastic management team and I certainly believe that with our concerted efforts, the Company will definitely stride towards its development objectives.

Fulfillment of Social Responsibilities

It is our longstanding belief to earnestly carry out our corporate social responsibility in order to realize a win-win situation with coexistence and collaborative development for the corporate and stakeholders. In 2009, the SMS/QHSE system was implemented in full scale for management in the safety and environmental protection domains. We paid attention to environmental protection while ensuring the safety of various production operations through which we accomplished the annual management objectives of QHSE. The Company always follow the people-oriented ideology to respect and protect employees' legitimate rights, creates good conditions for training and growth, adopt proactive measures to protect the health of employees in order to achieve a harmonious situation for growth of the Company and employees. We showed concern for public affairs, participated in poverty relief work, donated funds and provided scholarship and were also awarded the "2009 Chinese Companies Performing Social Responsibilities – Special Prize".

Prospect

Looking forward into 2010, it will be the critical period for the world economy to stabilize and rebound. Chinese economy would strengthen its uprising trend. However, various unfavorable factors still exist and it will be a slow and complicated process for full recovery. For the oilfield services industry, the business environment is still very harsh. However, opportunities come along with challenges. On one hand, with the increasing demand for energy in domestic market, the offshore operation volume in China will keep rising in the short term. It will definitely bring the Company with a development opportunity. On the other hand, the fierce competition of international oilfield services will continue in the short term. Although there is a recovery in the global demand for large equipment, yet it remains at a lower level. In 2010, the Company will proactively respond to the opportunities and challenges coming from the complicated and harsh macroeconomic environment.

1. Keeping consolidating the domestic market while actively developing international markets

We will consolidate our leading position in the offshore oilfield services in market in China, including drilling services, well services, marine support and transportation services and geophysical services as well as maintain our competitive edge. We are customer-demand-oriented, not only fulfilling the requirement of existing customers, but also actively seeking potential customers. By proactively leading the market, we provide quality technique, operation and services for improving the production of oilfield and developing oil recovery techniques. Besides, the potential market of simple and low-cost technique for drilling and completion fluids and fracing, new method of producing thick oil and development of three-low reserves and marginal small oilfield will be the focus and development direction of the well services for the Company. We need to have an overall planning and layout on the international market. According to the market situation and changes in demand, we need to categorize our customers for management purposes and to focus on equipment and technique. Our focus should be placed on the markets with competitive edge so as to enlarge our market share internationally.

2. Enhancing risk management

The Company currently possesses a large-scale capital investments and a lot of construction projects. Therefore, it has to enhance its management on the scale, direction and timing of investment according to the market demand and the Company's strategy and allocate resources reasonably to establish a priority ranking system for capital investment construction projects, which allocates the recourses used in accordance to their planning. Meanwhile, we will also strengthen our control over the funds, budget, progress and quality of the construction projects, to further increase our management standard. Besides, we will further optimize the operation model and the structure of foreign entities as well as strengthen the risk mitigation of overseas branches and subsidiaries.

3. Emphasizing on fundamentals and promoting balanced development

Successfully implementing the management system and cost controls

In recent years, the Company possesses established a comprehensive management system for its costs and expenses, which has strengthened its cost management and laid a solid foundation on refined management which we did achieve a satisfactory result. Strengthening the implementation of management system on cost and expenses is our next step. On one hand, we need to break down the cost budgeting into details and enhance its controlling effect, through which a link between lowering cost and reviewing performance can be established and facilitates the refined management. On the other hand, we need to strengthen the management on equipment construction, procurement and external resources to establish certain controls and optimizing measures which aligns with our production and management features.

Enhancing the technology development

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 and reducing cost. In 2010, we will further increase investment in technology, enhance management of R&D projects and strengthen technology driving forces. Technology development should have more perspective and focuses on the technological difficulties troubling the operation. Our first priority is to satisfy the demand of our customers. We will focus on the related technological development in well services segment and improve our technology services.

Continues integration of CDE

Integration is the critical factor for the success in an acquisition. The benefits and synergies of an acquisition only come with perfect integration. Despite the staged achievement of our integration efforts, there is still lot of difficulties and challenges in culture integration. All parties will work together and commit themselves to their work to realize the expectation of the acquisition.

Strengthening ability, preparing for deep water operation

The Company has focused on construction of deep-water exploration and development capacity by enhancing and gaining more experience on its operation equipment, technology and human resources. In 2010, the Company will speed up the construction projects of the 2500-feet semi-submersible drilling rig, the deep water survey vessel and large AHTS vessels and seize the opportunities of deep water operation to gain experience, which help us prepare well for deep water operation.

Lastly, I sincerely express my gratitude to our Board members for their contribution, to our shareholders for their support and to our management and staff for their diligence. I believe that in 2010, under the leadership of the Board and the effort of the management and staffs of the Company, COSL will firmly continue the scientific development concept and bravely face the challenges. With achieving a breakthrough in each business segment, we will stride towards the objective of becoming an internationally leading oilfield services company and reward our shareholders, contribute to the society and benefit our staffs with outstanding operating results.

Fu Chengyu
Chairman
30 March 2010

Integrated Oilfield Services Supplier

Being a comprehensive solution provider of integrated oilfield services, COSL has core services such as Drilling Services, Well Services, Marine Support and Transportation Services and Geophysical Services, which cover each phase of oil and gas exploration, development and production.

Liu Jian *Chief Executive Officer*

5. Chief Executive Officer's Report

Dear Shareholders,

Looking back to the last year, with the global impact of the financial crisis, the market demand for oilfield services dropped sharply, prices declined and the intensity of competition grew. The Company was faced with unprecedented challenges. Under the challenge of financial crisis and market downturn, the senior management of the Company and all our staff held together and worked in a down-to-earth manner. Driven by the four major strategies, we endeavored to maintain our market share within China while actively developing overseas markets, advancing the integration of CDE (COSL Drilling Europe AS), developing internal ability, reducing cost and enhancing efficiency in order to raise our economic benefits as much as possible. The Company has accomplished its objectives in each aspect.

Operating result reached a new level

In 2009, despite the industry downturn, our drilling services business, well services business and marine support and transportation services business kept a rapid growth. The additional 8 drilling rigs of CDE helped the Group overcome the unfavorable condition caused by the sharp drop of international market demand. By working hard to expand the market, drilling rigs maintained a high utilization rate, thus the turnover from drilling services segment amounted to RMB9,891.8 million, 67.1% higher as compared with last year. Benefited from the success in drilling services segment, well services segment and marine support and transportation services segment also achieved satisfactory results. The turnover from well services segment amounted to RMB4,416.7 million, 61.6% higher as compared with last year whereas the turnover from marine support and transportation services segment amounted to RMB2,171.3 million, 34.5% higher as compared with last year. In 2009, the turnover from geophysical services segment, badly affected by the reduce in exploration and development expenses, amounted to RMB1,398.9 million, 25.5% lower as compared with last year. The Company achieved revenue of RMB17,879 million, 47.2% higher as compared with last year; an operating profit of RMB4,468 million, 23.1% higher as compared with last year; and a net profit of RMB3,135 million, 1.1% higher as compared with last year.

Keep promoting safety control with a further improvement in safety

In 2009, steady progress was made in the optimization and effective operation of QHSE management system. We enhanced its implementation to promote the Company as a resources saving and environmental friendly enterprise while ensuring a safety operation. As for safety, we kept improving our safety management system by thoroughly assessing the hidden risk and establishing protective measures, which effectively prevented us from major liability accidents and demonstrated that our safety management standard had improved continuously. As for environmental protection, the Company included environmental protection in the QHSE system in accordance with ISO14001 Environmental Management Standards and obtained a third-party certificate. Meanwhile, each operating unit has established safety and antipollution management system in accordance with the International Management Code for the Safe Operation and for Pollution Prevention and earnestly implemented various environmental protection measures by conducting trainings. In 2009, the Company has not caused any pollution and achieved its QHSE management objective.

A staged result achieved in the integration of CDE

In 2009, we made steady progress in the integration of CDE. As for the organizational structure, we closed the office in Oslo and integrated the two management teams coming from the Oslo office and Stavanger office. Then, CDPL (COSL Drilling Pan-Pacific Ltd) was established to replace Premium Drilling (Premium Drilling AS), through which streamlined the organizational structure, simplified management procedures and higher operation efficiency were achieved. This ensured the high efficiency of all acquired assets, significantly reduced management costs and operating expenses and promoted the brand of COSL to the international market. As for the financial aspect, financial and treasury management system were re-optimized systematically and synchronized with that of headquarters. The timely debt restructuring of CDE, which transferred the short-term loans into long-term loans with lower interest rates, reduced the pressure of repaying short-term loans and eliminated the operational risk. As for staff integration, the foreign staff of CDE and CDPL got a better understanding of the corporate culture and philosophy of COSL via training, work exchange and team work, through which their team spirit has been improved and it promoted culture integration and trained up our management personnel and operation team with international horizon as well as broaden their experience. As for the construction of 3 semi-submersible drilling rigs, with effective communication between the senior management of COSL and the constructors, we gradually improved our management on the project, avoided from commercial disputes and technical risks and achieved a better resources allocation on the construction, all of which contributed to a satisfactory construction progress. The Company will continue to coordinate the work, speed up the constructions of semi-submersible drilling rigs and continue to carry out the culture integration, in order to lay a solid foundation for the better future development of CDE.

Keep strengthening the cost management and working on refined management

The Company has a competitive edge on cost, which is a vital strategy we have been carrying through. The Company has controlled our costs through excellent management and technology innovation for years. In 2009, cost management was especially important under the circumstance of financial crisis. The Company endeavored to ensure its quality, and effectively control costs through various measures such as improving management, enhancing the implementation of systems, seeking opportunities and economizing materials. According to our own business characteristics, the Company has formulated various practicable management methods and measures to cut down costs and administrative expenses with satisfactory result. Moreover, to further exploit its potential, the Company established a cost analysis team, which is headed by the Chief Economist, to help all departments further analyze their cost components and establish various measures to cut down the cost and raise the efficiency from the source. After analyzing the cost, all departments will review their operation flow to further break down their management cost and optimize the cost elements, through which contributes to maintain the growth of the Company and promote its development while laying a foundation for the continuous development of refined management.

Stable growth in overseas operation and continuous improvement in internationalization

In 2009, under the backdrop of shrinking market for oilfield services and the declining services price, the Company spared no effort to face the challenges. While maintaining our leading position in the offshore oilfield services market in China, we actively developed overseas markets. On the basis of consolidating the existing markets, the Company promptly seized the market opportunities to successfully introduce its well workover barges and cementing business in Indonesia and reinforce its logging business in United Arab Emirates. The momentum of overseas market remained stable. In 2009, the overseas operation of the Company covered the Asian-pacific region, North America, northern Africa and northern Europe, with a sales revenue of RMB4.99 billion, 63.9% higher than that as compared with last year.

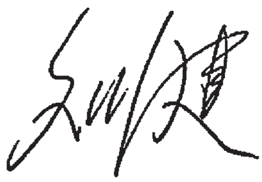
Keep strengthening the management on equipment construction

2009 was a peak year for constructing and commencing the operation of the Company's large equipment. The Company adopted pro-active measures to deal with the negative impact caused by the financial crisis to the capital investment, established a priority ranking system for capital investment projects, allocated resources reasonably, determined the scale of investment and investment direction and match the Company's strategies with the market demand to the largest extent. Meanwhile, we strengthened the management on equipment construction and identified the issues timely and effectively dealt with them, which helped to plug the management loopholes, optimized the monitoring mechanism and further specifically focused on the management of the significant changes and critical details of the projects, thus ensuring the implementation of the budget plans of equipment construction projects and the quality of the equipment delivered. 4 jack-up drilling rigs (including 2 CDPL), 10 oilfield utility vessels and 3 well workover support barges commenced their operations during the year, together with 5 sets of ELIS, 4 MWD and 1 undersea cable fleet.

Speed up the R&D with improvement in innovation ability

In 2009, the Company kept increasing its input in R&D projects to support the significant R&D projects. Among those projects, our measuring-while-drilling technique has completed the core part of LWD and a drilling fleet with measuring-while-drilling technique has been constructed. The development project of offshore high precision seismic collection equipment has entered the engineering process. Rotational guiding technique and assessment technique of "Three Low Reservoir" also achieved a breakthrough. During the year, the Company obtained registration of 51 patents, 15 of which were invention patents.

The Company won in the very first battle against the crisis during 2009 and successfully achieved its objectives. Looking forward into 2010, the development environment of oilfield services industry will still be harsh and complicated. Yet, I am totally confident of our development. The Company will continue to consolidate the domestic market, seize the market opportunities and flexibly adjust the operating strategies. Besides, we will deepen the establishment of QHSE system, enhance the training and implementation of the safety and management system, strengthen the control over costs and risks and try to achieve refined management. Furthermore, the Company intends to commence perspective R&D projects, improve its innovation ability, and better its technical storage as well as its deep-water construction. Moreover, we will extend the integration of CDE, continuously raise the synergy and promote the culture integration. All of the above would facilitate a sustainable, safe and rapid development of our businesses, and allow the Company to stride towards the objective of being an internationally leading oilfield services company.



Liu Jian
Vice Chairman and CEO
30 March 2010

DRILLING SERVICES

Being a major drilling service provider in offshore China, as well as an important international drilling participant, we are capable of providing drilling services of up to 1,500 ft water depth and drilling depth of 30,000 ft.

2009 Drilling Services Revenue Increased 67.1% to

RMB9,891.8 MILLION

Water depth can be reached up to

1,500 FT

Oil well drilling depth can be reached up to

30,000 FT

Li Yong *President*

6. MANAGEMENT DISCUSSION & ANALYSIS

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

INDUSTRY REVIEW

In 2009, the financial crisis swept across the world, the investment in global oil and natural gas exploration experienced the first reduction in 10 years. The survey results of the International Energy Agency (IEA) showed that the 2009 investment of the top 50 oil companies in the world decreased by 14% from 2008. The reduction in upstream investment affected the whole oilfield services sector. In 2009, the total global market value reduced by 16% and the overall global drilling rig market contract signing rate reduced by 9.1%, and the average day rate of drilling rigs reduced by 28.4% on a year-to-year basis. Due to the Chinese government's active and effective fiscal stimulus policy and economic fine tuning measures, as well as the increased capital expenditure of the oil company in China offshore, the trend of offshore exploration and production in 2009 had not changed.

BUSINESS REVIEW

Drilling Services Segment

COSL is the major supplier of China offshore drilling services, also an important participant of the international drilling services. We mainly provide services such as drilling, module rigs, land drilling rigs and drilling rigs management. As of the end of 2009, we operated and managed a total of 27 drilling rigs (of which 23 are jack-up drilling rigs (one leased), and 4 are semi-submersible drilling rigs (one managed)), 2 accommodation rigs, 4 module rigs and 6 land drilling rigs.

In 2009, demand for oilfield services in the global market declined significantly. COSL sought for development in the crisis and seized favorable opportunities in domestic exploration and development. We have developed the overseas markets steadily and continued to solidify our leading position in the offshore drilling market in the PRC with increased market share. We have also proceeded with the integration of COSL Drilling Europe AS ("CDE") steadily and maintained high utilization rate on our drilling equipment. In 2009, benefited from CDE's highly effective operation and equipment usage, turnover of our drilling service operation recorded a significant increase of 67.1% to RMB9,891.8 million.

As of the end of 2009, we had 12 drilling vessels operating in Bohai of China, 5 in South China Sea, 3 in overseas countries such as Saudi Arabia and Australia, etc, while 4 vessels were being mobilized to their new assignments destinations. At the same time, we also provided management services for 1 semi-submersible drilling rig for overseas customers. Besides, 2 newly built drilling vessels were on the last stage of pre-operation preparation, and were expected to start to provide drilling services for customers at the beginning of 2010. 2 accommodation rigs continued to provide the relevant services for customers in the North Sea. As for drilling equipment, we had altogether 4 module rigs working in the Mexican waters, 5 land drilling rigs working in Libya, 1 land drilling rig working in Xinjiang of China. The Group also had three 2,500 feet semi-submersible drilling rigs and four 200 feet jack-up drilling rigs under construction. It is expected that the service capability of the drilling business will be further enhanced once the construction of these facilities are completed.

2009 operation details of our jack-up and semi-submersible drilling rigs are as follows:

	2009	2008	Increase/ (Decrease)	Percentage change
Operating days (day)	8,155	5,654	2,501	44.2%
Jack-up drilling rigs	7,089	4,556	2,533	55.6%
Semi-submersible drilling rigs	1,066	1,098	(32)	(2.9%)
Available day utilization rate	98.9%	100.0%	(1.1%)	
Jack-up drilling rigs	98.7%	100.0%	(1.3%)	
Semi-submersible drilling rigs	100.0%	100.0%	0.0%	
Calendar day utilization rate	95.0%	92.7%	2.3%	
Jack-up drilling rigs	94.7%	91.1%	3.6%	
Semi-submersible drilling rigs	97.4%	100.0%	(2.6%)	

The reasons for the increase by 2,533 days operation of jack-up rigs compared with the same period last year were that, firstly, the operating days of CDE increased by 2,073 days. This is mainly because in the previous year, only the 4th quarter operation of CDE was consolidated, while this year the whole year's operation was consolidated, also CDE had 2 jack-up rigs which commenced production such that the number of its jack-up rigs increased to 8 vessels from 6 vessels of the previous year. Secondly, the reduction in the number of days of repair and maintenance of the existing jack-up rigs of the Group (excluding CDE) (15 vessels) and the increased number of days of operation of COSL942 for the whole year had contributed to the increase of operating days of 460 days.

The operation of semi-submersible drilling rigs decreased by 32 days compared with the same period last year mainly because the number of days of repair and maintenance for the year increased by 29 days, plus there were 3 calendar days less than last year.

In 2009, the calendar day utilization rate of the drilling vessel team increased by 2.3% compared with the same period last year and reached 95.0% due to the reduction in the number of days of repair and maintenance.

In 2009 we continued to provide the services of 4 module rigs for the Mexican clients, which brought 1,423 days of operation for the whole year and the calendar day utilization rate reached 97.5%. As for the land drilling rigs, driven by the good operation of the drilling rigs last year, we delivered 2 additional land drilling rigs providing services to Libya clients this year. So far, the 6 land drilling equipment owned by the Group brought a total of 2,051 days of operation, and the calendar day utilization rate and available day utilization rate both reached 100.0%.

WELL SERVICES

Being the largest and most competent all rounded well services provider in offshore China, COSL can fulfill a chain of well services performances.

Despite the tremendous pressure on the oilfield services sector in 2009 resulting from the global economic environment, the average day rate of drilling rigs of the Group still maintained at the same level compared with the same period last year and recorded a slight increase due to the day rate of CDE drilling rigs. The details are as follows:

Average day rate (ten thousand US$/day)	2009	2008	Increase/ (Decrease)	Percentage change
Jack-up drilling rigs	12.0	11.6	0.4	3.4%
Semi-submersible drilling rigs	18.8	17.9	0.9	5.0%
Accommodation rigs	19.6	16.7	2.9	17.4%
Average	13.4	12.9	0.5	3.9%

Note: 31 December 2009 US$/RMB exchange rate: 1:6.8282, 31 December 2008 US$/RMB exchange rate: 1:6.8346.

Well Services Segment

We possess over 30 years of experiences in offshore well services operation and over 20 years of experiences in onshore well services operation. Also, we are the main provider of China offshore well services together with the provision of on-shore well services. Our major clients for well services include 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 continuous input in technology research and development, advanced technological facilities and an excellent management team, we provide comprehensive professional well services to clients, including (but not limited to) logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, oilfield production optimization etc.

In 2009, the cementing and well completion services had entered into the domestic onshore oilfield market, and the directional drilling project services had entered into the overseas market. The ELIS logging equipment that we developed were sold to external customers on a full set basis for the first time. At the same time, we made some achievements in technological research and development and commercialization for well services. In 2009, the Cross Dipole Array Acoustic Tool logging equipment were officially included in the ELIS logging system, and successful offshore operation was achieved, symobolizing that the ELIS logging system had reached the international advanced standard. After connected application with the ELIS system, the ERCT (Enhanced Reservior Characteristic Tester) further enhanced the service functions of the ELIS logging system. ERMI (Enhanced Resistivity Micro-Imager) logging equipment that we developed ourselves succeeded in the experimental well testing for electrical imaging tool in Liaohe oilfield, which filled up our gap of the logging technology in high-end electronic imaging.

In 2009, through continuous exploration of new markets, increase in the proportion of technological contents of our services and the rise in operation volume due to the addition of 5 new drilling rigs in China (COSLCraft/Boss/Seeker/Confidence/Superior), the well services segment recorded a turnover of RMB4,416.7 million, increased by RMB1,684.1 million from RMB2,732.6 million of the same period last year, representing an increase of 61.6%.

Marine Support and Transportation Services Segment

We possess and operate the largest and most comprehensive offshore utility transportation fleet in China. As of 31 December 2009, the Group owned an aggregate of 80 utility vessels of various types, 3 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 2009, the marine support and transportation services segment maintained the leading position in offshore China and also actively explored new business areas. At the beginning of the year, we signed a contract with customer in relation to deep water drilling marine support services, marking the start of marine support services in the deep waters. Three workover support barges commenced operation and provided services to the client. This brought an important breakthrough in the overseas market and accumulated experience for the exploration and development of overseas market in the future.

In 2009, the Group had 10 utility vessels and 3 workover support barges joining the fleet, thus the fleet structure was further improved. At the same time, 8 utility vessels were scrapped due to old age. So far, the Group has 80 owned vessels, that means 5 more compared with the end of last year, including 49 standby vessels, 19 AHTS vessels, 5 platform supply vessels, 4 multi-purpose vessels and 3 workover support barges.

The operation of the Group's owned vessels in 2009 was as follows:

Operating days (day)	2009	2008	Increase/ (Decrease)	Percentage change
Standby vessels	16,433	13,048	3,385	25.9%
AHTS vessels	6,787	7,186	(399)	(5.6%)
Platform supply vessels	1,759	1,864	(105)	(5.6%)
Multi-purpose vessels	1,949	1,528	421	27.6%
Workover support barges	774	–	774	N/A
Total	27,702	23,626	4,076	17.3%

The operation of self-owned fleet increased by 4,076 days compared with the same period of last year mainly because there were 13 new utility vessels for the year which increased operation by 2,677 days and the operation of 8 utility vessels which commenced in the second half of last year increased by 2,579 days for the year. This year there were 8 utility vessels scrapped, reducing operation by 498 days. The operation of other vessels reduced by 682 days because of increase in days of repair and non-operational navigation. Since the operation rate of new vessels was not high in 2009, the calendar day utilization rate of the Group's owned fleet was 93.4%, or a 1.4% decrease compared with the same period last year.

The total transportation volume of oil tankers and chemical carriers for the year increased due to the improvement of operation rate, of which, the transportation volume of oil tankers was 1.413 million tonnes, or an increase of 38.4% from 1.021 million tonnes from the same period of last year, the transportation volume of chemical carriers was 1.098 million tonnes, or an increase of 4.3% from 1.053 million tonnes from the same period of last year.

Driven by the improvement of operation capability of new equipment and active utilization of external resources, the marine support and transportation services segment achieved a turnover of RMB2,171.3 million, increased by RMB557.4 million from RMB1,613.9 million from the same period of last year, or an increase of 34.5%.

Geophysical Services Segment

We are a major supplier of China offshore geophysical services. 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.

In 2009, the turnover of the geophysical services of the Group amounted to RMB1,398.9 million. It decreased by RMB477.6 million from RMB1,876.5 million of the same period last year, representing a decrease of 25.5%. The main reason was that the operation volume reduced due to market changes.


海洋石油 561
HAI YANG SHI YOU

MARINE SUPPORT AND TRANSPORTATION SERVICES

Owning and operating the largest and most comprehensive offshore utility fleets in China and currently has 80 utility vessels, 3 oil tankers and 5 chemical carriers.

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.

Seismic Services

Due to the global financial crisis, international oil prices stayed at a low level in 2009. The oil companies reduce their upstream exploration investment and the seismic data collection services under the geophysical services segment were the first which suffered. Therefore, there was a certain degree of reduction of operation volume for the data collection and data processing businesses of the Group for the year. The details are as follows:

Services	2009	2008	Increase/ (Decrease)	Percentage change
2D collection (km)	33,900	49,448	(15,548)	(31.4%)
2D processing (km)	22,588	23,402	(814)	(3.5%)
3D collection (km^2)	10,394	13,592	(3,198)	(23.5%)
3D processing (km^2)	7,951	8,382	(431)	(5.1%)

The operation volume of 2D collection business reduced by 15,548 km compared with the same period of last year, which was principally attributable to the reduction in demand in the market as well as the reduction in operation volume of BH518, NH502 by 16,693 km due to repair and upgrade enhancements. The operation volume of 3D collection business reduced by 3,198 km^2 compared with the same period of last year. It was principally attributable to the the fact that COSL718 was affected by the market environment and the overseas contracts were cancelled by oil companies (overseas operation were 2,302 km^2 for the same period of last year). Also the operation volume was reduced by 2,215 km^2 because of mooring for repair and maintenance. Besides, BH512 were under repair and maintenance at the beginning of the year, and it mainly carried out 2D data collection services this year such that the operation volume decreased by 559 km^2 compared with the same period last year.

The operation volume of data processing services did not record a large decrease thanks to the stability in the domestic market, of which 2D data processing business only decreased by 3.5% and the 3D data processing business decreased by 5.1%.

Surveying Services

The 2009 surveying services recorded a revenue of RMB301.6 million, increased by RMB36.2 million compared with a revenue of RMB265.4 million from the same period last year, or an increase of 13.6%. The major reason was that this year we actively explored the markets and obtained the contract of deepwater surveying of Liwan.

Integrated Project Management

In 2009, the Group's integrated services made a breakthrough amid the depression in the sector. The integrated services project is the first into overseas market, providing services such as drilling, logging, mud, and oil testing etc. COSL931 drilled the Lotus-1X Joint Exploration Well, and realized a revenue of RMB200 million. In 2009, the revenue of integrated project management of the Group reached RMB1.01 billion, increased by RMB320 million from the same period of last year, or an increase of 46.4%.

Overseas Business Expansion

In 2009, we continued to seek overseas cooperation opportunities actively while strengthening our market share in the domestic market at the same time. We maintained sustainable and steady growth momentum of overseas businesses. By the end of 2009, we had already operated over 30 overseas projects in 16 countries and regions around the world with an aggregate turnover of RMB4,989.0 million (including recognition of deferred income of RMB1,073.1 million), increased by RMB1,945.6 million from RMB3,043.4 million of the same period of last year, or an increase of 63.9%. The ratio of overseas revenue over the turnover of the Group amounted to 27.9%.

For the drilling segment, last year after we had completed the acquisition of CDE Group, our capability to provide services to overseas countries was further enhanced. This year, while we secured the smooth operation of the existing overseas projects – N6 Project operating in Australian waters, 4 module rigs operating in Mexico Gulf, 5 land drilling rigs in Libya, at the same time we signed a 3-year service contract for COSL Strike (jack-up rig) with a UAE client. The marine support and transportation services segment first entered the overseas market and provided the services of 3 workover support barges to Indonesian clients. In the well services segment, a 3-year logging services were provided by our ELIS logging system for a UAE client, whereas new operation contracts for cementing services in Indonesia were obtained. For the geophysical services segment, BH517 navigated to Indonesia to conduct 2D data collection services, while in the domain of data processing, a breakthrough was also obtained whereby we won a contract for data processing from a Congo client.

Technology and development

The technology-driven strategy is one of our 4 major strategies. We formulated long term technological development plan for the Group's long term and quality development. In 2009, under the guidelines of the plan, fruity results were obtained in the application of our innovative technology. Successful offshore operation of Cross Dipole Array Acoustic Tool logging equipment was achieved, symbolizing that the ELIS logging system had reached the international advanced standard. After connected application with the ELIS system, the ERCT (Enhanced Reservior Characteristic Tester) further enhanced the service functions of the ELIS logging system. Nanbao 35-2B rig applied the high temperature multi-heat current throughput technology (HTHP Multi-Element Liquid Improving Oil Recovery Technology) to thermal recovery well, substantially enhanced the recovery rate of condensate oil. The application of Nitrogen-Filled Foam Profile Control Technology and skill in oilfields showed initial results.

In 2009, the Group was awarded an aggregate of 51 patents, 15 of which were invention patents, and we had valid patents of 162 in total, 50 of which were invention patents.

FINANCIAL REVIEW

1. Income statement analysis

1.1 Revenue

In 2009, with the challenges coming along with the global financial crisis and the downturn of oilfield services industry, the Group endeavored the integration after the acquisition of CDE. Driven by the enlarged business scale and the commencement of operation of new equipment, our revenue reached a new high, amounting to RMB17,878.7 million, representing an increase of RMB5,735.8 million or 47.2% compared with RMB12,142.9 million for the same period last year. Among that, revenue from drilling services increased by RMB3,971.9 million, mainly due to the full year operation results of the acquired CDE, highly efficient use of new equipment (COSL Confidence, COSL Strike, 2 land drilling rigs), and the operation of COSL942 and 3 land drilling rigs for the full year. Besides, the Company had a recognition of the related deferred revenue of RMB1,073.1 million due to the cancellation of the contract for 1 semi-submersible drilling rig which was under construction. Revenue from well services increased by RMB1,684.1 million, which was attributable to the increase in operation volume due to the development of new markets and the addition of drilling equipment. Benefited from the additional equipment and effective use of external resources, revenue from marine support and transportation services increased by RMB557.4 million. Revenue from geophysical services decreased by RMB477.6 million due to a drop in operation volume.

The following table presents income from various segments:

Unit: RMB million

Business segment	2009	2008	Change	Change %
Drilling	9,891.8	5,919.9	3,971.9	67.1%
Well services	4,416.7	2,732.6	1,684.1	61.6%
Marine support and transportation	2,171.3	1,613.9	557.4	34.5%
Geophysical	1,398.9	1,876.5	(477.6)	(25.5%)
Total	17,878.7	12,142.9	5,735.8	47.2%

1.2 Other revenue

In 2009, other revenue amounted to RMB95.1 million, compared with RMB48.7 million for the same period last year, representing an increase of 95.4%. This was mainly due to the increase in insurance compensation received of RMB32.2 million compared with the same period last year.

1.3 Operating expenses

In 2009, operating expenses of the Group totaled RMB13,505.7 million, representing an increase of RMB4,944.6 million or 57.8% from RMB8,561.1 million for the same period last year.

The table below shows the breakdown of operating expenses for the Group in 2009 and 2008:

Unit: RMB million

	2009	2008	Change	Change %
Depreciation of property, plant and equipment and amortisation of intangible assets	2,865.2	1,563.5	1,301.7	83.2%
Employee compensation costs	2,669.6	2,106.5	563.1	26.7%
Repair and maintenance costs	609.4	420.3	189.1	45.0%
Consumption of supplies, materials, fuel, services and others	3,610.0	2,720.1	889.9	32.7%
Subcontracting expenses	884.4	542.2	342.2	63.1%
Operating lease expenses	589.1	356.1	233.0	65.4%
Other operating expenses	1,076.2	693.9	382.3	55.1%
Other selling, general and administrative expenses	381.9	158.5	223.4	140.9%
Impairment of property, plant and equipment	819.9	–	819.9	–
Total operating expenses	13,505.7	8,561.1	4,944.6	57.8%

Depreciation and amortisation increased by RMB1,301.7 million or 83.2%, due to two reasons. On one hand, there were new additions of large equipment during the year, including two jack-up drilling rigs, namely COSL Confidence and COSL Strike, 10 oilfield utility vessels, 3 workover support barges and 2 land drilling rigs. In addition, the depreciation of the equipment commencing its operation or acquired in 2008 were recognised for the full year, including COSL942 and 6 jack-up drilling rigs of CDE.

Employee compensation costs increased by RMB563.1 million or 26.7%, mainly due to recognition of the full year employee compensation costs of CDE, which resulted in an increase of RMB461.8 million. Last year, only the fourth-quarter employee compensation cost of CDE was recognized after the acquisition. Besides, the employee compensation costs increased alongside with the business growth and the addition of employees.

Repair and maintenance costs increased by RMB189.1 million or 45.0%, mainly due to recognition of the full year repair and maintenance costs of CDE and 72-day repair work of accommodation rigs, which resulted in an increase of RMB187.2 million in the repair and maintenance costs of CDE. Last year, only the fourth-quarter repair and maintenance costs of CDE were recognized after the acquisition and there were no material repair and maintenance.

Consumption of supplies, materials, fuel, services and others increased by RMB889.9 million or 32.7%. The addition of 2 new jack-up drilling rigs and the operation of rigs for the full year led to the increase of the operation volume of drilling services and well services segment, which resulted in an increased consumption cost of RMB895.1 million. Meanwhile, the consumption of materials in marine support and transportation services segment increased by RMB83.9 million due to the new 10 utility vessels during the year whereas the consumption of supplies and fuel in geophysical services segment decreased by RMB89.1 million due to the decrease in operation volume resulting from the changes in external environment.

Subcontracting expenses increased by RMB342.2 million or 63.1%, mainly due to the increase in subcontract volume as a result of the business expansion of the Group and enlarged market share.

Operating lease expenses increased by RMB233.0 million or 65.4%, due to the increase in the operation volume of well services, which led to an increase in external lease of equipment, resulting in an increase of RMB141.3 million. To meet the market demand, marine support and transportation services segment actively utilize external resources and rented 14 external vessels resulting in an increase of RMB105.2 million. However, the operating lease expenses of geographical segment decreased due to the decreased revenue.

Other operating expenses increased by RMB382.3 million or 55.1%, mainly due to the related provision for default compensation.

Other selling, general and administrative expenses increased by RMB223.4 million or 140.9%, mainly due to the recognition of a provision for litigations.

Impairment of property, plant and equipment of the Group amounted to RMB819.9 million. This was primarily attributable to the fact of the adverse impact of the macroeconomic environment on the industry and the delay in the delivery of the three semi-submersible rigs under construction, the management performed an impairment test on the assets, in accordance with the requirements of the applicable accounting standard, and recognized an asset impairment loss of RMB819.9 million based on the test result.

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

Unit: RMB million

Business Segment	2009	2008	Change	Change %
Drilling	7,180.2	3,812.6	3,367.6	88.3%
Well services	3,679.9	2,281.2	1,398.7	61.3%
Marine support and transportation	1,531.7	1,128.6	403.1	35.7%
Geophysical	1,113.9	1,338.7	(224.8)	(16.8%)
Total	13,505.7	8,561.1	4,944.6	57.8%

1.4 Operating profit

The operating profit of the Group during the year amounted to RMB4,468.1 million, representing an increase of RMB837.6 million or 23.1% from RMB3,630.5 million for the same period last year. This was primary attributable to the fact of the acquisition of CDE and business expansion, operating profits from drilling services segment, well services segment and marine support and transportation services segment increased by RMB629.6 million, RMB272.5 million and RMB163.0 million respectively while due to the changes within the industry, the operating profit from geophysical services segment decreased by RMB227.5 million.

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

Unit: RMB million

Business Segment	2009	2008	Change	Change %
Drilling	2,747.5	2,117.9	629.6	29.7%
Well services	743.3	470.8	272.5	57.9%
Marine support and transportation	654.2	491.2	163.0	33.2%
Geophysical	323.1	550.6	(227.5)	(41.3%)
Total	4,468.1	3,630.5	837.6	23.1%

1.5 Financial expenses

The table below shows the breakdown of financial expenses for the Group in 2009:

Unit: RMB million

	2009	2008	Change	Change %
Exchange loss, net	92.8	91.4	1.4	1.5%
Finance costs	786.4	638.9	147.5	23.1%
Interest income	(60.4)	(191.4)	131.0	(68.5%)
Total	818.8	538.9	279.9	51.9%

In 2009, the financial expenses was RMB818.8 million, representing an increase of RMB279.9 million or 51.9% compared with last year, mainly due to the increase in finance cost and the decrease in interest income.

Finance costs of the Group increased by RMB147.5 million, mainly due to the increase in interest expenses of approximately RMB398.7 million, which came along with the additional borrowings, primarily comprising: ① the interest expenses for the loan of US$2.2 billion during the year for the acquisition of CDE Group in September 2008 (only three months for last year); ② the Group's additional borrowing of RMB1.75 billion for its working capital and the construction of land drilling rig in Libya; and ③ the increase in interest expenses as part of the interests from the US$100 million, NOK500 million and RMB1.5 billion bonds ceased to be capitalized and was included in interest expenses following the completion of ten utility vessels and two drilling rigs during the year.

Besides, given that the Group redeemed its NOK500 million senior unsecured NOK bonds and the related cross currency interest swap contract of NOK250 million was cancelled, the realized gain in fair value increased by RMB201.0 million and the loss from changes in fair value decreased by RMB53.0 million.

Interest income decreased by RMB131.0 million, mainly due to the decrease in interest income as a result of the decrease in bank deposits which resulted from the increase in operating expenses in conjunction with the business expansion of the Group.

1.6 Share of profits and losses from jointly-controlled entities

In 2009, our share of profits from jointly controlled entities amounted to RMB110.3 million, representing a decrease of RMB105.4 million or 48.9% compared to RMB215.7 million for the same period last year. This was primarily attributable to the fact of the global financial crisis, the share of profits from the 10 jointly-controlled entities of the Group recorded a decrease in profit of RMB123.1 million in total, except for the share of profits from China Nanhai-Magcobar Mud Corporation Ltd. and China Offshore Fugro Geo Solutions (Shenzhen) Company Ltd., which recorded an increase in profit of RMB17.7 million. Among those companies, the profit from Eastern Marine Services Ltd. decreased most due to a lower rental rate, resulting in a decrease of RMB62.4 million. Due to Atlantis Deepwater Orient Ltd.'s deepwater technology research expenditure, the Company's losses increased by RMB24.8 million.

1.7 Profit before tax

The profit before tax attained by the Group was RMB3,759.6 million in 2009, representing a growth of RMB452.3 million or 13.7% compared with RMB3,307.3 million for the same period last year.

1.8 Income tax

The net income tax expense in 2009 was RMB624.3 million, representing an increase of RMB419.3 million from RMB205.0 million of last year. Firstly, it was attributable to widened income stream of the Group. Secondly, it was due to the fact that, the Company, as an advanced technology enterprise, received tax refund last year for 2007 in the amount of RMB524.0 million. As the Company provided for income tax at the preferential rate of 15% as an advanced technology enterprise in 2008, there were no return of preferential tax for advanced technology enterprise during the year. Meanwhile, as the Group operated in countries with low tax rates, related overseas income tax decreased by approximately RMB180.0 million.

1.9 Profit after tax

In 2009, the profit after tax of the Group was RMB3,135.3 million, representing an increase of RMB33.1 million or 1.1% from RMB3,102.2 million of the same period last year.

1.10 Dividend

For 2009, the Board proposed a final dividend of RMB0.14 per ordinary share, totaling RMB629.3 million.

2. Statement of financial position analysis

Subsequent to the announcement of asset impairment in the interim period, the Group completed the purchase price allocation (PPA) in respect of its acquired assets on 30 September. As such, the Group made retrospective adjustments on the accounting items in the statement of financial position at the beginning of the period. The following table sets out the change of balances of the relevant accounting items before and after the adjustments:

Unit: RMB million

Accounting item	Before adjustment	After adjustment
Property, plant and equipment	41,855.7	40,345.2
Goodwill	3,480.5	4,604.8
Deferred tax liabilities	2,429.0	1,697.1
Deferred revenue	1,512.6	1,858.3

(All data set out in the following analysis for 2008 is after adjustments)

As of 31 December 2009, the total assets of the Group amounted to RMB60,776.5 million, representing an increase of RMB4,575.6 million or 8.1% compared with RMB56,200.9 million at the end of 2008. The total liabilities was RMB38,470.9 million, representing an increase of RMB2,067.8 million or 5.7% compared with RMB36,403.1 million at the end of 2008. The shareholders' equity was RMB22,305.6 million, representing an increase of RMB2,507.8 million or 12.7% compared with RMB19,797.8 million at the end of 2008. The analysis of reasons for significant changes in the amount of accounting items on the statement of financial position is as follows:

(Note: The average exchange rate of 1:6.8312 (US$ to RMB) in 2009 was applied for the changes in US$ set out in the statement of financial position analysis below)

2.1 Property, plant and equipment

As of 31 December 2009, the property, plant and equipment of the Group were RMB45,086.5 million, representing an increase of RMB4,741.3 million or 11.8% compared with RMB40,345.2 million as of the beginning of the year. The increase was mainly due to the fact that the Group continued the construction projects of four jack-up drilling rigs, three semi-submersible drilling rigs, two land drilling rigs, ten oilfield utility vessels and three workover support barges during the year and purchased certain well services equipment and facilities.

2.2 Available-for-sale financial assets

As of 31 December 2009, the available-for-sale financial assets of the Group were RMB19.4 million, representing a decrease of RMB14.9 million or 43.5% compared with RMB34.3 million as of the beginning of the year. The decrease was mainly due to the material decline in the market value of the investment in Petrojack ASA held by CDE, which was deemed to be impaired by the Group. An accumulated impairment amounting to RMB121.5 million was recognized, of which RMB15.0 million was recognized during the year.

2.3 Pledged time deposits (non-current portion)

As of 31 December 2009, the non-current portion of pledged time deposits of the Group was RMB39.1 million, representing a decrease of RMB39.1 million or 50.0% compared with RMB78.2 million as of the beginning of the year. The decrease was mainly due to the fact that the pledged deposits of RMB39.1 million was transferred to the pledged time deposits current portion.

2.4 Prepayments, deposits and other receivables

As of 31 December 2009, the prepayments, deposits and other receivables of the Group were RMB755.5 million, representing a decrease of RMB750.4 million or 49.8% compared with RMB1,505.9 million as of the beginning of the year. The decrease was mainly due to the transfer of prepayments to construction in progress as the construction project of the 350-feet drilling rig progressed, which resulted in a decrease of RMB753.3 million in prepayments.

2.5 Accounts receivables

As of 31 December 2009, the accounts receivables of the Group were RMB3,745.5 million, representing an increase of RMB1,010.5 million or 36.9% compared with RMB2,735.0 million as of the beginning of the year. The increase was mainly due to the increased revenue of the Group and the prolonged average credit term compared with 2008.

2.6 Pledged deposits (current portion)

As of 31 December 2009, the current portion of the pledged deposits of the Group were RMB247.3 million, representing an increase of RMB193.5 million or 360.0% compared with RMB53.8 million as of the beginning of the year. The increase was mainly due to the increase in pledged deposits for bank guarantee of RMB208.2 million.

2.7 Cash and cash equivalents

As of 31 December 2009, cash and cash equivalents of the Group were RMB4,014.6 million, representing a decrease of RMB549.2 million or 12.0% compared with RMB4,563.8 million as of the end of 2008. The details were provided in "3. Cash Flow Statement Analysis" below.

2.8 Trade and other payables

As of 31 December 2009, trade and other payables of the Group were RMB4,224.0 million, representing an increase of RMB793.1 million or 23.1% compared with RMB3,430.9 million as of the beginning of the year. The increase was mainly due to the increase in procurement following the operation commencement of various assets, which drove the trade and other payables by RMB431.6 million. Meanwhile, the accrued liability had increased due to the related provision for default compensation and litigations.

2.9 Interest-bearing bank borrowings (current)

As of 31 December 2009, the interest-bearing bank borrowings (current) of the Group were RMB283.1 million, representing a decrease of RMB7,495.5 million or 96.4% compared with RMB7,778.6 million as of the beginning of the year. The decrease was mainly due to the refinancing in May this year for the early repayment of the short-term portion of a syndicate bank loan of US$1.4 billion made in September 2008 for the acquisition of CDE (US$933.3 million in aggregate, equivalent to approximately RMB6,375.8 million) and the early repayment of the original short-term loan of the CDE group obtained from Nordea Bank Norge ASA of approximately RMB475.9 million in March this year. Besides, the borrowing (current portion) from Nordea Bank Norge ASA of approximately RMB659.6 million was refinanced as long-term borrowing.

2.10 Interest-bearing bank borrowings (non-current)

As of 31 December 2009, the interest-bearing bank borrowings (non-current) of the Group were RMB28,151.0 million, representing an increase of RMB11,795.6 million or 72.1% compared with RMB16,355.4 million as of the beginning of the year. The increase was mainly due to the borrowings of RMB1,300.0 million from CNOOC Finance Co., Ltd. for the repayment of previous loans and as working capital. In May 2009, US$0.8 billion (equivalent to approximately RMB5,465.0 million) and US$0.6 billion (equivalent to approximately RMB4,098.7 million) were borrowed from the Bank of China Limited and the Industrial and Commercial Bank of China Limited respectively. US$1.58 billion (equivalent to approximately RMB10,793.3 million) was borrowed from the Bank of China Limited for the repayment of CDE's Citibank loans and as working capital. In April 2009, RMB450.0 million was borrowed from the Import and Export Bank of China for the construction of the land drilling rig for operations in Libya.

The commercial borrowing of RMB654.1 million and the syndicate bank borrowing of RMB9,255.5 million as of the beginning of the year were fully repaid during the year. Besides, RMB283.1 million was transferred from the long term portion of the interest-bearing bank borrowings to its current portion.

2.11 Long term bonds

As of 31 December 2009, the long term bonds of the Group were RMB2,670.0 million, representing a decrease of RMB1,358.3 million or 33.7% compared with RMB4,028.3million as of the beginning of the year. The decrease was mainly due to the full redemption of senior unsecured NOK bonds of NOK500 million (equivalent to approximately RMB485.5 million), the partial redemption of the senior unsecured US$ bonds (equivalent to approximately RMB115.4 million) and the partial redemption of the second security priority US$ bonds (equivalent to approximately RMB762.4 million).

2.12 Deferred revenue

As of 31 December 2009, the deferred revenue of the Group was RMB780.1 million, representing a decrease of RMB1,078.2 million or 58.0% compared with RMB1,858.3 million as of the beginning of the year. The decrease was mainly due to the recognition of deferred income of RMB1,073.1 million, which resulted from the cancellation of operation contract of a semi-submersible drilling rig during the year.

2.13 Derivative financial instruments

As of 31 December 2009, the Group did not have any derivative financial instruments. The derivative financial instruments as of the beginning of the year were RMB49.3 million. The decrease was mainly due to the fact that the senior unsecured NOK bonds of NOK500 million were redeemed by the Group and the related cross currency interest swap contract of NOK 250 million was cancelled.

3. Cash flow statement analysis

As of the beginning of 2009, we held cash and cash equivalents of RMB4,295.5 million. The net cash inflow from operating activities from the year was RMB5,604.9 million, net cash outflow from investing activities was RMB7,782.7 million, net cash inflow from financing activities was RMB1,136.8 million and the decrease of RMB39.9 million was due to the impact of foreign exchange fluctuations. As of 31 December 2009, our cash and cash equivalents were RMB3,214.6 million.

(Note: The average exchange rate of 1:6.8312 (US$ to RMB) in 2009 was applied for the changes in US$ set out in the cash flow statement analysis below.)

3.1 Cash flows from operating activities

In 2009, net cash flows from operating activities of the Group reached RMB5,604.9 million, representing an increase of RMB1,567.1 million or 38.8% compared with RMB4,037.8 million for the same period last year. The increase was mainly due to the increase in cash gained from the provision of services along with the business expansion and the inclusion of the full year operation results of CDE.

3.2 Cash flows from investing activities

In 2009, net cash outflows from investing activities of the Group amounted to RMB7,782.7 million, representing a decrease of RMB12,842.8 million or 62.3% compared with RMB20,625.5 million for the same period last year. The decrease was mainly due to the cash payment of RMB15,647.0 million for the acquisition of CDE by the Group in the same period last year but no such acquisition occurred during the year.

3.3 Capital expenditure

In 2009, the capital expenditure of the Group amounted to RMB8,413.3 million, representing an increase of RMB1,575.5 million or 23.0% compared with RMB6,837.8 million as of the same period last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business Segment	2009	2008	Change	Change %
Drilling	6,062.8	3,754.6	2,308.2	61.5%
Well services	760.1	1,287.3	(527.2)	(41.0%)
Marine support and transportation	924.7	1,292.0	(367.3)	(28.4%)
Geophysical	665.7	503.9	161.8	32.1%
Total	8,413.3	6,837.8	1,575.5	23.0%

The capital expenditure of RMB6,062.8 million of the drilling services segment was mainly due to the construction of one 375-feet jack-up drilling rig, one 400-feet jack-up drilling rig, three 2,500-feet semi-submersible drilling rigs, the construction of two land drilling rigs, two 350-feet jack-up drilling rigs and four 200-feet jack-up drilling rigs. Capital expenditure for well services was RMB760.1 million, mainly used for building 2 multi-function drilling platform (LIFTBOAT) and purchasing of various well services equipments and facilities. Capital expenditure for marine support and transportation services was RMB924.7 million, mainly used for building 10 oilfield utility vessels and 3 workover support barges. Capital expenditure for geophysical services was RMB665.7 million, mainly due to the construction of a deepwater reconnaissance vessel and a submarine cable flotilla.

3.4 Cash flows from financing activities

In 2009, net cash inflow from financing activities amounted to RMB1,136.8 million, comprising of cash inflow of RMB23,328.6 million and cash outflow of RMB22,191.8 million.

The financing source of the Group in 2009 was mainly derived from several loans. The loan of RMB1,300.0 million from CNOOC Finance Co., Ltd. for the settlement of previous loan and as working capital. In May 2009, US$0.8 billion (equivalent to approximately RMB5,465.0 million) and US$0.6 billion (equivalent to approximately RMB4,098.7 million) were borrowed from the Bank of China Limited and the Industrial and Commercial Bank of China Limited respectively for the refinancing of a syndicate bank loan of US$1.4 billion which belonged to a subsidiary. During the year, US$1.58 billion (equivalent to approximately RMB10,793.3 million) was borrowed from the Bank of China Limited for the refinancing of CDE's Citibank loans and as working capital. In April 2009, RMB450.0 million was borrowed from the Import and Export Bank of China for the construction of the land drilling rig for operation in Libya. Besides, commercial borrowings amounted to US$63.8 million (equivalent to approximately RMB435.8 million) and short-term borrowing of RMB700 million were used as working capital.

Cash outflow in financing activities was mainly due to the refinancing of a syndicate bank loan of US$1.4 billion amounting to RMB20,177.3 million, which belonged to a subsidiary and the refinancing of CDE's Nordea Bank loans. Meanwhile, during the year, dividend payment, repayment of interests and other payments related to financing activities amounted to RMB629.3 million, RMB1,318.4 million and RMB66.7 million in cash, respectively.

OUTLOOK

Looking forward to 2010, the global economy will maintain a weak recovery, but a lot of uncertainties still exist. In the "World Economic Situation and Prospects 2010" published by the United Nations, it was forecasted that the global economy will achieve a moderate growth rate of 2.4% in 2010. The pace of economic recovery of the world's developed economies will be slow, while the developing economies will become the major momentum of global economic growth, with China's economy in 2010 being forecast to an increase of 8.8%. The world economy will continue to strengthen its positive trend, but there remains quite a lot of instability and uncertainty, thus restraining the economic development. The business development environment faced by the oilfield services sector is still very harsh.

Faced with the complexity of 2010, COSL will continue to consolidate the domestic market, develop overseas markets to ensure a stable growth in revenue, enhance technology research and development and technological pool, develop deep water services capability as well as strengthen risk control and cost management, so as to achieve continuous healthy development. We will further enhance the service capability and take social responsibility actively, while maximizing shareholder's value and develop an all win situation for its shareholders, customers, staff and business partners.

7. Corporate Governance

1. Corporate Governance Report 2009

The Board is of the view that corporate governance standards of the Company have been kept at a high level throughout 2009. The Company effectively ran 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.

The Board is of the view that 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 (hereafter referred to as "the Code"), there were no material changes as compared with the Corporate Governance Report 2008. The Board has also reviewed the compliance with the regulatory documents on listed companies issued by China Securities Regulatory Commission and is of the view that the corporate governance of the Company has met the requirements set out in those documents during the reporting period.

After reviewing the compliance with the provisions of the Code, the Board is of the view that shareholders should be explained in detail in respect of the compliance with that Code Provision E 1.2 during the reporting period: the annual general meeting of the Company held on 3 June 2009 was presided over by an Independent Director of the Company, Mr. Simon X. Jiang, as the Chairman and the Vice Chairman were unable to chair the meeting due to other urgent business. Mr. Jiang's chairing of the meeting was made in accordance with the Articles of Association of the Company, which stated that the Chairman of the meeting could be one of the directors elected by the shareholders attending the meeting. Meanwhile, the Chief Executive Officer and other senior management also attended the meeting and answered the inquiries raised by shareholders together with the Chairman of the meeting.

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.

The Company has made the following improvement in respect of the corporate governance in 2009:

1. We have strengthened the management and governance of the Board towards investment activities of the Company. The Company revised the Investment and Budgeting Management System in relation to the approvals authorization on the fixed asset and equity investments. According to the revised system, any equity investment should be approved by the Board or the General Meeting.

2. We have strengthened the management and governance of the Board and Supervisory Committee towards significant equipment investment projects of the Company. In 2009, the Board and Supervisory Committee reviewed the operation of significant equipment investment projects and brought up improvement requirement for existing problems.

3. We continued to optimize the relevant system to further raise the standard of corporate governance. The Company amended the system documents such as Articles of Association and Rules on Procedure of the Audit Committee to provide system guarantees for the convenience of the shareholders' involvement in the Company's management, and for the strengthened evaluation of effectiveness of the financial system by Independent Directors.

I. Director's Involvement in Securities Transactions

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2009, 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 2009, 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 (elected to continue his office of Chairman on 4 June 2009)
Vice-chairman and executive director:	Liu Jian (elected as vice-chairman at the Board Meeting dated 4 June 2009. Yuan Guangyu, the former vice-chairman, resigned on 3 June 2009)
Executive directors:	Li Yong (reappointed at the General Meeting dated 3 June 2009)
Non-executive director:	Wu Mengfei
Independent non-executive directors:	Andrew Y. Yan (his term of office expired on 3 June 2009), Gordon C.K. Kwong, Simon X. Jiang and Tsui Yiu Wa (elected as an director on the General Meeting dated 3 June 2009)

(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. Pursuant to the Articles of Association amended in 2009 (the amendments were approved by General Meeting on 3 June 2009), the positions of the CEO and Chairman of the Company has been separated. The duties and functions of the CEO set out in the Articles of Association were as follows:

1. Taking charge of the production, operation and management of the Company and implementing the resolution of the Board;
2. Implementing the annual operation plan and investment programme of the Company;
3. Establishing of the internal management structure programme of the Company;
4. Establishing the basic management system for the Company;
5. Establishing the underlying rules and regulations for the Company;
6. Nominate the appointment or dismissal of the President, Vice-President and CFO;
7. Appointing or dismissing the management other than those appointed or dismissed by the Board;
8. Determining the incentive and penalty, promotion, increase in salary, recruitment, employment and dismissal;
9. Acting on behalf of the Company to deal with the significant external affairs in accordance with the authorization of the Board;
10. Taking charge of the planning and implementation of the Company's strategy, and reporting to the Board periodically on the progress and effectiveness;
11. Taking charge of the Investment Decision-making Committee of the Company and reporting to the Board in respect of the investment activities;
12. In the event of any vacancy of senior management of the Company which should be appointed by the Board, the CEO could appoint an acting officer or make any other temporary arrangement before the new appointment was made by the Board;
13. Any other duties and functions which are designated by the Articles of Association and the Board.

(III) Board Meetings

The Board of Directors convened five regular meetings during the year, please see Table I of this Report for details of meeting attendance of directors. For other adhoc 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. Besides, to create more opportunities for the independent non-executive directors to express their views and make recommendation in respect of the Company's affairs, Chairman would have several meetings with independent non-executive directors in the absence of executive directors every year so as to listen to the advice of independents non-executive directors in respect of the corporate governance and management (this practice has adopted the provision of Recommended Best Practices in A.2.7 of the Code). 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 2009.

(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 independent non-executive directors (including Andrew Y. Yan, who resigned on 3 June 2009 when his term of office expired) 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 Corporate Governance Report for details of related reviews of financial reports and the internal control system. During the reporting period, independent directors also reviewed 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 appointed an independent financial adviser to review a connected transaction (assigning a related party to construct drilling rigs) which required to be approved at General Meeting, and provided their conclusion on the fairness and necessity of such transaction to shareholders in accordance with the comments of independent financial adviser. 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 VIII "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 amendment in 2007 of the Articles of Association of the Company took the election date at shareholders' general meetings as the unified commencement dates of directors (before such amendment, 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 at the annual general meeting held on 3 June 2009, the Company finalized the renewals and changes for above directors (for the details, please refer to the relevant disclosures of 2008 Annual General Meeting). However, the candidate to replace the independent director Gordon C.K. Kwong, who was one of the above directors whose term of office has expired, was unqualified prior to the above Annual General Meeting. Therefore, the Company needs more time to seek for another appropriate candidate. The Company Law and Articles of Association provides that "In the event that reelection has not been held promptly before the expiry of the term of office of the directors, or the directors tender their resignation during their terms of office, which causes the number of the Board member to drop below the quorum, the former directors should perform their duties in accordance with the laws, administrative regulations and Articles of Association before the elected directors take office." Thus, Gordon C.K. Kwong still performed his duty as an independent director of the Company until his successor was elected at the General Meeting.

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 Mr. Liu Jian as the Chief Executive Officer (the former CEO, Mr. Yuan Guanyu resigned from the duty of CEO on 2 March 2009, and has been replaced by Mr. Liu Jian). The Company amended the Articles of Association in 2009 and separated the positions of CEO and President ("CEO" and "President" was the same position in the original Articles of Association). Pursuant to the current Articles of Association, the CEO will perform the duties and functions of the "manager" of a limited joint stock company stipulated in the PRC Company Law and be responsible for the Board on behalf of the management of the Company.

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

The terms of office of Fu Chengyu and Tsui Yiu Wa are from 3 June 2009 to the time when the 2012 Annual General Meeting is convened. The term of office of Gordon C.K. Kwong is from 30 October 2005 to 29 October 2008 (his term of office is extended until his successor is elected at the 2010 Annual General Meeting). The term of office of Simon X. Jiang is from 27 May 2007 to the time when his successor is elected at the 2010 Annual General Meeting. The term of office of Wu Mengfei is from 27 May 2007 to the time when his successor is elected at the 2010 Annual General Meeting.

V. Directors' Remuneration

(I) The composition and functions of the Remuneration Committee

1. The Remuneration Committee of the Company consists of four members, all of whom are non-executive directors, namely Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa and Wu Mengfei. Three of them are independent non-executive directors. Simon X. Jiang, an 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 Committee during the year

During the reporting period, the committee held two meetings (please see Table I for meeting summaries), reviewing 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, and the annual remuneration report of directors, supervisors and senior management.

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 Liu Jian, Simon X. Jiang and Tsui Yiu Wa of whom two are independent non-executive directors, and Liu Jian 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 one meeting (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.

VII. The Remuneration of Auditors

In 2009, 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 RMB15,570,000 for audit and review of the annual and interim financial statements. The non-audit fees of consultation for tax, IT, acquisition and integration which totaled RMB6,262,000 was recognized in the income statement.

VIII. The Audit Committee

(I) The composition and functions of the Audit Committee

1. The Audit Committee consists of three members, namely Gordon C.K. Kwong, Simon X. Jiang and Tsui Yiu Wa, 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 2008, the first quarterly operating results of 2009, the interim operating results of 2009 and the third quarterly operating results of 2009 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 of examination, and fulfilled its duties in ensuring the Company's compliance with regulations, 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 recommendations in the “Report to the Audit Committee” from the auditor, reviewed the assessment report on effectiveness of internal control of the Company, including the 2009 Self Assessment Report on Internal Control of the Company, and issued specific opinions regarding the improvements of internal control system to the Board of Directors and management.

3. During the reporting period, the committee examined the related reports regarding 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, 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	1 April 2009	Hong Kong	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
Second Meeting of Board of Directors	29 April 2009	Beijing	Fu Chengyu, Yuan Guangyu, Wu Mengfei, Li Yong, Gordon C.K. Kwong, Simon X. Jiang	Fu Chengyu	Telephone conference Three supervisor attended as a non-voting delegate
Third Meeting of Board of Directors	28 August 2009	Shenzhen	Fu Chengyu, Liu Jian, Wu Mengfei, Li Yong, Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Fu Chengyu	Three supervisors attended as a non-voting delegate
Fourth Meeting of Board of Directors	28 October 2009	Beijing	Fu Chengyu, Liu Jian, Wu Mengfei, Li Yong Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Fu Chengyu	Telephone conference Three supervisors attended as a non-voting delegate
Fifth Meeting of Board of Directors	9 December 2009	Shenzhen	Fu Chengyu, Liu Jian, Wu Mengfei, Li Yong, Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Fu Chengyu	Three supervisors attended as a non-voting delegate
First Meeting of Audit Committee	31 March 2009	Shenzhen	Gordon C.K. Kwong, Andrew Y. Yan Simon X. Jiang	Gordon C.K. Kwong	One supervisor attended as a non-voting delegate
Second Meeting of Audit Committee	28 April 2009	Beijing	Gordon C.K. Kwong, Simon X. Jiang	Gordon C.K. Kwong	Telephone conference
Third Meeting of Audit Committee	27 August 2009	Shenzhen	Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Gordon C.K. Kwong	Two supervisors attended as a non-voting delegate
Fourth Meeting of Audit Committee	27 October 2009	Beijing	Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Gordon C.K. Kwong	Telephone conference
First Meeting of Remuneration Committee	31 March 2009	Shenzhen	Andrew Y. Yan, Gordon C.K. Kwong, Simon X. Jiang, Wu Mengfei	Andrew Y. Yan	
Second Meeting of Remuneration Committee	27 August 2009	Shenzhen	Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa, Wu Mengfei	Simon X. Jiang	
First Meeting of Nomination Committee	1 April 2009	Hong Kong	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 1 April 2009	1. Approval of the audited 2008 annual financial report of the Company; 2. Approval of related resolutions of the audit committee of the Board; 3. Approval of the 2008 Annual Self Assessment Report on Internal Control and Social Responsibility Report of the Company; 4. Approval of the 2008 annual profit distribution and dividend plan of the Company; 5. Approval of the resolution on 2008 annual results announcement of the Company; 6. Approval of the 2008 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 granted 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 resolution of nomination committee in relation to the proposal towards the nomination of directors and the adjustment of management position; 11. Approval of the resolution on the amendments to the Articles of Association of the Company; 12. Approval of the resolution on the adjustments to the 2009 budget plan of the Company; 13. Approval of the resolution on the loan from the Export-Import Bank of China.
Second Meeting of Board of Directors 29 April 2009	1. Approval of the 2009 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 the resolution on the loan of US$3.6 billion; 3. Approval of the resolution on the amendments of the Rules of Procedure of the Audit Committee; 4. Approval of the resolution on the appointment of President.
Third Meeting of Board of Directors 28 August 2009	1. Approval of the reviewed 2009 interim financial report of the Company; 2. Approval of the resolution on the 2009 interim results announcement; 3. Approval of the 2008 assessment result of the grantees of the share appreciation rights plan and the assessing standard for 2009.
Fourth Meeting of Board of Directors 28 October 2009	1. Approval of the 2009 third quarterly report; 2. Approval of the resolution on the provision of guarantee for a jointly-controlled entity of the Company; 3. Approval of the resolution on the budget of an equipment construction project; 4. Approval of the resolution on certain amendments to the Investment and Budgeting Management System.
Fifth Meeting of Board of Directors 9 December 2009	1. Approval of the 2010 budget plan of the Company; 2. Approval of the resolution on authorizing Company management to enter into certain credit facility agreements.

Meeting	Resolutions approved
Resolutions approved by fax in 2009	[COSL BOD motion (2009) No.1] Approval of the resolution regarding to propose a related party transaction to the General Meeting (5 January) [COSL BOD motion (2009) No.2] Approval of the resolution of the appointment of CEO (2 March) [COSL BOD motion (2009) No.3] Approval of the resolution of a loan from commercial bank (4 March) [COSL BOD motion (2009) No.20] Approval of the resolution regarding to the work allocation of the members of the Board (29 June) [COSL BOD motion (2009) No.21] Approval of the resolution on the loan from a related party (12 June) [COSL BOD motion (2009) No.22] Approval of the resolution on an equipment construction project (5 August) [COSL BOD motion (2009) No.23] Approval of the resolution on the publishing of an announcement due to the impairment of acquired assets (21 August).

The Board of Directors
China Oilfield Services Limited
30 March 2010

2. 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.

3. Implementation and Enhancement of the Company's Internal Control

In accordance of the related requirement of the laws and regulations, together with the actual situation of the Company's operation and management as well as the review conclusion of the internal control at the end of 2008, the Company formed the COSL 12 major internal control systems with management features and established a comprehensive internal control system. And with the risk analysis and responding mechanism, the subordinate units further specifically formulated the operational rules in 2009. There were 232 newly added and amended items of internal control system, which kept in line with the business development of the Company and strengthened the regulation of the Company.

The completion and implementation of the internal control system of the COSL 12 major systems indicates a further step of the Company towards a first class international oilfield service company. The Company enjoys a more standardised governance, a more transparent management, with outstanding results.

Through the enhanced internal control system, COSL strengthens its governance and control standards and further perfects its governing structure and internal control system, which facilitates the development of COSL.

4. Disclosure by the Company of the self assessment report of the Board of Directors on internal control

The Board approved the Self Assessment Report on Internal Control of the Company on 30 March 2010. Ernst & Young Hua Ming, the auditor of the Company, has issued a report on internal control. For details of the report, please refer to our website or the website of the Shanghai Stock Exchange.

5. Particulars of establishment and implementation of evaluation and incentive plan for senior officers during the reporting period

On 22 November 2006, the share appreciation rights plan for senior officers of COSL (the "SAR Plan") was approved by the shareholders by the way of voting in the second Extraordinary General Meeting of 2006 which is a middle to long term incentive programme for 7 senior officers. 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 the targeted senior officers agreed and signed individual performance contracts with the Company, with a grant price of HK$4.09. According to the plan, the targeted 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 2009, share appreciation rights granted to senior management of the Company are as follows:

			Value (RMB)			
Title	**Name**	**Shares granted**	**At 1 January 2009**	**Addition**	**Lapse**	**At 31 December 2009**
Former President and CEO	Yuan Guangyu*	964,200 shares	1,402,171	111,368	(233,734)	1,279,805
President	Li Yong	704,300 shares	1,024,216	81,349	(170,731)	934,834
Executive Vice President and CFO	Zhong Hua	704,300 shares	1,024,216	81,349	(170,731)	934,834
Executive Vice President, CSO and Board Secretary	Chen Weidong	704,300 shares	1,024,216	81,349	(170,731)	934,834
Senior Vice President	Li Xunke	656,900 shares	955,285	75,875	(159,241)	871,919
Former Staff Supervisor	Tang Daizhi*	656,900 shares	281,774	–	–	281,774
Vice President	Xu Xiongfei	609,100 shares	885,772	70,353	(147,653)	808,472
		5,000,000 shares	6,597,650	501,643	(1,052,821)	6,046,472

*Note *: During 2009, Yuan Guangyu resigned as the President and CEO of the Company. During 2007, Mr. Tang Daizhi resigned as the Staff Supervisor of the Company. According to the terms of the SAR Plan, they were entitled to their benefits up to the date of their resignation.*

As of 31 December 2009, share appreciation rights plan of the Company has recognised the payable staff remuneration of RMB6,046,472.

Pursuant to the Performance Management Measures for SAR Plan, the Remuneration Committee of the Board conducted a comprehensive assessment of the performance of incentive targets achieved in 2006 and 2007 during 2008. All of the incentive targets passed the assessment. During the reporting period, the Remuneration Committee of the Board conducted 2008 annual assessment of performance of incentive targets and again all of them passed the assessment.

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. Affected by the financial crisis, the first exercise price was lower than the granted price and no grantee should exercise the right. The second exercising will be carried out strictly following the SAR Plan reviewed by SASAC. The proposal of exercising of such SAR Plan should be submitted to CNOOC and is subject to the approval of SASAC following the submission by CNOOC. If there are any new comments on the second exercising by SASAC, the Company will disclose such information in a timely manner.

8. Summary of General Meetings

I. Annual General Meeting

The Company convened its annual general meeting for 2008 on 3 June 2009. 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 2009.

The Annual General Meeting of 2008 was held on 3 June 2009 at the Room 504, CNOOC Plaza, 25 Chaoyangmen North Avenue, Docheng District, Beijing. The present shareholders and proxies attended the meeting represented 3,087,875,453 shares which amounted to 68.69% of total number of shares of the Company. The Annual General Meeting was chaired by Simon X. Jiang, the independent non-executive director 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 2008 were approved;
2. The profit distribution and allocation of dividends for 2008 was approved;
3. The director's report for the year ended 31 December 2008 was approved;
4. The report of the Supervisory Committee for the year ended 31 December 2008 was approved;
5. The re-appointment of Ernst & Young Hua Ming and Ernst & Young as the domestic and foreign auditors for 2009 respectively was approved and the Board was authorised to determine their remunerations;
6. Fu Chengyu, Liu Jian, Li Yong and Tsui Yiu Wa were elected as directors of the Company;
7. Zhu Leibin and Wang Zhile were elected as supervisors of the Company.
8. It was approved that the Company may send or supply Corporate Communications to its Shareholders (in relation to whom the conditions set out below are met) by making such Corporate Communications available on the Company's own website, and any director of the Company was authorized for and on behalf of the Company to sign all such documents and/or do all such things and act as the director may consider necessary or expedient and in the interest of the Company for the purpose of effecting or otherwise in connection with the Company's proposed communication with its holders of H Shares through the Company's website. "Corporate Communication(s)" means any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to: (a) directors' report, annual report, annual accounts together with auditors' report and summary of financial report; (b) interim report and summary of interim report; (c) notices of meetings; (d) listing documents; (e) circulars; and (f) proxy forms.

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.
2. The resolution regarding the amendments to the Articles of Association of China Oilfield Services Limited was approved.

768,100 votes were against the above item 2 of the general resolutions (0.02% of total number of votes); 36,801,500 votes were against the item 5 of the general resolutions (1.19% of total number of votes); among the item 6 of the general resolutions, 3,008,611 votes were against electing Fu Chengyu as a director (0.1% of total number of votes), 2,408,611 votes were against electing Liu Jian as a director

(0.08% of total number of votes), 2,408,611 votes were against electing Li Yong as a director (0.08% of total number of votes), and 19,490,500 votes were against electing Tsui Yiu Wa as a director (0.63% of total number of votes); among the item 7 of the general resolutions, 20,938,000 votes were against electing Zhu Liebin as a supervisor (0.68% of total number of votes); 19,490,500 votes were against electing Wang Zhile as a director (0.64% of total number of votes); 300,100 votes were against the above item 8 of the general resolutions (0.01% of total number of votes).

Regarding the special resolution, 378,209,881 votes were against were against the item 1 of the special resolutions (12.25% of the total number of votes); 322,000 votes were against the item 2 of the special resolutions (0.01% of the total number of votes). The rest of the resolutions were approved unanimously.

II. Particulars of Extraordinary General Meetings

(I) Introduction

The first Extraordinary General Meeting:

The Company convened the first Extraordinary General Meeting for 2009 on 13 February 2009. Results announcement for the extraordinary general meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 14 February 2009.

(II) Details

The first Extraordinary General Meeting in 2009

The first Extraordinary General Meeting in 2009 was held on 13 February 2009 at Conference Room 504, CNOOC Plaza, NO.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The present shareholders and proxies totally represented 3,109,076,155 shares which amounted to 69.16% of total number of shares of the Company. The extraordinary general meeting was chaired by Mr. Gordon C.K. Kwong, the independent non-executive director of the Company:

1. An On-site poll was used in this meeting to approve "COSL 922-924 Jack-up Rig Building Agreement" ("Building Agreement") that the Company and Offshore Oil Engineering Co., Limited ("CNOOC Engineering") signed on 19 December 2008 for "CNOOC Engineering" to build three jack-up rigs for the Company, and to authorize the directors of the Company (whether acting jointly or severally or through the committee) to execute and complete (or in respect of the execution or completion of) the "Building Agreement" and all relevant transactions, sign all the documents and/or carry out all necessary, proper and appropriate actions that they think fit.

   China National Offshore Oil Corporation, a connected shareholder abstained from voting, the number of shares participated in the voting was 648,608,155, of which 644,584,155 voted for the proposal (of which A shares were 68,886,561, H shares were 575,697,594), representing 99.38% of the shareholders with voting rights in attendance; the number of shares which voted against the proposal was 4,024,000 (of which A shares were 0, H shares were 4,024,000), representing 0.62% of the shareholders with voting rights in attendance. Since the shareholders attending in person or by proxy and voting for the proposal held 99.38% of the shares with voting rights, which was more than one half, this resolution was officially passed as ordinary resolution.

2. The meeting voted by way of on-site poll on "Appraisal report on the results of 2006 – 2007 China Oilfield Services Ltd Share Appreciation Rights Scheme".

   The number of shares participated in the voting was 3,101,125,466, of which 2,850,791,749 voted for the proposal (of which A shares were 2,529,354,561, H shares were 321,437,188), representing 91.93% of the shareholders with voting rights in attendance; the number of shares which voted against the proposal was 250,333,717 (of which A shares were 0, H shares were 250,333,717), representing 8.07% of the shareholders with voting rights in attendance. Since the shareholders attending in person or by proxy and voting for the proposal held 91.93% of the shares with voting rights, which was more than one half, this resolution was officially passed as ordinary resolution.

9. Social Responsibility Report

In 2009, COSL adopted active measures to response to the various negative factors brought by the financial crisis. We actively explored domestic and overseas markets, endeavoured to raise economic returns, optimised internal control system and strengthened risk control. We implemented the safety production responsibility system, further strengthened safety monitoring and management, eliminated safety potential risks and prevented major incident. We moved forward energy saving and emission reduction and environmental protection. We paid attention to the health of staff, improved the remuneration system, protected the employees' rights. We showed concern for public affairs, participated in poverty relief work, donated funds and provided scholarship. While maintaining the steady development of the Company, we seriously performed social responsibilities, actively built up a harmonious company and achieved the sustainable development of the Company.

In 2009, we were on the list of the Top 100 Companies Performing Social Responsibilities and we ranked among the top 20th, and was also awarded the "2009 Chinese Companies Performing Social Responsibilities – Special Prize".

1. Stable operation

In 2009 COSL had steady development amid the depression in the sector. In accordance with the Hong Kong Financial Reporting Standards, we achieved operating revenue of RMB17,879 million, operating profit of RMB4,468 million and net profit of RMB3,135 million for the year, or a year-on-year growth of 47.2%, 23.1% and 1.1% respectively.

2. Corporate governance

We set up a full set of internal control system. Through effectively implementing such system, we discovered operational weaknesses in time and took remedies. This will effectively ensure sound and rapid development of the Company. In 2009, the Company did not make any significant wrong decision, constitute any significant breach of discipline and law and cause any significant accident related to safety and environmental protection.

(1) Internal audit

We have set up and put in place a full set of internal audit management system. Regarding to large scale equipment construction projects, we applied procedural audit and final settlement audit; as for the implementation of economic accountability system in direct subsidiaries, the internal audit is carried out every two years; and whenever a general manager of a subsidiary quits, the internal audit will be carried out immediately on his departure.

Through the audit, we have found out in time various problems at work, which has provided a lot of detailed and practical information upon which company decisions can be based. At the same time, we have corrected and ratified in time the problems in the management and operating processes, which has enhanced our operating efficiency and management standard.

(2) Total risk management

Since its establishment, the Company has paid great attention to risk management. We work hard to enhance our ability to eliminate risks, improve the risk elimination mechanism, and standardize professional risk management practice.

Management workflow was further improved, a review on each workflow was carried out, the risk items were reconfirmed and partial adjustments of some control points/key control points were made in 2009. We managed to have all workflows under the constraints of the system; the holders of all control points and key control points perform their controlling functions in the respective workplaces; all the risk items identified were put under the management of respective departments or staff; we set up a risk identification system with the corresponding alert, prevention and handling, and formulated measures to cope with risks.

(3) Anti-corruption

The contents of the establishment of an anti-corruption system of the Company include the following areas: firstly, group monitoring, for example publishing the offense reporting phone number and email address on the website, these cases are handled by a special personnel; secondly, to document the systems, up to the present moment, we have formulated 18 systems in incorruptible practice education, punishment of bribery, handling of rule violation etc; thirdly, a responsibility system of briefings and reminders by managerial staff of all levels to their subordinates, this is administered in such a way that one level of staff communicates with the underling level of staff; fourthly, important/key staff incorruptible practice commitment system, these employees must sign "Incorruptible Practice Responsibility Statement" with the Company each year, when they sign important business contracts, they must also sign a "Incorruptible Practice Memorandum".

3. Safety and environmental protection

We always uphold the management guidelines of "Safety first, prevention is fundamental, respect the nature, care for the environment". The SMS/QHSE system were implemented in full scale for management in the safety and environmental protection domains. We pay attention to environmental protection while safeguarding the safety of various production operation. In 2009, our QHSE management objective for the year was achieved.

Completion status of QHSE management objectives for 2009

Serial No.	QHSE objectives	Results of control
1	Zero major incident of responsibility involving death of personnel	No major incident of responsibility involving death of personnel occurred
2	Zero incident of responsibility involving oil spillage of medium scale and above	No incident of responsibility involving oil spillage of medium scale and above occurred
3	Zero major incident of responsibility involving operation and production facilities	No major incident of responsibility involving operation and production facilities occurred
4	Zero major incident of responsibility involving quality issues	No major incident of responsibility involving quality issues occurred
5	OSHA recordable incident rate less than 0.55	0.23

(1) Enhancement of safety management

We continue to improve the safety management system and pay attention to the implementation results. With effective measures like effective risk control, intensive implementation of investigation and ratification of hidden risks etc, the incident rate has decreased each year, and there is a remarkable rise in safety management standard.

Effective running of the SMS/QHSE system. In 2009, the SMS/QHSE system were implemented in the business segments whereby they were reviewed by respective supervisory departments; the QHSE system in each segment continued to run effectively and successfully passed DNV 's annual review, and obtained the QHSE management system certificate issued by DNV; the SMS management system of the geophysical services segment, drilling services segment, marine support and transportation services segment continued to be improved and successfully passed the annual review of the supervisory authorities, and fleets and vessels of segments above successfully passed the SMC review.

Standardization of contractor management. We are very concern about the safety production management of contractors. In 2009 we strengthened the review, and implemented review of subcontractors for large scale equipment construction and maintenance projects.

Enhancement of emergency management. We upgraded and amended the "Regulations for Emergency Management of China Oilfield Services Limited V5.2", arranged and improved the emergency response procedures and emergency budgets of all subsidiaries, improved the amendment of the emergency response procedures and emergency budgets of overseas branches, renewed the emergency medical assistance agreement covering all overseas employees with International SOS. In 2009, we made 5 rehearsals including level one joint emergency rehearsal of anti-pirate attack and ship abandoning and level two joint emergency rehearsal of human injury on board and on land; all business segments of the Company stuck to the emergency rehearsal plan formulated at the beginning of the year.

Strengthening of monitoring and inspection. In 2009 we conducted inspection for all onshore departments, inspection of some marine platforms/vessels, and specific inspection of the management of hazardous chemical products, oil tankers, chemical carriers and geophysical vessels. We sent out notices calling for ratification of all existing problems or hidden risks to respective business departments, and followed up on the status of ratification. At the same time, we also carried out a safety assessment of the residential premises and work sites of all overseas projects, and made a safety review of the land drilling rig project in Libya.

(2) Emphasis on environmental protection

We have been complying with our ideology of "Respect the nature, care for the environment" thoroughly, and we strictly abide by international covenants, international and domestic laws and regulations and various requirements concerning environmental protection in various business activities. We try hard to minimize the damage to the environment, and actively build up ourselves as a environmental friendly enterprise.

Constant improvement and effective execution of management system. In order to achieve sustainable development of the Company, the relevant divisions of the Company included environmental protection into the QHSE system according to the requirements of the environmental management standard of ISO14001, and was granted the certificate. At the same time, all divisions with ownership of vessels set up and implemented safety and pollution prevention systems according to the requirements of the "International Regulations for Safety and Pollution Prevention Management". With training and serious implementation of various measures for environmental protection management, in 2009 the Company did not record any environmental pollution incident.

Control of pollutant discharge is the focus of environmental protection work. The pollutant of all COSL's production work sites is recycled or discharged within limits in accordance with the regulations. Articles like used selenium drums, batteries etc from all workplaces are recycled. The Company signed different types of agreements on hazardous waste, industrial and household trash, office rubbish and sewage treatment with local environmental protection authorities at all zones to ensure the legal handling of pollutant and waste.

Monitoring of key environmental protection tasks of drilling rigs and motor vessels. COSL implemented a regular reporting system for the recycling and discharge of pollutant, strictly carried out the system of "zero discharge" in waters, conducted regular repair and maintenance of environmental protection equipment and machinery, and adopted active measures to reduce the generation of waste grease, waste water and garbage volume as far as possible. In order to prevent marine pollution, we imported specialized ancillary facilities to carry out recycling of mud from drilling rigs, recycling of rock debris, re-injection treatment; in order protect marine living things, all vessels are painted with high-quality environmental friendly paint.

(3) Furtherance of energy saving and emission reduction.

We steadily moved forward our 2009 energy saving and emission reduction tasks with focus on economic development with low carbon to bring the concepts of green, cleanliness, low carbon and circular economy into our whole production and all investment projects. This ensured the achievement of our various energy saving and emission reduction objectives, and we obtained transitional results and made a firm step towards building up ourselves as a resource saving and environmental friendly company.

Improvement of company structure and relevant systems. In 2009, we had full time and part time managerial staff at all levels, we clarified their job duties and implemented an accountability system for each level. We revised and set up systems/procedures related to energy saving and emission reduction. We also set up an appraisal system on energy saving and emission reduction.

Energy audit advancing, implementation of environment monitoring. We conducted an energy audit of the drilling services segment, and carried out the monitoring of the environment of COSL 931 and COSL 941 drilling rigs, and made systematic appraisal of subsidiaries on energy saving and emission reduction.

Reasonable arrangements for production, changes in operation mode. In the drilling rigs,the number of electric generators were adjusted in a timely manner according to the loading capacity of the drills to reduce the warming-up time of electric generators so that there was an apparent decrease in diesel consumption. We designed and built the “Marine System Mooring Drum System” which changed the low speed navigation mode of utility vessels waiting for new assignments in deep waters to the system mooring mode, and achieved remarkable results in fuel savings.

Facilities upgrade and transformation, energy saving and emission reduction technology. In 2009 we made injection of funds to upgrade some electric generators and implemented projects such as “Optimized professional hydraulic pressure pump control system” and “Residual heat of fresh water of main engine for heating water of boiler” etc, which achieved apparent energy saving results of saving 1,196.94 tones consumption of coal aggregately.

4. Care for staff

Employees are the most valuable wealth of our Company. We always follow the ideology of “Human based, health protection”to respect and protect employees’ legitimate rights, create good conditions for training and growth, adopt proactive measures to protect the health of employees, offered relief and helped our staff who were in difficulties, in order to achieve a harmonious win-win situation for the Company and employees.

(1) Labour rights protection

We strictly abided by the relevant laws and regulations and systems such as the “Labour Law of the People’s Republic of China”, “Labour Contract Law of the People’s Republic of China” which protected the legitimate rights of employees. Employment contracts were negotiated and entered into on an equitable and voluntary basis; at the same time, we continued to improve various compensation welfare and insurance systems; besides basic social insurance such as medical insurance, pension, insurance for work-related injury and unemployment benefits, etc., and housing fund on behalf of employees pursuant to the regulations, we also set up supplementary medical insurance and insurance for personal accident and injury to provide reliable protection for employees.

We strengthened the power of the labour union to provide services to staff through setting up a system of Association of Employee Representatives which allowed staff to participate in the decision-making process, management and supervision in a democratic manner, and to protect their rights to know, to choose and to complain.

(2) Staff training enhancement

All training programmes that we held had specific targets resulting in substantive results, through which improved the knowledge and working skills of our labour.

In order to speed up the exploration of overseas markets and enhance our ability to operate on an international scale, we successively organized lectures and cross-cultural management training on "North European cultural and business management model" targeting managerial staff so as to improve the understanding of Chinese and western culture, enhance ability in cross-cultural management. Meanwhile, we strengthened the training of overseas employees. One one hand, the local subsidiary/branch taught their staff technical skills. On the other hand, we systematically arranged study tours for them to visit China, attending our corporate training in order to foster the cultural integration.

The following is the statistics of the training held in 2009:

Managerial skill category:	3035 person-time
Technical category:	6986 person-time
Operational category:	4560 person-time

(3) Emphasis on staff development

We set up clear career development path for staff; we have set up a scale of job standards for different positions whereby any staff who can attain the standard of a certain grade can be promoted to work at that grade regardless his education and seniority. This method will allow staff to know their development direction clearly and have targets to enhance their own capabilities.

Through extensive work competition and skill competition among a large number of employees, we enhanced employees' passion for learning techniques and improving skills, this speeded up the nurturing of technical talents. In 2009, we successfully organized professional skill contest at the Company level and actively engaged in the professional skill contest held by CNOOC. These two contests fuelled a climax of "Learn your techniques, practise your skills, love your industry", created a good atmosphere of "Respect techniques, respect innovation, respect talents", and selected some technical talents with good techniques and skills. In 2009 Li Xiupeng and altogether 6 employees were awarded the "CNOOC Technical Winner"; Che Yusheng and altogether 4 employees below 35 years old were awarded "CNOOC Work Winner" at the same time.

In 2009, we employed a total of more than 710 fresh graduates from universities, more than 80 mature talents from the society, and the introduction of talented people added fresh blood for the sustainable development of COSL. In addition, COSL actively provided employment opportunities for the society, recruit more than 300 workers in Hebei and Shandong in 2009, so as to relieve local unemployment pressure and actively create job opportunities for society.

(4) Concern for health of employees

We highly stressed on the health of employees and insisted on the guidelines of "Prevention comes first, integration of prevention and treatment". We paid attention to the execution status of each area of health management while improving various rules and regulations to effectively prevent the occurrence of occupational diseases.

Standardization of inspection of dangerous factors of occupational diseases. We appointed qualified occupational hygiene and medical technological institutes to conduct an appraisal on the dangerous factors of occupational diseases such as noise, dust and radiation in work sites.

Emphasis on health check of staff. In 2009 our staff health check rate reached 99%, and all frontline staff worked with qualified health certificates. Employees who were in contact with dangerous factors of occupational diseases undertook occupational disease health check. We also set up the "Occupational disease file" and "Staff occupational health monitoring file".

Proper prevention and control of influenza. In order to make proper prevention and control of Type A H1N1 flu in 2009, minimize the harm to the health of our employees, we promulgated the relevant management system, appointed medical and hygiene institutes to inject vaccine of Type A H1N1 flu onto the offshore operation staff, made provisions of body temperature thermometers and the relevant drugs. There was no incident of Type A H1N1 flu in the marine facilities under our management.

During the outbreak of flu, employees who worked overseas could not return home punctually. As such, the leaders of the Company sent consolatory letters to them and visited their families by proxies.

Concern for staff psychological health. In 2009 we hired some members of the Association of Psychological Health, State Professional Psychological Consultant to provide tutorial on psychological health and introduce psychological health knowledge to employees.

(5) **Leisure life enrichment of staff**

We regularly and irregularly organized a number of wholesome activities for our staff to enhance their physical conditions and enrich their leisure time.

"Soul of the Sea", a large scale entertainment performance handled by COSL made 15 performances touring in Beijing, Tianjin, Shanghai and Shenzhen, promoted the publicity of the history of development, history of reform and corporate culture of COSL.

In the CNOOC Jingzhi Region Singing Contest Commemorating China's 60 Years of Foundation, our choir won the first prize with its excellent performance of two songs – "I contribute petroleum to China" and "Under bright sunshine". At the same time, we actively participated in the Photography Competition – "Love China, Love CNOOC" organized by the News Centre of CNOOC, 7 photos were awarded different prizes while the Company was awarded as the Excellent Organization.

Our 2009 Spring Long Race, annual staff basketball competition and volleyball competition attracted a number of employees to participate; "Read more books, Read good books" a free books giveaway event jointly organized with the Medical Library of the People's Liberation Army was also welcomed by staff.

We were particularly concerned about the safety of staff beyond their eight hours' work. In recent years, the number of automobiles increased rapidly, in order to safeguard the road safety of staff, we held safety education activities in various manner to enhance car drivers' safety awareness and skills.

5. Charity

Enterprises are important components of a society. To reciprocate favors back to society is the responsibility of an enterprise, we insist on the harmonious co-existence of company development and social progress. In 2009, while we worked hard to achieve sustainable and healthy development, we actively participated in charity work such as the Hope Project, poverty relief and social rescue programmes urged by a sense of social responsibility and mission. We optimized and regulated the corresponding work flow through the establishment of the "Rules of Charity Committee".

(1) Creation of new subsidized construction model

During the course of construction of the Hope Primary School, we adjusted the investment proportion according to the size of schools and their inaccessibility, strictly monitored the quality of construction, constantly increased our subsidy of construction. This type of subsidized construction method is the first of its kind since the creation of the Hope Project twenty years ago, and drew the attention and compliment of China Youth Development Foundation. At present, phase 1 of 7 Hope School in Yunnan was fully completed. The gross construction area was 3853 m^2, after the relevant departments of the local government inspected them and granted approval, they were all in use now. The 76 teachers and 2452 children from the mountainous regions officially "bidded farewell" to the dangerous old buildings and moved into the new, spacious and bright classrooms which could resist Grade 8 earthquake.

We continued with the management and support of Hebei Province Mancheng County Xunkuo Hope Primary School and Luanping County Wafang COSL Hope Primary School at the same time. The relevant personnel of the Company irregularly visited Hebei Province Mencheng County Hope Primary School, and donated 6 computers and stationery, providing the necessary condition for online teaching for the school.

During the summer vacations, we arranged 20 excellent teacher representatives of Hope School in Hainan and Yunnan to visit our company, understand our production and operation situations, undergo teaching demonstration training by teachers of superior grade. Our staff donation fund donated over RMB10,000 of books to seven Hope Schools in Yunnan.

In the past few years, our management of construction projects of the 12 Hope School in Hainan and Yunnan received a great compliment from China Youth Development Foundation while China Youth Development Foundation and other charities can take reference from this when implementing subsidy projects, and this served as a demonstration. On 19 November, the Central Committee of the Communist Youth League of China and China Youth Development Foundation held the Seminar of 20th Anniversary of the Hope Project in the People's Hall, and "Special Contribution Award of the 20th Anniversary of the Hope Project" was awarded to the Company.

(2) Disaster relief

We have over 100 vessels participated in several marine rescues instructed by the rescue centres of various marine bureau. In 2009 we participated in altogether 28 marine rescues, such as using our icebreaking vessels to help fishing boats pass through ice-covered waters, and successfully saved 11 people, helped 65 people to get out of danger. We received several correspondences of compliment from some marine bureau and the relevant departments.

In 2010, the Company will continue the safety culture, intensification of safety management; environmental protection, energy saving and emission reduction; we will actively perform our social responsibilities and continue to move forward our sustainable development.

10. 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, Non executive director	Male	58	3 Jun. 2009~2 Jun. 2012	20,000	20,000	N/A	–	–	–	Yes
Liu Jian	Vice Chairman, Executive director and CEO	Male	51	3 Jun. 2009~2 Jun. 2012	–	–	N/A	362,954	–	–	No
Li Yong	Executive director and president	Male	46	3 Jun. 2009~2 Jun. 2012	–	–	N/A	528,923	70.43	934,834	No
Wu Mengfei	Non executive director	Male	54	27 May 2007~26 May 2010	–	–	N/A	–	–	–	Yes
Gordon C.K. Kwong	Independent non executive director	Male	60	30 Oct. 2005~	–	–	N/A	400,000	–	–	No
Tsui Yiu Wa	Independent non executive director	Male	60	3 Jun. 2009~2 Jun. 2012	–	–	N/A	200,000	–	–	No
Simon X. Jiang	Independent non executive director	Male	56	27 May 2007~26 May 2010	–	–	N/A	400,000	–	–	No
Zhu Liebin	Chairman of Supervisory Committee	Male	44	3 Jun. 2009~2 Jun. 2012	–	–	N/A	–	–	–	Yes
Yang Jinghong	Employee Supervisor	Male	45	26 Jul. 2007~25 Jul. 2010	–	–	N/A	493,032	–	–	No
Wang Zhile	Independent Supervisor	Male	61	3 Jun. 2009~2 Jun. 2012	–	–	N/A	40,000	–	–	No
Zhong Hua	Executive vice president and CFO	Male	49	Apr. 2006~	–	–	N/A	579,212	70.43	934,834	No
Chen Weidong	Executive vice president CSO and Secretary of the board	Male	54	Dec. 2005~	–	–	N/A	629,698	70.43	934,834	No
Dong Weiliang	Executive vice president and CTO	Male	52	Jun. 2007~	–	–	N/A	700,917	–	–	No
Li Xunke	Senior vice president	Male	53	Jun. 2007~	–	–	N/A	564,070	65.69	871,919	No
Xu Xiongfei	Vice president and chairman of Labour Committee	Male	48	Jun. 2007~	–	–	N/A	483,203	60.91	808,472	No
Xiao Guoqing	Vice president	Male	60	Jun. 2007~	–	–	N/A	565,269	–	–	No
Yu Zhanhai	Vice president	Male	55	Aug. 2007~	–	–	N/A	582,509	–	–	No
Total	/	/	/	/	20,000	20,000	/	6,529,787	337.89	4,484,894	/

* *Details are set out in Corporate Governance V. – 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, born in 1951, is the Chairman and a Non-Executive Director of COSL. He received a Bachelor Degree in Geology 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. Mr. Fu also serves as General Manager of CNOOC, Chairman and Chief Executive Officer of CNOOC Ltd, Chairman of CNOOC Finance Co., Ltd. Chairman of Zhonghai Trust Co., Ltd. Mr. Fu was the Deputy General Manager of CNOOC and the President of CNOOC Ltd. And previously, he also worked in China Offshore Oil Eastern South China Sea Corporation, Philips Petroleum International (Asia Pacific) and joint venture between CNOOC and BP Amoco, Chevron, Shell as well as Agip. Mr. Fu has over 31 years of experience in the oil industry.

Mr. Liu Jian

Chinese, male, born in 1958, Vice-Chairman, Executive Director and 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 first joined CNOOC in 1982 and has over 28 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. 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 has been appointed as the Chief Executive Officer of COSL with effect from March 2009. In June 2009, Mr. Liu was appointed as Vice-Chairman of COSL.

Mr. Li Yong

Chinese, male, born in 1963, Executive Director and the President 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 April 2009 Mr. Li was an Executive Director and President of COSL. From May 2006 to April 2009, 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 COSL. 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 26 years.

Mr. Wu Mengfei

Chinese, male, 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. Gordon C.K. Kwong

China (Hong Kong) by nationality, male, born in 1949, an Independent Non-Executive Director of COSL. 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 Hong Kong 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, Quam Limited, China Power International Development Limited, Henderson Investment Limited, Henderson Land Development Co Limited, CITIC 1616 Holdings Limited and Agile Property Holdings Limited.

Mr. Tsui Yiu Wa

China (Hong Kong) by nationality, male, born in 1949, an Independent Non-Executive Director of COSL. He has more than 31 years of experience in the securities market and financial management. Mr. Tsui graduated from the University of Tennessee with a Bachelor of Science degree and a master of engineering degree in industrial engineering. He completed the program for senior managers in government at the John F. Kennedy School of Government at Harvard University. Mr. Tsui served at various international companies, including Arthur Andersen & Co and Swire Bottlers Limited, and China Light and Power Company Limited for 12 years in relation to information technology, financial analysis, corporate planning and management. He was the general manager (finance, technology & human resources), an assistant director (licensing) and the general manager (human resources) of the SFC from 1989 to 1993. Mr. Tsui joined the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and became the chief executive from 1997 to July 2000. From 2001 to 2004, he was chairman of the Hong Kong Securities Institute. He was an adviser and a council member of the Shenzhen Stock Exchange from July 2001 to June 2002. At present, Mr. Tsui serves as an independent non-executive director of number of listed companies in Hong Kong and NASDAQ, namely Industrial and Commercial Bank of China (Asia) Ltd., China Chengtong Development Group Ltd., COSCO International Holdings Ltd., China Power International Development Ltd., China Blue Chemical Limited, Greentown China Holdings Limited, China Hui Yuan Juice Holdings Company Limited, Pacific Online Limited, Melco PBL Entertainment (Macau) Limited and ATA Inc. Mr. Tsui is an independent non-executive director of AIG Huatai Fund Management Company Limited, Fortis Insurance Company (Asia) Ltd and Fortis Asia Holding Limited. He is also a director and the Chairman of Hong Kong Professional Consultant Association Limited.

Dr. Simon X. Jiang

Chinese, male, born in 1953, an Independent Nonexecutive 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 Nonexecutive 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. Zhu Liebin

Chinese, male, born in 1965, a Supervisor and the Chairman of Supervisory Committee of COSL. He graduated from the college of industrial management engineering of China University of Petroleum (East China) and obtained a bachelor's degree in technology and engineering in 1988. Mr. Zhu graduated from the China University of Petroleum (Beijing) with a Master degree in Engineering in 1999. Mr. Zhu is a senior economist and a registered senior risk analyst. Since June 2009, he has been the Chairman and a supervisor of the Board of Supervisors of COSL. Since May 2009, Mr. Zhu has been appointed as Vice Chairman of Discipline Inspection Committee and General Manager of Auditing & Supervision Department of CNOOC. Since March 2009, he has been the Chairman of the Board of Supervisors of China Ocean Oilfields Services (HK) Ltd. Mr. Zhu has been the Chairman of the Board of Supervisors of CNOOC Energy Technology & Services Limited since July 2008. He has been appointed as the General Manager of Auditing & Supervision Department of CNOOC since June 2007. From August 2005 to June 2007, Mr. Zhu was the Deputy General Manger of the Tianjin Branch of CNOOC China Limited. From September 2001 to August 2005, Mr. Zhu was the Manager of the Human Resources Department of CNOOC. From May 1999 to September 2001, Mr. Zhu served as the Manager of the Labour Department of CNOOC Southeast Asia Limited and manager of Base Company in Shekou. From September 1989 to May 1999, he was appointed as the assistant to the human resources department, head of human resources department and the manager of the human resources department of CNOOC Southeast Asia Limited. Mr. Zhu first joined CNOOC in August 1988 and has over 22 years of experience in the oil and gas industry.

Mr. Yang Jinghong

Chinese, male, 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. Since January 2010, he has been the General Manager of Geophysical Services Division of COSL. Mr. Yang was the president of COSL Engineering Institute from November 2008 to January 2010. He has been an Employee Supervisor of COSL since July 2007. Mr. Yang was serving as General Manager of Human Resources Department of COSL from November 2005 to January 2010. 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 25 years.

Mr. Wang Zhile

Chinese, male, born in 1948, an Independent Supervisor of COSL, a master degree holder and a research fellow. From 1982 to 1992, Mr. Wang had taught at Renmin University of China as lecturer and associate professor consecutively for programmes such as German Modernisation, Swiss Modernisation, Modern History of Science and Technology and Modern World History. He studied German and European Economic History, Business History and Modernisation History at Bielefeld University, Germany, Deutsches Museum and University of Bern, Switzerland, from 1985 to 1988. From 1992 to 2008, he had been a researcher (professor) and supervisor of the multinational enterprise research centre at International Trade and Economic Cooperation Research School of MOFTEC. He was also a committee member of State Industrial Policy Advisory Commission, Vice Chairman of Foreign Investment Committee of Investment Association of China, Contract Research Fellow of Foreign Trade and International Finance Research Center of Chinese Academy of Social Sciences and Contract Research Fellow of China Society of Economic Reform, as well as Part-time Professor at institutes including Nankai University and Shenzhen Polytechnic. He was granted Certificate for Specialist with Outstanding Contribution to the State by the State Council and is entitled to special government allowance. Since 2008, he has been a research fellow at Research Institute of the Ministry of Commerce, Head of Beijing New-century Academy on Transnational Corporations and a research fellow at China Center of International Economic Exchanges. He has been an independent director of SGSB since June 2005. Since June 2009, he has been appointed as an Independent Supervisor of COSL.

Biographies of Company's Senior Management

Mr. Liu Jian

Please refer to Biographies of Directors.

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 Exploitation. 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 assistant engineer, 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 28 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 COSL and Secretary of Board of Directors, as well as Chief Strategy Officer since April 2006. He was Vice President of COSL and Secretary of Board of Directors from September 2002 to April 2006. 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 General Manager of 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 28 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 COSL 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 Limited. 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 28 years of working experience in the oil and natural gas industry.

Mr. Li Xunke

Chinese, male, was born in 1956, Senior Vice President. 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 1991 and December 1994, Mr. Li served as Deputy 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 1991 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 28 years of experience in the oil and natural gas industry.

Mr. Xu Xiongfei

Chinese, male, was born in 1961, Vice President of COSL, EMBA, CSERM. He is Vice President of the Company since June 2007. He has been serving as Chairman of Labour Committee of COSL since October 2005. From September 2002 to October 2005, Mr. Xu was General Manager of Human Resources Department of COSL. From December 2001 to September 2002, 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 December 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 32220 at Drilling Department, Bohai platform No. 8, and Party Committee Office. Mr. Xu has over 32 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 Exploitation. He was the Vice President of COSL 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 38 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 COSL 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 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, manager of the fleet and department head of operation department. From 1979 to 1982, he worked in the geophysical service fleet of Offshore Oil Exploration Bureau. Mr. Yu has over 30 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	October 2003	Until now	Yes
Wu Mengfei	China National Offshore Oil Corporation	Chief Accountant	April 2006	Until now	Yes
Zhu Liebin	China National Offshore Oil Corporation	General Manager of the Division of Auditing & Supervision	June 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
Tsui Yiu Wa	China Huiyuan Juice Group Limited, etc.	Independent Non-Executive Director	2006	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
Zhu Liebin	Yes

IV. Change of Directors, supervisors and senior management

Names	Positions	Reason for resignation
Yuan Guangyu	Vice Chairman, Executive Director, CEO and President	Change in job
Andrew Y. Yan	Independent Non-executive Director	Term of office expired
Zhang Benchun	Chairman of the Supervisory Committee	Term of office expired
Zhang Dunjie	Independent Supervisor	Term of office expired

Note: 1. *On 2 March 2009, the Company decided to appoint Mr. Liu Jian as CEO. The former CEO, Mr. Yuan Guangyu resigned as CEO due to his job change.*

2. *On 3 June 2009, the Company convened 2008 Annual General Meeting. Mr. Fu Chengyu, Mr. Liu Jian, Mr. Li Yong and Mr. Tsui Yiu Wa were elected as new directors of the Company through cumulative voting with a term of office of 3 years from the date the resolution passed at the general meeting. Mr. Tsui Yiu Wa has been elected as an Independent Non-executive Director. Mr. Andrew Y. Yan resigned as an Independent Non-executive Director of the Company. Mr. Yuan Guangyu resigned as a Non-executive Director of the Company. At the meeting, Mr. Zhu Liebin and Mr. Wang Zhile were elected as new supervisors who are not employee representatives, with a term of office of 3 years from the date the resolution passed at the general meeting. Mr. Zhang Benchun and Mr. Zhang Dunjie resigned as Supervisors of the Company.*

V. Company's staff

As at the end of the reporting period, the Company had a total of 9,155 employees. There are no retired staff expenses that need to be borne by the Company.

The structure of the employees is as follows:

(I) Professional compositions

Professional type	Number of employees
Management post	1,991
Technical post	5,027
Operational post	2,137

(II) Educational level

Education	Number of employees
Master degree of above	340
Undergraduate	3,911
College	2,413
Secondary	583
Technical college	488
Senior secondary or below	1,420

11. 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 2009.

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 2009 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 202 to 207.

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 proposed final dividends within the equity section of the statement of financial position. The total 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 2009 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 43 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.

Summary Financial information

A summary of the published results and the assets, liabilities and minority interests of the Group for the last five years in accordance with Hong Kong Financial Reporting Standards is set out below:

Results

Unit: RMB'000

	2009	2008	2007	2006	2005
Revenue	17,878,654	12,142,944	9,007,987	6,364,839	4,788,792
Other revenues	95,099	48,671	38,611	31,341	12,919
	17,973,753	12,191,615	9,046,598	6,396,180	4,801,711
Depreciation of property, plant and equipment and amortisation of intangible assets	(2,865,166)	(1,563,534)	(1,042,081)	(900,244)	(755,676)
Employee compensation costs	(2,669,618)	(2,106,497)	(1,643,857)	(936,936)	(833,345)
Repair and maintenance costs	(609,441)	(420,257)	(317,546)	(356,510)	(285,166)
Consumption of supplies, materials, fuel, services and others	(3,610,001)	(2,720,083)	(2,003,698)	(1,934,817)	(1,696,796)
Subcontracting expenses	(884,384)	(542,226)	(357,191)	(206,325)	–
Operating lease expenses	(589,118)	(356,136)	(365,706)	(313,431)	(213,436)
Other operating expenses	(1,076,167)	(693,870)	(387,108)	(274,444)	(105,288)
Other selling, general and administrative expenses	(381,870)	(158,523)	(102,003)	(81,231)	(61,737)
Impairment of property, plant and equipments	(819,889)	–	–	–	–
Total operating expenses	(13,505,654)	(8,561,126)	(6,219,190)	(5,003,938)	(3,951,444)
Profit from operations	4,468,099	3,630,489	2,827,408	1,392,242	850,267
Financial income/(expenses)					
Exchange losses, net	(92,686)	(91,358)	(113,868)	(46,694)	(16,802)
Finance costs	(786,430)	(638,985)	(31,563)	(36,708)	(104)
Interest income	60,352	191,433	71,437	27,856	16,956
Financial income/(expenses), net	(818,764)	(538,910)	(73,994)	(55,546)	50
Share of profits of jointly-controlled entities	110,264	215,707	113,153	113,505	106,617
Profit before tax	3,759,599	3,307,286	2,866,567	1,450,201	956,934
Income tax expense	(624,282)	(205,045)	(628,983)	(321,966)	(135,938)
Profit for the year	3,135,317	3,102,241	2,237,584	1,128,235	820,996

Assets and liabilities

Unit: RMB'000

	2009	2008	2007	2006	2005
Total assets	60,776,518	56,200,901	23,088,985	13,130,170	9,709,875
Total liabilities	38,470,913	36,403,057	5,863,977	4,511,626	2,055,133

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 35 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 RMB3,135,316,585 in 2009, together with RMB6,208,025,040 of undistributed profit at the beginning of the year, and after deduction of RMB335,584,027 of withdrawal of statutory reserve, and RMB629,344,800 cash dividend for 2008 distributed in June 2009 to all shareholders by the Group, the Group had an undistributed profit of RMB8,378,412,798 as at the end of 2009. Based on the total number of shares of the Group as at the end of 2009, 4,495,320,000 shares, 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 RMB7,749,067,998 to be distributed in following years. Such distribution is subject to the review and approval of the 2009 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 (%)
2007	RMB539,438,400	RMB2,237,583,857	24
2008	RMB629,344,800	RMB3,102,241,149	20
2009	RMB629,344,800	RMB3,135,316,585	20

Charitable contributions

During the year, the Group made charitable donations totaling RMB1,172,500.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 74% of the total sales for the year and sales to the largest customer included therein accounted for approximately 59%. Purchases from the Group's five largest suppliers accounted for approximately 19% of the total purchases for the year; and purchases from the Group's largest supplier accounted for approximately 8% 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 "Related Party 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. 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 Note 19 and Note 32 to the financial statements prepared in accordance with Hong Kong Financial Report Standards respectively.

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.

Use of funds raised

In September 2007, 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 2009, the proceeds from the A share issue used was RMB6,738 million, the remaining proceeds of RMB11 million was deposited in the A share account at the bank, with sufficient safety assurance.

Unit: RMB million

The total amount of funds raised	6,740	Amount of funds used during the year Accumulated amount of funds used		1,693 6,738
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	699	No	679	No (note 1)
Build 2 drilling ships with 300 inches and automatic rising arm	2,938	No	2,764	Yes
Build 18 oilfield operation ships involving six types	1,969	No	1,778	No (note 2)
Build 2 ships with three functions in deep sea	1,564	No	429	Yes
Rebuilt geophysical ship with 8 cables	530	No	517	Yes
Build geophysical ship with 12 cables	1,149	No	187	Yes
Build geophysical ship investing in deep sea	529	No	129	Yes
Purchase VSP	16	No	16	Yes
Purchase 2 sets of oil pile and nitrogen equipment	41	No	36	No (note 3)
Purchase 3 sets of LWD equipment items	243	No	197	Yes
Purchase equipment with nuclear magnetic resonance for inspecting well	27	No	26	Yes
Purchase equipment with function of scanning pictures for inspecting well	32	No	24	Yes
Total	11,185	–	8,084	–

Notes to committed projects not 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 2010.

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 second quarter of 2010.

note 2: The project progress has been postponed by 242 days due to the tight global supply of raw materials.

note 3: The project finalized and delivered in January 2009, three months later than the original schedule.

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

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, remould of 931 drilling rig was completed in the third quarter of 2008, construction the second 400 feet drilling rig has been completed and delivered in the third quarter of 2008, and 18 oilfield operation ships involving six types was completed and delivered in the fourth quarter of 2009.

Charge on Assets with Restricted Use

As at 31 December 2009, the Group had no charges against its assets with restricted use.

Contingent Liabilities

As at 31 December 2009, the Group had contingent liabilities as set out in Note 40 to financial statements (Hong Kong).

Directors and Supervisors

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

Executive directors:	**Independent non-executive directors:**	**Supervisors:**
Liu Jian	Gordon C.K. Kwong	Zhu Liebin
Li Yong	Tsui Yiu Wa	Yang Jinghong *(Employee supervisor)*
	Simon X. Jiang	Wang Zhile *(Independent supervisor)*

Non-executive directors:

Fu Chengyu

Wu Mengfei

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, Tsui Yiu Wa and Simon X. Jiang, and as at the date of this report, still considers them to be independent.

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 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 2009 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

The remuneration of Directors and supervisors 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 pages 50 to 51 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 41 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 2009, 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 2009, 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.

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 2009, 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	Number of shares in interest (share)	Shares in COSL's interest(%)
JPMorgan Chase & Co.	Interest in controlled corporation	215,427,976(L)	14.04(L)
		527,000 (S)	0.03 (S)
		90,101,906(P)	5.87(P)
Commonwealth Bank of Australia	Interest in controlled corporation	89,886,000(L)	5.86(L)
Morgan Stanley	Interest in controlled corporation	78,043,833(L)	5.08(L)
		1,284,931 (S)	0.08 (S)
Mirae Asset Global Investments (Hong Kong) Limited	Direct Beneficial owner	77,265,573(L)	5.03(L)

Notes

(a) "L" means long position.

(b) "S" means short position.

(c) "P" means lending pool.

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

Connected Transactions (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 integrated services framework agreement in respect of the continuing connected transactions between the Company and CNOOC and its subsidiaries from 1 January 2008 to 31 December 2010 of the Company on 7 November 2007. The resolution in respect of the continuing connected transactions for three years from 1 January 2008 to 31 December 2010, was approved at the extraordinary general meeting convened on 31 December 2007.

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

For the year ended 31 December 2009, the Group had the following transactions:

	2009 RMB'000	2008 RMB'000
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	4,913,421	3,321,950
Provision of well services	3,437,798	2,159,691
Provision of marine support and transportation services	1,547,896	1,141,586
Provision of geophysical services	1,013,549	1,013,630
	10,912,664	7,636,857
b. The CNOOC Group		
Provision of drilling services	302,997	109,750
Provision of well services	160,861	18,979
Provision of marine support and transportation services	219,166	225,455
Provision of geophysical services	158,835	135,118
	841,859	489,302
B. Included in operating expenses		
Services provided by the CNOOC Group:		
Labour services	24,481	25,554
Materials, utilities and other ancillary services	291,237	229,686
Transportation services	4,250	2,981
Leasing of office, warehouse, and berths	82,117	69,519
Repair and maintenance services	3,985	17,585
Management services	24,946	53,513
	431,016	398,838
C. Included in interest income/ expenses:		
CNOOC Finance Co., Ltd.		
Interest income	4,247	1,716
Interest expenses	22,812	836
D. Loans drawn down and repaid during the year		
CNOOC Finance Co., Ltd.	1,300,000	199,659
E. Deposits:		
Deposits placed with CNOOC Finance Co., Ltd. as at year end	541,962	539,821
F. Construction of 200 feet drilling rigs		
Offshore Oil Engineering Co. Ltd	1,262,965	107,038

The independent shareholders of the Company have granted the connected transactions set out in (A) and (B) above on 31 December 2007. For item (C) above, the transaction was qualified as "De minimis transaction" as defined in the Listing Rules and for item (D), the transaction was qualified as "exempt financial assistance" as defined in the Listing Rules. For item (E), the transaction was exempted from the independent shareholders' approval requirement which was approved by Independent Directors on 29 April 2008. For item (F), independent shareholders have granted their approval to the Company in regarding to such connected transaction on 13 February 2009.

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

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) and (B) above, the transactions were entered into with the annual aggregate value within the relevant annual limits of each category as approved by the independent shareholders.

Auditors of the Company has written a letter to the board and stated that for the items (A) and (B) above:

(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) The actual amount of such transactions did not exceed the relevant 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 Bao 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 2009 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 2009, the major transactions between the Company and related parties were as follows:

(1) Services Provided to Related Parties

Unit: RMB Yuan

Financial Report (PRC)	2009	2008
Provision of drilling services		
CNOOC Limited Group	4,913,421,326	3,321,950,060
Offshare Oil Engineering Co., Ltd.	6,325,412	–
CNOOC	291,954,603	94,999,381
CNOOC Energy Technology & Services Ltd.		
– Oilfield Construction Engineering Company	–	4,198,500
Other CNOOC Group companies	4,716,994	10,551,899
Jointly-controlled entities	172,528,724	4,688,951
Subtotal	5,388,947,059	3,436,388,791
Gross external revenue amount of provision of drilling services	10,135,321,629	6,038,878,560
Proportion in similar transactions	53%	57%
Provision of well services		
CNOOC Limited Group	3,432,382,620	2,132,006,625
CNOOC	47,637,983	14,065,327
Offshare Oil Engineering Co., Ltd.	68,589,686	–
Other CNOOC Group companies	20,065,876	3,391,665
Jointly-controlled entities	5,563,384	11,081,151
Subtotal	3,574,239,549	2,160,544,768
Gross external revenue amount of provision of well services	4,523,577,858	2,798,360,958
Proportion in similar transactions	79%	77%
Provision of marine support and transportation services		
CNOOC Limited Group	1,547,895,592	1,141,586,066
Offshore Oil Engineering Co., Ltd	114,259,877	91,894,431
CNOOC	37,424,020	9,435,738
CNOOC Kaishi Petrochemical Company Limited	29,966,785	–
Bohai Material Supply Company	–	8,196,000
CNOOC Kingboard Chemical Ltd.	–	24,988,731
Shenzhen Weicheng Ocean Petroleum Technology Co., Ltd.	–	7,840,381
Other CNOOC Group companies	37,515,459	75,493,010
Jointly-controlled entities	7,031,418	4,637,273
Subtotal	1,774,093,151	1,364,071,630
Gross external revenue amount of provision of marine support and transportation services	2,239,378,199	1,665,446,658
Proportion in similar transactions	79%	82%
Provision of geophysical services		
CNOOC Limited Group	1,013,549,070	1,013,630,433
Offshore Oil Engineering Co., Ltd	129,923,031	119,534,593
CNOOC Shenzhen Natural Gas Co., Ltd	10,451,797	–
CNOOC Research Centre	13,600,000	–
Bohai Oil Harbor Engineering and Construction Company	–	33,000
CNOOC Oil Refinery and Petrochemical & Dongguan Oil Products Storage and Transportation Co., Ltd.	–	8,611,301
CNOOC	2,059,336	1,400,000
Other CNOOC Group companies	2,800,849	5,539,455
Jointly-controlled entities	657,352	4,209,250
Subtotal	1,173,041,435	1,152,958,032
Gross external revenue amount of provision of geophysical services	1,447,123,729	1,927,566,415
Proportion in similar transactions	81%	60%

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

(2) Services Provided by Related Parties

	2009	2008
Offshore Oil Engineering Co., Ltd	1,262,970,022	107,990,877
Other CNOOC Group companies	428,818,282	358,297,622
Jointly-controlled entities	110,921,891	33,471,207
Total	1,802,710,195	499,759,706

(3) Loan of funds from/to Related Parties

2009 Funds borrowed	Amount RMB	Inception date	Due date
CNOOC Finance Co., Ltd.			
Loan 1	800,000,000	12 June 2009	10 June 2011
Loan 2	500,000,000	30 June 2009	29 June 2012

No funds were borrowed from and lent to related parties during 2008.

(4) Leases of Related Parties

During the period of restructuring, the Company entered into various agreements with CNOOC in relation to employee benefits arrangement, provision of materials, utilities and ancillary services, as well as provision of technical services, leases and other commercial arrangements.

Prior to restructuring, the Group uses 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.

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.

Events after reporting period

As of the date of this report, the Group had no events after reporting period which should be disclosed.

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 2009 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 41 to 51 of this annual report. Upon specific enquiry to each and every director by the Company, the Board of Directors confirms that all members of the Board, for the year under review, have complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Auditors

This financial 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.

Change in Accounting Policy

Originally, for the long term equity investments measured at cost method in the financial statements prepared under CAS, the investment income that the Group recognized was limited to proportionate distributions from accumulated profits after the acquisition. The extra cash dividends or profits gained by the Group were treated as a recovery of investment cost. After the adoption of the Interpretation No.3 to the CAS on 1 January 2009, the investment income that the Group recognizes is no longer based on distributions from accumulated profits before or after the date of acquisition. Since then, for the long term equity investments measured at cost method, the Group recognized investment income according to the cash dividends or profits declared by the investee, except for cash dividends or profits declared but unpaid which were included in the consideration payment for acquiring the investment. The change of the accounting policy has no effect on the Group's financial statements prepared under CAS.

Change in Accounting Estimates

Subsequent to the announcement of asset impairment in the interim period of the year, the Group completed, on 30 September 2009, the purchase price allocation in respect of its acquired assets. As such, the Group made retrospective adjustments on opening balances of the related items in the statement of financial position.

ON BEHALF OF THE BOARD

Fu Chengyu
Chairman
30 March 2010

12. Supervisory Committee Report

The Supervisory Committee of the Company for the year 2009 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 a change in two members of the Supervisory Committee:

The terms of office of Supervisor, Zhang Benchun and Independent Supervisor, Zhang Dunjie expired on 3 June 2009. Zhu Liebin and Wang Zhile will be their successors. As the date of this report, the Supervisory Committee of the Company comprises of:

Chairman: Zhu Liebin, elected as Supervisor at the General Meeting on 3 June 2009 and appointed as the Chairman of Supervisory Committee by the Supervisory Committee on 4 June 2009 (effected from 4 June 2009); Staff Representative; Yang Jinghong, elected as the Supervisor and Employee Representative of the Company at the Staff Representatives' Meeting on 26 July 2007 for a term until 25 July 2010; Independent Supervisor: Wang Zhile, elected as Supervisor at the general meeting on 3 June 2009 for a term until 2 June 2012.

2. Operation of the Supervisory Committee

(1) During the reporting period, supervisor Zhang Benchun attended 2 regular Board meetings, supervisor Yang Jinghong attended 4 regular Board meetings, supervisor Zhang Dunjie attended 2 regular Board meetings, supervisor Zhu Liebin attended 3 regular Board meetings and supervisor Wang Zhila attended 3 regular Board meetings. 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 2008 Annual Report, the 2009 Interim Report, the 1st quarterly report and the 3rd quarterly report for the year 2009 in compliance with the regulatory requirements of the issue of A shares during the reporting period.

(4) During the reporting period, the Supervisory Committee reviewed the effectiveness of internal control of the Company and made certain recommendation for improvement.

(5) Zhang Benchun, Chairman of the Supervisory Committee, attended the Extraordinary General Meeting on 13 February 2009, Yang Jinghong attended the Annual General Meeting on 3 June 2009, 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. 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.

(2) Management situation and internal control 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, and the effective operation of internal control kept the Company from significant management and financial risks. The Supervisory Committee is of the view that the Company needs to optimize the related system on one hand and to increase the strictness and effectiveness of the implementation of such system on the other hand. The Company should pay more attention to the risk prevention, especially during its rapid development, to increase its risk resistant ability. Besides, the management of the Company and the related departments should implement stricter control on main construction projects while further improving the process of the decision-making, key node and the report of other significant issues in terms of system and procedure as well as further illuminating such authorities.

(3) The performance of responsibilities of Directors and senior management

The Supervisory Committee is of the view that the Board of Directors, both collectively and individually, have earnestly performed their duties integrity and diligently, and each Director has earnestly understood the situation of the Company and thoroughly discussed the Company's affairs before making decisions. Also, management have earnestly performed their duty business especially under the challenges of global financial crisis and market downturn, and outstandingly accomplished the objectives set by the Board through actively adopting various solutions to overcome the challenges.

(4) 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 2009 prepared 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.

(5) 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.

(6) Related parties transactions

During the reporting period, all the related parties 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

Zhu Liebin
Chairman of the Supervisory Committee
30 March 2010

13. Significant Events

(I) Significant litigation or arbitration

Unit: RMB

Plaintiff (Applicant)	Respondent	Party Carrying Joint Liability	Litigation/ Arbitration	Procedure of the Litigation (Arbitration)	Amount involved in the Litigation (Arbitration)	Process of the Litigation (Arbitration)	Judgment and Effect of the Litigation (Arbitration)	Execution of the Judgment of the Litigation (Arbitration)
Former minor shareholder of AWO	CDE	Nil	Litigation	Note 1	N/A (note 2)	Note 1	Note 1	Final judgment has not been made

Note 1: In January 2007, Awilco Offshore ASA (AWO) made a compulsory acquisition of the outstanding shares in OffRig Drilling ASA ("OFRD"). The acquisition was made in accordance with the Norwegian Public Limited Companies Act 4-25. Certain minority shareholders owning an aggregate of 8.8% in OFRD disagreed with the price paid per share. In 2009, an appraisement where the redemption price for the shares was set at a price higher than the acquisition price was made by a Norwegian court. COSL Drilling Europe AS (CDE) has filed a petition for a second appraisement by a higher court and the proceedings have been set in 2010.

Note 2: As the final judgement has not been made for this litigation, the Company could not determine the amount involved.

(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	19,281,034	100%	(15,003,044)
Total			207,118,792	/	19,281,034	100%	(15,003,044)

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

There was no acquisition, disposal of assets and mergers of the Company during the year.

(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 major 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.

As of 31 December 2009, 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

Group	31 December 2009	31 December 2008
Accounts Receivable		
CNOOC Limited Group	1,874,789,040	1,236,112,535
CNOOC	257,469,184	120,526,395
Offshore Oil Engineering Co., Ltd	102,933,658	59,366,522
COSL-Expro	1,443,357	2,426,922
China France Bohai	502,894	76,659
CNOOC-OTIS	644,725	25,134
Magcobar	557,135	623,444
Fugro	12,768	1,875
Logging-Atlas	2,911,943	45,284
Atlantis Deepwater	80,022,467	–
Others	32,255,222	17,892,944
	2,353,542,393	1,437,097,714
Accounts Payable		
CNOOC Limited Group	1,593,506	1,071,670
Bohai Oil Material Supply Company Limited	22,595,651	2,716,262
Offshore Oil Engineering Co., Ltd	64,555,747	952,652
Yaujiao Base Branch of CNOOC Enterprises Corporation	175,387	3,667,079
Magcobar	1,126,800	10,489,073
Fugro	5,417,087	8,332,671
China France Bohai	1,929,742	3,156,492
Logging-Atlas	23,442,814	26,786,115
Others	31,661,313	47,527,074
	152,498,047	104,699,088

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

Unit: RMB

Group	31 December 2009	31 December 2008
Other receivables		
CNOOC Limited Group	844,605	921,417
CNOOC	1,983,532	2,299,741
COSL-Expro	4,511,608	1,651,610
China France Bohai	4,810,302	2,555,940
CNOOC-OTIS	–	(120)
Fugro	2,027	–
Logging-Atlas	74,250	74,250
Atlantis Deepwater	30,115,828	26,694,570
Premium Drilling	147,177,452	71,919,890
Others	372,591	1,200,554
	189,892,195	107,317,852
Other payables		
CNOOC Limited Group	–	3,898,837
CNOOC	3,248,229	3,248,229
China Offshore Oil Int'l Engineering Company	16,260,729	14,668,495
China France Bohai	96,072	96,072
COSL-Expro	13,432	93,771,347
Premium Drilling	32,353,555	–
Others	22,032,799	16,496,087
	74,004,816	132,179,067
Receipts in advance		
CNOOC Limited Group	–	33,519,000
Prepayments		
CNOOC Energy Technology & Services Ltd. – Oilfield Construction Engineering Company	–	24,600,000
Offshore Oil Engineering Co., Ltd	298,097,500	259,724,275
	298,097,500	284,324,275
Notes receivable		
CNOOC Limited Group	427,107,943	338,269,985
Notes payable		
Offshore Oil Engineering Co., Ltd	–	366,762,500
Cash kept in Related Company		
CNOOC Finance Co., Ltd	541,962,050	539,821,006

(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 contracted operation during the year.

(3) Lease

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

2. Guarantee

The Company had not carried any significant guarantee 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 pages 50 to 51 of this Annual Report)

(XI) Information disclosure reference

Event	Name of newspaper or interface of posting	Posting date	Link of Worldwide Web of posting
Connected Transaction and Discloseable Transaction and Stock Appreciation Rights Scheme		2009-1-7	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Extraordinary General Meeting		2009-1-7	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proxy Form for Extraordinary General Meeting		2009-1-7	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Slip for Extraordinary General Meeting		2009-1-7	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice for Convening 2009 First Extraordinary General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-1-8	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of Results of the Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-1-8	http://www.sse.com.cn http://www.cosl.com.cn/
Business Strategy for the Financial Year Ending 2009		2009-1-20	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the 2009 Business Strategy of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-1-21	http://www.sse.com.cn http://www.cosl.com.cn/
Monthly Return of Equity issuer on Movements in Securities for the Month Ended 31 January 2009		2009-2-5	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of Results of Extraordinary General Meeting Held on 13 February 2009		2009-2-13	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Results of 2009 First Extraordinary General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-2-14	http://www.sse.com.cn http://www.cosl.com.cn/
Legal Opinion Letter on 2009 First Extraordinary General Meeting of COSL		2009-2-14	http://www.sse.com.cn http://www.cosl.com.cn/
Resignation of Director and Change of Chief Executive Officer		2009-3-2	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of Results of the Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-3-3	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of Results of the Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-3-5	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 28 February 2009		2009-3-5	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Board Meeting		2009-3-16	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
Announcement of Annual Results for the Year Ended 31 December 2008		2009-4-1	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Results of 2009 First Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-4-2	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Annual Report of COSL		2009-4-2	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Summary of the Annual Report of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-4-2	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of Results of 2009 First Supervisory Committee Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-4-2	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Specified Description of the Transfer of Non-operating Fund and Other Associated Fund of COSL in 2008		2009-4-2	http://www.sse.com.cn http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 March 2009		2009-4-2	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Continuous Governing opinion from Independent Financial Adviser of COSL in Respect of the Actual Progress of the Restructure of Material Assets		2009-4-16	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Board Meeting		2009-4-18	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Closure of Register of Shareholders		2009-4-27	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
2008 Annual Report of COSL		2009-4-29	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Annual General Meeting		2009-4-29	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Circular of Annual General Meeting		2009-4-29	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proxy form for Annual General Meeting		2009-4-29	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Slip for Annual General Meeting		2009-4-29	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proposed Provision of Corporate Communication through the Company's Website and Proposed Amendments to the Articles of Association		2009-4-29	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Re-election of Directors and Supervisors		2009-4-29	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
Notice of Convening 2008 Annual General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-4-30	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of the Results of 2009 Second Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-4-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
1st Quarter Report of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-4-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 30 April 2009		2009-5-4	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the online road show of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-5-27	http://www.sse.com.cn http://www.cosl.com.cn/
Closure of Register of Shareholders		2009-6-1	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 May 2009		2009-6-2	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Results of Annual General Meeting Held on 3 June 2009		2009-6-3	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of Results of 2008 Annual General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-6-4	http://www.sse.com.cn http://www.cosl.com.cn/
Legal Opinion Letter on 2008 Annual General Meeting of COSL		2009-6-4	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement for A Share 2008 Final Dividend of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-6-17	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 30 June 2009		2009-7-2	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of Results of the Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-7-8	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for The Month Ended 31 July 2009		2009-8-3	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of the Board meeting		2009-8-14	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement Pursuant to Rule 13.09 of the Listing Rules		2009-8-21	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of Impairment of Assets of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-8-22	http://www.sse.com.cn 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
Announcement of Interim Results for the Six Months Ended 30 June 2009		2009-8-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Summary of Interim Results for the Six Months Ended 30 June 2009	China Securities Journal Shanghai Securities News Securities Times	2009-8-29	http://www.sse.com.cn http://www.cosl.com.cn/
Interim Report for six months ended 30 June 2009 of COSL		2009-8-29	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 August 2009		2009-9-2	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Election of Language and Means of Receipt of Corporate Communication to Non-registered Shareholders		2009-9-16	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Form to Non-registered Shareholders		2009-9-16	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Election of Language and Means of Receipt of Corporate Communication to Registered Shareholders		2009-9-16	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Form to Registered Shareholders		2009-9-16	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 30 September 2009		2009-10-5	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Board Meeting		2009-10-14	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Results of 2009 Fourth Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-10-29	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
3rd Quarter report of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-10-29	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 October 2009		2009-11-3	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 30 November 2009		2009-12-1	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Results of 2009 Fifth Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2009-12-10	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

Report of the Auditors

ERNST & YOUNG

Ernst & Young Hua Ming (2010) Shen Zi No. 60569476_A06

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 2009, 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 the 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 2009 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 — Liu Lei
Certified Public Accountant
Registered in the People's Republic of China — Zhong Li

Beijing, the People's Republic of China

30 March 2010

Consolidated Balance Sheet

31 December 2009
RMB Yuan

Assets	Note 5	31 December 2009	31 December 2008 (Restated)
Current Assets			
Cash on hand and at bank	1	4,222,832,778	4,578,484,264
Notes receivable	2	429,657,902	354,869,985
Accounts receivable	3	3,745,547,364	2,735,024,686
Prepayments	4	528,233,255	1,281,548,540
Interest receivable	5	1,080,000	4,342,362
Dividend receivable	6	23,754,415	16,391,075
Other receivables	7	389,123,571	306,469,550
Inventories	7	820,548,546	780,870,653
Current portion of non-current assets	8	39,081,032	39,117,655
Total current assets		10,199,858,863	10,097,118,770
Non-current Assets			
Available-for-sale financial assets	9	19,281,034	34,317,535
Held-to-maturity investment	8	39,081,025	78,235,318
Long-term equity investments	11	531,735,085	589,449,106
Fixed assets	12	30,092,311,149	24,137,207,634
Construction in progress	13	14,147,200,718	15,428,949,914
Intangible assets	14	461,844,210	533,599,646
Goodwill	15	4,600,473,214	4,604,785,191
Long-term deferred expenses	16	841,551,247	769,252,771
Total non-current assets		50,733,477,682	46,175,797,115
Total Assets		60,933,336,545	56,272,915,885

Consolidated Balance Sheet (continued)

31 December 2009
RMB Yuan

Liabilities and Shareholders' Equity	Note 5	31 December 2009	31 December 2008 (Restated)
Current Liabilities			
Short-term bank borrowings	18	–	6,835,596,924
Notes payable	19	–	366,762,500
Accounts payable	20	3,175,095,974	2,376,732,369
Receipts in advance	21	5,255,901	38,818,223
Staff cost payable	22	477,407,095	485,875,262
Taxes payable	23	153,070,242	343,298,457
Interests payable	24	139,212,858	327,961,642
Other payables	25	358,827,721	636,027,209
Current portion of non-current liabilities	26	283,081,032	943,020,215
Other current liabilities		606,038,526	54,381,067
Total current liabilities		5,197,989,349	12,408,473,868
Non-current Liabilities			
Derivate financial instruments	27	–	49,307,921
Long-term bank borrowings	28	28,151,039,943	16,355,446,023
Long-term bonds	29	2,670,019,752	4,028,341,874
Deferred tax liabilities	30	1,790,789,029	1,697,131,751
Staff cost payable	22	1,381,058	5,663,626
Other non-current liabilities	31	816,512,769	1,930,706,662
Total non-current liabilities		33,429,742,551	24,066,597,857
Total Liabilities		38,627,731,900	36,475,071,725
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	1,335,639,695	1,000,055,668
Retained earnings	35	8,378,412,798	6,208,025,040
Including: Proposed Cash Dividends	36	629,344,800	629,344,800
Cumulative translation reserves		21,666,426	19,877,726
Equity attributable to equity holders of the Parent		22,305,604,645	19,797,844,160
Minority interest		–	–
Total Shareholders' Equity		22,305,604,645	19,797,844,160
Total Liabilities and Shareholders' Equity		60,933,336,545	56,272,915,885

The financial statements were signed by the following persons:

Chief Executive Officer:
Liu Jian
30 March 2010

Executive Vice President & Chief Financial Officer:
Zhong Hua
30 March 2010

General Manager (Finance Department):
Liu Zhenyu
30 March 2010

Consolidated Income Statement

Year ended 31 December 2009
RMB Yuan

	Note 5	2009	2008
Revenue	37	**18,345,401,415**	12,430,252,591
Less: Operating costs	37	**11,688,942,398**	7,929,906,369
Business taxes and surcharges	38	**466,747,758**	287,308,569
Selling expenses		**7,455,590**	6,206,044
General and administrative expenses		**427,995,982**	378,653,079
Financial expenses	39	**868,061,764**	366,105,924
Assets impairment losses	40	**879,390,769**	159,493,125
Fair value losses	41	**–**	52,983,938
Add: Investment income	42	**159,562,623**	89,666,903
Including: Share of profits of jointly-controlled entities		**110,264,186**	215,707,167
Operating profit		**4,166,369,777**	3,339,262,446
Add: Non-operating income	43	**95,098,628**	48,670,373
Less: Non-operating expenses	44	**501,869,382**	80,646,406
Including: Loss on disposal of non-current assets		**19,185,603**	55,541,786
Total profit		**3,759,599,023**	3,307,286,413
Less: Income tax expenses	45	**624,282,438**	205,045,264
Net Profit		**3,135,316,585**	3,102,241,149
Net profit attributable to equity holders of the Parent		**3,135,316,585**	3,102,241,149
Earnings per share			
Basic and diluted earnings per share	46	**0.70**	0.69
Other comprehensive income	47	**1,788,700**	10,033,616
Total comprehensive income		**3,137,105,285**	3,112,274,765
Including: Total comprehensive income attributable to equity holders of the Parent		**3,137,105,285**	3,112,274,765

Consolidated Statement of Changes in Equity

Year ended 31 December 2009
RMB Yuan

		2009							
		Attributable to equity holders of the Parent							
		Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Others	Sub-total	Minority Interests	Total shareholders' equity
1.	1 January 2009	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
2.	Increase/decrease during the year								
	(1) Net profit	–	–	–	3,135,316,585	–	3,135,316,585	–	3,135,316,585
	(2) Other comprehensive income	–	–	–	–	1,788,700	1,788,700	–	1,788,700
	Total comprehensive income	–	–	–	3,135,316,585	1,788,700	3,137,105,285	–	3,137,105,285
	(3) Appropriation of profits								
	1. Transfer to statutory reserve funds	–	–	335,584,027	(335,584,027)	–	–	–	–
	2. Distribution to shareholders	–	–	–	(629,344,800)	–	(629,344,800)	–	(629,344,800)
3.	At the end of the year	4,495,320,000	8,074,565,726	1,335,639,695	8,378,412,798	21,666,426	22,305,604,645	–	22,305,604,645

		2008							
		Attributable to equity holders of the Parent							
		Share capital	Capital reserves	Statutory reserve funds	Retained earnings	Others	Sub-total	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) Other comprehensive income	–	–	–	–	10,033,616	10,033,616	–	10,033,616
	Total comprehensive income	–	–	–	3,102,241,149	10,033,616	3,112,274,765	–	3,112,274,765
	(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)	–	(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.	At the end of the year	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

Consolidated Cash Flow Statement

Year ended 31 December 2009
RMB Yuan

	Note 5	2009	2008
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		16,308,692,327	10,833,451,160
Tax refund received		37,192,542	79,371,980
Cash received relating to other operating activities		58,186,073	22,504,710
Subtotal of cash inflows from operating activities		16,404,070,942	10,935,327,850
Cash paid for goods and services		(6,045,982,971)	(3,323,599,106)
Cash paid to and for employees		(2,938,500,538)	(2,130,827,606)
Cash paid for taxes		(1,242,296,062)	(772,859,396)
Cash paid relating to other operating activities	48	(572,426,475)	(671,379,872)
Subtotal of cash outflows from operating activities		(10,799,206,046)	(6,898,665,980)
Net cash flows from operating activities	49	5,604,864,896	4,036,661,870
2. Cash flows from investing activities			
Cash received from disposal of investments		39,154,292	3,358,075,649
Cash received from return on investments		218,854,213	159,794,446
Cash received on interest income from bank deposits		63,614,510	183,697,977
Cash received from disposal of fixed assets		12,670,819	11,694,361
Cash received relating to other investing activities		7,291,552	–
Subtotal of cash inflows from investing activities		341,585,386	3,713,262,433
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(7,398,673,060)	(7,630,571,357)
Cash paid for acquisition of long-term investments		(424,884)	(15,647,032,930)
Cash paid for acquisition of other investments		(725,197,031)	(1,060,000,000)
Subtotal of cash outflows from investing activities		(8,124,294,975)	(24,337,604,287)
Net cash flows from investing activities		(7,782,709,589)	(20,624,341,854)
3. Cash flows from financing activities:			
Cash received from scientific research grants		100,720,000	55,040,000
Cash received from new borrowings and bonds issue		23,227,900,560	15,781,718,567
Subtotal of cash inflows from financing activities		23,328,620,560	15,836,758,567
Cash paid for repayment of borrowings		(20,177,338,947)	(570,865,000)
Cash paid for dividends		(629,344,800)	(539,438,400)
Cash paid for interest expenses		(1,318,422,624)	(408,705,878)
Cash paid relating to other financing activities		(66,697,600)	(77,872,754)
Subtotal of cash outflows from financing activities		(22,191,803,971)	(1,596,882,032)
Net cash flows from financing activities		1,136,816,589	14,239,876,535
4. Effect of foreign exchange rate fluctuation on cash		(39,857,037)	(153,830,399)
5. Net decrease in cash and cash equivalents		(1,080,885,141)	(2,501,633,848)
Add: Cash and cash equivalents at the beginning of year		4,295,488,052	6,797,121,900
6. Cash and cash equivalents at the end of year	50	3,214,602,911	4,295,488,052

Balance Sheet

31 December 2009
RMB Yuan

Assets	Note 11	31 December 2009	31 December 2008
Current Assets			
Cash on hand and at bank		**2,555,012,686**	3,042,002,086
Notes receivable		**429,657,902**	354,869,985
Accounts receivable	*1*	**4,197,063,076**	3,316,608,684
Prepayments		**489,374,487**	1,230,299,627
Interest receivable		**1,080,000**	3,024,938
Dividend receivable		**23,754,415**	16,391,075
Other receivables	*2*	**965,033,453**	527,892,570
Inventories		**617,242,127**	650,306,338
Total current assets		**9,278,218,146**	9,141,395,303
Non-current Assets			
Long-term receivables		**20,450,459,000**	–
Long-term equity investments	*3*	**7,231,157,657**	7,216,576,177
Fixed assets		**13,296,788,952**	10,289,703,965
Construction in progress		**5,397,656,694**	4,217,663,329
Intangible assets		**317,392,113**	324,345,191
Long-term deferred expenses		**808,203,334**	754,460,662
Total non-current assets		**47,501,657,750**	22,802,749,324
Total assets		**56,779,875,896**	31,944,144,627

Balance Sheet

31 December 2009
RMB Yuan

Liabilities and Shareholders' Equity	Note 11	31 December 2009	31 December 2008
Current liabilities			
Notes payable		–	366,762,500
Accounts payable		2,707,769,658	2,042,417,318
Receipts in advance		5,255,901	38,778,581
Staff cost payable		433,104,738	420,782,578
Taxes payable		122,947,646	249,251,395
Interests payable		81,561,535	49,579,424
Other payables		197,613,352	127,892,339
Current portion of non-current liabilities		244,000,000	244,000,000
Other current liabilities		44,213,902	54,175,828
Total current liabilities		3,836,466,732	3,593,639,963
Non-current Liabilities			
Long-term bank borrowings		28,111,958,918	6,367,680,000
Long-term bonds		1,500,000,000	1,500,000,000
Deferred tax liabilities		365,889,553	281,827,779
Other non-current liabilities		36,565,316	–
Total non-current liabilities		30,014,413,787	8,149,507,779
Total Liabilities		33,850,880,519	11,743,147,742
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		1,335,639,695	1,000,055,668
Retained earnings		9,027,158,354	6,636,246,905
Including: Proposed Cash Dividends		629,344,800	629,344,800
Cumulative translation reserves		(3,688,398)	(5,191,414)
Total Shareholders' Equity		22,928,995,377	20,200,996,885
Total Liabilities and Shareholders' Equity		56,779,875,896	31,944,144,627

The financial statements were signed by the following persons:

Chief Executive Officer:
Liu Jian
30 March 2010

Executive Vice President & Chief Financial Officer:
Zhong Hua
30 March 2010

General Manager (Finance Department):
Liu Zhenyu
30 March 2010

Income Statement

Year ended 31 December 2009
RMB Yuan

	Note 11	2009	2008
Revenue	4	**13,497,409,427**	10,462,547,470
Less: Operating costs	5	**8,762,688,740**	6,564,680,493
Business taxes and surcharges		**371,912,155**	286,405,749
Selling expenses		**3,688,387**	3,106,140
General and administrative expenses		**252,368,383**	278,556,547
Financial expenses		**455,591,223**	193,443,623
Assets impairment losses		**40,648,494**	52,984,907
Add: Investment income	6	**198,623,003**	238,225,395
Including: Share of profits of jointly-controlled entities		**187,623,003**	208,246,552
Operating profit		**3,809,135,048**	3,321,595,406
Add: Non-operating income		**72,098,668**	48,670,373
Less: Non-operating expenses		**31,272,666**	77,577,259
Including: Loss on disposal of non-current assets		**19,145,693**	52,484,965
Total profit		**3,849,961,050**	3,292,688,520
Less: income tax expenses		**494,120,774**	68,281,342
Net profit		**3,355,840,276**	3,224,407,178
Other comprehensive income		**1,503,016**	(6,543,038)
Total comprehensive income		**3,357,343,292**	3,217,864,140

Statement of Changes in Equity

Year ended 31 December 2009
RMB Yuan

		2009					
		Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Others	Total shareholders' equity
1.	1 January 2009	4,495,320,000	8,074,565,726	1,000,055,668	6,636,246,905	(5,191,414)	20,200,996,885
2.	Increase/decrease during the year						
	(1) Net profit	–	–	–	3,355,840,276	–	3,355,840,276
	(2) Other comprehensive income	–	–	–	–	1,503,016	1,503,016
	Total comprehensive income	–	–	–	3,355,840,276	1,503,016	3,357,343,292
	(3) Appropriation of profits						
	1. Transfer to statutory reserve funds	–	–	335,584,027	(335,584,027)	–	–
	2. Distribution to shareholders	–	–	–	(629,344,800)	–	(629,344,800)
3.	At the end of the year	4,495,320,000	8,074,565,726	1,335,639,695	9,027,158,354	(3,688,398)	22,928,995,377

		2008					
		Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Others	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) Other comprehensive income	–	–	–	–	(6,543,038)	(6,543,038)
	Total comprehensive income	–	–	–	3,224,407,178	(6,543,038)	3,217,864,140
	(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.	At the end of the year	4,495,320,000	8,074,565,726	1,000,055,668	6,636,246,905	(5,191,414)	20,200,996,885

Cash Flow Statement

Year ended 31 December 2009
RMB Yuan

	2009	2008
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	12,099,324,433	8,743,863,684
Tax refund received	2,512,447	79,371,980
Cash received relating to other operating activities	65,479,634	40,595,110
Subtotal of cash inflows from operating activities	12,167,316,514	8,863,830,774
Cash paid for goods and services	(3,855,557,460)	(3,008,519,342)
Cash paid to and for employees	(2,035,099,099)	(1,691,694,557)
Cash paid for taxes	(918,501,797)	(661,559,392)
Cash paid relating to other operating activities	(356,029,126)	(519,234,225)
Subtotal of cash outflows from operating activities	(7,165,187,482)	(5,881,007,516)
Net cash flows from operating activities	5,002,129,032	2,982,823,258
2. Cash flows from investing activities		
Cash received from disposal of investments	–	3,360,755,000
Cash received from return on investments	177,047,269	159,794,446
Cash received on interest income from bank deposits	30,142,572	147,271,263
Cash received from disposal of fixed assets	9,207,675	9,684,256
Subtotal of cash inflows from investing activities	216,397,516	3,677,504,965
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	(5,988,642,838)	(7,060,652,414)
Cash paid for other investment activities	(20,450,459,000)	–
Cash paid for long term investments	(424,884)	(6,827,665,500)
Cash paid for acquisition of other investments	(531,654,000)	(1,060,000,000)
Subtotal of cash outflows from investing activities	(26,971,180,722)	(14,948,317,914)
Net cash flows from investing activities	(26,754,783,206)	(11,270,812,949)
3. Cash flows from financing activities		
Cash received from scientific research grants	100,720,000	55,040,000
Cash received from new borrowings and bonds issue	22,792,070,000	5,867,600,000
Subtotal of cash inflows from financing activities	22,892,790,000	5,922,640,000
Cash paid for repayment of borrowings	(944,000,000)	(400,000,000)
Cash paid for dividends	(629,344,800)	(539,438,400)
Cash paid for interest expenses	(504,568,166)	(192,894,262)
Cash paid relating to other financing activities	(66,697,600)	(54,676,000)
Subtotal of cash outflows from financing activities	(2,144,610,566)	(1,187,008,662)
Net cash flows from financing activities	20,748,179,434	4,735,631,338
4. Effect of foreign exchange rate fluctuation on cash	(15,653,542)	(40,322,350)
5. Net decrease in cash and cash equivalents	(1,020,128,282)	(3,592,680,703)
Add: Cash and cash equivalents at the beginning of year	2,770,238,786	6,362,919,489
6. Cash and cash equivalents at the end of year	1,750,110,504	2,770,238,786

Notes to the Financial Statements

31 December 2009
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 RMB2,600 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 RMB2,600 million in the form of domestic state-owned legal person shares and RMB1,356.6543 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 address of the Company is No.3-1516, Hebei Road, Haiyang New and Hi-tech Development Zone, Tanggu, Tianjin, 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 RMB1 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 RMB3,995,320,000 and the share capital amount was RMB3,995,320,000 of RMB1 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 RMB13.48 per share; after deduction of relevant listing expenses, the net amount raised through the issuance of A share was RMB6,598,755,426. After such public offer of ordinary shares, the registered capital of the Company changed to RMB4,495,320,000 and the share capital amount was RMB4,495,320,000 with par value of RMB1 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. Significant accounting policies and accounting estimates

(1) 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").

These financial statements are presented on the going concern basis.

The financial statements are prepared under the historical cost convention except for certain financial instruments. In case of impairment, the corresponding impairment provision shall be accrued based on the relevant regulations.

(2) 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) Accounting Year

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

(4) Functional currency

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. All values are presented 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 are translated to RMB in preparing these financial statements.

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(5) 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 conducted only 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 acquirer effectively obtains controls of the acquiree.

For business combination not under common control, the cost of combination in exchange for control of the acquiree plus costs directly attributable to the business combination includes assets given by the acquirer, equity instruments issued and liabilities incurred and assumed are measured at the fair value at the acquisition date. Adjustments for cost of combination which are likely to occur and can be measured reliably will be recognized as contingent consideration. Subsequent adjustments will impact on the goodwill. For a business combination 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 be measured reliably, the adjustments should be included 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 recognized in the consolidated income statement.

(6) 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 2009. Subsidiaries represent entities controlled by the Company.

When preparing the consolidated financial statements, same accounting period is applied to subsidiaries and the Company, 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 unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent interests 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.

(7) Cash and cash equivalents

Cash represents cash on hand and bank deposits which can be used for payment at any time; 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 2009
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2. Significant accounting policies and accounting estimates (continued)

(8) Foreign currency business and foreign currency statement 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 the 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 other comprehensive income.

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 at the average exchange rates for the year. The resulting exchange differences are recognized as other comprehensive income and presented as a separate item in the balance sheet under shareholders' equity. On disposal of a foreign entity, the other comprehensive income amount relating to that particular foreign operation is recongnized in the consolidated income statement.

Cash flows in foreign currency and cash flows of overseas subsidiaries are translated into RMB at the average exchange rate for the year. Effect of foreign exchange rate fluctuation on cash is are separately disclosed in consolidated cash flow statements.

(9) 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 recognizes 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 derecognized where:

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

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

A financial liability is derecognized 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 recognized in the consolidated income statement.

All regular way purchases and sales of financial assets are recognized on the trade date, the day 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.

Category and measurement of financial assets

Financial assets of the Group are categorized into the following 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; derivatives designated as effective hedging instruments. The Group determines the categorization of the financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value. In the case of investments not at fair value through profit or loss, fair value plus directly attributable transaction costs.

Financial assets of the Group include: cash on hand and at bank, notes receivable, accounts receivable, interest receivable, dividend receivable, other receivables, current portion of non-current assets, available-for-sale financial assets and held-to-maturity investment.

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

Category and measurement of financial assets (continued)
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and those measured at fair value through profits and losses designated upon initial recognition. Financial assets are classified as held for trading if it satisfies one of the following conditions: the purpose to acquire such financial 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 related to an equity instrument which has no quoted market price, its fair value cannot be measured reliably and settled through exchange of the equity instrument.

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

If a financial asset is classified as financial asset at fair value through profit or loss at initial recognition, it can't be reclassified as other category of financial assets and other financial assets can't be reclassified as financial asset at fair value through profit or loss as well.

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 amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization 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. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the income statement. The loss arising from impairment is recognized in the consolidated income statement.

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 above categories. After initial recognition, such financial assets are measured at fair value. Its discount or premium is amortized using effective interest rate method and recognized as interest income or expense. Except for impairment loss and exchange differences of monetary financial assets denominated in foreign currency which are recognised in the consolidated income statement, changes in fair value of available-for-sale financial assets are recognized as other comprehensive income in the capital reserve until the investment is derecognized or there is an impairment, then the cumulative gain or loss will be included in the consolidated income statement. Interests and dividends earned are reported as interest income and dividend income, respectively and are recognized in the consolidated income statement.

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

Category and measurement of financial liabilities
The financial liabilities of the Group are classified initially as financial liabilities at fair value through profit or loss, other financial liabilities and derivatives designated as hedging instruments in an effective hedge. The transaction costs of financial liabilities at fair value through profit or loss are charged to the consolidated income statement, while the transaction costs of other financial liabilities are recognized as part of the initial amount of liabilities.

Financial liabilities of the Group include: short-term bank borrowings, notes payable, accounts payable, interest payable, other payables, current portion of non-current liabilities, derivative financial instruments, long-term bank borrowings and long-term bonds.

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

Category and measurement of financial liabilities (continued)
The measurement of financial liabilities depends on their classification as follows:

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 and loss. Financial liabilities are classified as held for trading if they satisfy one of the following conditions: they are acquired for the purpose of sale in the near term, belong to a part of identifiable combined financial instruments which are managed centrally and objective evidence exists that they are acquired principally for the purpose of obtaining profit in the near term; belong to derivatives, unless those are designated as effective hedging instruments, under financial guarantee agreements or related to equity instruments without quoted market price, its fair values of which cannot be measured reliably and settled through exchanges of the equity instruments. These financial liabilities are subsequently measured at fair value, and all the realized or unrealized gains or losses are recognized in the consolidated income statement.

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 or loss as well.

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

Derivative financial instruments
The Group uses forward currency contracts and forward currency contracts and interest rate swap to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized 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. However, the derivative financial instrument is measured by cost method, if there is no quoted market price and its fair value cannot be measured reliably.

Except for the effective portions of the cash flow hedges which are recognized as other comprehensive income, any gains or losses arising from changes in fair value on derivatives are taken directly to the consolidated income statement.

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 evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, impairment loss will be provided. There is 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.

Notes to the Financial Statements

31 December 2009
RMB Yuan

2. Significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at amortized 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, (i.e., the effective rate computed initial recognition) after taking into consideration of the value of the collaterals, if any. In respect of floating interest rate, the current effective interest rate is used as the discount rate in calculating the present future cash flow

Where impairment is assessed on an individual basis for individually significant financial assets, an impairment loss is recognized in the consolidated income statement when there is objective evidence that an impairment loss has been incurred. For the financial assets without impairment loss based on individual test, an assessment is made collectively for financial assets which share similar credit risk characteristics. For financial assets with impairment loss recognized based on individual test basis, another assessment is not required to be made collectively for the financial assets which share similar credit risk characteristics

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 recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Available-for-sale financial assets

If there is objective evidence that an available-for-sale asset is impaired, accumulated losses arising from decreases in fair values will be removed from other comprehensive income and recognized in the profit or loss. Accumulated losses represent an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement.

Impairment loss on debt instruments can be reversed through the profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized. Impairment losses on equity instruments are not reversed through the profit or loss. An increase in fair value after impairment is recognized as other comprehensive income.

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 Standards for Business Enterprises No. 2 – Long-term Equity Investment, the above accounting principle should also apply to the long-term equity investment under cost method whose active market price and fair value cannot be reliably measured.

(10) Receivables

The Company recognizes a bad debt when a trade debtor is bankrupt or dead and his/her debt is unable to be recovered even after paying off the debt from the insolvent assets or heritage; or when a debtor fails to make repayment as agreed and there is obvious evidence that the related account receivable is not recoverable, it will be recognized as a bad debt after obtaining the Company's approval.

At each balance sheet date, the Company performs separate impairment tests for significant receivables individually. Where there is objective evidence of impairment, the difference between discounted present value of future cash flow and the carrying amount is recognized as the impairment loss and bad debt provision is made. Individually insignificant receivables, together with receivables with no indication of impairment shall be assessed collectively in groups according to their aging, and a certain portion of the receivable group balances shall be recognized as impairment amount and related bad debt provision shall be provided.

Provision ratios of bad debts are generally as follow:

	Account receivables Provision ratio (%)	Other receivables Provision ratio (%)
Within 1 year	0	0
1-2 years	30	30
2-3 years	60	60
Over 3 year	100	100

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(11) 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 recognized as a provision for diminution in the value of inventories in the consolidated income statement. 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 recognized can be reversed in the consolidated income statement to the extent of the previously recognized 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.

(12) 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 measured at initial investment cost upon acquisition. For business combination under common control, the initial investment cost is the share of the investee's equity. For business combination not under common control, the initial investment cost is the combination cost. For the long-term equity investment acquired by a way other than business combination, the initial investment cost is recognized as follows: for a long-term equity investment acquired by cash payment, the initial investment cost shall be the actual purchase price, and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment. For a long-term equity investment acquired by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued. For the long-term equity investment made by investors, the initial investment cost is determined based on the amount as agreed in the investment contract or agreement, unless the amount agreed does not represent the fair value.

Other long-term equity investments where the Group does not have control, joint control or significant influence over the investee, 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 measured at initial investment costs. Cash dividends or profit appropriation declared by the investees are recognized as investment income in the current period, except for the declared but unpaid parts of the cash dividends or profit appropriation which were included in the cash payment for acquiring the investment. Impairment is tested for long-term investments in accordance with the relevant asset impairment policies.

When 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 the 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 2009
RMB Yuan

2. Significant accounting policies and accounting estimates (continued)

(12) 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. Unrealized 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 unrealized 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 distribution 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 the profit or loss when the investment is disposed.

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

For the details of impairment test and provision for long term equity investments related to subsidiaries, jointly-controlled entities and associates, please refer to Note 2 (26). For details of impairment test and provision for other long-term equity investments without quoted price in the active market and fair values of which cannot be measured reliably, please refer to Note 2 (9).

(13) 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 recognized 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. For subsequent expenditures of fixed assets, if the recognition conditions are satisfied, they are recognized as cost of fixed assets and the carrying amount of replaced components is derecognized. 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 (including components)	25-30 years	10%	3%-3.6%
Machinery and equity	5-10 years	10%	9%-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.

For details of impairment test and provision methods of fixed assets, please refer to Note 2 (26).

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(14) 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 or intangible assets when completed and are ready for use.

For details of impairment test and provision methods of construction in progress, please refer to Note 2 (26).

(15) Borrowing costs

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

Borrowing costs directly attributable to the construction of qualifying assets, are capitalised as part of the cost of the assets. Except for the above other borrowing costs are recognized as financial expenses in the consolidated income statement when incurred.

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

– Capital expenditure were incurred;

– Borrowing costs were incurred;

– Construction activities for the assets to be ready for use have started.

The capitalisation of such borrowing costs ceases when the qualifying assets are substantially ready for their intended use or sale, subsequent borrowing costs are charged to the 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 construction 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 construction 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 construction activities are interrupted abnormally and the interruption lasts over three months and the borrowing costs are recognized in the consolidated income statement until the construction activities resume.

(16) Intangible assets

The intangible assets of the Group 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.

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. Or 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 amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(16) Intangible assets (continued)

The Group categorizes 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.

For details of impairment test and provision methods of intangible assets, please refer to Note 2 (26).

(17) Long-term deferred expenses

The long-term deferred expenses are amortized using straight-line method, with amortization period as follows:

	Amortization Period
Large scale drilling tools for specific purposes, logging tools and vessel cables	3 years

(18) Provision

A provision is recognized 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.

Contingent liabilities of the acquiree acquired in business combination are measured at fair value upon initial recognition. Subsequent measurement will be the higher between the amount of provision and the net value of initial recognition less accumulated amortization amount determined by revenue recognition principle.

(19) 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 which is considered as share appreciation right payment settled in cash. For details of the SAR Plan, please refer to Note 5 (52).

The fair value is expensed over the period until vesting with recognition of a corresponding liability. 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 liability is measured at the end of each reporting period up to and including the settlement date with changes in fair value recognised in the consolidated income statement.

(20) Revenue

Revenue is recognized 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

Revenue relating to day rate contracts is recognized when services are rendered.

Construction contract

On the balance sheet date, when the outcome of a construction contract can be estimated reliably, contract revenue and contract expenses are recognized based on percentage of completion method; otherwise, the revenue is recognized on the basis of actual cost incurred and expected to be compensated. The outcome of a construction contract can be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the Group, and both the contract costs to complete the contract and the stage of contract completion at the balance sheet date can be measured reliably. In respect of fixed price construction contracts, the following conditions should be fulfilled: total contract revenue can be measured reliably and both the contract costs to complete the contract and the stage of contract completion can be measured reliably. The Group recognizes the stage of contract completion based on the actual stage of completion measured. Total contract revenue comprises the initial revenue agreed in the contract and the revenue from variation orders, claims and incentive payments.

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(20) Revenue (continued)

Interest income

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

Rental income

Rental income under operating lease is recognized on a straight-line basis over the rental periods of such charters contingent rentals are credited to the income statement when they are incomed.

(21) Government Grant

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attached conditions can be complied with. If the fair value could not be reasonably determined, the government grant is measured based on the nominal value. Where the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant is for compensation of expenses or losses incurred, the grant is recongnised in the current period's consolidated income statement. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments. Government grants measured based on the nominal value are recognized in the consolidated income statement directly.

(22) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated income statement as a tax expense or income, except that it is a goodwill adjustment arising from business combination, or items directly recognized in equity, in which case they are recognized 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 difference at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

(1) 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

(2) 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 recognized 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:

(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, interests in jointly-controlled entities and investments in associates, deferred tax assets are only recognized 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.

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(22) Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized 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 assets to be utilised. The Group reassesses unrecognized deferred tax assets at each balance sheet date and recognizes deferred tax asset to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Where the taxable entity has a statutory right to set off current tax assets against current tax liabilities, and the deferred tax is related to the same taxable entity and the same tax authority, the net deferred tax assets or deferred tax liabilities will be presented in the financial statements.

(23) Lease

Leases where substantially all the risks and rewards of ownership of assets were 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. Contingent rentals are charged to consolidated income statement when they are incurred.

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. Contingent rentals are credited to consolidated income statement when they are incurred.

(24) Hedge Accounting

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

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

(2) cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized 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 recognized 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 recognized in the consolidated income statement.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized 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 amortized to the consolidated income statement. Amortization 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 derecognized, the unamortized fair value is recognized immediately in the consolidated income statement.

When an unrecognized 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 recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognized in the consolidated income statement.

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(24) Hedge Accounting (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income, while the ineffective portion is recognized immediately in the profit or loss.

Amounts taken to other comprehensive income are transferred to the profit or loss when the hedged transaction affects the consolidated income statement, such as when hedged financial income or financial expense is recognized 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 other comprehensive income 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 recognized 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 other comprehensive income remain in there until the forecast transaction or firm commitment affects the consolidated income statement.

(25) Changes in accounting policies and accounting estimates

Changes in accounting policies

For the long term equity investments measured at cost method, the investment income that the Group recognized was limited to proportionate distributions from accumulated profits after the acquisition. The extra cash dividends or profits gained by the Group were treated as a recovery of investment cost. After the adoption of the Interpretation No.3 to the CAS on 1 January 2009, the investment income that the Group recognizes is no longer based on distributions from accumulated profits before or after the date of acquisition. Since then, for the long term equity investments measured at cost method, the Group recognizes investment income according to the cash dividends or profits declared by the investee, except for cash dividends or profits declared but unpaid which were included in the consideration paid for acquiring the investment. The change of the accounting policy has no effect on the Group's financial statements.

(26) 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, 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 recognized 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. Asset impairment test is conducted annually for intangible assets which are not yet available for use.

An asset's recoverable amount is the higher of the asset'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 mainly 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 recognized 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 recognized 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 allocating 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 recognized, 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 executions goodwill on a pro rata basis.

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

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(27) 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 recognized 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 recognized 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 6 (7)).

The employees of acquired COSL Drilling Europe AS (hereafter "CDE" formerly known as Awilco Offshore ASA) 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 recognized 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 recognized as employee costs in the consolidated income statement. The changes of estimation, net amount of defined benefit liabilities and actuarial gains or losses are recognized 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 amortization of change in estimation and plan.

(28) Significant accounting judgements and estimates

Estimates with uncertainty

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 the future.

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 the future.

Useful life 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 by reference to residual value, technology development, competition and provisions of relevant environment and laws. After taking into accounts there 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 an impact to the depreciation of rigs.

Impairment of non-current assets (except goodwill) other than financial assets

At each balance sheet date, the Group assesses if there is any indication that non-current assets (except goodwill) other than financial assets may be impaired. An impairment test is conducted for intangible assets with uncertain useful lives annually and when there is an indication of impairment. For non-current assets other than financial assets, an impairment test is conducted when there is an indication showing that the carrying amount of which is unrecoverable. An impairment exists when the carrying amount of an asset or a group of assets exceeds its recoverable amount, i.e., the higher of its fair value less the disposal expenses and its present value of estimated future cash flow. The net amount of the fair value less the cost to sell will be determined by reference to the prices in the sales agreements or observable market prices of similar assets in arm's length transactions less incremental costs directly attributable to such asset disposal. Estimating the present value of future cash flows requires the management to estimate the future cash flows of such asset or such group of assets and decide the appropriate discount rate to measure the present value. At 31 December 2009, provision for impairment of the Group's construction in progress was RMB819,888,718 (2008: Nil). Please refer to Note 5 (17) for details.

Notes to the Financial Statements

31 December 2009
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2. Significant accounting policies and accounting estimates (continued)

(28) Significant accounting judgements and estimates (continued)

Estimates with uncertainty (continued)

Provision for doubtful debt and provision for inventory obsolescence

The provision for doubtful debts is determined by the management based on available objective evidence, e.g. it is probable that a debtor will enter bankruptcy or significant financial difficulty of a debtor. According to the Group's accounting policy of inventories, which are stated at the lower of cost and net realisable value, provision for inventory impairment 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. The management will reassesses the provision for doubtful debts and inventory impairment on the balance sheet date. As at 31 December 2009, the Group recognized RMB43,428,342 (2008: RMB49,131,669) for doubtful debt provision of receivables and RMB1,070,665 (2008: RMB3,853,238) for inventory impairment provision. Please refer to Note 5 (17) for details.

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. Please refer to Note 5 (15) for details.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognizes 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 recognized in the profit or loss. At 31 December 2009, impairment losses of RMB15,003,044 (2008: RMB106,508,218) have been recognized for available-for-sale assets. Please refer to Note 5 (17) for details.

Deferred tax assets

Deferred tax assets are recognized for all unused income 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 recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred income tax assets relating to deductible losses at 31 December 2009 was approximately RMB16,404,539 (2008: RMB29,299,930). Please refer to Note 5 (30) for details.

3. Taxation

The major taxes and tax rates applicable to the Group for the year 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% based on 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%.

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 has applied the corporate income tax of 15% for January to December, 2009 (January to December, 2008: 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.

Certain overseas subsidiaries of the Group with permanent establishment status in the PRC are subject to deemed income tax calculated at 2.5% (2008: 2.5%) of service income generated from drilling activities in the PRC.

The Group's business in Indonesia is subject to corporate income tax at 28% (2008: 10%-30%) based on the taxable profit.

Notes to the Financial Statements

31 December 2009
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3. Taxation (continued)

(5) Corporate income tax (continued)

The Group's business in Australia is subject to corporate income tax at 30% (2008: 30%) based on the taxable profit.

The Group's business in Myanmar is subject to income tax at 3% (2008: 3%) based on the taxable profit.

The Group's business in Mexico is subject to the higher of income tax of 28% or business Flat Tax of 17% based on the taxable profit (2008: 28% and 16.5%, respectively).

The Group's business in Norway is subject to corporate income tax at 28% (2008: 28%) based on the taxable profit.

The Group's business in Vietnam is subject to income tax at 10% (2008: 10%) on income derived from the provision of services.

The Group's business in Libya is subject to income tax at 44% based on the deemed profit or at 18% based on gross income (2008: 44% and 18%, respectively).

The Group's drilling activities in Tunisia is subject to income tax at 35% based on the taxable profit (2008: N/A).

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

Income from the Group's drilling activities in Dubai is not subject to income tax.

(6) Individual income tax

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

(7) Other tax

Subject to the relevant tax policy of the PRC.

4. Consolidation scope of the consolidated financial statements

(1) Particulars of subsidiaries

Particulars of the principal subsidiaries of the Company are as follows:

Subsidiaries	Type of subsidiaries	Place of registration	Authorized representative	Nature of business	Registered capital	Business scope	Organization code
Subsidiaries acquired through establishment or investment							
COSL America Inc. ("COSL America")	Limited company	United States	Not applicable	Manufacture	US$100,000	Manufacturing and sales of logging equipment, spare parts and relevant materials	Not applicable
China Oilfield Services (BVI) Limited ("COSL (BVI)")	Limited company	British Virgin Islands	Not applicable	Investment holding	US$1	Investment holding	Not applicable
COSL (Labuan) Company Limited ("COSL (Labuan)")	Limited company	Malaysia	Not applicable	Service	US$1	Provision of drilling and oilfield technology service	Not applicable
China Oilfield Services Southeast Asia (BVI) Limited ("COSSA (BVI)")	Limited company	British Virgin Islands	Not applicable	Investment holding	US$1	Investment holding	Not applicable
COSL Chemicals (Tianjin) Ltd. ("COSL Chemicals")	Limited company	Tianjin, China	Li Yong	Service	RMB20,000,000	a	103649048
COSL (Australia) Pty Ltd ("COSL (Australia)")	Limited company	Australia	Not applicable	Service	AUD(A$) 10,000	Provision of drilling services in Australia	Not applicable
COSL Hong Kong International Limited	Limited company	Hong Kong, China	Not applicable	Investment holding	HK$ 2,227,770,001	Investment holding	Not applicable
COSL Drilling Pan-Pacific Ltd.("CDPL")	Limited company	Singapore	Not applicable	Service	US$1	Provision of rig management service	Not applicable
COSL Drilling Pan-Pacific (Labuan) Ltd. ("CDPLL")	Limited company	Malaysia	Not applicable	Service	US$1	Provision of rig management service	Not applicable
COSL Norwegian AS ("COSL Norwegian")	Limited company	Norway	Not applicable	Investment holding	NOK1,541,328,656	Investment holding	Not applicable
Subsidiaries acquired through business combination not under common control							
COSL Drilling Europe AS ("CDE")	Limited company	Norway	Not applicable	Service	NOK1,494,415,487	b	Not applicable

Notes to the Financial Statements

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4. Consolidation scope of the consolidated financial statements (continued)

(1) Particulars of subsidiaries (continued)

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, dangerous and contaminating goods). Regulation on franchise and monopolize selling of the State will be observed, if any.

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

Subsidiaries	Actual amount of contribution at the end of the year RMB equivalent	Balance of other projects actually constituting net investment	Shareholding ratio Direct	Shareholding ratio Indirect	Voting right ratio	Included in consolidation or not	Minority interest	Remark
Subsidiaries acquired through establishment or investment								
COSL America Inc. ("COSL America")	2,712,100	–	100%	–	100%	Yes	–	
China Oilfield Services(BVI) Limited ("COSL (BVI) ")	8	–	100%	–	100%	Yes	–	
COSL (Labuan) Company Limited ("COSL (Labuan)")	8	–	–	100%	100%	Yes	–	
China Oilfield Services Southeast Asia (BVI) Limited ("COSSA (BVI)")	24,830,708	–	–	100%	100%	Yes	–	
COSL Chemicals (Tianjin) Ltd. ("COSL Chemicals")	10,709,948	–	100%	–	100%	Yes	–	
COSL (Australia) Pty Ltd ("COSL (Australia)")	59,262	–	–	100%	100%	Yes	–	
COSL Hong Kong International Limited	6,827,665,500	–	100%	–	100%	Yes	–	
COSL Drilling Pan-Pacific Ltd.("CDPL")	8	–		100%	100%	Yes	–	
COSL Drilling Pan-Pacific (Labuan) Ltd. ("CDPLL")	8	–		100%	100%	Yes	–	
COSL Norwegian AS("COSL Norwegian")	6,766,351,630	–	–	100%	100%	Yes	–	
Subsidiaries acquired through business combination not under common control								
COSL Drilling Europe AS ("CDE")	16,094,229,578	–	–	100%	100%	Yes	–	(note 1)

The above table lists out the principal subsidiaries and jointly-controlled entities which, in the opinion of the directors of the Company, principally affecting the results or constituted net assets of the Group. To give details of other subsidiaries would result in particulars of excessive length.

note 1: The Company acquired CDE dated 29 September 2008. Please refer to Note 5(51) for details.

Notes to the Financial Statements

31 December 2009
RMB Yuan

4. Consolidation scope of the consolidated financial statements (continued)

(2) Subsidiaries newly included in the consolidation scope this year

The subsidiaries newly included in the consolidation scope in 2009 are as follows:

	Net assets at the end of 2009	Net profit of 2009
CDPL	681,953	682,253
CDPLL	26,024,018	26,035,452
Haiyang Petroservices Ltd.	847,387	12,119
COSL Drilling Force Pte. Ltd. (note)	US$2	–
COSL Drilling Seeker Pte. Ltd. (note)	US$2	–
COSL Drilling Superior Pte. Ltd. (note)	US$2	–
COSL Drilling Boss Pte. Ltd. (note)	US$2	–
COSL Drilling Strike Pte. Ltd. (note)	US$2	–
COSL Drilling Power Pte. Ltd. (note)	US$2	–
COSL Drilling Craft Pte. Ltd. (note)	US$2	–
COSL Drilling Confidence Pte. Ltd. (note)	US$2	–

note: The net assets amount of the above eight companies is the total registered capital amount.

Apart from the subsidiaries newly established this year, the consolidation scope of the consolidated financial statements is consistent with that of previous year.

(3) Exchange rate adopted for major items of the statements of foreign entities of the Group

All amounts in the statements of foreign entities of the Group are converted from US$ into RMB. For this year, the exchange rate as of the year-end is 6.8282 (31 December 2008: 6.8346) and the average exchange rate is 6.8312 (2008: 6.9451).

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

(1) Cash on hand and at bank

	31 December 2009			31 December 2008		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash on hand						
– RMB	133,984	1.0000	133,984	231,855	1.0000	231,855
– US$	197,103	6.8282	1,345,859	288,390	6.8346	1,971,029
– Libya Dinar	1,912	5.5195	10,553	949	5.4742	5,197
– Philippine Peso	956,738	0.1467	140,377	211,772	0.1440	30,495
– A$	392	6.1242	2,401	448	4.7350	2,120
– UAE Dirham	38	1.8600	71	38	1.8618	70
– Myanmar Kyat	4,584	1.0382	4,759	3,351,575	0.0059	19,926
– Indonesia Rupiah	156,569,682	0.0007	113,733	76,447,004	0.0006	47,642
– NOK	1,885	1.1820	2,228	5,531	0.9763	5,400
– SGD	36	4.8605	177	–	4.7430	–
			1,754,142			2,313,734
Cash at bank						
– RMB	1,862,632,538	1.0000	1,862,632,538	2,656,122,215	1.0000	2,656,122,215
– US$	298,256,309	6.8282	2,036,553,749	241,718,847	6.8346	1,652,051,633
– HK$	956,756	0.8805	842,405	213,316	0.8819	188,124
– Indonesia Rupiah	3,527,015,281	0.0007	2,562,039	2,062,036,499	0.0006	1,279,457
– Euro	–	–	–	398,306	9.6590	3,847,242
– A$	604,244	6.1242	3,700,516	575,105	4.7350	2,723,128
– Philippine Peso	262,472,463	0.1467	38,509,674	90,313,832	0.1440	13,003,852
– Malaysia Ringit	171,359	1.9880	340,661	62,778	1.9665	123,453
– Mexican Peso	71,368,168	0.5229	37,317,354	16,835,439	0.5048	8,499,109
– Libya Dinar	–	–	–	9,494	5.4742	51,973
– NOK	19,298,535	1.1820	22,811,338	214,664,616	0.9763	209,576,958
– SGD	1,421,567	4.8605	6,909,529	177,491	4.7530	843,616
– UAE Dirham	88,002	1.8600	163,688	33,064	1.8618	61,558
– Nigerian Naira	1,068,371	0.0447	47,756	–	0.0454	–
			4,012,391,247			4,548,372,318
Other monetary funds						
– RMB	457,522	1.0000	457,522	322,254	1.0000	322,254
– US$	912,681	6.8282	6,231,968	1,526,823	6.8346	10,435,227
– NOK	170,891,489	1.1820	201,997,899	17,454,401	0.9763	17,040,731
			208,687,389			27,798,212
Total			4,222,832,778			4,578,484,264

As at 31 December 2009, the restricted cash at bank of the Group amounted to RMB208,229,867 (31 December 2008: RMB14,650,212).

As at 31 December 2009, cash at bank of the Group placed in overseas banks amounted to RMB1,829,017,640 (31 December 2008: RMB1,531,306,630).

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

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

(2) Notes receivable

	31 December 2009	31 December 2008
Trade acceptances	427,107,943	338,269,985
Banker's acceptances	2,549,959	16,600,000
	429,657,902	354,869,985

Balance of notes receivable as at 31 December 2009 did not include notes from shareholders holding 5% or more voting shares of the Company (31 December 2008: nil). The notes receivable balance included an amount of RMB427,107,943 due from a related party, CNOOC Limited (31 December 2008: RMB338,269,985). Please refer to Note 6(5) for details.

(3) Accounts receivable

	31 December 2009	31 December 2008
Accounts receivable	3,837,737,985	2,788,333,300
Less: provision for impairment of accounts receivable	92,190,621	53,308,614
	3,745,547,364	2,735,024,686

The general credit terms of the Group range from 30 to 45 days upon the issuance of the invoice. The Group's accounts receivable relates to a large number of diversified customers. Accounts receivable from CNOOC Group and CNOOC Limited Group account for 59% of total accounts receivable. Except that there is no significant concentration of credit risk of the Group's accounts receivable. All accounts receivable are non-interest-bearing.

The ageing analysis of accounts receivable is as follows:

	31 December 2009				31 December 2008			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio
Within 1 year	3,815,901,664	100%	80,022,440	2%	2,777,863,894	100%	48,723,771	2%
1-2 years	13,699,630	–	4,109,889	30%	7,750,638	–	2,143,850	28%
2-3 years	5,697,181	–	5,618,782	99%	277,775	–	–	–
Over 3 years	2,439,510	–	2,439,510	100%	2,440,993	–	2,440,993	100%
Total	3,837,737,985	100%	92,190,621		2,788,333,300	100%	53,308,614	

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31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

(3) Accounts receivable (continued)

	31 December 2009				31 December 2008			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio
Individually significant items	3,373,779,393	88%	80,022,440	2%	2,387,832,777	86%	–	–
Other insignificant items	463,958,592	12%	12,168,181	3%	400,500,523	14%	53,308,614	13%
Total	3,837,737,985	100%	92,190,621		2,788,333,300	100%	53,308,614	

Analysis of provision for impairment of accounts receivable is as follow:

	31 December 2009	31 December 2008
Balance at the beginning of the year	53,308,614	4,797,726
Provision during the year	88,211,220	49,215,720
Written-back during the year	(49,326,498)	(482,346)
Exchange realignment	(2,715)	(222,486)
Balance at the end of the year	92,190,621	53,308,614

Explanation for types of accounts receivable:

As at 31 December 2009, provision for impairment of accounts receivable for individual significant items is as follows:

	Carrying amount	Provision for impairment of accounts receivable	Provision ratio	Reason
Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater")	160,044,908	80,022,440	50%	Atlantis Deepwater Orient Ltd recorded losses and such that the Group does not expect that the accounts can be recovered in full.

As at 31 December 2008, provision for impairment of accounts receivable for single items of significance is as follows:

	Carrying amount	Provision for impairment of accounts receivable	Provision ratio	Reason
Texas American Resources-Asian Inc. ("Texas Asian")	48,723,772	48,723,772	100%	Under the financial crisis, Texas Asian went bankrupt and was unable to repay the accounts (note 1)

note1: By making efforts, the Company recovered the accounts fully from the parent company of Texas Asian in 2009.

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

(3) Accounts receivable (continued)

As at 31 December 2009, the 5 largest accounts receivable are listed as follows:

	Relationship with the Group	Amount	Ageing	Percentage of total accounts receivable
CNOOC Limited	Related party	1,874,789,040	Within 1 year	50%
ConocoPhillips China Inc. (COPC)	Non-related party	346,569,742	Within 1 year	9%
CNOOC	Related party	257,469,184	Within 1 year	7%
Woodside Energy Ltd	Non-related party	213,121,475	Within 1 year	6%
Arab Drilling and Workover Company	Non-related party	153,617,620	Within 1 year	4%
		2,845,567,061		76%

As at 31 December 2008, the 5 largest accounts receivable are listed as follows:

	Relationship with the Group	Amount	Ageing	Percentage of total accounts receivable
CNOOC Limited	Related party	1,236,112,535	Within 1 year	44%
ConocoPhillips China Inc. (COPC)	Non-related party	256,879,875	Within 1 year	10%
CNOOC	Related party	120,526,395	Within 1 year	4%
Peak Group Asia Pacific Pty Ltd	Non-related party	113,588,165	Within 1 year	4%
ConocoPhillips Skandinavia AS	Non-related party	109,224,132	Within 1 year	4%
		1,836,331,102		66%

The accounts receivable balance as at 31 December 2009 included an amount of RMB257,469,184 due from CNOOC, a shareholder holding 53.63% voting rights of the Company (31 December 2008: RMB120,526,395). The accounts receivable due from other related parties amounted to RMB2,096,073,209 (31 December 2008: RMB1,316,571,319). Please refer to Note 6(5) for details.

As at each year-end of the financial statements, except for the aforementioned Atlantis Deepwater, no accounts receivable due from shareholders and other related parties is overdue. Therefore, no provision for impairment was made for such accounts, other than 50% provision made for impairment of account receivable due from Atlantis Deepwater.

The Group's accounts receivable are mainly denominated in RMB and US$. As at 31 December 2009, the balance denominated in US$ was US$199,594,759 (equivalent to RMB1,362,872,935) (31 December 2008: the balance denominated in US$ was US$187,991,502, equivalent to RMB1,284,846,720).

The Group had no impairment provision of accounts receivable written-off during the year.

(4) Prepayments

The ageing analysis of prepayments is as follows:

	31 December 2009		31 December 2008	
	Amount	Ratio	Amount	Ratio
Within 1 year	354,732,697	67%	1,281,548,540	100%
1-2 years	173,500,558	33%	–	–
Total	528,233,255	100%	1,281,548,540	100%

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

(4) Prepayments (continued)

As at 31 December 2009, the Group's prepayment balance did not include amount due from a shareholder holding 5% or more voting rights of the Company (31 December 2008: nil).

As at 31 December 2009, the 5 largest prepayments are as follows:

2009	Relationship with the Group	Amount	Prepayment time	Reasons for outstanding
Off shore Oil Engineering Co., Ltd.	Related party	**298,097,500**	2009	Prepayment for engineering construction is still unsettled
ROLLS-ROYCE MARINE (SHANGHAI)	Non-related party	**156,649,546**	2008	Prepayment for 20% of the ships with three functions in deep water is still unsettled
WARTSILA CHINA LTD	Non-related party	**16,851,012**	2008	Prepayment for the ships with three functions in deep water is still unsettled
Parisco-Hull & Machinery	Non-related party	**11,236,663**	2009	Prepayment for insurance premium is still unsettled
Tianjin Baosteel Northern Trade Co., Ltd.	Non-related party	**4,872,089**	2009	Prepayment for engineering expenses is still unsettled
		487,706,810		

2008	Relationship with the Group	Amount	Prepayment time	Reasons for outstanding
China Merchants Heavy Industry (Shenzhen) Co., Ltd.	Non-related party	480,544,812	2008	Prepayment for engineering construction is still being unsettled
Off shore Oil Engineering Co., Ltd.	Related party	259,724,275	2008	Prepayment for engineering construction is still being unsettled
Dalian Shipbuilding Industry Co., Ltd.	Non-related party	228,919,400	2008	Prepayment for engineering construction is still being unsettled
ROLLS-ROYCE MARINE (SHANGHAI)	Non-related party	156,649,546	2008	Prepayment for 20% of the ships with three functions in deep water is still unsettled
Shenzhen Pufeite Electromechanical Technology Ltd.	Non-related party	33,396,000	2008	Prepayment for materials is still unsettled
		1,159,234,033		

The balance of prepayments included an amount of RMB298,097,500 (2008: RMB284,324,275) prepaid to related parties. Please refer to Note 6(5) for details.

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

(5) Dividend receivable

2009	Balance at the beginning of the year	Increase during the year	Decrease during the year	Exchange realignment	Balance at the end of the year	Reasons for outstanding balances	Impaired or not
Within 1 year	16,391,075	226,273,351	(218,854,213)	(55,798)	23,754,415	Some dividends are not paid after the declaration for grant	No

2008	Balance at the beginning of the year	Increase during the year	Decrease during the year	Exchange realignment	Balance at the end of the year	Reasons for outstanding balances	Impaired or not
Within 1 year	21,287,114	129,523,817	(126,838,293)	(7,581,563)	16,391,075	Some dividends are not paid after the declaration for grant	No

Dividend receivable as at 31 December 2009 and 31 December 2008 were all dividend receivable due from jointly-controlled entities.

(6) Other receivables

	31 December 2009	31 December 2008
Other receivables	396,454,853	309,257,212
Less: Provision for impairment of other receivables	7,331,282	2,787,662
	389,123,571	306,469,550

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

	31 December 2009				31 December 2008			
	Amount	Ratio	Provision for impairment of other receivables	Provision ratio	Amount	Ratio	Provision for impairment of other receivables	Provision ratio
Within 1 year	377,096,228	95%	–	–	303,995,616	98%	–	–
1-2 years	16,479,579	4%	4,855,710	29%	2,532,452	1%	427,345	17%
2-3 years	1,008,685	–	605,211	60%	922,069	–	553,242	60%
Over 3 years	1,870,361	1%	1,870,361	100%	1,807,075	1%	1,807,075	100%
	396,454,853	100%	7,331,282		309,257,212	100%	2,787,662	

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31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

(6) Other receivables (continued)

	31 December 2009				31 December 2008			
	Amount	Ratio	Provision for impairment of other receivables	Provision ratio	Amount	Ratio	Provision for impairment of other receivables	Provision ratio
Individually significant items	230,217,712	58%	–	–	153,534,943	50%	–	–
Other insignificant items	166,237,141	42%	7,331,282	4%	155,722,269	50%	2,787,662	2%
Total	396,454,853	100%	7,331,282		309,257,212	100%	2,787,662	

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

	31 December 2009	31 December 2008
Balance at the beginning of the year	2,787,662	2,389,367
Provision during the year	8,269,455	728,141
Written-back during the year	(3,725,835)	(329,846)
Balance at the end of the year	7,331,282	2,787,662

As at 31 December 2009, the 5 largest other receivables are as follows:

	Relationship with the Group	Amount	Percentage of total other receivables	Account nature
PD	Joint-controlled entity	147,177,452	37%	Funds transfer
Atlantis Deepwater	Joint-controlled entity	30,115,828	8%	Funds borrowed
Maersk Drilling Pty Ltd	Non-related party	13,317,246	3%	Operational fees
NOX fee	Non-related party	9,798,467	2%	Surcharges of Norway port
Xingang Custom of Tianjin of the Peoples' Republic of China	Non-related party	9,311,897	2%	Tariff deposits
		209,720,890	52%	

As at 31 December 2008, the 5 largest other receivables are as follows:

	Relationship with the Group	Amount	Percentage of total other receivables	Account nature
PD	Joint-controlled entity	71,919,890	23%	Funds transfer
Xingang Custom of Tianjin of the Peoples' Republic of China	Non-related party	44,871,272	14%	Tariff deposits
Atlantis Deepwater	Joint-controlled entity	26,694,570	9%	Funds borrowed
Oslo tax authorities	Non-related party	10,994,847	4%	Refund of value-added tax receivable
Maersk Contractors Australia Pty Ltd	Non-related party	9,940,220	3%	Operational fees
		164,420,799	53%	

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31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

(6) Other receivables (continued)

The other receivable balance as at 31 December 2009 included an amount of RMB1,983,532 due from CNOOC, a shareholder holding 53.63% voting shares of the Company (31 December 2008: RMB2,299,741). The other receivables due from other related parties amounted to RMB187,908,663 (31 December 2008: RMB105,018,111) as at 31 December 2009. Please refer to Note 6(5) for details.

As at each year-end of the financial statements, no other receivables due from shareholders and other related parties is overdue. Therefore, no provision for impairment was made for such accounts.

(7) Inventories

	31 December 2009	31 December 2008
Materials and spare parts for production	837,313,028	796,564,470
Less: Provision for impairment of inventories	16,764,482	15,693,817
	820,548,546	780,870,653

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

	31 December 2009	31 December 2008
Balance at the beginning of the year	15,693,817	11,840,579
Provision during the year	1,070,665	3,853,238
Written-back during the year	–	–
Balance at the end of the year	16,764,482	15,693,817

(8) Held-to-maturity investment

	31 December 2009	31 December 2008
Held-to-maturity investment	39,081,025	78,235,318
Current portion of non-current assets	39,081,032	39,117,655
Total	78,162,057	117,352,973

This investment represents CDE's term deposit with an annual interest rate of 5.386% placed in the account of the agent bank of DnBNOR, as a pledge for a loan obtained from Eksportfinans, a Norway export credit institution. Please refer to Note 5 (26 and 28) for details.

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

(9) Available-for-sale financial assets

	31 December 2009	31 December 2008
Available-for-sale financial assets (note 1)	140,792,296	140,825,753
Less: Provision for impairment of financial assets	121,511,262	106,508,218
	19,281,034	34,317,535

note 1:

	31 December 2009	31 December 2008
Equity percentage attributable to the Group	18.5%	18.5%
Share investment, cost	140,366,447	140,366,447
Exchange realignment	425,849	459,306
Less: Provision for impairment of financial assets	121,511,262	106,508,218
Net carrying value	19,281,034	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 the fair value is calculated according to the listed price at the period/year end times the shares held by CDE. The change in the fair value of the investment is recorded directly in equity. The fair value of this investment as at the Group's acquisition was RMB140,366,447. As at 31 December 2009, the market value of CDE's investment in Petrojack ASA has declined significantly. The Group deemed it as an impairment and an impairment provision amounting to RMB121,511,262 was made. Please refer to Note 5(17) for details.

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

(10) Investment in jointly-controlled entities

2009 and 2008	Type of entity	Place of registration	Authorized representative	Nature of business	Registered capital
China France Bohai Geoservices Co., Ltd. ("China France Bohai")	Limited company	Tianjin, China 30 November 1983	Li Yong	b	US$6,650,000
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	Limited company	Shenzhen, China 25 October 1984	Zhang Xingyun	a	RMB4,640,000
CNOOC-OTIS Well Completion Services Ltd. ("CNOOC-OTIS")	Limited company	Tianjin, China 14 April 1993	Zhao Shunqiang	c	US$2,000,000
China Petroleum Logging-Atlas Cooperation Service Company ("Logging-Atlas")	Limited company	Shenzhen, China 10 May 1984	Yu Feng	d	US$2,000,000
China Off shore Fugro Geo Solutions (Shenzhen) Company Ltd.("Fugro")	Limited company	Shenzhen, China 24 August 1983	Yu Zhanhai	e	US$1,720,790
PT Tritunggal Sinergi Company Ltd. ("PTTS")	Limited company	Indonesia 30 December 2004	Not applicable	Provision of oilfield maintenance services	US$700,000
Eastern Marine Services Ltd. ("Eastern Marine")	Limited company	Hong Kong, China 10 March 2006	Not applicable	Provision of marine transportation services	HK$1,000,000
COSL-Expro Testing Services (Tianjin) Company Ltd. ("COSL-Expro")	Limited company	Tianjin, China 28 February 2007	Zhao Shunqiang	f	US$5,000,000
Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater")	Limited company	Hong Kong, China 28 August 2006	Not applicable	Provision of artificial buoyant seabed unit	HK$1,000
Premium Drilling AS ("PD") (note 1)	Limited company	Norway June 2005	Not applicable	Operation of jack-up rigs	NOK100,000

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

(10) Investment in jointly-controlled entities (continued)

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

b: Provision of slurry logging service, steel wire working services, production testing and measurement services as well as the services related to the ones listed above to customers working onshore and offshore territory of the PRC, including sampling and testing both in ground and under well; 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 industries of oil and gas, geo-thermal development and mining industry; provision of rental, maintenance of the tools, equipments, 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 offshore and onshore joint well exploration services, 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.

note 1: PD which was established by COSL Drilling Europe AS and Sinvest AS (formerly known as Sinvest ASA) in June 2005, includes Premium Drilling AS, Premium Drilling Inc and Premium Drilling (Cayman) Ltd., providing service of operation of jack-up drilling rigs. Premium Drilling was acquired as a jointly-controlled entity through the acquisition of CDE as further described in Note 5(51). In May 2009, the Group and the other investor made the common decision to terminate the management agreement of Premium Drilling (Cayman).

During the financial statement reporting period, the Company's initial investment amount on the aforementioned other jointly-controlled entities had not changed, and the shares held and voting right ratios remained the same.

2009	Total assets Balance at the end of the year	Total liabilities Balance at the end of the year	Total net assets Amount for the year	Revenue Amount for the year	Net profit/(loss) Amount for the year
Jointly-controlled entities					
Magcobar	301,749,370	84,999,567	216,749,803	483,056,922	95,854,863
China France Bohai	236,855,658	94,219,724	142,635,934	412,195,191	141,314,117
CNOOC-Otis	77,653,892	20,955,600	56,698,292	61,785,938	9,961,252
Logging-Atlas	71,451,145	28,933,177	42,517,968	89,273,100	11,258,571
Fugro	176,917,950	43,275,468	133,642,482	189,570,851	68,793,439
PTTS	2,014,555	26,317	1,988,238	–	(20,114)
Eastern Marine	369,323,129	71,486,960	297,836,169	170,116,868	(10,554,061)
COSL-Expro	207,492,105	85,796,097	121,696,008	293,171,026	71,574,271
Atlantis Deepwater	60,310,617	234,812,317	(174,501,700)	–	(197,993,495)
PD	242,185,520	430,667,534	(188,482,014)	68,347,551	(46,027,312)

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

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

(10) Investment in jointly-controlled entities (continued)

2008	Total assets Balance at the end of the year	Total liabilities Balance at the end of the year	Total net assets Amount for the year	Revenue Amount for the year	Net profit/(loss) Amount for the year
Magcobar	297,314,561	80,575,630	216,738,931	463,558,247	102,416,887
China France Bohai	215,682,168	44,534,846	171,147,322	358,809,753	120,741,981
CNOOC-Otis	85,726,389	18,957,399	66,768,990	73,710,092	14,277,552
Logging-Atlas	86,882,718	45,340,392	41,542,326	130,742,796	18,820,276
Fugro	126,441,987	42,131,821	84,310,166	153,141,786	46,729,570
PTTS	2,608,043	13,124	2,594,919	–	(271,778)
Eastern Marine	414,713,105	26,347,568	388,365,537	211,170,703	112,616,137
COSL-Expro	187,197,450	60,075,714	127,121,736	280,058,102	85,573,921
Atlantis Deepwater	90,813,658	61,879,964	28,933,694	–	(59,127,774)
PD	589,326,291	734,136,613	(144,810,322)	187,946,729	(41,308,944)

(11) Long-term equity investments

	31 December 2009	31 December 2008
Cost method	99,884	–
Equity method	531,635,201	589,449,106
	531,735,085	589,449,106

	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:					
Atlantis Deepwater Technology holding AS	99,884	–	99,884	–	99,884

There is no impairment for the long-term equity investments as at 31 December 2009. Therefore, no provision for impairment of long-term equity investment is required.

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

(11) Long-term equity investments (continued)

2009	Initial investment	Balance at the beginning of the year	Increase (decrease) during the year	Reclassification of shared excess losses to other current liabilities/ non-current liabilities	Balance at the end of the year	Shareholding ratio (%) Direct	Shareholding ratio (%) Indirect	Voting right ratio (%)	Provision for impairment	Cash dividend during the year
Equity method:										
Jointly-controlled entities										
China France Bohai	56,336,656	85,573,661	(14,255,694)	-	71,317,967	50%	-	50%	-	(63,536,010)
Magcobar (note 3)	25,170,585	130,043,359	6,524	-	130,049,883	60%	-	50%	-	(57,392,160)
CNOOC-OTIS	27,520,607	33,384,495	(5,035,349)	-	28,349,146	50%	-	50%	-	(10,200,000)
Logging-Atlas	10,167,012	20,771,163	487,821	-	21,258,984	50%	-	50%	-	(5,124,300)
Fugro	10,134,627	42,155,083	24,666,158	-	66,821,241	50%	-	50%	-	(9,713,937)
PTTS (note 3)	3,186,453	1,427,206	(333,675)	-	1,093,531	-	55%	50%	-	-
Eastern Marine (note 3)	163,113,033	198,066,424	(46,169,979)	-	151,896,445	-	51%	50%	-	(41,806,944)
COSL-Expro	19,352,250	63,560,868	(2,712,864)	-	60,848,004	50%	-	50%	-	(38,500,000)
Atlantis Deepwater (note 2)	46,771,639	14,466,847	(50,865,622)	36,398,775	-	-	50%	50%	-	-
PD (note 1)	24,644,100	-	(21,835,846)	21,835,846	-	-	50%	50%	-	-
Subtotal	386,396,962	589,449,106	(116,048,526)	58,234,621	531,635,201				-	(226,273,351)

note 1: The investment was held by CDE, and the Group shared the excess losses in proportion of the equity investment. During the accounting period, shareholders of PD terminated the management agreement of PD. The jointly-controlled entity was going to be liquidated and the losses would be reclassified into other current liabilities (31 December 2008: other non-current liabilities).

note 2: The Group shared the excess losses according to the proportion of the equity investment and reclassified the losses as other non-current liabilities at the end of the reporting period. Please refer to Note 5 (31) for details.

note 3: Although the Company's shareholding ratio in Magcobar, PTTS, Eastern Marine exceeds 50%, according to the Articles of Associations of these three companies, the Company does not have control over their operational and financial decisions. Therefore, these financial statements were not incorporated into the Group's consolidated financial statements and were only recorded based on the equity method in accordance with the Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements.

No restriction was imposed on the transfer of funds to the Group from the countries/areas where the above jointly-controlled entities were located.

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

(11) Long-term equity investments (continued)

2008	Initial investment	Balance at the beginning of the year	Increase (decrease) during the year	Reclassification of shared excess losses to other non-current liabilities	Balance at the end of the year	Shareholding ratio (%) Direct	Shareholding ratio (%) Indirect	Voting right ratio (%)	Provision for impairment	Cash dividend during the year
Jointly-controlled entities										
China France Bohai	56,336,656	54,368,365	31,205,296	–	85,573,661	50%	–	50%	–	(44,305,380)
Magcobar (note 2)	25,170,585	136,829,535	(6,786,176)	–	130,043,359	60%	–	50%	–	(57,430,160)
CNOOC-OTIS	27,520,607	27,208,916	6,175,579	–	33,384,495	50%	–	50%	–	(1,366,900)
Logging-Atlas	10,167,012	17,632,506	3,138,657	–	20,771,163	50%	–	50%	–	(5,144,325)
Fugro	10,134,627	26,952,665	15,202,418	–	42,155,083	50%	–	50%	–	(8,294,052)
PTTS (note 2)	3,186,453	1,696,684	(269,478)	–	1,427,206	–	55%	50%	–	–
Eastern Marine (note 2)	163,113,033	150,605,567	47,460,857	–	198,066,424	–	51%	50%	–	–
COSL-Expro	19,352,250	33,773,907	29,786,961	–	63,560,868	50%	–	50%	–	(13,000,000)
Atlantis Deepwater	46,771,639	36,103,040	(21,636,193)	–	14,466,847	–	50%	50%	–	–
PD (note 1)	24,644,100	–	(24,556,704)	24,556,704	–	–	50%	50%	–	–
Subtotal	386,396,962	485,171,185	79,721,217	24,556,704	589,449,106				–	(129,523,817)

note 1: The investment was held by CDE and the Group shared the excess losses according to the proportion of the equity investment ratio.

note 2: Although the Company's shareholding ratio in Magcobar, PTTS, Eastern Marine exceeds 50%, according to the Articles of Associations of these three companies, the Company does not have control over their operational and financial decisions. Therefore, these financial statements were not incorporated into the Group's consolidated financial statements and were only recorded based on equity method in accordance with the Accounting Standards for Business Enterprises No.33 – Consolidated Financial Statements.

No restriction was imposed on the transfer of funds to the Group from the countries/areas where the above jointly-controlled entities were located.

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

(12) Fixed assets

2009	Balance at the beginning of the year Restated (note 1)	Increase during the year	Decrease during the year	Balance at the end of the year
Cost				
Land and buildings	39,088,867	32,017,767	667,653	70,438,981
Tankers and vessels	6,827,843,462	1,978,119,131	224,494,555	8,581,468,038
Drilling rigs	23,001,543,087	5,302,557,676	1,058,225,793	27,245,874,970
Machinery and equipment	5,617,358,739	1,154,241,700	127,715,672	6,643,884,767
Other vehicles	70,760,528	10,881,763	3,781,793	77,860,498
Total	35,556,594,683	8,477,818,037	1,414,885,466	42,619,527,254
Accumulated depreciation				
Land and buildings	6,455,813	2,088,719	320,551	8,223,981
Tankers and vessels	3,647,480,223	316,125,933	207,186,789	3,756,419,367
Drilling rigs	5,773,759,849	1,327,819,475	898,358,352	6,203,220,972
Machinery and equipment	1,951,462,077	678,061,516	116,786,945	2,512,736,648
Other vehicles	40,229,087	7,513,685	1,127,635	46,615,137
Total	11,419,387,049	2,331,609,328	1,223,780,272	12,527,216,105
Net carrying amount				
Land and buildings	32,633,054	29,929,048	347,102	62,215,000
Tankers and vessels	3,180,363,239	1,661,993,198	17,307,766	4,825,048,671
Drilling rigs	17,227,783,238	3,974,738,201	159,867,441	21,042,653,998
Machinery and equipment	3,665,896,662	476,180,184	10,928,727	4,131,148,119
Other vehicles	30,531,441	3,368,078	2,654,158	31,245,361
Total	24,137,207,634	6,146,208,709	191,105,194	30,092,311,149
Impairment provision				
Land and buildings	–	–	–	–
Tankers and vessels	–	–	–	–
Drilling rigs	–	–	–	–
Machinery and equipment	–	–	–	–
Other vehicles	–	–	–	–
Total	–	–	–	–
Carrying amount				
Land and buildings	32,633,054	29,929,048	347,102	62,215,000
Tankers and vessels	3,180,363,239	1,661,993,198	17,307,766	4,825,048,671
Drilling rigs	17,227,783,238	3,974,738,201	159,867,441	21,042,653,998
Machinery and equipment	3,665,896,662	476,180,184	10,928,727	4,131,148,119
Other vehicles	30,531,441	3,368,078	2,654,158	31,245,361
Total	24,137,207,634	6,146,208,709	191,105,194	30,092,311,149

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

(12) Fixed assets (continued)

2008	Balance at the beginning of the year	Increase during the year (Restated) (note 1)	Decrease during the year	Balance at the end of the year (Restated) (note 1)
Cost				
Land and buildings	38,882,067	206,800	–	39,088,867
Tankers and vessels	6,022,002,365	977,566,638	171,725,541	6,827,843,462
Drilling rigs	6,695,650,088	16,277,498,399	(28,394,600)	23,001,543,087
Machinery and equipment	4,076,881,422	1,615,599,357	75,122,040	5,617,358,739
Other vehicles	62,184,587	11,218,354	2,642,413	70,760,528
Total	16,895,600,529	18,882,089,548	221,095,394	35,556,594,683
Accumulated depreciation				
Land and buildings	3,793,986	2,661,827	–	6,455,813
Tankers and vessels	3,478,550,594	243,553,408	74,623,779	3,647,480,223
Drilling rigs	4,694,425,826	1,082,422,562	3,088,539	5,773,759,849
Machinery and equipment	1,503,430,725	498,228,180	50,196,828	1,951,462,077
Other vehicles	32,039,951	10,070,961	1,881,825	40,229,087
Total	9,712,241,082	1,836,936,938	129,790,971	11,419,387,049
Net carrying amount				
Land and buildings	35,088,081	(2,455,027)	–	32,633,054
Tankers and vessels	2,543,451,771	734,013,230	97,101,762	3,180,363,239
Drilling rigs	2,001,224,262	15,195,075,837	(31,483,139)	17,227,783,238
Machinery and equipment	2,573,450,697	1,117,371,177	24,925,212	3,665,896,662
Other vehicles	30,144,636	1,147,393	760,588	30,531,441
Total	7,183,359,447	17,045,152,610	91,304,423	24,137,207,634
Impairment provision				
Land and buildings	–	–	–	–
Tankers and vessels	–	–	–	–
Drilling rigs	–	–	–	–
Machinery and equipment	–	–	–	–
Other vehicles	–	–	–	–
Total	–	–	–	–
Carrying amount				
Land and buildings	35,088,081	(2,455,027)	–	32,633,054
Tankers and vessels	2,543,451,771	734,013,230	97,101,762	3,180,363,239
Drilling rigs	2,001,224,262	15,195,075,837	(31,483,139)	17,227,783,238
Machinery and equipment	2,573,450,697	1,117,371,177	24,925,212	3,665,896,662
Other vehicles	30,144,636	1,147,393	760,588	30,531,441
Total	7,183,359,447	17,045,152,610	91,304,423	24,137,207,634

note 1: According to Accounting Standards for Business Enterprises No. 20 – Business Combination, in 2009, the Group adjusted the purchase price allocation of the acquisition of CDE as further described in Note 5(51).

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

(12) Fixed assets (continued)

The provision for depreciation in 2009 was RMB2,331,609,328 (2008: RMB1,282,367,194).

The original cost of the fixed assets transferred from construction in progress in 2009 amounted to RMB8,058,722,945 (2008: RMB6,004,171,640).

As at 31 December 2009, fixed assets of an original cost of RMB7,294,714,478 have been fully depreciated but continue to be used by the Group, and the carrying value of such assets amounted to RMB275,712,344 (2008: fixed assets of an original cost of RMB3,491,973,839 have been fully depreciated but continue to be used by the Group, and the carrying value of such assets amounted to RMB158,951,560).

The Group had no significant temporarily-idle fixed assets as at 31 December 2009.

The Group had no ownership-restricted fixed assets as at 31 December 2009.

The Group had no fixed assets held for sale as at 31 December 2009.

The carrying amount of the fixed assets under operating leases of the Group is as follows:

Drilling Platform	2009	2008
COSL Power	880,452,451	921,015,270

(13) Construction in progress

	31 December 2009		
	Carrying amount	Impairment provision	Book balance
200ft platform	1,513,527,628	–	1,513,527,628
350ft drilling platform	1,363,758,496	–	1,363,758,496
Two lift boat multi-functional drilling platforms	679,210,800	–	679,210,800
Deep water 3-purpose workboat	272,511,574	–	272,511,574
Exploration 12 cable ship construction	186,506,661	–	186,506,661
N5 shipyard renovation	146,878,750	–	146,878,750
Deep water reconnaissance vessel	129,117,795	–	129,117,795
6-type-3-purpose workboat	71,131,964	–	71,131,964
ELIS system	62,215,931	–	62,215,931
Indonesia barge	49,693,196	–	49,693,196
Fracturing equipment	–	–	–
Submarine cable flotilla	5,481,969	–	5,481,969
Libya land drilling machine	–	–	–
BZ19-4 module drilling machine	–	–	–
Jack-up rigs			
– COSL Confidence	–	–	–
– COSL Strike	–	–	–
Semi-submersible rigs			
– COSL Innovator	2,203,825,106	(443,833,000)	1,759,992,106
– COSL Pioneer	2,469,987,522	–	2,469,987,522
– COSL Promoter	2,031,990,026	(375,551,000)	1,656,439,026
Drilling packages	1,268,803,872	–	1,268,803,872
Others	2,511,943,428	–	2,511,943,428
	14,966,584,718	(819,384,000)	14,147,200,718

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

(13) Construction in progress (continued)

	31 December 2008		
	Carrying amount Restated (note 1)	Impairment provision	Book balance Restated (note 1)
Marine oil 942	–	–	–
Two lift boat multi-functional drilling platforms	529,973,522	–	529,973,522
6-type-3-purpose workboat	968,487,131	–	968,487,131
HYSY 931 renovation	44,262	–	44,262
8 cable ship renovation	–	–	–
350ft drilling platform	1,224,638,922	–	1,224,638,922
Indonesia barge	369,858,767	–	369,858,767
Libya land drilling machine	163,952,747	–	163,952,747
200ft platform	129,817,430	–	129,817,430
Exploration 12 cable ship construction	80,092,706	–	80,092,706
Jack-up rigs			
– COSL Confidence	856,831,569	–	856,831,569
– COSL Seeker	–	–	–
– COSL Strike	911,435,552	–	911,435,552
Semi-submersible rigs			
– COSL Innovator	2,016,769,519	–	2,016,769,519
– COSL Pioneer	2,148,960,808	–	2,148,960,808
– COSL Promoter	1,514,057,836	–	1,514,057,836
Drilling packages	787,481,598	–	787,481,598
Others	3,726,547,545	–	3,726,547,545
	15,428,949,914	–	15,428,949,914

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

(13) Construction in progress (continued)

2009	Budget	At the beginning of the year (restated) (note 1)	Increase during the year		Decrease during the year		Exchange realignment	At the end of the year	Capital source	Project investment as proportion of budget
			Purchase	Transfer from fixed assets	Transfer to fixed assets	Transfer to intangible assets				
200ft platform	2,959,840,000	129,817,430	1,383,710,198	-	-	-	-	1,513,527,628	Self-financing	51%
350ft drilling platform	2,938,190,000	1,224,638,922	1,539,315,336	-	(1,400,195,762)	-	-	1,363,758,496	Fund raised from issue of A share	94%
Two lifeboat multi-functional drilling platforms	698,910,000	529,973,522	149,237,278	-	-	-	-	679,210,800	Bonds and fund raised from issue of A share	97%
Deep water 3-purpose workboat	1,564,180,000	1,839,138	270,672,436	-	-	-	-	272,511,574	Fund raised from issue of A share	17%
Exploration 12 cable ship construction	1,148,990,000	80,092,706	106,413,955	-	-	-	-	186,506,661	Fund raised from issue of A share	16%
N5 shipyard renovation	80,320,000	-	-	146,878,750	-	-	-	146,878,750	Self-financing	-
Deep water reconnaissance vessel	528,990,000	26,076,472	103,041,323	-	-	-	-	129,117,795	Fund raised from issue of A share	24%
6-type-3-purpose workboat	1,968,524,095	968,487,132	397,396,977	-	(1,294,752,145)	-	-	71,131,964	Bonds and fund raised from issue of A share	90%
ELIS system	500,000,000	88,169,296	52,631,889	-	(78,585,254)	-	-	62,215,931	Self-financing	66%
Indonesia barge	630,841,000	369,858,766	144,834,430	-	(465,000,000)	-	-	49,693,196	Self-financing	82%
Fracturing equipment	74,753,000	43,431,514	3,239,345	-	(46,670,859)	-	-	-	Self-financing	100%
Submarine cable flotilla	296,764,000	299,795	184,975,921	-	(179,793,747)	-	-	5,481,969	Self-financing	62%
Libya land drilling machine	455,000,105	163,952,747	556,830	-	(164,509,577)	-	-	-	Self-financing	100%
BZ19-4 module drilling machine	114,060,000	26,708,472	74,478,776	-	(101,187,248)	-	-	-	Self-financing	100%
Jack-up rigs										
- COSL Confidence	1,017,878,600	856,831,569	228,830,052	-	(1,084,152,866)	-	(1,508,755)	-	Self-financing and loans	100%
- COSL Strike	1,113,518,200	911,435,552	243,781,264	-	(1,153,776,549)	-	(1,440,267)	-	Self-financing and loans	100%
Semi-submersible rigs										
- COSL Innovator	2,800,874,000	2,016,769,519	189,201,319	-	-	-	(2,145,732)	2,203,825,106	Self-financing and loans	79%
- COSL Pioneer	2,732,560,000	2,148,960,808	323,556,349	-	-	-	(2,529,635)	2,469,987,522	Self-financing and loans	90%
- COSL Promoter	2,800,874,000	1,514,057,836	519,748,387	-	-	-	(1,816,197)	2,031,990,026	Self-financing and loans	73%
COSL Rig4	3,415,700,000	787,481,598	482,379,682	-	-	-	(1,057,408)	1,268,803,872	Self-financing and loans	47%
Others	-	3,540,067,120	1,080,545,366	-	(2,090,098,938)	(18,570,120)	-	2,511,943,428		
Total	27,840,767,000	15,428,949,914	7,478,547,113	146,878,750	(8,058,722,945)	(18,570,120)	(10,497,994)	14,966,584,718		

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

(13) Construction in progress (continued)

Capitalized interest expenditure of the Group in 2009 amounted to RMB264,943,374 (Note 5(39)), and the capitalization rate of capitalized amount of borrowing cost was 3.37%.

As at 31 December 2009, the semi-submersible drilling rigs COSL Innovator (formerly known as "WilInnovator") and COSL Pioneer (formerly known as "WilPioneer") being constructed by CDE with a value of RMB4,673,812,628 have been pledged as security for its bonds. Please refer to Note 5(29) for details.

2008 Restated (note 1)	Budget	At the beginning of the year	Increase during the year: Purchases	Increase during the year: Transfer from fixed assets	Increase during the year: 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
HYSY 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 lift boat 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%
HYSY 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%
Libya 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	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	-	2,964,473,027	(1,090,488,945)	(8,497,020)	(5,635,516)	10,861,249	3,726,547,545		
Total	32,793,353,845	3,665,892,052	5,466,295,729	46,343,593	12,235,697,445	(6,004,171,640)	(8,497,020)	(5,635,516)	33,025,271	15,428,949,914		

note 1: According to Accounting Standards for Business Enterprises No. 20 – Business Combination, in 2009, the Group adjusted the purchase price consideration of the acquisition of CDE as further described in Note 5(51).

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

13. Construction in progress (continued)

Impairment provision of construction in progress

31 December 2009	At the beginning of the year	Increase during the year	Decrease during the year	Exchange realignment	At the end of the year
Semi-submersible rigs					
– COSL Innovator (note 1)	–	444,106,389	–	(273.389)	443,833,000
– COSL Promoter (note 1)	–	375,782,329	–	(231,329)	375,551,000
	–	819,888,718	–	(504,718)	819,384,000

note 1: Impairment loss of construction in progress of USD120,000,000 (RMB819,888,718) (2008: nil) was recognized by the Group when preparing the 2009 interim report, primarily arising from the adverse change of macroeconomic environment since the second half of 2008 and the delay in the delivery of the two semi-submersible drilling platforms mentioned above, which caused the carrying amount of the semi-submersible drilling platforms under construction mentioned above was lower than their respective recoverable amounts. The management of the Group performed a further assessment when preparing the financial statements of the year and believes that no further impairment provision is required. The recoverable amount was estimated based on the respective rig by the Group. Calculation of the recoverable amount was mainly based on the present value of projected future cash flows of the platforms. The cash flows were discounted at a pre-tax rate of 9.5%.

14. Intangible assets

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

2009	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
Cost				
Land use rights	262,188,683	–	–	262,188,683
Management system and software	239,671,732	23,763,654	122,336	263,313,050
Contract value (note 1)	122,995,462	–	115,174	122,880,288
Total	624,855,877	23,763,654	237,510	648,382,021
Accumulated amortization				
Land use rights	906,708	5,306,120	–	6,212,828
Management system and software	49,231,221	35,938,677	8,879	85,161,019
Contract value (note 1)	41,118,302	54,107,927	62,265	95,163,964
Total	91,256,231	95,352,724	71,144	186,537,811
Net carrying amount				
Land use rights	261,281,975	(5,306,120)	–	255,975,855
Management system and software	190,440,511	(12,175,023)	113,457	178,152,031
Contract value (note 1)	81,877,160	(54,107,927)	52,909	27,716,324
Total	533,599,646	(71,589,070)	166,366	461,844,210

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

14. Intangible assets (continued)

2008	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
Cost				
Land use rights	4,670,258	257,518,425	–	262,188,683
Management system and software	90,122,212	149,237,944	(311,576)	239,671,732
Contract value (note 1)	–	122,702,127	(293,335)	122,995,462
Total	94,792,470	529,458,496	(604,911)	624,855,877
Accumulated amortization				
Land use rights	321,759	584,949	–	906,708
Management system and software	26,548,621	22,735,405	52,805	49,231,221
Contract value (note 1)	–	41,118,302	–	41,118,302
Total	26,870,380	64,438,656	52,805	91,256,231
Net carrying amount				
Land use rights	4,348,499	256,933,476	–	261,281,975
Management system and software	63,573,591	126,502,539	(364,381)	190,440,511
Contract value (note 1)	–	81,583,825	(293,335)	81,877,160
Total	67,922,090	465,019,840	(657,716)	533,599,646

note 1: Please refer to the note 2 of Note 5(31) for details.

Amortization of intangible assets amounted to RMB95,352,724 in 2009 (2008: RMB64,438,656).

15. Goodwill

	Balance at the beginning of the year	Increase during the year: Acquisition of a subsidiary	Increase during the year: Adjustment of the purchase price allocation of acquisition of a subsidiary	Decrease during the year	Exchange realignment	Balance at the end of the year	Impairment provision
2009	4,604,785,191	–	–	–	(4,311,977)	4,600,473,214	–
2008 Restated (note 1)	–	3,472,240,505	1,124,243,860	–	8,300,826	4,604,785,191	–

note 1: The Group acquired CDE as at 28 September 2008, resulting in a goodwill amounting to RMB4,596,484,365. Please refer to Note 5(51) for relevant calculation. In 2009, the Group had made a restatement based on the adjusted purchase price allocation.

Goodwill acquired through business combinations has been allocated to the drilling assets unit, which is also the drilling reporting segment, for impairment test.

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 pre-tax discount rate applied to the cash flow projections is 9.5% (2008: 9.5%), and the cash flow over a five-year period is extrapolated using a constant growth rate.

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

15. Goodwill (continued)

Key assumptions were used in the calculation of the present value of projected future cash flows of the drilling assets unit of 31 December 2009 as at 31 December 2009 and 31 December 2008. The following describes the key assumptions made by the management in determination of its cash flow projections for impairment testing of goodwill.

Discount rates – The discount rates used reflect specific risks relating to the drilling assets unit.

The values assigned to key assumptions which include drilling rig utilization rates, day rates and projected expenses are consistent with external information sources and historical trends.

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.

	2009	2008
Cost:		
Balance at the beginning of the year	**1,370,169,266**	637,140,827
Purchases	**510,502,532**	733,028,439
Balance at the end of the year	**1,880,671,798**	1,370,169,266
Accumulated amortization:		
Balance at the beginning of the year	**600,916,495**	384,187,798
Provision	**438,204,056**	216,728,697
Amount at the end of the year	**1,039,120,551**	600,916,495
Impairment provision:		
Balance at the beginning of the year	–	–
Provision	–	–
Write-off	–	–
Balance at the end of the year	–	–
Carrying amount:		
Balance at the end of the year	**841,551,247**	769,252,771
Balance at the beginning of the year	**769,252,771**	252,953,029

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

17. Provision for impairment of assets

31 December 2009	Balance at the beginning of the year	Provision during the year	Decrease during the year		Exchange realignment	Balance at the end of the year
			Write-back	Write-off		
Provision for impairment of accounts receivable and other receivables	56,096,276	96,480,675	(53,052,333)	–	(2,715)	99,521,903
Provision for impairment of inventories	15,693,817	2,830,878		(1,760,213)	–	16,764,482
Provision for impairment of construction in progress	–	819,888,718	–	–	(504,718)	819,384,000
Impairment provision for available-for-sale financial assets	106,508,218	15,003,044	–	–	–	121,511,262
Total	178,298,311	934,203,315	(53,052,333)	(1,760,213)	(507,433)	1,057,181,647

31 December 2008	Balance at the beginning of the year	Provision during the year	Decrease during the year		Exchange realignment	Balance 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

18. Short-term bank borrowings

	31 December 2009	Interest rate	Security	31 December 2008
Syndicated bank borrowing	–	LIBOR+1.7%	Secured	6,359,458,608
Nordea Bank Norge ASA	–	LIBOR+2.25%	Secured	476,138,316
	–			6,835,596,924

As at 31 December 2009, the Group had no overdue short-term borrowings.

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

19. Notes payable

	31 December 2009	31 December 2008
Banker's acceptances	–	366,762,500

20. Accounts payable

Accounts payable are non-interest-bearing and are normally settled on terms ranging from one month to two years.

The accounts payable as at 31 December 2009 did not include accounts payable to the shareholders holding 5% or more voting rights of the Company (31 December 2008: nil). The accounts payable balance as at 31 December 2009 included an amount of RMB152,498,047 payable to the related parties (31 December 2008: RMB104,699,088). Please refer to Note 6(5) for details.

Significant balance of accounts payable which was aged over one year as at 31 December 2009 is set forth below:

Company	Amount payable	Reason
You Lian Dockyards (Shekou) Limited	24,186,265	Within payment period
Dalian Shipbuilding Industry Co., Ltd.	137,759,131	Within payment period
Lehman Brothers Holding Inc. (Lehman)	140,681,821	CNA signed a swap contract with Lehman in 2008, which was terminated as Lehman went bankrupt. However, according to ISDA, CNA still needed to pay the expense between the date of signing of the contract and the date of termination of the contract, the specific amount of which remained under negotiations.

With respect to the above significant balance of accounts payable which was aged over one year, the repaid amount after the balance sheet date was nil.

The Group's accounts payable are mainly denominated in RMB or US$. As at 31 December 2009, accounts payable included balances denominated in US$ of US$95,422,146 (RMB651,561,495) (31 December 2008: US$103,799,670 (RMB709,429,228)).

21. Receipts in advance

The balance of receipts in advance as at 31 December 2009 did not include any advances received from the shareholders holding 5% or more voting rights of the Company (31 December 2008: nil).

The balance of receipts in advance as at 31 December 2009 did not include any advances received from a related party, CNOOC Limited (31 December 2008: RMB33,519,000).

The Group had no significant balance of receipts in advance which was aged over one year as at 31 December 2009.

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

22. Staff cost payable

31 December 2009	Amount at the beginning of the year	Current year additions	Current year payments	Amount at the end of the year
Current				
Salaries, bonuses, allowances and subsidies	378,799,258	2,393,040,825	2,346,407,991	425,432,092
Staff welfares	6,629,107	162,601,470	163,122,243	6,108,334
Social insurances	83,433,677	250,998,151	315,501,556	18,930,272
Including: Basic pension insurance	55,213,126	117,056,112	154,081,748	18,187,490
Medical insurance	30,854	43,484,879	42,815,515	700,218
Unemployment insurance	112,580	8,740,012	8,806,250	46,342
Work-related injury insurance	17,600	2,541,727	2,541,622	17,705
Maternity insurance	8,801	3,023,200	3,024,187	7,814
Commercial insurance	28,437,281	37,811,848	66,102,890	146,239
Annuity	(386,565)	38,340,373	38,129,344	(175,536)
Housing fund	(22,490)	73,755,827	73,797,242	(63,905)
Union fees and education fees	17,035,710	43,424,169	33,459,577	27,000,302
Sub-total	485,875,262	2,923,820,442	2,932,288,609	477,407,095
Non-current				
Pension costs, defined benefit/contribution scheme (note 1)	5,663,626	1,929,361	6,211,929	1,381,058
	491,538,888	2,925,749,803	2,938,500,538	478,788,153

31 December 2008	Balance at the beginning of the year	Current year additions	Acquisition of a subsidiary	Current year payments	Balance at the end of the year
Current					
Salaries, bonuses, allowances and subsidies	330,634,253	1,735,078,887	–	1,686,913,882	378,799,258
Staff welfares	20,510,348	120,144,264	–	134,025,505	6,629,107
Social insurances	29,548,102	268,385,720	–	214,500,145	83,433,677
Including: Basic pension insurance	1,332,574	149,844,997	–	95,964,445	55,213,126
Medical insurance	(3,487)	26,250,096	–	26,215,755	30,854
Unemployment insurance	88,163	7,838,123	–	7,813,706	112,580
Work-related injury insurance	11,047	2,342,789	–	2,336,236	17,600
Maternity insurance	(25,863)	2,698,160	–	2,663,496	8,801
Commercial insurance	24,260,122	36,194,376	–	32,017,217	28,437,281
Annuity	3,885,546	43,217,179	–	47,489,290	(386,565)
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

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

22. Staff cost payable (continued)

There was no accrued payroll in arrears or performance-linked compensation in the consolidated financial statements of the Group as at the balance sheet date.

In 2009, union fees and education fees amounted to RMB43,424,169 (2008: RMB40,611,207); non-monetary welfare was RMB2,500,152 (2008: RMB2,974,670); no compensation was incurred arising from release of labor (2008: nil).

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 adjusted actuarial assumptions and variations between actual and anticipated return on pension funds, will be recorded on the average remaining earnings period according to the "corridor" regulations.

	31 December 2009	31 December 2008
Pension cost		
Service cost	**969,849**	3,468,788
Interest cost	**53,404**	685,683
Estimated returns on plan assets	**(49,973)**	(465,241)
General and administrative expenses	**108,196**	67,641
Amortization of past service cost	**–**	–
Amortization of actuarial gains	**710,653**	474,390
Net pension cost	**1,792,129**	4,231,261
Social security tax	**137,232**	520,181
Total	**1,929,361**	4,751,442
Benefit assets/(obligation)		
Benefit obligation	**(2,257,027)**	(21,715,902)
Plan assets	**6,757,359**	9,489,444
Funded status	**4,500,332**	(12,226,458)
Social security tax	**(230,046)**	(1,723,931)
Unamortized actuarial gains, past service cost	**(5,651,344)**	8,286,763
Net obligation	**(1,381,058)**	(5,663,626)
Movements in the benefit asset/(obligation) during the year		
Benefit asset/(obligation), balance at the beginning of the year	**(5,663,626)**	–
Acquisition of a subsidiary	**–**	(3,067,171)
Benefit expense	**(1,929,361)**	(4,751,442)
Contributions	**6,211,929**	2,154,987
Benefit obligation, balance at the end of the year	**(1,381,058)**	(5,663,626)

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31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

22. Staff cost payable (continued)

note 1: Explanation of defined benefit scheme (continued)

	2009	2008
Assumptions		
Estimated return on plan assets	6%	6%
Discount rate	4%	5%
Salary increase	4%	5%
Increase of National Insurance	4%	4%
Rate of pension increase	1.50%-3.75%	1.75%-4.25%
Voluntary resignations	0-8%	0-8%
Social security tax	14%	14%
Analysis of the plan assets		
The asset allocation at the end of the period is set out as follows:		
Debt instruments	55%	52%
Equity instruments	7%	27%
Money market and similar	22%	9%
Property	16%	12%
Total	100%	100%

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31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

23. Taxes payable

	31 December 2009	31 December 2008
Corporate income tax	**86,825,656**	252,460,375
Business tax	**126,625,018**	56,029,365
Value added tax	**(33,559,625)**	(8,199,026)
Urban maintenance and construction tax	**4,450,954**	4,429,050
Individual income tax	**(33,497,166)**	23,606,967
Education surcharge	**2,181,480**	2,059,820
Other overseas taxes	**43,925**	12,911,906
Total	**153,070,242**	343,298,457

The respective basis of provision and tax rates for taxes payables are set out in Note 3 to the financial statements.

24. Interest payable

The balance of interest payable as at 31 December 2009 is set out as follows:

	At the beginning of the year	Payable during the year	Paid during the year	Payable at the end of the year
Borrowings	**195,026,299**	**807,600,817**	**(963,710,269)**	**38,916,847**
Bonds	**132,935,343**	**284,133,542**	**(316,772,874)**	**100,296,011**
Total	**327,961,642**	**1,091,734,359**	**(1,280,483,143)**	**139,212,858**

The balance of interest payable as at 31 December 2008 is set out as follows:

	At the beginning of the year	Payable during the year	Paid during the year	Payable at the end of the year
Borrowings	43,375,880	412,462,733	(260,812,314)	195,026,299
Bonds	42,000,000	172,733,398	(81,798,055)	132,935,343
Total	85,375,880	585,196,131	(342,610,369)	327,961,642

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

25. Other payables

	31 December 2009	31 December 2008
Amounts due to CNOOC	3,248,229	3,248,229
Marine meal fees payable	33,257,730	27,996,746
Service fees for contracted workers	16,814,778	12,618,716
Equipment cost payable	292,582	4,982,749
Amounts due to other related parties	38,293,528	35,063,419
Deposits and quality guarantee fees	1,505,411	3,238,892
Scientific research cooperation fees payable	–	4,126,572
Amounts due to the jointly-controlled entities	32,463,059	93,867,419
Service fees payable	167,470,890	167,954,456
Others	65,481,514	282,930,011
Total	358,827,721	636,027,209

The balance of other payables as at 31 December 2009 included an amount of RMB3,248,229 (31 December 2008: RMB3,248,229) due to CNOOC, which held 53.63% voting rights of the Company.

As at 31 December 2009, the Group had no other payables with the aging of more than one year.

26. Current portion of non-current liabilities

Current portion of long-term borrowings is set out as follows:

	31 December 2009	31 December 2008
Secured borrowings (note 1)	39,081,032	699,020,215
Unsecured borrowings	244,000,000	244,000,000
Total	283,081,032	943,020,215

The breakdown of the current portion of long-term borrowings as at 31 December 2009 is set out as follows:

	Borrowing		Interest rate
	Starting date	Ending date	%
Export-Import Bank of China	1 June 2006	30 June 2010	Interest rate of similar loan type quoted by the People's Bank of China
Export-Import Bank of China	19 November 2008	19 November 2010	Interest rate of similar loan type quoted by the People's Bank of China
Eksportfinans	1 August 2006	24 August 2010	3.20%

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

26. Current portion of non-current liabilities (continued)

	Currency	Balance at the end of 2009 Foreign currency	Balance at the end of 2009 RMB equivalent	Balance at the end of 2008 Foreign currency	Balance at the end of 2008 RMB equivalent
Export-Import Bank of China	RMB	–	200,000,000	–	200,000,000
Export-Import Bank of China	RMB	–	44,000,000	–	44,000,000
Eksportfinans	US$	5,723,475	39,081,032	5,723,475	39,117,655
Nordea Bank Norge ASA	US$	–	–	96,553,209	659,902,560
			283,081,032		943,020,215

note 1: In August 2006, CDE entered into a loan agreement of US$28,600,000 with Eksportfinans, a Norway-based export credit institution. The loan was granted based on CDE's extensive use of Norwegian suppliers in the construction of the jack-up drilling rig, COSL Power (formerly as "WilPower") and carried a fixed interest rate of 3.2%. The loan was to be repaid in semi-annual installments beginning six months after the loan drawdown date. The aggregate amount of the loan was US$28,600,000 and the bank deposits in an account of DnBNOR, an agent bank served as a security of the loan.

27. Derivative financial instruments

	31 December 2009	31 December 2008
Cross currency interest rate swap	–	49,307,921

In 2007, CDE, a subsidiary of the Group, acquired a cross currency interest swap agreement relating to the NOK500 million bond notes with Nordea Bank. 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).

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 between CDE and Nordea Bank to minimize the exposure to fluctuations in the US$/NOK exchange rate.

The NOK500 million bond was fully redeemed and the swap agreement was accordingly cancelled as at 31 December 2009.

28. Long-term bank borrowings

	31 December 2009	31 December 2008
Secured borrowings (note 1)	39,081,025	9,987,766,023
Unsecured borrowings	28,111,958,918	6,367,680,000
Total	28,151,039,943	16,355,446,023

note 1: Please refer to Note 5(26) for details of the security of the secured borrowings.

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31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

28. Long-term bank borrowings (continued)

The five largest long-term bank borrowings as at 31 December 2009 are as follows:

	Borrowings Starting date	Borrowings Ending date	Interest rate %
Bank of China	14 May 2009	29 April 2017	LIBOR+1.38%
Bank of China	25 May 2009	24 May 2017	LIBOR+0.9%
Export-Import Bank of China	1 September 2008	2 September 2020	LIBOR+1.7%
Industrial and Commercial Bank of China	22 May 2009	21 May 2017	LIBOR+0.9%
CNOOC Finance Co., Ltd.	19 June 2009	10 June 2011	Annual interest rate of the loan at 3.71%; commission of the entrusted loan at 0.275%

	Currency	Balance at the end of 2009 Foreign currency	Balance at the end of 2009 Local currency	Balance at the end of 2008 Foreign currency	Balance at the end of 2008 Local currency
Bank of China	US$	1,580,000,000	10,777,454,682	–	–
Export-Import Bank of China	US$	800,000,000	5,462,560,000	800,000,000	5,467,680,000
Bank of China	US$	800,000,000	5,369,024,236	–	–
Industrial and Commercial Bank of China	US$	600,000,000	4,096,920,000	–	–
CNOOC Finance Co., Ltd.	RMB	–	800,000,000	–	–
			26,505,958,918		5,467,680,000

As at 31 December 2009, the Group had no long-term bank borrowing due but outstanding.

29. Long-term bonds

31 December 2009 Bond name	Balance at the beginning of the year	Increase in the year	Decrease in the year	Exchange realignment	Balance 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)	485,743,801	–	485,502,159	(241,642)	–
Senior unsecured US$ bond (note 3)	675,948,880	2,060,109	115,447,280	(583,171)	561,978,538
Second security priority US$ bond (note 4)	1,366,649,193	4,700,952	762,361,920	(947,011)	608,041,214
Total	4,028,341,874	6,761,061	1,363,311,359	(1,771,824)	2,670,019,752

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

29. Long-term bonds (continued)

31 December 2008 Bond name	Balance at the beginning of the year	Increase in the year	Arising from acquisition of a subsidiary	Exchange realignment	Balance 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 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.

note 2: CDE issued unsecured bonds in July 2007, with a book value of NOK500 million and at interest rate of NIBOR+2.25%. The bullet maturity is three years. The bonds were fully redeemed during the year of 2009.

note 3: CDE issued bonds in February 2006, with a book value of US$100 million. The bonds are unsecured, have a five-year bullet maturity and carry a fixed coupon rate of 9.75%. Part of the bonds was redeemed by the Group during the year.

note 4: COSL Drilling Semi AS (formerly known as OffRig Drilling ASA), a controlling subsidiary of CDE, issued 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 COSL Innovator (formerly known as "WilInnovator") and, COSL Pioneer (formerly known as "WilPioneer"). The company incurred debt issuance costs of US$4.5 million, which are capitalized and amortized as a component of interest expense over the term of the bonds. The bonds 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. Part of the bonds was redeemed by the Group during the year.

The balance of long-term bonds as at 31 December 2009 is set out as follows:

Bond name	Nominal value	Issue date	Bond maturity	Issue amount	Balance at the end of the year
COSL corporate bond	**RMB1,500,000,000**	**18 May 2007**	**15 years**	**RMB1,500,000,000**	**1,500,000,000**
Senior unsecured US$ bond	**US$100,000,000**	**28 February 2006**	**5 years**	**US$100,000,000**	**561,978,538**
Second security priority US$ bond	**US$200,000,000**	**27 April 2006**	**5 years**	**US$195,500,000**	**608,041,214**
Total					**2,670,019,752**

The balance of long-term bonds as at 31 December 2008 is set out as follows:

Bond name	Nominal value	Issue date	Bond maturity	Issue amount	Balance at the end of the year
COSL corporate bond	RMB1,500,000,000	18 May 2007	15 years	RMB1,500,000,000	1,500,000,000
Senior unsecured US$ bond	US$100,000,000	28 February 2006	5 years	US$100,000,000	675,948,880
Second security priority US$ bond	US$200,000,000	27 April 2006	5 years	US$195,500,000	1,366,649,193
Senior unsecured NOK bond	NOK500,000,000	6 July 2007	3 years	NOK500,000,000	485,743,801
Total					4,028,341,874

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

30. Deferred tax assets and liabilities

Recognized deferred tax assets and deferred tax liabilities

	31 December 2009	31 December 2008 Restated (note 5)
Deferred tax assets:		
Provision for staff bonuses (note 1)	(114,573,831)	(112,551,940)
Amortization of intangible assets	–	(1,135,456)
Accrued liabilities	(76,278,787)	(3,533,488)
Tax losses carried forward	(16,404,539)	(29,299,930)
Others	(29,065,372)	(19,307,744)
	(236,322,529)	(165,828,558)
Deferred tax liabilities:		
Accelerated depreciation of fixed assets (note 2)	766,959,825	641,254,966
Revaluation surplus of fixed assets (note 3)	58,145,000	100,250,000
Deferred tax liabilities arising from acquisition of a subsidiary (note 4)	1,118,458,334	1,119,821,874
Others	83,548,399	1,633,469
	2,027,111,558	1,862,960,309
Net deferred tax liabilities	1,790,789,029	1,697,131,751

note 1: The Group made provision for staff bonuses at the end of the 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 recognized 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 has filed to 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 recognized on the balance sheet.

note 4: During the year, the fair values of various identifiable assets and liabilities are recognized 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 recognized 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 recognized using a tax rate of 27.6%, since the drilling rigs with service contracts of which the fair value differences are significant and expected to operate in offshore Norway, 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 5(51).

note 5: The comparative figures of the consolidated financial statements were restated based on the finalized purchase price allocation in accordance with the Accounting Standards for Business Enterprises No.20-Business Combinations, please refer to Note 5(51) for the detail.

The Group has tax losses arising in CNA of approximately RMB3,476,353,793 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.

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

30. Deferred tax assets and liabilities (continued)

The temporary differences corresponding to the asset or liability items giving rise to the temporary differences are as follows:

	2009	2008
Deferred tax assets		
Provision for staff bonuses	463,214,506	426,013,907
Amortization of intangible assets	–	4,541,826
Accrued liabilities	272,424,239	12,619,600
Tax losses carried forward	58,587,639	104,642,611
Others	105,126,272	68,956,229
Total	899,352,656	616,774,173
Deferred tax liabilities		
Accelerated depreciation of fixed assets	2,950,313,887	2,408,031,691
Revaluation surplus of fixed assets	280,700,000	401,000,000
Deferred tax liabilities arising from acquisition of a subsidiary	3,994,494,050	3,999,363,836
Others	345,289,804	5,833,818
Total	7,570,797,741	6,814,229,345

31. Other non-current liabilities

	31 December 2009	31 December 2008
Share of losses from a jointly-controlled entity (note 1)	36,398,775	72,405,161
Deferred revenue (note 2)	780,113,994	1,858,301,501
	816,512,769	1,930,706,662

note 1: Represents the excess losses through sharing of the losses from a jointly-controlled entity, Atlantis Deepwater, 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 contracted day rates of 4 jack-up drilling rigs and 1 accommodation rig higher than their market day rates, deferred revenue is recognized as an intangible asset (Note 5(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 recognized as a liability. Deferred assets and liabilities shall be amortized according to the related contract period using straight-line method. Due to cancellation of the drilling contract, the Group recognised part of the deferred revenue as revenue with an amount of RMB1,073,098,271 in 2009 (2008: nil).

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

32. Share capital

The Company's registered and paid-in share capital is RMB4,495,320,000, with par value of RMB1 for each share. The categories of shares and its structure are presented as follows:

2009	Balance at the beginning of the year	Change during the year					Balance at the end of the year
		New shares issued	Bonus shares	Shares converted from reserves	Others	Sub-total	
Shares held by state-owned legal persons	2,460,468,000	–	–	–	–	–	2,460,468,000
Ordinary shares in RMB	500,000,000	–	–	–	–	–	500,000,000
Overseas listed foreign shares	1,534,852,000	–	–	–	–	–	1,534,852,000
Total	4,495,320,000	–	–	–	–	–	4,495,320,000

2008	Balance at the beginning of the year	Change during the year					Balance at the end of the year
		New shares issued	Bonus shares	Shares converted from reserves	Others	Sub-total	
Shares held by state-owned legal persons	2,460,468,000	–	–	–	–	–	2,460,468,000
Ordinary shares in RMB	500,000,000	–	–	–	–	–	500,000,000
Overseas listed foreign shares	1,534,852,000	–	–	–	–	–	1,534,852,000
Total	4,495,320,000	–	–	–	–	–	4,495,320,000

33. Capital reserve

	31 December 2009	31 December 2008
Capital reserve arising from Reorganization (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 RMB1,356,654,310, amongst which a deferred income tax liability of RMB357,300,000 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 recognized as deferred income tax liabilities, 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. Difference between such revaluation surplus on fixed assets and recognized deferred income tax liabilities is accounted for in the capital reserve.

note 2: This item represents the share 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.

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

34. Statutory reserve funds

31 December 2009	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
Statutory reserve funds	**1,000,055,668**	**335,584,027**	**–**	**1,335,639,695**

31 December 2008	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at the end of the year
Statutory reserve funds	677,614,950	322,440,718	–	1,000,055,668

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 based on 10% of the Company's net profit and 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.

35. Retained earnings

	31 December 2009	31 December 2008
Retained earnings at the end of last year	**6,208,025,040**	3,967,663,009
Net profit t for the year	**3,135,316,585**	3,102,241,149
Less: Provision for statutory reserve funds	**(335,584,027)**	(322,440,718)
Cash dividends paid	**(629,344,800)**	(539,438,400)
Retained earnings at the end of the year	**8,378,412,798**	6,208,025,040

36. Proposed cash dividends

	31 December 2009	31 December 2008
Category of shares:		
State-owned shares	**344,465,520**	344,465,520
Ordinary shares ("H shares") listed abroad	**214,879,280**	214,978,280
Ordinary shares ("A shares") in RMB	**70,000,000**	70,000,000
	629,344,800	629,344,800

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.

Notes to the Financial Statements

31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

37. Revenue and costs

	2009	2008
Revenue from main business	18,345,401,415	12,430,252,591
Costs of main business	11,688,942,398	7,929,906,369

Revenue from top 5 customers in 2009 is as follows:

	Amount	Ratio to revenue (%)
CNOOC Limited	10,907,248,608	59%
ConocoPhilips	874,588,663	5%
ConocoPhillips China Inc.	696,690,846	4%
Woodside Energy Ltd	683,330,117	4%
Repsol	441,701,073	2%
	13,603,559,307	74%

Revenue from top 5 customers in 2008 is as follows:

	Amount	Ratio to revenue (%)
CNOOC Limited	7,609,173,184	61%
ConocoPhillips China Inc.	594,311,078	5%
Kerr-McGee China Petroleum Ltd.	505,780,798	4%
Woodside Energy Ltd	512,483,865	4%
PEMEX	390,692,672	3%
	9,612,441,597	77%

The Group's revenue by category	2009	2008
Revenue from services (note 1)	18,175,231,136	12,349,720,591
Revenue from lease	170,170,279	80,532,000
Total	18,345,401,415	12,430,252,591

note 1: The above amount included the deferred revenue recognized by the Group in 2009. Please refer to Note 5(31) for details of the deferred revenue.

The information of the Group's revenue from main business and cost of main business classified by operating segment is set out in Note 10(5) – Segment reporting.

Notes to the Financial Statements

31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

38. Business taxes and surcharges

	2009	2008
Business tax	431,437,068	258,412,715
Urban maintenance and construction tax	20,791,295	17,193,913
Education surcharge	10,184,451	8,631,922
Flood control expenses and others	4,334,944	3,070,019
Total	466,747,758	287,308,569

39. Financial expenses

	2009	2008
Interest expense	1,091,734,359	585,196,131
Less: Capitalized interests	264,943,374	150,853,959
Less: Interest income	60,352,148	164,618,692
Exchange loss	92,685,947	91,358,207
Others	8,936,980	5,024,237
Total	868,061,764	366,105,924

The interest capitalized was recorded in construction in progress (Note 5(13)).

40. Assets impairment losses

	2009	2008
Provision for impairment of accounts receivable and other receivables (Note 5(17))	43,428,342	49,131,669
Provision for impairment of inventories (Note 5(7))	1,070,665	3,853,238
Provision for impairment of construction in progress (Note 5(13))	819,888,718	–
Impairment provision for fair values of available-for-sale financial assets (Note 5(9))	15,003,044	106,508,218
Total	879,390,769	159,493,125

41. Fair value losses

	2009	2008
Derivative financial instruments	–	52,983,938

Notes to the Financial Statements

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

42. Investment income

	2009	2008
Investment income from long-term equity investments under equity method of accounting	110,264,186	215,707,167
Gain/(loss) arising from disposal of financial instruments	49,298,437	(151,658,433)
Income arising from redemption of government bonds and other investment income	–	25,618,169
Total	159,562,623	89,666,903

There was no significant restriction on the remittance of the Group's investment income from overseas as at the balance sheet date.

43. Non-operating income

	2009	2008
Gains from fixed assets inspection and disposal of fixed assets	168,181	2,112,332
Insurance claims received	52,140,173	19,895,224
Government subsidies	6,489,526	24,258,570
Others	36,300,748	2,404,247
Total	95,098,628	48,670,373

44. Non-operating expenses

	2009	2008
Losses from disposal of fixed assets	19,185,603	55,541,786
Charity donation	150,000	24,700,000
Others (note 1)	482,533,779	404,620
Total	501,869,382	80,646,406

note 1: Other non-operating expenses were mainly provided by the Group for certain claims and litigations. Since a more detailed disclosure might prejudice seriously the outcome of the litigation, the management did not make any further disclosure.

Notes to the Financial Statements

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

45. Income tax expenses

	2009	2008
Income tax expenses for the year	529,298,174	617,604,725
Income tax refund of prior years received during current year	–	(524,005,348)
Deferred income tax	94,984,264	111,445,887
	624,282,438	205,045,264

The relation between income tax expenses and profits for the year is presented as follows:

	2009	2008
Profit before tax	3,759,599,023	3,307,286,413
Tax at the statutory tax rate of 25%	939,899,756	826,821,603
Tax refund/reduction as an advanced technology enterprise	(310,687,198)	(220,793,287)
Income tax reduction and refund	–	(524,005,348)
Income not subject to tax	(1,008,966,815)	(145,376,583)
Expenses not deductible for tax	556,154,971	40,993,864
Effect of different tax rates for overseas subsidiaries	(134,123,919)	63,164,875
Tax benefit for qualifying research and development expense	(28,761,121)	(14,735,072)
Unrecognised deductible losses	–	464,172,797
Utilisation of previous unrecognised tax losses	(475,416,439)	–
Translation adjustment(note1)	1,057,765,429	(311,387,575)
Others	28,417,774	26,189,990
Income tax charge at the Group's effective tax rate	624,282,438	205,045,264

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.

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 in the current period 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:

	2009	2008
Earnings		
Net profits attributable to the ordinary equity holders of the Company	3,135,316,585	3,102,241,149
Shares		
Weighted average of ordinary shares issued by the Company	4,495,320,000	4,495,320,000

The Company does not have any potential diluted ordinary shares.

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

47. Other comprehensive income

Other comprehensive income of the Group in 2009 and 2008 were differences from translation of foreign currency statements.

48. Other cash paid relating to operating activities

Including significant cash flows listed as follows:

	2009	2008
Domestic and overseas traveling expenses	179,851,939	173,758,454
Entertainment, office and conference expenses	110,513,129	104,883,920
Technical research transfer expenses	103,649,000	88,432,436
Fees paid to agent institutions	72,094,318	43,563,745
Greening, environmental protection and sewage charges	12,826,448	31,705,805
Quality security expenses	11,587,452	6,484,629
Information and system certification expenses	7,679,227	7,002,958
Others	74,224,962	215,547,925
Total	572,426,475	671,379,872

49. Cash flows from operating activities

	2009	2008
Reconciliation of net profit to cash flows from operating activities:		
Net profit	3,135,316,585	3,102,241,149
Add: Provision for asset impairments	879,390,769	159,493,125
Change in fair value	–	52,983,938
Depreciation of fixed assets	2,331,609,328	1,282,367,194
Amortization of intangible assets	95,352,724	64,438,656
Provision of liabilities	467,583,617	–
Amortization of long-term deferred expenses	438,204,056	216,728,697
Amortization/reversal of deferred revenue	(1,113,501,709)	(10,100,442)
Net losses on disposal of fixed assets, intangible assets and other long-term assets	19,017,422	53,429,454
Financial expenses	859,124,784	361,081,687
Investment income	(159,562,623)	(89,666,903)
Increase in deferred income tax liabilities	93,657,278	111,445,887
Decrease in inventories	(40,748,558)	(288,301,945)
Amount of non-operating income not related to operating activities	(26,939,475)	–
Decrease in operating receivables	(1,241,180,989)	(1,579,670,527)
Increase in operating payables	(132,458,313)	600,191,900
Net amount of cash flows from operating activities	5,604,864,896	4,036,661,870

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

50. Cash and cash equivalents

	31 December 2009	31 December 2008
Cash	**4,222,832,778**	4,578,484,264
Including: Cash on hand	**1,754,142**	2,313,734
Unrestricted bank deposits	**3,212,391,246**	4,548,372,318
Unrestricted other monetary funds	**457,522**	13,148,000
Time deposits	**–**	–
Cash and cash equivalents at the end of the year	**4,222,832,778**	4,578,484,264
Less: Time deposits pledged	**(208,229,867)**	(14,650,212)
Less: Non-pledged time deposits due after 3 months from the purchases	**(800,000,000)**	(268,346,000)
Cash and cash equivalents in the consolidated cash flow statement	**3,214,602,911**	4,295,488,052

51. 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 RMB15,913,195,784. According to the valuation report, the fair value of CDE's net assets amounted to RMB12,621,989,073 on the date of the acquisition.

On 15 October 2008, COSL Norwegian AS exercised the mandatory offer clause acquiring the remaining 1.2% shares of CDE at the time of the closing of Norway Oslo Security Exchange, with an additional consideration equivalent to RMB181,033,794 paid in cash. Accordingly, the consideration for the acquisition of CDE amounted to RMB16,094,229,578 in total. On 23 October 2008, the shares acquired through the mandatory offer clause were transferred under the name of COSL Norwegian AS.

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31 December 2009
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5. Notes to the major items of the consolidated financial statements (continued)

51. Business combination not under common control (continued)

According to Accounting Standards for Business Enterprises No. 20 – Business Combinations, the Group initially allocated the above consideration to the fair value and carrying amount of the identifiable assets and liabilities of CDE on the date of acquisition on 28 September 2008. The allocation was restated based on the final purchase price allocation results in 2009 as follows:

	Carrying amount	Preliminary fair value recognised	Adjustment of allocation of the acquisition price	Finalised fair value recognised
Cash on hand and at bank	447,196,648	447,196,648	–	447,196,648
Held-to-maturity investments	117,073,099	117,073,099	–	117,073,099
Held-for-trading financial assets	3,667,250	3,667,250	–	3,667,250
Accounts receivable	300,504,560	300,504,560	–	300,504,560
Other receivables	292,477,081	292,477,081	–	292,477,081
Inventories	78,655,909	78,655,909	–	78,655,909
Available-for-sale financial assets	140,366,447	140,366,447	–	140,366,447
Fixed assets	5,674,580,848	11,884,503,888	68,346,000	11,952,849,888
Construction in progress	8,057,526,116	13,814,490,042	(1,578,792,597)	12,235,697,445
Intangible assets	–	253,033,931	–	253,033,931
Sub-total of assets	15,112,047,958	27,331,968,855	(1,510,446,597)	25,821,522,258
Accounts payable	166,384,712	166,384,712	–	166,384,712
Staff cost payable	3,067,171	3,067,171	–	3,067,171
Taxes payables	105,646,927	105,646,927	–	105,646,927
Interests payable	165,604,207	165,604,207	–	165,604,207
Other payables	209,675,427	209,675,427	–	209,675,427
Current portion of non-current liabilities	1,040,456,069	1,040,456,069	–	1,040,456,069
Long-term bank borrowings	6,720,120,895	6,720,120,895	–	6,720,120,895
Long-term bonds	2,615,201,505	2,615,201,505	–	2,615,201,505
Deferred tax liabilities	244,074,712	2,116,870,809	(731,869,469)	1,385,001,340
Other non-current liabilities	47,848,457	1,566,952,060	345,666,732	1,912,618,792
Sub-total of liabilities	11,318,080,082	14,709,979,782	(386,202,737)	14,323,777,045
Net assets	3,793,967,876	12,621,989,073	(1,124,243,860)	11,497,745,213
Goodwill on acquisition (Note 5(15))	–	3,472,240,505	1,124,243,860	4,596,484,365
Cost of business combination	–	16,094,229,578	–	16,094,229,578
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 comparative figures of the consolidated financial statements were restated based on the finalised purchase price allocation.

Notes to the Financial Statements

31 December 2009
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5. Notes to the consolidated financial statements (continued)

52. Share appreciation rights plan

On 22 November 2006, the Company's share appreciation rights ("SAR") 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 SAR with an exercise price of HK$4.09 per share, 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 with 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 SAR exceeds HK$0.99 per share, 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 amounts paid in cash as a result of the Company's share price being higher than the exercising price of SAR shall not exceed 10% of the profit of the year of the Group. The cash payment made in respect of the SAR must be deposited into the personal accounts of the eligible senior officers and not less than 20% of these payments should remain in the accounts until the recipient has completed his service terms.

As at 31 December 2009, the details of the SAR granted to senior officers by the Company are as follows:

Position	Name	Shares granted (shares in Thousand)	Balance at the beginning of the year	Volume: Current year increase	Volume: Current year decrease	Balance at the end of the year
Former Chief Executive Officer and President	Yuan Guangyu*	964.2	1,402,171	111,368	(233,734)	1,279,805
President	Li Yong	704.3	1,024,216	81,349	(170,731)	934,834
Executive Vice President and Chief Financial Officer	Zhong Hua	704.3	1,024,216	81,349	(170,731)	934,834
Executive Vice President, Chief Strategy Officer and Secretary of Board of Directors	Chen Weidong	704.3	1,024,216	81,349	(170,731)	934,834
Senior Vice President	Li Xunke	656.9	955,285	75,875	(159,241)	871,919
Fomer Staff Supervisor	Tang Daizhi **	656.9	281,774	–	–	281,774
Vice President	Xu Xiongfei	609.1	885,772	70,353	(147,653)	808,472
		5,000.0	6,597,650	501,643	(1,052,821)	6,046,472

* In 2009, Yuan Guangyu resigned as Chief Executive Officer and President of the Company. According to the terms of the SAR Plan, he had completed the two years service period and all share appreciation rights granted have been fully vested.

** During 2007, 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 2009, the staff cost payable in relation to the SAR Plan as recognized by the Company amounted to RMB6,046,472.

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6. Related party relationships and transactions

1. Related parties

A related party is a party which controls or in joint control of another party or gives its significant influence, or two or more parties which are controlled or in joint control of another party or 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 exercising significant influence over the Company;
(6) Jointly controlled entities 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) The enterprises are controlled, jointly controlled or significantly influenced by major individual investors, key managerial personnel or their intimate family members of the Company.

Enterprises under the control of the State but not subject to any other affiliated relationships shall not be considered as 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	53.63%	53.63%	RMB94,931,614,000	100001043

The Group's subsidiaries are listed in Note 4 – Consolidation scope of Consolidated Financial Statement.

The Group's jointly-controlled Entities of the Company are listed in Note 5(10).

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6. 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
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 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
CNOOC Shenzhen National Gas Ltd. (note 1)	Company under control of the same ultimate holding company	680356413
CNOOC Energy Technology & Services Ltd. – Supervision and monitoring of technologies Branch (note 1)	Company under control of the same ultimate holding company	770641103
CNOOC Oil Refinery and Petrochemical Co., Ltd. – Sales Branch (note 1)	Company under control of the same ultimate holding company	791011274
CNOOC Asphalt Co. Ltd.(note 1)	Company under control of the same ultimate holding company	706208970
CNOOC Hulu Dao Fine Chemicals Co., Ltd. (note 1)	Company under control of the same ultimate holding company	791567408

note 1: Other CNOOC Group companies.

Notes to the Financial Statements

31 December 2009
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6. Related party relationships and transactions (continued)

4. Major transactions between the Group and related parties

(1) Services provided to related parties

	2009 Amount	2009 Percentage (%)	2008 Amount	2008 Percentage (%)
Provision of drilling services				
CNOOC Limited Group	4,913,421,326	91%	3,321,950,060	97%
Offshore Oil Engineering Co., Ltd.	6,325,412	–	–	–
CNOOC	291,954,603	6%	94,999,381	3%
CNOOC Energy Technology & Services Ltd. – Oilfield Construction Engineering Company	–	–	4,198,500	–
Other CNOOC Group companies	4,716,994	–	10,551,899	–
Jointly-controlled entities	172,528,724	3%	4,688,951	–
Subtotal	5,388,947,059	100%	3,436,388,791	100%
Gross external revenue amount of provision of drilling services	10,135,321,629		6,038,878,560	
Proportion in similar transactions	53%		57%	
Provision of well services				
CNOOC Limited Group	3,432,382,620	96%	2,132,006,625	98%
CNOOC	47,637,983	1%	14,065,327	1%
Offshore Oil Engineering Co., Ltd.	68,589,686	2%	–	–
Other CNOOC Group companies	20,065,876	1%	3,391,665	–
Jointly-controlled entities	5,563,384	–	11,081,151	1%
Subtotal	3,574,239,549	100%	2,160,544,768	100%
Gross external revenue amount of provision of well services	4,523,577,858		2,798,360,958	
Proportion in similar transactions	79%		77%	
Provision of marine support and transportation services				
CNOOC Limited Group	1,547,895,592	88%	1,141,586,066	83%
Offshore Oil Engineering Co., Ltd.	114,259,877	6%	91,894,431	7%
CNOOC	37,424,020	2%	9,435,738	1%
CNOOC KaiShi Petrochemical Co., Ltd.	29,966,785	2%	–	–
Bohai Material Supply Company	–	–	8,196,000	1%
CNOOC Kingboard Chemical Ltd.	–	–	24,988,731	2%
Shenzhen Weisheng Ocean Petroleum Technology Co., Ltd.	–	–	7,840,381	1%
Other CNOOC Group companies	37,515,459	2%	75,493,010	5%
Jointly-controlled entities	7,031,418	–	4,637,273	–
Subtotal	1,774,093,151	100%	1,364,071,630	100%
Gross external revenue amount of provision of marine support and transportation services	2,239,378,199		1,665,446,658	
Proportion in similar transactions	79%		82%	

Notes to the Financial Statements

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6. Related party relationships and transactions (continued)

4. Major transactions between the Group and related parties (continued)

(1) Services provided to related parties (continued)

	2009 Amount	2009 Percentage (%)	2008 Amount	2008 Percentage (%)
Provision of geophysical services				
CNOOC Limited Group	**1,013,549,070**	**86%**	1,013,630,433	88%
Offshore Oil Engineering Co., Ltd.	**129,923,031**	**11%**	119,534,593	11%
CNOOC Shenzhen National Gas Ltd.	**10,451,797**	**1%**	–	–
CNOOC Research Center	**13,600,000**	**1%**	–	–
Bohai Oil Harbor Engineering and Construction Company	**–**	**–**	33,000	–
CNOOC Oil Refinery and Petrochemical Dongguan Oil Products Storage and Transportation Co., Ltd.	**–**	**–**	8,611,301	1%
CNOOC	**2,059,336**	**–**	1,400,000	–
Other CNOOC Group companies	**2,800,849**	**1%**	5,539,455	–
Jointly-controlled entities	**657,352**	**–**	4,209,250	–
Subtotal	**1,173,041,435**	**100%**	1,152,958,032	100%
Gross external revenue amount of provision of geophysical services	**1,447,123,729**		1,927,566,415	
Proportion in similar transactions	**81%**		60%	

(2) Services provided by related parties

	2009 Amount	2009 Percentage (%)	2008 Amount	2008 Percentage (%)
Offshore Oil Engineering Co., Ltd.	**1,262,970,022**	**70%**	107,990,877	22%
Other CNOOC Group companies	**428,818,282**	**24%**	358,297,622	71%
Jointly-controlled entities	**110,921,891**	**6%**	33,471,207	7%
Total	**1,802,710,195**	**100%**	499,759,706	100%

Notes to the Financial Statements

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6. Related party relationships and transactions (continued)

4. Major transactions between the Group and related parties (continued)

(3) Capital Loan from related parties

2009 Loans borrowed	Amount of Loans RMB	Date of Commencement	Maturity Date
CNOOC Finance Co., Ltd.			
Loan 1	800,000,000	12 June 2009	10 June 2011
Loan 2	500,000,000	30 June 2009	29 June 2012

There was no capital loan between related parties in 2008.

(4) Leases between related parties

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 all of the aforesaid transactions with related parties in (1) to (4) are conducted with reference to terms agreed by parties involved and effectuated in the normal course of business operation.

(5) Key managerial personnel remuneration

	2009		2008	
	amount	percentage (%)	amount	percentage (%)
Yuan Guangyu	235,470	5%	656,949	13%
Liu Jian	362,954	7%	-	-
Li Yong	528,923	10%	485,668	10%
Zhong Hua	579,212	11%	538,082	11%
Chen Weidong	629,698	12%	583,567	12%
Dong Weiliang	700,917	13%	595,530	12%
Li Xunke	564,070	11%	528,186	11%
Xu Xiongfei	483,203	9%	447,882	9%
Xiao Guoqing	565,269	11%	556,121	11%
Yu Zhanhai	582,509	11%	541,181	11%
Total	5,232,225	100%	4,933,166	100%

Notes to the Financial Statements

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6. Related party relationships and transactions (continued)

5. Balance of receivables/(payables) from/(to) related parties

Group

	31 December 2009	31 December 2008
Accounts receivable		
CNOOC Limited Group	1,874,789,040	1,236,112,535
CNOOC	257,469,184	120,526,395
Offshore Oil Engineering Co., Ltd.	102,933,658	59,366,522
COSL-Expro	1,443,357	2,426,922
China France Bohai	502,894	76,659
CNOOC-OTIS	644,725	25,134
Magcobar	557,135	623,444
Fugro	12,768	1,875
Logging-Atlas	2,911,943	45,284
Atlantis Deepwater	80,022,467	–
Others	32,255,222	17,892,944
	2,353,542,393	1,437,097,714

Notes to the Financial Statements

31 December 2009
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6. Related party relationships and transactions (continued)

5. Balance of receivables/(payables) from/(to) related parties (continued)

Group

	31 December 2009	31 December 2008
Accounts payable		
CNOOC Limited Group	1,593,506	1,071,670
Bohai Material Supply Company	22,595,651	2,716,262
Offshore Oil Engineering Co., Ltd.	64,555,747	952,652
CNOOC Enterprises Company Yanjiao base branch	175,387	3,667,079
Magcobar	1,126,800	10,489,073
Fugro	5,417,087	8,332,671
China France Bohai	1,929,742	3,156,492
Logging-Atlas	23,442,814	26,786,115
Others	31,661,313	47,527,074
	152,498,047	104,699,088
Other receivables		
CNOOC Limited Group	844,605	921,417
CNOOC	1,983,532	2,299,741
COSL-Expro	4,511,608	1,651,610
China France Bohai	4,810,302	2,555,940
CNOOC-OTIS	–	(120)
Fugro	2,027	–
Logging-Atlas	74,250	74,250
Atlantis Deepwater	30,115,828	26,694,570
PD	147,177,452	71,919,890
Others	372,591	1,200,554
	189,892,195	107,317,852
Other payables		
CNOOC Limited Group	–	3,898,837
CNOOC	3,248,229	3,248,229
China Offshore Oil Int'l Engineering Company	16,260,729	14,668,495
China France Bohai	96,072	96,072
COSL-Expro	13,432	93,771,347
PD	32,353,555	–
Others	22,032,799	16,496,087
	74,004,816	132,179,067

Notes to the Financial Statements

31 December 2009
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6. Related party relationships and transactions (continued)

5. Balance of receivables/(payables) from/(to) related parties (continued)

Group

	31 December 2009	31 December 2008
Receipts in advance		
CNOOC Limited Group	–	33,519,000
Prepayments		
CNOOC Energy Technology & Services Ltd. – Oilfield Construction Engineering Company	–	24,600,000
Offshore Oil Engineering Co., Ltd.	298,097,500	259,724,275
	298,097,500	284,324,275
Notes receivable		
CNOOC Limited Group	427,107,943	338,269,985
Notes payable		
Offshore Oil Engineering Co., Ltd.	–	366,762,500

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. Cash on hand and at bank placed in related parties

Group

	31 December 2009	31 December 2008
CNOOC Finance Co., Ltd.	541,962,050	539,821,006

7. 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 Group's public listing overseas. 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. The supplementary pension benefits borne by CNOOC for the year was RMB21,027,004 (2008: RMB37,502,947).

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.

Notes to the Financial Statements

31 December 2009
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7. Material litigations

In January 2007, Awilco Offshore ASA made a compulsory acquisition of the outstanding shares in Off Rig Drilling ASA ("OFRD"). The acquisition was made in accordance with 4-25 of the Norwegian Public Limited Companies Act. Certain minority shareholders owning an aggregate of 8.8% in OFRD disagreed with the price paid per share. In 2009, an appraisement where the redemption price for the shares was set at a price higher than the acquisition price was made by the court. COSL Drilling Europe AS has filed a petition for a second appraisement by a higher court and the proceedings will start in 2010.

The detailed information is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The Management is of the opinion that the possible cash outflow causing by the above-mentioned litigation will not have significant adverse effect on the financial position of the Group.

8. Contingency

During the year 2009, two subsidiaries of the Group received notification from the local tax authorities requesting information on the valuation basis used by the company for the transfer of certain construction contracts and options to entities within the Group, and indicating its intent to consider additional assessment. If the basis indicated by the tax authorities is adopted, the tax liability relating to the transfers could increase substantially for both companies. The Directors will defend vigorously against any additional assessment by the tax authorities. Considering the uncertainties relating to the final outcome of both the final assessment amount and the timing of the cash outflows, if any, the Directors have not made any provision for any amount arising from the above-mentioned tax contingency in these financial statements.

As disclosed in Note 7 above and matter mentioned in this note, there are no other discloseable contingent matters of the Group as at the balance sheet date.

9. Commitments

The Group has the following commitments as at the balance sheet date:

	31 December 2009	31 December 2008
Contracted, but not provided for	12,556,797,442	6,384,560,345
Authorised, but not contracted for	7,671,765,368	18,990,186,807
Total	20,228,562,810	25,374,747,152

Notes to the Financial Statements

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10. Other significant events

1. Business Combination

CDE was acquired through the Company's wholly owned subsidiary and established in Norway, COSL Norwegian AS in September 2008 as further described in Note 5(51).

2. Leases

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 2009	31 December 2008
Within 1 year (including 1 year)	**139,337,962**	127,419,741
1-2 years (including 2 years)	**119,048,805**	112,031,386
2-3 years (including 3 years)	**55,564,058**	109,357,185
Over 3 years	**46,955,987**	82,776,020
Total	**360,906,812**	431,584,332

Major Operating Leases – the Group as lesser

According to the lease contracts concluded with the lessees, the future minimum rental receivable for irrevocable lease in 2009 is stated as follows:

	31 December 2009	31 December 2008
Within 1 year (including 1 year)	**170,482,631**	170,482,631
1-2 years (including 2 years)	**113,655,087**	170,482,631
2-3 years (including 3 years)	**–**	113,655,087
Total	**284,137,718**	454,620,349

Notes to the Financial Statements

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10. Other significant events (continued)

3. Assets and liabilities measured as at fair value

2009	Balance at the beginning of the year	Fair value change during the year	Aggregated fair value change included in equity	Impairment provision during the year	Exchange realignment	Balance at the end of he year
Available-for-sale financial assets	**34,317,535**	–	–	(15,003,044)	(33,457)	19,281,034

2008	Balance at the beginning of the year (Note 1)	Fair value change during the year	Aggregated fair value change included in equity	Impairment provision during the year	Exchange realignment	Balance at the end of he year
Available-for-sale financial assets	140,366,447	–	–	(106,508,218)	459,306	34,317,535
Held-for-trading financial assets/liabilities	3,667,250	(52,983,938)	–	–	8,767	(49,307,921)

note: 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). Thus, the balance at the beginning of the period in 2008 was the balance as at 30 September 2008.

4. Foreign currency financial assets and financial liabilities

Foreign currency financial assets (in RMB)

2009	Balance at the beginning of the year	Fair value change during the year	Aggregated fair value change included in equity	Impairment provision during the year	Balance at the end of he year
Current Assets:					
Cash on hand and at bank	**1,921,807,940**	–	–	–	2,359,608,734
Notes receivable	–	–	–	–	–
Accounts receivable	**1,284,237,440**	–	–	(4,459,793)	1,358,413,142
Interest receivable	–	–	–	–	–
Dividend receivable	**16,391,075**	–	–	–	10,754,415
Other receivables	**191,047,858**	–	–	(334,147)	332,208,903
Current portion of non-current assets	**39,117,655**	–	–	–	39,081,032
Non-current Assets:					
Available-for-sale financial assets	**34,317,535**	–	–	–	19,281,034
Held-to-maturity investment	**78,235,318**	–	–	–	531,735,085
Total financial assets	**3,565,154,821**	–	–	(4,793,940)	4,651,082,345

Notes to the Financial Statements

31 December 2009
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10. Other significant events (continued)

4. Foreign currency financial assets and financial liabilities (continued)

Foreign currency financial liabilities (in RMB)

2009	Balance at the beginning of the year	Fair value change during the year	Aggregated fair value change included in equity	Impairment provision during the year	Balance at the end of he year
Current Liabilities:					
Short-term bank borrowings	6,835,596,924	–	–	–	–
Notes payable	–	–	–	–	–
Accounts payable	709,429,228	–	–	–	651,471,495
Interests payable	326,243,662	–	–	–	137,667,449
Other payables	535,175,747	–	–	–	200,294,610
Current portion of non-current liabilities	699,020,215	–	–	–	39,081,032
Non-current Liabilities:					
Derivate financial instruments	49,307,921	–	–	–	–
Long-term bank borrowings	15,211,446,023	–	–	–	25,784,120,975
Long-term bonds	2,528,341,874	–	–	–	1,170,019,752
Total financial liabilities	26,894,561,594	–	–	–	27,982,655,313

Foreign currency financial assets (in RMB)

2008	Balance at the beginning of the year	Fair value change during the year	Aggregated fair value change included in equity	Impairment provision during the year	Balance at the end of he year
Current Assets:					
Cash on hand and at bank	1,016,998,967	–	–	–	1,921,807,940
Notes receivable	–	–	–	–	–
Accounts receivable	375,987,856	–	–	(609,280)	1,284,237,440
Interest receivable	109,463	–	–	–	–
Dividend receivable	21,287,114	–	–	–	16,391,075
Other receivables	76,500,258	–	–	(88,089)	191,047,858
Current portion of non-current assets	–	–	–	–	39,117,655
Non-current Assets:					
Available-for-sale financial assets	140,366,447	–	–	(106,048,912)	34,317,535
Held-to-maturity investment	–	–	–	–	78,235,318
Total financial assets	1,631,250,105	–	–	(106,746,281)	3,565,154,821

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10. Other significant events (continued)

4. Foreign currency financial assets and financial liabilities (continued)

Foreign currency financial liabilities (in RMB)

2008	Balance at the beginning of the year	Fair value change during the year	Aggregated fair value change included in equity	Impairment provision during the year	Balance at the end of he year
Current Liabilities					
Short-term bank borrowings	–	–	–	–	6,835,596,924
Notes payable	–	–	–	–	–
Accounts payable	241,163,658	–	–	–	709,429,228
Interests payable	42,000,000	–	–	–	326,243,662
Other payables	134,600,659	–	–	–	535,175,747
Current portion of non-current liabilities	–	–	–	–	699,020,215
Non-current Liabilities:					
Derivate financial instruments	(3,667,250)	52,975,171	–	–	49,307,921
Long-term bank borrowings	–	–	–	–	15,211,446,023
Long-term bonds	–	–	–	–	2,528,341,874
Total financial liabilities	414,097,067	52,975,171	–	–	26,894,561,594

5. Segment reporting

Operation Segments

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

(a) the drilling services segment is engaged in the provision of oilfield drilling services;

(b) the well services segment is engaged in the provision of logging and downhole services, such as drilling fluids, directional drilling, cementing and well completion, sales of well chemical materials and well workovers;

(c) the geophysical services segment is engaged in the provision of offshore seismic data collection, marine surveying and data processing services; and

(d) 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.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, and exchange gains/(losses) are excluded from such measurement.

Segment assets exclude certain cash and cash equivalents (funds managed by the corporate treasury), dividend receivable, interest receivable and other receivables as these assets are managed on a group basis.

Segment liabilities exclude certain other payables, interest-bearing bank borrowings and long term bonds (funds managed by the corporate treasury) as these liabilities are managed on a group basis.

Funds managed by the CNA group treasury were included in the drilling services segment. As such, the related cash and cash equivalents, interest-bearing bank borrowings and long term bonds were included in the drilling services segment.

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 the Financial Statements

31 December 2009
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10. Other significant events (continued)

5. Segment reporting (continued)

Operation Segments (continued)

The Group's revenue, operating costs, business taxes and surcharges and operating profit by business segments are set out as follows:

2009	Drilling services	Well services	Geophysical services	Marine support and transportation services	Total
Revenue					
External revenue	10,135,321,629	4,523,577,858	1,447,123,729	2,239,378,199	18,345,401,415
Inter-segment revenue	1,249,654,715	144,598,904	50,230,929	59,087,711	1,503,572,259
	11,384,976,344	4,668,176,762	1,497,354,658	2,298,465,910	19,848,973,674
Operating results					
Including: Segmental profit	4,037,050,675	766,029,471	296,213,364	654,966,177	5,754,259,687
Unallocated profit	–	–	–	–	(1,587,889,910)
	4,037,050,675	766,029,471	296,213,364	654,966,177	4,166,369,777
Total assets					
Segment assets	45,391,863,126	4,922,991,523	2,453,279,199	5,074,158,505	57,842,292,353
Unallocated assets					3,091,044,192
Subtotal					60,933,336,545
Total liabilities					
Segment liabilities	6,077,720,387	1,477,788,982	230,143,597	538,668,928	8,324,321,894
Unallocated liabilities					30,303,410,006
Subtotal					38,627,731,900
Other disclosures					
Capital expenditure	6,062,823,469	760,091,795	665,704,228	924,718,780	8,413,338,272
Depreciation of property, plant and equipment and amortization of intangible assets	1,945,677,805	406,354,277	238,038,012	275,096,016	2,865,166,110
Assets impairment losses	859,476,220	10,972,490	3,510,174	5,431,885	879,390,769
Realized gain of derivative instruments	49,298,437	–	–	–	49,298,437

Notes to the Financial Statements

31 December 2009
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10. Other significant events (continued)

5. Segment reporting (continued)

Operation Segments (continued)

2008	Drilling services	Well services	Geophysical services	Marine support and transportation services	Total
Revenue					
External revenue	6,038,878,560	2,798,360,958	1,927,566,415	1,665,446,658	12,430,252,591
Inter-segment revenue	729,604,638	133,410,620	303,555,889	67,153,268	1,233,724,415
	6,768,483,198	2,931,771,578	2,231,122,304	1,732,599,926	13,663,977,006
Operating results					
Including: Segmental profit	2,232,694,029	464,570,230	638,418,292	492,495,979	3,828,178,530
Unallocated profit	–	–	–	–	(488,916,084)
	2,232,694,029	464,570,230	638,418,292	492,495,979	3,339,262,446
Total assets					
Segment assets	41,943,395,758	4,098,756,602	1,879,398,806	4,433,891,856	52,355,443,022
Unallocated assets					3,917,472,863
Subtotal					56,272,915,885
Total liabilities					
Segment liabilities	25,996,430,901	1,293,334,934	417,863,687	324,363,762	28,031,993,284
Unallocated liabilities					8,443,078,441
Subtotal					36,475,071,725
Other disclosures					
Capital expenditure	3,754,649,184	1,287,256,033	503,873,066	1,291,971,706	6,837,749,989
Depreciation of property, plant and equipment and amortization of intangible assets	913,558,126	262,287,887	194,845,169	192,843,365	1,563,534,547
Assets impairment losses	109,311,326	1,319,134	48,080,360	782,305	159,493,125
Fair value losses on derivative instruments	52,983,938	–	–	–	52,983,938
Realized losses of derivative instruments	151,658,433	–	–	–	151,658,433

Notes to the Financial Statements

31 December 2009
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10. Other significant events (continued)

5. Segment reporting (continued)

Group

Geographical Information

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical services in offshore China. Activities outside the PRC are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway, Vietnam, Saudi Arabia, Dubai, Libya and Tunisia.

In determining the Group's geographical information, revenues and results are attributed to the segments based on the location of the Group's customers. No further analysis of geographical information is presented for revenues as revenues generated from customers in other locations are individually less than 10%, and approximately 72% of the Group's revenues are generated from customers in Mainland China.

External revenue	2009	2008
Domestic	13,356,398,375	9,386,849,237
Overseas	4,989,003,040	3,043,403,354
Total	18,345,401,415	12,430,252,591

External revenue are attributable to the locations where the Group's customers are located.

A significant portion of the non-current assets are property, plant and equipment with high mobility which may have moved from Mainland China to foreign countries during the year and vice versa. As such, the necessary information is not available for the analysis of geographical segment for non-current assets.

Major customers segments

Details of revenue from major customers (including all entities under such customers) are set out in Note 6(4).

Notes to the Financial Statements

31 December 2009
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10. Other significant events (continued)

6. 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 directly arising from operations 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.

Financial instruments by category

The carrying amount of each of the categories of financial instruments of the Group as at the balance sheet date is as follows:

Financial assets

2009	Held-to-maturity investment	Loans and receivables	Available-for-sale financial assets	Total
Current assets:				
Cash on hand and at bank	–	4,222,832,778	–	4,222,832,778
Notes receivable	–	429,657,902	–	429,657,902
Accounts receivable	–	3,745,547,364	–	3,745,547,364
Interest receivable	–	1,080,000	–	1,080,000
Dividend receivable	–	23,754,415	–	23,754,415
Other receivables	–	389,123,571	–	389,123,571
Current portion of non-current assets	39,081,032	–	–	39,081,032
Non-current assets:				
Available-for-sale financial assets	–	–	19,281,034	19,281,034
Held-to-maturity investments	39,081,025	–	–	39,081,025
Total financial assets	78,162,057	8,811,996,030	19,281,034	8,909,439,121

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

Notes to the Financial Statements

31 December 2009
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10. Other significant events (continued)

6. Financial instruments and related risks (continued)

Financial instruments by category (continued)
Financial liabilities

2009	Financial liabilities accounted for at fair value and the changes in fair value recognized into consolidated income statement	Other financial liabilities	Total
Short-term bank borrowings	–	–	–
Notes payable	–	–	–
Accounts payable	–	3,175,095,974	3,175,095,974
Interests payable	–	139,212,858	139,212,858
Other payables	–	358,827,721	358,827,721
Current portion of non-current liabilities	–	283,081,032	283,081,032
Derivative financial instruments	–	–	–
Long-term bank borrowings	–	28,151,039,943	28,151,039,943
Long-term bonds	–	2,670,019,752	2,670,019,752
Total financial liabilities	–	34,777,277,280	34,777,277,280

2008	Financial liabilities accounted for at fair value and the changes in fair value recognized into consolidated income statement	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

Notes to the Financial Statements

31 December 2009
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10. Other significant events (continued)

6. Financial instruments and related risks (continued)

Credit risk

Credit risk represents the risk that one party of financial instruments fails to fulfill its obligation, resulting in the financial loss of the counterparty.

The Group trades only with recognized 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 and other receivables. 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 recognized 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 concentration 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 6(5) and Note 5(3), together with the receivables due from the Group's top 5 customers.

As at 31 December 2008 and 31 December 2009, the Group does not have any significant accounts receivable or other financial assets 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 5(3) & (6) for the quantitative data for the Group's credit risk exposure in relation to the accounts receivable and other receivables.

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. 3% (2008: 32%) of the Group's debts will mature within one year as at 31 December 2009.

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 assets and liabilities, based on the contracted undiscounted payments, is as follows:

2009

Financial assets	Within one year	One to two years	Over two years	Total
Cash on hand and at bank	4,222,832,778	–	–	4,222,832,778
Notes receivable	429,657,902	–	–	429,657,902
Accounts receivable	3,745,547,364	–	–	3,745,547,364
Interest receivable	1,080,000	–	–	1,080,000
Dividend receivable	23,754,415	–	–	23,754,415
Other receivables	389,123,571	–	–	389,123,571
Current portion of non-current assets	39,081,032	–	–	39,081,032
Available-for-sale financial assets	19,281,034	–	–	19,281,034
Held-to-maturity investments	–	39,081,025	–	39,081,025
	8,870,358,096	39,081,025	–	8,909,439,121

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31 December 2009
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10. Other significant events (continued)

6. Financial instruments and related risks (continued)

Liquidity risk (continued)

Financial liabilities	Within one year	One to two years	Two to five years	Over five years	Total
Accounts payable	**3,175,093,974**	**–**	**–**	**–**	**3,175,095,974**
Interests payable	**139,212,858**	**–**	**–**	**–**	**139,212,858**
Other payables	**358,827,721**	**–**	**–**	**–**	**358,827,721**
Current portion of non-current liabilities	**828,748,415**	**–**	**–**	**–**	**828,748,415**
Long-term bank borrowings	**–**	**1,936,526,602**	**8,969,637,781**	**19,402,099,581**	**30,308,263,964**
Long-term bonds	**–**	**1,171,036,300**	**–**	**1,500,000,000**	**2,671,036,300**
	4,501,884,968	**3,107,562,902**	**8,969,637,781**	**20,902,099,581**	**37,481,185,232**

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
Current portion of non-current assets	39,117,655	–	–	39,117,655
Held-to-maturity investments	–	39,117,659	39,117,659	78,235,318
	8,069,017,112	39,117,659	39,117,659	8,147,252,430

Notes to the Financial Statements

31 December 2009
RMB

10. Other significant events (continued)

6. Financial instruments and related risks (continued)

Liquidity risk (continued)

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	1,521,687,832	–	–	–	1,521,687,832
Derivate financial instruments	49,307,921	–	–	–	49,307,921
Long-term bank borrowings	–	9,865,110,863	3,017,812,207	4,631,127,749	17,514,050,819
Long-term bonds	–	488,150,000	2,050,380,000	1,500,000,000	4,038,530,000
	12,114,076,397	10,353,260,863	5,068,192,207	6,131,127,749	33,666,657,216

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.

Notes to the Financial Statements

31 December 2009
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10. Other significant events (continued)

6. Financial instruments and related risks (continued)

Interest rate risk (continued)

2009	Basic point increase/(decrease)	Profit before tax increase/(decrease)	Shareholders' equity increase/(decrease)*
RMB and US$	(50)	70,697,892	60,093,208
	50	(70,697,892)	(60,093,208)

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)

* Excluding retained earnings.

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.

2009	Exchange rate of US$ increase/(decrease)	Profit before tax increase/(decrease)	Shareholders' equity increase/(decrease)*
RMB appreciates against US$	5%	1,249,091,538	942,133,851
RMB depreciates against US$	(5%)	(1,249,091,538)	(942,133,851)

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)

* Excluding retained earnings.

Notes to the Financial Statements

31 December 2009
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10. Other significant events (continued)

6. Financial instruments and related risks (continued)

Fair value

The carrying amount and fair value of the Group's financial instruments are as follows:

Financial assets	31 December 2009 Carrying amount	Fair value	31 December 2008 Carrying amount	Fair value
Current assets:				
Cash on hand and at bank	4,222,832,778	4,222,832,778	4,578,484,264	4,578,484,264
Notes receivable	429,657,902	429,657,902	354,869,985	354,869,985
Accounts receivable	3,745,547,364	3,745,547,364	2,735,024,686	2,735,024,686
Interest receivable	1,080,000	1,080,000	4,342,362	4,342,362
Dividend receivable	23,754,415	23,754,415	16,391,075	16,391,075
Other receivables	389,123,571	389,123,571	306,469,550	306,469,550
Available-for-sale financial assets	–	–	–	–
Current portion of non-current assets	39,081,032	39,081,032	39,117,655	39,117,655
Non-current assets:				
Available-for-sale financial assets	19,281,034	19,281,034	34,317,535	34,317,535
Held-to-maturity investments	39,081,025	39,081,025	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	3,175,095,974	3,175,095,974	2,376,732,369	2,376,732,369
Interests payable	139,212,858	139,212,858	327,961,642	327,961,642
Other payables	358,827,721	358,827,721	636,027,209	636,027,209
Current portion of non-current liabilities	283,081,032	283,081,032	943,020,215	943,020,215
Derivate Financial Instruments	–	–	49,307,921	49,307,921
Long-term bank borrowings	28,151,039,943	28,056,182,323	16,355,446,023	16,355,446,023
Long-term bonds (note 1)	2,670,019,752	2,665,060,487	4,028,341,874	3,384,366,500

note 1: The fair value of long-term bonds as at 31 December 2009 is determined by reference to market price.

7. Comparative Data

Certain comparative figures have been re-presented to conform to the current year's presentation.

As stated in Note 5(51), in 2009, the Group made retrospective adjustments to purchase price allocation for acquisition of CDE based on final evaluation results. The comparative data was adjusted accordingly based on the determined purchase price allocation.

Notes to the Financial Statements

31 December 2009
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11. Notes to the major items of the financial statements of the company

1. Accounts receivable

	31 December 2009	31 December 2008
Accounts receivable	**4,282,170,580**	3,366,681,979
Less: provision for impairment of accounts receivable	**85,107,504**	50,073,295
	4,197,063,076	3,316,608,684

The ageing analysis of accounts receivable is as follows:

	31 December 2009				31 December 2008			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio
Within 1 year	4,267,417,376	100%	80,022,440	2%	3,364,184,576	100%	48,723,771	1%
1-2 years	13,699,629	–	4,109,890	30%	1,639,828	–	491,949	30%
2-3 years	196,000	–	117,600	60%	–	–	–	–
Over 3 years	857,575	–	857,574	100%	857,575	–	857,575	100%
Total	4,282,170,580	100%	85,107,504		3,366,681,979	100%	50,073,295	

	31 December 2009				31 December 2008			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio
Items with significance	3,858,490,631	90%	80,022,440	2%	3,106,927,120	92%	–	–
Other insignificant items	423,679,949	10%	5,085,064	1%	259,754,859	8%	50,073,295	19%
Total	4,282,170,580	100%	85,107,504		3,366,681,979	100%	50,073,295	

Notes to the Financial Statements

31 December 2009
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11. Notes to the major items of the financial statements of the company (continued)

1. Accounts receivable (continued)

Provision for impairment of accounts receivable is analyzed below:

	31 December 2009	31 December 2008
Balance at the beginning of the year	50,073,295	1,339,921
Provision during the year	84,360,707	49,215,720
Written-back during the year	(49,326,498)	(482,346)
Balance at the end of the year	85,107,504	50,073,295

As at each end of the financial reporting date, 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.

	31 December 2009	31 December 2008
Total for top 5 debtors	2,933,743,139	2,452,653,603
Ratio to total accounts receivable	69%	73%
Ageing	Within 1 year	Within 1 year

The accounts receivable balance as at 31 December 2009 includes an amount of RMB257,469,184 (31 December 2008: RMB120,526,395) due from CNOOC, a shareholder holding 53.63% voting rights of the Company.

As at 31 December 2009, the Company's accounts receivable denominated in US$ was US$262,541,958 (RMB1,792,688,996) (31 December 2008: the balance denominated in US$ was US$271,974,040, (RMB1,858,833,775)).

2. Other receivables

	31 December 2009	31 December 2008
Other receivables	972,364,735	530,680,232
Less: Provision for impairment of other receivables	7,331,282	2,787,662
	965,033,453	527,892,570

Notes to the Financial Statements

31 December 2009
RMB

11. Notes to the major items of the financial statements of the company (continued)

2. Other receivables (continued)

The ageing of other receivable is analyzed below:

	31 December 2009				31 December 2008			
	Amount	Ratio	Provision for impairment of other receivables	Provision ratio	Amount	Ratio	Provision for impairment of other receivables	Provision ratio
Within 1 year	953,299,988	98%	–	–	526,523,535	100%	–	–
1-2 years	16,185,701	2%	4,855,710	30%	1,427,553	–	427,345	30%
2-3 years	1,008,685	–	605,211	60%	922,069	–	553,242	60%
Over 3 years	1,870,361	–	1,870,361	100%	1,807,075	–	1,807,075	100%
Total	972,364,735	100%	7,331,282		530,680,232	100%	2,787,662	
Items with significance	841,136,910	87%	–	–	412,220,747	78%	–	–
Other insignificant items	131,227,825	13%	7,331,282	6%	118,459,485	22%	2,787,662	2%
Total	972,364,735	100%	7,331,282		530,680,232	100%	2,787,662	

Provision for impairment of other receivables is analyzed below:

	31 December 2009	31 December 2008
Balance at the beginning of the year	2,787,662	2,389,367
Provision during the year	8,269,455	728,141
Written-back during the year	(3,725,835)	(329,846)
Balance at the end of the year	7,331,282	2,787,662

The other receivable balance as at 31 December 2009 include an amount of RMB1,983,532 (31 December 2008: RMB2,299,741) 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 each end of the financial reporting date, 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 2009	31 December 2008
Total for top 5 debtors	799,690,430	412,220,747
Ratio to the total other receivables	82%	78%
Ageing	Within 1 year	Within 1 year

Notes to the Financial Statements

31 December 2009
RMB

11. Notes to the major items of the financial statements of the company (continued)

3. Long-term equity investments

	31 December 2009	31 December 2008
Cost method	6,852,512,432	6,841,087,548
Equity method	378,645,225	375,488,629
	7,231,157,657	7,216,576,177

2009	Initial investment costs	Balance at the beginning of the year	Increase/ (decrease) during the year	Balance at the end of the year	Shareholding ratio (%) Direct	Shareholding ratio (%) Indirect	Voting right ratio (%)	Impairment provision	Cash dividends during the year
Equity method:									
Jointly-controlled entities									
China France Bohai	56,336,656	85,573,661	(14,255,694)	71,317,967	50%	–	50%	–	(63,536,010)
Magcobar	25,170,585	130,043,359	6,524	130,049,883	60%	–	50%	–	(57,392,160)
CNOOC-OTIS	27,520,607	33,384,495	(5,035,349)	28,349,146	50%	–	50%	–	(10,200,000)
Logging-Atlas	10,167,012	20,771,163	487,821	21,258,984	50%	–	50%	–	(5,124,300)
Fugro	10,134,627	42,155,083	24,666,158	66,821,241	50%	–	50%	–	(9,713,937)
COSL-Expro	19,352,250	63,560,868	(2,712,864)	60,848,004	50%	–	50%	–	(38,500,000)
Subtotal	148,681,737	375,488,629	3,156,596	378,645,225				–	(184,466,407)
Cost method:									
Subsidiaries									
COSL Chemicals (Tianjin) Ltd.	–	10,709,948	11,000,000	21,709,948	100%	–	100%	–	–
COSL America Inc.	–	2,712,100	–	2,712,100	100%	–	100%	–	–
China Oilfield Services (BVI) Limited	–	–	–	–	100%	–	100%	–	–
COSL Hong Kong international Limited	–	6,827,665,500	–	6,827,665,500	100%	–	100%	–	–
Haiyang Petroservices Ltd.	–	–	325,000	325,000	100%	–	100%	–	–
ADTH	–	–	99,884	99,884				–	–
Subtotal	–	6,841,087,548	11,424,884	6,852,512,432				–	–
Total	148,681,737	7,216,576,177	14,581,480	7,231,157,657				–	(184,466,407)

Notes to the Financial Statements

31 December 2009
RMB

11. Notes to the major items of the financial statements of the company (continued)

3. Long-term equity investments (continued)

2008	Initial investment costs	Balance at the beginning of the year	Increase/ (decrease) during the year	Balance at the end of the year	Shareholding ratio (%) Direct	Shareholding ratio (%) Indirect	Voting right ratio (%)	Impairment provision	Cash dividends during the year
Equity method:									
Jointly-controlled entities									
China France Bohai	56,336,656	54,368,365	31,205,296	85,573,661	50%	–	50%	–	(44,305,380)
Magcobar	25,170,585	136,829,535	(6,786,176)	130,043,359	60%	–	50%	–	(57,413,160)
CNOOC-OTIS	27,520,607	27,208,916	6,175,579	33,384,495	50%	–	50%	–	(1,366,900)
Logging-Atlas	10,167,012	17,632,506	3,138,657	20,771,163	50%	–	50%	–	(5,144,325)
Fugro	10,134,627	26,952,665	15,202,418	42,155,083	50%	–	50%	–	(8,294,052)
COSL-Expro	19,352,250	33,773,907	29,786,961	63,560,868	50%	–	50%	–	(13,000,000)
Subtotal	148,681,737	296,765,894	78,722,735	375,488,629				–	(129,523,817)
Cost method:									
Subsidiaries									
COSL Chemicals (Tianjin) Ltd.	6,349,275	6,349,275	4,360,673	10,709,948	100%	–	100%	–	–
COSL America Inc.	2,712,100	2,712,100	–	2,712,100	100%	–	100%	–	–
China Oilfield Services(BVI) Limited	–	–	–	–	100%	–	100%	–	–
COSL Hong Kong international Limited	6,827,665,500	–	6,827,665,500	6,827,665,500	100%	–	100%	–	–
Subtotal	6,836,726,875	9,061,375	6,832,026,173	6,841,087,548				–	–
Total	6,985,408,612	305,827,269	6,910,748,908	7,216,576,177				–	(129,523,817)

4. Revenue

	2009	2008
Geophysical services	1,438,079,090	1,867,874,412
Drilling services	5,528,330,762	4,299,082,522
Well services	4,309,700,510	2,647,435,590
Marine support and transportation services	2,221,299,065	1,648,154,946
Total	13,497,409,427	10,462,547,470

Notes to the Financial Statements

31 December 2009
RMB

11. Notes to the major items of the financial statements of the company (continued)

5. Operating costs

	2009	2008
Geophysical services	**1,071,481,166**	1,153,087,490
Drilling services	**2,808,334,062**	2,295,986,832
Well services	**3,414,735,889**	2,041,828,353
Marine support and transportation services	**1,468,137,623**	1,073,777,818
Total	**8,762,688,740**	6,564,680,493

6. Investment income

	2009	2008
Investment income from long-term equity investments using equity method	**187,623,003**	208,246,552
Return on government bonds and other investment income	**11,000,000**	29,978,843
Total	**198,623,003**	238,225,395

As of balance sheet date, there were no material restrictions on the repatriation of investment income of the Company.

12. 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 30 March 2010.

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2009

RMB Yuan

1. Items of non-recurring gain and loss

	2009	2008
Losses on disposal of non-current assets	(19,017,422)	(53,429,454)
Subsidy income credited to the income statement	6,489,526	24,258,570
Fair value losses on derivate financial instruments	–	(52,983,938)
Gain/(losses) on swap and forward currency contracts	49,298,437	(151,658,433)
Funds occupation fee charged to non-financial enterprises	1,355,275	–
Reversal of impairment provision for accounts receivable under individual impairment tests	48,723,772	–
Net amount of other non-operating income/(loss)	(394,242,858)	(2,805,149)
Total of non-recurring gain and loss	(307,393,270)	(236,618,404)
Tax effect	53,503,756	4,796,405
Net amount affecting under non-recurring gain and loss	(253,889,514)	(231,821,999)

The Group's recognition of non-recurring profit and loss items follows the Circular [2008] No. 43 issued by China Securities Regulatory Commission – "Information Disclosure Explanatory Notice No.1 – non-recurring Gains and Losses for the Companies Conducting Public Offering of Securities".

2. 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 period ended 31 December 2009 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 auditor of the Company is Ernst & Young.

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2009

RMB Yuan

3. Return on net assets and earnings per share

2009	Return on net assets ratio		Earnings per share	
	Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to the ordinary share shareholders of the Parent	**14.06%**	**14.89%**	**0.70**	**0.70**
Net profit, after deduction of non-recurring gains and losses, attributable to the ordinary share shareholders of the Parent	**15.19%**	**16.10%**	**0.75**	**0.75**

2008	Return on net assets ratio		Earnings per share	
	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 non-recurring gains and losses, attributable to the ordinary share shareholders of the Parent	16.84%	18.02%	0.74	0.74

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2009

RMB Yuan

4. Fluctuation analysis of items in Financial Statements

According to the requirement of *Information Disclosure Rules of Companies which Publicly Issue Securities No. 15-General Rules on Financial Statements (amended in 2010)*, an analysis for the financial statement items either with fluctuation over 30% compared with the comparative period, or with the amount over 5% of the total assets as at the reporting date or 10% of profit before tax for the reporting period, is as follows:

Items in Financial Statements	Balance at the end of the year (or amount of this year)	Balance at the beginning of the year (or amount of last year)	Fluctuation Amount	Fluctuation Ratio	Remark
Items in Balance Sheet					
Current Assets					
Accounts receivable	**3,745,547,364**	2,735,024,686	1,010,522,678	36.9%	(1)
Prepayments	**528,233,255**	1,281,548,540	(753,315,285)	(58.8%)	(2)
Interest receivable	**1,080,000**	4,342,362	(3,262,362)	(75.1%)	(3)
Dividend receivable	**23,754,415**	16,391,075	7,363,340	44.9%	(4)
Non-current assets					
Available-for-sale financial assets	**19,281,034**	34,317,535	(15,036,501)	(43.8%)	(5)
Held-to-maturity investments	**39,081,025**	78,235,318	(39,154,293)	(50.0%)	(6)
Fixed assets	**30,092,311,149**	24,137,207,634	5,955,103,515	24.7%	(7)
Current liabilities					
Short-term bank borrowings	**–**	6,835,596,924	(6,835,596,924)	(100.0%)	(8)
Notes payable	**–**	366,762,500	(366,762,500)	(100.0%)	(9)
Accounts payable	**3,175,095,974**	2,376,732,369	798,363,605	33.6%	(10)
Receipts in advance	**5,255,901**	38,818,223	(33,562,322)	(86.5%)	(11)
Tax payable	**153,070,242**	343,298,457	(190,228,215)	(55.4%)	(12)
Interest payable	**139,212,858**	327,961,642	(188,748,784)	(57.6%)	(13)
Other payable	**358,827,721**	636,027,209	(277,199,488)	(43.6%)	(14)
Current portion of non-current liabilities	**283,081,032**	943,020,215	(659,939,183)	(70.0%)	(15)
Other current liabilities	**606,038,526**	54,381,067	551,657,459	1,014.4%	(16)
Non-current liabilities					
Derivative financial instruments	**–**	49,307,921	(49,307,921)	(100.0%)	(17)
Long-term bank borrowings	**28,151,039,943**	16,355,446,023	11,795,593,920	72.1%	(18)
Long-term bonds	**2,670,019,752**	4,028,341,874	(1,358,322,122)	(33.7%)	(19)
Staff cost payable	**1,381,058**	5,663,626	(4,282,568)	(75.6%)	(20)
Other non-current liabilities	**816,512,769**	1,930,706,662	(1,114,193,893)	(57.7%)	(21)
Shareholders' Equity					
Statutory reserve fund	**1,335,639,695**	1,000,055,668	335,584,027	33.6%	(22)
Items in Income Statement					
Revenue	**18,345,401,415**	12,430,252,591	5,915,148,824	47.6%	(23)
Operating cost	**11,688,942,398**	7,929,906,369	3,759,036,029	47.4%	(24)
Business taxes and surcharges	**466,747,758**	287,308,569	179,439,189	62.5%	(25)
Financial expenses	**868,061,764**	366,105,924	501,955,840	137.1%	(26)
Assets impairment loss	**879,390,769**	159,493,125	719,897,644	451.4%	(27)
Fair value loss	**–**	52,983,938	(52,983,938)	(100.0%)	(28)
Investment income	**159,562,623**	89,666,903	69,895,720	78.0%	(29)
Non-operating income	**95,098,628**	48,670,373	46,428,255	95.4%	(30)
Non-operating expenses	**501,869,382**	80,646,406	421,222,976	522.3%	(31)
Income tax expenses	**624,282,438**	205,045,264	419,237,174	204.5%	(32)

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2009

RMB Yuan

(1) Accounts receivable: the increase in accounts receivable was due to of the increase in the Group's income and the prolonged credit terms of accounts receivables as compared with 2008.

(2) Prepayments: the decrease in prepayments was mainly due to the transfer of prepayments for projects to construction in progress according to the progress of the construction.

(3) Interest receivable: the decrease in interest receivable for the year was due to the decline in bank time deposit as a result of our operation needs.

(4) Dividend receivable: the balances of dividend receivable were mainly unpaid dividends declared by jointly-controlled entities; its increase was mainly due to the increase in declared dividends from jointly-controlled entities compared with 2008.

(5) Available for sale financial assets: the market value of investment in Petrojack ASA held by CDE has declined significantly. The Group deemed it as an impairment on investment in available for sale financial assets, and recognized an impairment loss of RMB15,000,000 during the year.

(6) Held-to-maturity investments: part of the pledged deposit was transferred to current portion of non-current assets because of nearing maturity.

(7) Fixed assets: there are 2 jack-up drilling rigs, 2 land drilling rigs, 10 oilfield utility vessels, 3 well workover support barges construction completed and purchased certain for well services equipment and facilities.

(8) Short-term bank borrowings: the balance was reduced to zero, because the Group repaid all short-term bank borrowings in the year.

(9) Notes payables: the Group had paid for construction of four 200 feet drilling vessels in the year.

(10) Accounts payables: the increase was mainly due to the increase in procurement following the operation commencement of various assets.

(11) Receipts in advance: receipts in advance were transferred to revenue from main business when services were provided, and there was no receipt in advance for additional businesses in 2009.

(12) Taxes payables: taxes payables deceased was mainly due to the decrease of income taxes payables. The main reason was that the Company was entitled preferential taxes for advanced technology enterprises, and therefore its accrued tax rate for overseas income decreased from 25% in 2008 to 15%.

(13) Interests payables: the reduction in interests payables was mainly because the Group refinanced its loans in overseas. The interest of new loans were paid at the end of each year, while the interest of former loans were paid at the beginning of each year. Therefore, part of interests payables for 2009 was paid at the end of the year, which resulted in the decrease in balance as compared with 2008.

(14) Other payables: the reduction in other payables was mainly because the Group paid for part of the fees of agent institutions for merger and acquisition, as well as paid for jointly-controlled entities.

(15) Current portion of non-current liabilities: the Group repaid RMB660,000,000 borrowings from Nordea Bank Norge ASA, which were due in May of the year.

(16) Other current liabilities: this was resulted from provisions on contingent claims and litigation.

(17) Derivate financial instruments: the Group repaid NOK500,000,000 senior unsecured NOK bond, and the corresponding interest rate swap contract, amounted to NOK250,000,000, was also cancelled subsequently.

(18) Long-term bank borrowings: it mainly comprised the followings amounts: the RMB1,300,000,000 loans borrowed from CNOOC Finance Co., Ltd. in the year to repay prior loans and supplement working capital; the US$1,400,000,000 loans from the Bank of China Limited and the Industrial and Commercial Bank of China Limited to swap US$1,400,000,000 syndicated bank borrowings for subsidiaries; US$1,580,000,000 loans from the Bank of China Limited to swap Nordea Bank loans for CDE and supplement working capital; RMB450,000,000 loans from the Export-Import Bank of China to construct land drilling rigs in Libya.

In addition, RMB650,000,000 commercial loans at the beginning of the year was fully repaid during the year. And, the long-term bank borrowings matured with 1 year had been transferred into current portion of non-current liabilities.

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2009

RMB Yuan

(19) Long-term bonds: the Group redeemed all of the NOK500,000,000 senior unsecured NOK bond, and redeemed part of senior unsecured US$ bonds and part of second security priority US$ bond.

(20) Staff cost payable (non-current portion): this was mainly due to the payment of defined benefit scheme as a result of reduction in the number of employees in Norway.

(21) Other non-current liabilities: this was mainly due to the relevant deferred revenue charged to P&L during the year as a result of cancellation of the operation contract for a drilling rig.

(22) Surplus reserves: this was mainly the statutory surplus reserve accured.

(23) Revenue:

(a) Revenue from drilling services increased by RMB4,096,443,069, mainly due to the full year operation results of the acquired CDE and highly efficient use of new equipments.

(b) Revenue from well services increased by RMB1,725,216,900, which was attributable to the increase in operation volume due to the development of new markets and the addition of drilling equipments.

(c) Benefited from the additional equipments and effective use of external resources, revenue from marine support and transportation services increased by RMB573,931,541.

(d) Revenue from geophysical services decreased by RMB480,442,686 due to a drop in operation volume.

(24) Operating costs: the increase was caused by the increase in depreciation charge, consumption of supplies and fuel, staff cost, subcontracting expenses, premises rental and other costs as a result of full-year operation of CDE, increment in job volume, and new assets and equipments commence to operating.

(25) Business taxes and surcharges: this was caused by increase of income for the year.

(26) Finance cost: the increased of finance costs were mainly due to the increase in interest expenses which came along with the additional borrowings and ceased to be capitalized because of the completion of the construction. Besides, interest income decreased as a result of the decrease in bank deposits.

(27) Assets impairment losses: due to the influence on the industry imposed by macroeconomics and the delayed delivery of three semi-submersible drilling rigs under construction, the assets impairment losses amounting RMB819,888,718 was recognized according to the impairment assessment performed by the management pursuant to accounting standard.

(28) Fair value losses: mainly due to the cancellation of swap contracts which realized change in fair value investment income from jointly-controlled entities compared with the last year has been recognized in investment income during the year.

(29) Investment income: this was mainly due to gain on disposal of derivative financial instruments during the year.

(30) Non-operating income: this was mainly due the increase in insurance compensation received as compared with the last year.

(31) Non-operating expenses: mainly composed by the litigation compensation and liquidated damages accured.

(32) Income tax expenses: this was mainly due to the increase in the Group's income and there were no tax return of preferential tax for advanced technology enterprise during the year, due to that the Company provided for income tax at the preferential rate of 15% as an advanced technology enterprise since 2008.

Independent Auditors' Report

To the shareholders of China Oilfield Services Limited
(Established 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 202 to 274, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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
30 March 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	4	**17,878,654**	12,142,944
Other revenues	4	**95,099**	48,671
		17,973,753	12,191,615
Depreciation of property, plant and equipment and amortisation of intangible assets	5	**(2,865,166)**	(1,563,534)
Employee compensation costs	5	**(2,669,618)**	(2,106,497)
Repair and maintenance costs	5	**(609,441)**	(420,257)
Consumption of supplies, materials, fuel, services and others		**(3,610,001)**	(2,720,083)
Subcontracting expenses		**(884,384)**	(542,226)
Operating lease expenses	5	**(589,118)**	(356,136)
Other operating expenses		**(1,076,167)**	(693,870)
Other selling, general and administrative expenses		**(381,870)**	(158,523)
Impairment of property, plant and equipment		**(819,889)**	–
Total operating expenses		**(13,505,654)**	(8,561,126)
PROFIT FROM OPERATIONS		**4,468,099**	3,630,489
Financial income/(expenses)			
Exchange losses, net		**(92,686)**	(91,358)
Finance costs	6	**(786,430)**	(638,985)
Interest income		**60,352**	191,433
Financial expenses, net		**(818,764)**	(538,910)
Share of profits of jointly-controlled entities	18	**110,264**	215,707
PROFIT BEFORE TAX	5	**3,759,599**	3,307,286
Income tax expense	10	**(624,282)**	(205,045)
PROFIT FOR THE YEAR		**3,135,317**	3,102,241
Attributable to owners of the parent	11	**3,135,317**	3,102,241
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**69.75 cents**	69.01 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	**2009 RMB'000**	**2008 RMB'000**
PROFIT FOR THE YEAR		**3,135,317**	3,102,241
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**1,789**	10,033
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**1,789**	10,033
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,137,106**	3,112,274
Attributable to owners of the parent		**3,137,106**	3,112,274

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**45,086,542**	40,345,211
Goodwill	*15*	**4,600,473**	4,604,785
Intangible assets	*16*	**456,366**	523,799
Interests in jointly-controlled entities	*18*	**540,924**	620,329
Available-for-sale investments	*19*	**19,381**	34,318
Pledged time deposits	*25*	**39,081**	78,235
Total non-current assets		**50,742,767**	46,206,677
CURRENT ASSETS			
Inventories	*20*	**820,549**	780,871
Prepayments, deposits and other receivables	*21*	**755,500**	1,505,856
Accounts receivable	*22*	**3,745,547**	2,735,025
Notes receivable	*23*	**429,658**	354,870
Other current assets	*24*	**20,583**	–
Pledged time deposits	*25*	**247,311**	53,768
Cash and cash equivalents	*25*	**4,014,603**	4,563,834
Total current assets		**10,033,751**	9,994,224
CURRENT LIABILITIES			
Trade and other payables	*26*	**4,223,972**	3,430,891
Notes payable		**–**	366,763
Salary and bonus payables	*27*	**477,407**	485,875
Tax payable		**86,826**	252,460
Interest-bearing bank borrowings	*29*	**283,081**	7,778,617
Total current liabilities		**5,071,286**	12,314,606
NET CURRENT ASSETS/(LIABILITIES)		**4,962,465**	(2,320,382)
TOTAL ASSETS LESS CURRENT LIABILITIES		**55,705,232**	43,886,295
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*28*	**1,790,789**	1,697,132
Interest-bearing bank borrowings	*29*	**28,151,040**	16,355,446
Long term bonds	*30*	**2,670,020**	4,028,342
Deferred revenue	*31*	**780,114**	1,858,302
Defined benefit obligations	*9*	**1,381**	5,664
Derivative financial instruments	*32*	**–**	49,308
Other non-current liabilities	*33*	**6,283**	94,257
Total non-current liabilities		**33,399,627**	24,088,451
Net assets		**22,305,605**	19,797,844
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*34*	**4,495,320**	4,495,320
Reserves	*35*	**17,180,940**	14,673,179
Proposed final dividends	*12*	**629,345**	629,345
Total equity		**22,305,605**	19,797,844

Director: **Liu Jian**　　　　Director: **Li Yong**

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Attributable to owners 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	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 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)
Total comprehensive income for the year	–	–	–	3,102,241	–	10,033	3,112,274	–	3,112,274
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 and 1 January 2009	4,495,320	8,074,565*	1,000,056*	5,578,681*	629,345	19,877*	19,797,844	–	19,797,844
Final 2008 dividend declared	–	–	–	–	(629,345)	–	(629,345)	–	(629,345)
Total comprehensive income for the year	–	–	–	3,135,317	–	1,789	3,137,106	–	3,137,106
Proposed final 2009 dividend *(Note 12)*	–	–	–	(629,345)	629,345	–	–	–	–
Transfer to statutory reserve funds	–	–	335,584	(335,584)	–	–	–	–	–
At 31 December 2009	4,495,320	8,074,565*	1,335,640*	7,749,069*	629,345	21,666*	22,305,605	–	22,305,605

* *These reserve accounts comprise the consolidated reserves of approximately RMB17,180,940,000 (2008: RMB14,673,179,000) in the consolidated statement of financial position.*

** *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 Statement of Cashflows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	39	**6,301,124**	4,456,808
Taxes paid:			
Mainland China corporate income tax paid		**(540,344)**	(418,969)
Mainland China corporate income tax refund		–	55,113
Overseas income taxes paid		**(155,915)**	(55,151)
Net cash flows from operating activities		**5,604,865**	4,037,801
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(7,398,673)**	(7,630,571)
Purchase of available-for-sale investments		**(100)**	(1,060,000)
Sale of available-for-sale investments		–	1,692,956
Proceeds from disposal of items of property, plant and equipment		**12,671**	11,694
Increase/(decrease)in net balances with jointly-controlled entities		**7,292**	(1,140)
(Increase)/decrease in time deposits with original maturity of more than three months		**(531,654)**	1,700,520
Increase in pledged time deposits		**(154,389)**	(2,444)
Interest received		**63,615**	183,698
Dividends received from jointly-controlled entities		**218,854**	126,838
Investment in a subsidiary		**(325)**	–
Acquisition of a subsidiary	36	–	(15,647,033)
Net cash flows used in investing activities		**(7,782,709)**	(20,625,482)
Net cash flows before financing activities		**(2,177,844)**	(16,587,681)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of research and development subsidy		**100,720**	55,040
New bank loans		**23,227,901**	15,781,719
Repayment of bank loans and long term bonds		**(20,177,339)**	(370,865)
Repayment of other loans		–	(200,000)
Dividends paid		**(629,345)**	(539,438)
Loan arrangement fees		**(66,698)**	(77,873)
Interest paid		**(1,318,423)**	(408,706)
Net cash flows from financing activities		**1,136,816**	14,239,877
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,041,028)**	(2,347,804)
Cash and cash equivalents at beginning of year		**4,295,488**	6,797,122
Effect of foreign exchange rate changes, net		**(39,857)**	(153,830)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,214,603**	4,295,488
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	25	**4,300,995**	4,695,837
Less: Pledged time deposits	25	**(286,392)**	(132,003)
Cash and cash equivalents as stated in the statement of financial position	25	**4,014,603**	4,563,834
Less: Non-pledged time deposits at banks with original maturity of more than three months when acquired		**(800,000)**	(268,346)
Cash and cash equivalents as stated in consolidated statement of cash flows		**3,214,603**	4,295,488

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON–CURRENT ASSETS			
Property, plant and equipment	14	19,508,127	15,271,628
Intangible assets	16	311,914	314,545
Investments in subsidiaries	17	6,852,413	6,841,088
Interests in jointly-controlled entities	18	138,728	133,515
Available-for-sale investments		100	–
Other long term receivables	41	20,450,459	–
Total non–current assets		47,261,741	22,560,776
CURRENT ASSETS			
Inventories	20	617,242	650,306
Prepayments, deposits and other receivables	21	1,469,844	1,773,327
Accounts receivable	22	4,197,063	3,316,609
Notes receivable	23	429,658	354,870
Pledged time deposits	25	4,902	3,417
Cash and cash equivalents	25	2,550,111	3,038,585
Total current assets		9,268,820	9,137,114
CURRENT LIABILITIES			
Trade and other payables	26	3,117,485	2,400,333
Notes payable		–	366,763
Salary and bonus payables	27	433,105	420,783
Tax payable		41,877	161,665
Interest-bearing bank borrowings	29	244,000	244,000
Total current liabilities		3,836,467	3,593,544
NET CURRENT ASSETS		5,432,353	5,543,570
TOTAL ASSETS LESS CURRENT LIABILITIES		52,694,094	28,104,346
NON–CURRENT LIABILITIES			
Deferred tax liabilities	28	365,890	281,828
Interest-bearing bank borrowings	29	28,111,959	6,367,680
Long term bonds	30	1,500,000	1,500,000
Deferred revenue		36,565	–
Total non-current liabilities		30,014,414	8,149,508
Net assets		22,679,680	19,954,838
EQUITY			
Issued capital	34	4,495,320	4,495,320
Reserves	35	17,555,015	14,830,173
Proposed final dividend	12	629,345	629,345
Total equity		22,679,680	19,954,838

Director: **Liu Jian** Director: **Li Yong**

Notes to Financial Statements

31 December 2009

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2009. 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.

Acquisition of subsidiaries 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.

2.2 Changes in accounting policy and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's 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 in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures –Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008) *	Amendments to a number of HKFRSs

* The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary,* which is effective for annual periods beginning on or after 1 July 2009.

Notes to Financial Statements

31 December 2009

2.2 Changes in accounting policy and disclosures (continued)

Other than as further explained below regarding the impact of HKFRS 7 Amendments, HKFRS 8, HKAS 1 (Revised) and HKAS 23, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements, and except for giving rise to changes to the accounting policy for the reclassification of financial assets as further described below, there have been no significant changes to the accounting policies applied in these financial statements.

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for Level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 42 to the financial statements while the revised liquidity risk disclosures are presented in Note 43 to the financial statements.

HKFRS 8, which replaces 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 concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in Note 3 to the financial statements.

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 includes 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 has elected to present two statements.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2008* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. While the adoption of some of the amendments may result in changes in accounting policy, none of them are expected to have a material financial impact on the Group. The Group has also considered all other HK(IFRIC)s issued and they are unlikely to have any financial impact on the Group.

Notes to Financial Statements

31 December 2009

2.3 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation –Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included in Improvements to HKFRSs issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 *Effective for annual periods beginning on or after 1 July 2009*
2 *Effective for annual periods beginning on or after 1 January 2010*
3 *Effective for annual periods beginning on or after 1 February 2010*
4 *Effective for annual periods beginning on or after 1 July 2010*
5 *Effective for annual periods beginning on or after 1 January 2011*
6 *Effective for annual periods beginning on or after 1 January 2013*

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*. The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010. The amendments are unlikely to have any significant implications on the Group's accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

Notes to Financial Statements

31 December 2009

2.3 Issued but not yet effective hong kong financial reporting standards (continued)

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with minority interests

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

The HK(IFRIC)-Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Notes to Financial Statements

31 December 2009

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 statement of financial position 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 on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated statement of financial position 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.

Notes to Financial Statements

31 December 2009

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets other than goodwill (continued)

An assessment is made at the end of each reporting period 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.

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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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
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 financial year end.

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.

2.4 Summary of significant accounting policies (continued)

Intangible assets other than goodwill

The intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The estimated useful life of intangible assets is as follows:

Prepaid land lease payments	50 years
Management software	10 years
Software	3 to 5 years
Contract value	Contract period

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

Initial recognition and measurement

Financial assets within 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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and cash equivalents, prepayments, deposits and other receivables, accounts receivable, notes receivable, pledged time deposits and available-for-sale investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the consolidated income statement. These net fair value changes do 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.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Notes to Financial Statements

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2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement. The loss arising from impairment is recognised in the consolidated income statement in finance costs.

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 calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement. The loss arising from impairment is recognised in the income statement in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as interest income.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Notes to Financial Statements

31 December 2009

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

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 investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired. 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 removed from other comprehensive income and recognised in the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Notes to Financial Statements

31 December 2009

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:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred it rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement;
- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. 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.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amount due to the related parties and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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. This category includes derivative financial interments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. 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.

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.

2.4 Summary of significant accounting policies (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. 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 are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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 of changes in the hedging instrument's fair value 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 an interest rate hedging derivative is recognised in the consolidated income statement in finance costs. 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 in finance costs.

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. Effective rate 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.

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2.4 Summary of significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the consolidated income statement in finance costs.

Amounts recognised in other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects profit or loss, 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 recognised in other comprehensive income 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 cumulative gain or loss 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 other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current or non-current potion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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 stage of completion determined by surveys of work performed.

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 statement of financial position 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.

Notes to Financial Statements

31 December 2009

2.4 Summary of significant accounting policies (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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 end of the reporting period 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.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- 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
- 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:

- 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
- 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

Notes to Financial Statements

31 December 2009

2.4 Summary of significant accounting policies (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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 it becomes 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.

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 27). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of each reporting period 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.

The past service costs are recognised as an expense on a 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. The value of any defined benefit asset recognised 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.

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2.4 Summary of significant accounting policies (continued)

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 investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates 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 end of the reporting period. 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.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and in the cumulative translation reserve. On disposal of a foreign operation, the component of other comprehensive income, relating to that particular foreign operation is recognised in the consolidated income statement.

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

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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 end of the reporting period. 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 2009, a provision for impairment of the property, plant and equipment amounting to RMB819,889,000 (2008:Nil) was recognised.

(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. Based on the Group's accounting policy for inventories, management 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 statement of financial position date, hence the provision amount is subject to uncertainty. At 31 December 2009, impairment losses of approximately RMB38,885,000 have been recognised for accounts receivable (2008: RMB48,733,000) and losses of approximately RMB1,070,000 have been recognised for inventories (2008: RMB3,853,000).

(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 2009, no impairment of goodwill was recognised (2008: Nil).

(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 2009, impairment losses of approximately RMB15,003,000 have been recognised for available-for-sale assets (2008: RMB106,508,000).

(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 2009 was approximately RMB16,405,000 (2008: RMB29,300,000). Further details are contained in Note 28 to the financial statements.

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3. Operating segment information

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments as follows:

(a) the drilling services segment is engaged in the provision of oilfield drilling services;

(b) the well services segment is engaged in the provision of logging and downhole services, such as drilling fluids, directional drilling, cementing and well completion, sales of well chemical materials and well workovers;

(c) the marine support and transportation services segment is engaged in the transportation of materials, supplies and personnel to offshore facilities, moving and positioning drilling structures, the transportation of crude oil and refined products and the transportation of methanol or other petrochemical products; and

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, and exchange gains/(losses) are excluded from such measurement.

Segment assets exclude certain cash and cash equivalents (funds managed by the corporate treasury), prepayments, deposits and other receivables as these assets are managed on a group basis.

Segment liabilities exclude certain other payables, interest-bearing bank borrowings and long term bonds (funds managed by the corporate treasury) as these liabilities are managed on a group basis.

Funds managed by the CNA group treasury were included in the drilling services segment. As such, the related cash and cash equivalents, interest-bearing bank borrowings and long term bonds were included in the drilling services segment.

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.

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3. Operating segment information (continued)

	Year ended 31 December 2009				
	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 to external customers	9,891,714	4,416,698	2,171,330	1,398,912	17,878,654
Intersegment sales	1,249,655	144,599	59,088	50,231	1,503,573
Other revenue	36,071	6,445	14,503	38,080	95,099
	11,177,440	4,567,742	2,244,921	1,487,223	19,477,326
Reconciliation:					
Elimination of intersegment sales					(1,503,573)
					17,973,753
Segment results	2,806,984	795,347	631,732	344,300	4,578,363
Exchange losses, net					(92,686)
Finance costs					(786,430)
Interest income					60,352
Profit before tax					3,759,599
Assets and liabilities:					
Segment assets	68,075,601	5,115,367	5,238,398	2,576,235	81,005,601
Elimination of intersegment receivables					(23,320,127)
Unallocated assets					3,091,044
Total assets					60,776,518
Segment liabilities	28,670,415	1,565,128	726,305	525,782	31,487,630
Elimination of intersegment liabilities					(23,320,127)
Unallocated liabilities					30,303,410
Total liabilities					38,470,913
Other segment information:					
Capital expenditure	6,062,823	760,092	924,719	665,704	8,413,338
Depreciation of property, plant and equipment and amortisation of intangible assets	1,945,678	406,354	275,096	238,038	2,865,166
Provision for impairment of accounts receivable	21,483	9,588	4,746	3,068	38,885
Provision for impairment of other receivables	2,510	1,120	555	358	4,543
Provision for impairment of inventories	591	264	131	84	1,070
Impairment provision for an available-for-sale investment	15,003	–	–	–	15,003
Impairment provision for property, plant and equipment	819,889	–	–	–	819,889
Share of profits of jointly-controlled entities	59,440	52,087	(22,425)	21,162	110,264
Interests in jointly-controlled entities*	14,300	322,205	151,896	66,823	555,224

* *The interests in jointly-controlled entities included interest in Premium Drilling and Atlantis Deepwater which were classified as other current assets and other non-current liabilities amounting to RMB20.6 million and RMB6.3 million respectively.*

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3. Operating segment information (continued)

	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 to external customers	5,919,918	2,732,594	1,613,878	1,876,554	12,142,944
Intersegment sales	729,605	133,411	67,153	303,556	1,233,725
Other revenue	10,538	19,387	6,006	12,740	48,671
	6,660,061	2,885,392	1,687,037	2,192,850	13,425,340
Reconciliation:					
Elimination of intersegment sales					(1,233,725)
					12,191,615
Segment results	2,178,775	523,482	556,153	587,786	3,846,196
Exchange losses, net					(91,358)
Finance costs					(638,985)
Interest income					191,433
Profit before tax					3,307,286
Assets and liabilities:					
Segment assets	43,332,092	4,228,050	4,543,962	2,213,388	54,317,492
Elimination of intersegment receivables					(2,034,064)
Unallocated assets					3,917,473
Total assets					56,200,901
Segment liabilities	27,492,436	1,363,824	537,118	600,665	29,994,043
Elimination of intersegment liabilities					(2,034,064)
Unallocated liabilities					8,443,078
Total liabilities					36,403,057
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
Share of profits of jointly-controlled entities	60,930	52,695	64,904	37,178	215,707
Interests in jointly-controlled entities	41,161	338,946	198,067	42,155	620,329

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3. Operating segment information (continued)

Geographical Information

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical services in offshore China. Activities outside the PRC are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway, Vietnam, Saudi Arabia, Dubai, Libya and Tunisia.

In determining the Group's geographical information, revenues and results are attributed to the segments based on the location of the Group's customers. No further analysis of geographical information is presented for revenues as revenues generated from customers in other locations are individually less than 10% (2008: 10%), and approximately 72.1% (2008: approximately 75%) of the Group's revenues are generated from customers in Mainland China.

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2009 and 2008.

	Year ended 31 December 2009		
	Mainland China RMB'000	Other countries RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	**12,889,651**	**4,989,003**	**17,878,654**

	Year ended 31 December 2008		
	Mainland China RMB'000	Other countries RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	9,099,541	3,043,403	12,142,944

A significant portion of the non-current assets are property, plant and equipment with high mobility which may have moved from Mainland China to foreign countries during the year and vice versa. As such, the necessary information is not available for the analysis of geographical segment for non-current assets.

Information about a major customer

Revenue generated from a major customer (including sales to a group of entities which are known to be under common control with that customer) is provided in Note 41.

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4. Revenue and other revenues

Revenue, which is also the Group's turnover, mainly represents the net invoiced value of offshore oilfield services rendered, net of sales surtaxes.

An analysis of revenue and other revenues is as follows:

	2009 RMB'000	2008 RMB'000
Revenue:		
Rendering of services*	17,708,484	12,062,412
Gross rental income	170,170	80,532
Total revenue	17,878,654	12,142,944
Other revenues:		
Gain on disposal of scrap equipment	168	2,112
Insurance claims received	52,140	19,895
Government subsidies	6,490	24,259
Others	36,301	2,405
Total other revenues	95,099	48,671

* *Included in the balance was deferred revenue of RMB1,076,937,000 recognised during the year (Note 31).*

5. Profit before tax

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

	2009 RMB'000	2008 RMB'000
Auditors' remuneration:		
Audit	15,570	10,922
Non-audit	6,262	11,572
Employee compensation costs (including directors' remuneration (Note 7)):		
Wages, salaries and bonuses	2,153,116	1,706,715
Social security costs	398,069	294,281
Retirement benefits and pensions	118,986	106,215
Share appreciation rights (Note 27)	(553)	(714)
	2,669,618	2,106,497

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5. Profit before tax (continued)

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

	2009 RMB'000	2008 RMB'000
Depreciation of property, plant and equipment and amortisation of intangible assets	**2,865,166**	1,563,534
Loss on disposal of property, plant and equipment, net	**19,017**	53,429
Lease payments under operating leases in respect of land and buildings, berths and equipment	**589,118**	356,136
Impairment of property, plant and equipment	**819,889**	–
Impairment of accounts receivable, net	**38,885**	48,733
Impairment of other receivables, net	**4,543**	399
Provision against inventories	**1,070**	3,853
Impairment of an available-for-sale investment	**15,003**	106,508
Repair and maintenance costs	**609,441**	420,257
Research and development costs, included in	**197,228**	144,553
Depreciation of property, plant and equipment	**15,454**	18,143
Employee compensation costs	**26,444**	1,349
Consumption of supplies, materials, fuel, services and others	**149,324**	123,023
Other operating expenses	**6,006**	2,038

6. Finance costs

An analysis of finance costs is as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Interest on bank borrowings		
Wholly repayable within five years	**399,442**	229,166
Wholly repayable after five years	**408,158**	197,396
Interest on long term bonds	**284,134**	158,634
Total interests	**1,091,734**	585,196
Less: Interest capitalised	**(264,943)**	(150,854)
	826,791	434,342
Other finance costs:		
Fair value losses on derivative instruments	**–**	52,984
Realised (gains)/losses of derivative instruments	**(49,298)**	151,659
Others	**8,937**	–
	786,430	638,985

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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 2009 RMB'000	2008 RMB'000
Fees	1,280	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	824	866
Bonuses	892	861
Share appreciation rights (Note 27)	(212)	(274)
Pension scheme contributions	116	128
	1,620	1,581
	2,900	2,861

(a) Independent non-executive directors and supervisors

The fees paid/payable to independent non-executive directors and independent supervisors during the year are as follows:

	Group 2009 RMB'000	2008 RMB'000
Independent non-executive directors:		
Gordon C. K. Kwong	400	400
Simon X. Jiang	400	400
Alec Y.W.Tsui (i)	200	–
Andrew Y. Yan (ii)	200	400
	1,200	1,200
Independent supervisor:		
Wang Zhile (i)	40	–
Zhang Dunjie (ii)	40	80
	1,280	1,280

There were no other emoluments payable to the independent non-executive directors and the independent supervisors during the year (2008: Nil).

Notes:

(i) Elected on 3 June, 2009
(ii) Resigned on 3 June, 2009

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7. Directors' and supervisors' remuneration (continued)

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

	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Share appreciation rights RMB'000	Total RMB'000
2009					
Executive directors:					
Yuan Guangyu (i)	91	261	6	(122)	236
Liu Jian (ii)	197	140	26	–	363
Li Yong	283	291	44	(90)	528
	571	692	76	(212)	1,127
Non-executive directors:					
Fu Chengyu	–	–	–	–	–
Wu Mengfei	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
Zhang Benchun (i)	–	–	–	–	–
Zhu Liebing (ii)	–	–	–	–	–
Yang Jinghong	253	200	40	–	493
	253	200	40	–	493
Total	824	892	116	(212)	1,620
2008					
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:

(i) Resigned on 3 June, 2009
(ii) Elected on 3 June, 2009

Notes to Financial Statements

31 December 2009

7. Directors' and supervisors' remuneration (continued)

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

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 27 to the financial statements.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

8. Five highest paid employees

The five highest paid employees during the year do not include any directors (2008: Nil), details of whose remuneration are set out in Note 7 to the financial statements. Details of the remuneration of the five (2008: five) non-director, non-supervisor, highest paid employees for the year are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Basic salaries, allowances and benefits in kind	9,642	4,172
Bonuses	3,871	8,445
Shares appreciation rights	–	–
Pension scheme contributions	739	152
	14,252	12,769

The number of non-director, non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
HK$2,000,001 to HK$2,500,000	–	1
HK$2,500,001 to HK$3,000,000	3	2
HK$3,000,001 to HK$3,500,000	1	1
HK$3,500,001 to HK$4,000,000	–	1
HK$4,000,001 to HK$4,500,000	1	–
	5	5

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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 2009 (2008: Nil).

The expenses attributed to the PRC government-regulated pension scheme are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Contributions to the PRC government-regulated pension scheme	109,936	96,038

At 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2008: 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 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 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.

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9. Retirement benefits and pensions (continued)

	Group	
	2009 RMB'000	2008 RMB'000
Pension cost		
Service cost	970	3,469
Interest cost	53	686
Estimated return on plan assets	(50)	(465)
Administrative expenses	108	68
Amortisation of past service cost	–	–
Amortisation of actuarial gains	711	474
Net pension cost	1,792	4,232
Social security tax	137	520
Total	1,929	4,752
Benefit assets/(obligation)		
Benefit obligation	(2,257)	(21,716)
Plan assets	6,757	9,489
Funded status	4,500	(12,227)
Social security tax	(230)	(1,724)
Unamortised actuarial gains/(losses), past service cost	(5,651)	8,287
Net obligation	(1,381)	(5,664)
Movements in the benefit asset/(obligation) during the period		
Benefit asset/(obligation), opening balance	(5,664)	–
Acquisition of a subsidiary	–	(3,067)
Benefit expense	(1,929)	(4,752)
Contributions	6,212	2,155
Benefit asset/(obligation) ending balance	(1,381)	(5,664)
Assumptions		
Estimated return on plan assets	6%	6%
Discount rate	4%	5%
Salary increase	4%	5%
Increase of National Insurance	4%	4%
Rate of pension increase	1.50%-3.75 %	1.75%-4.25 %
Voluntary resignations	0-8%	0-8%
Social security tax	14%	14%
Analysis of the plan assets		
The asset allocation at the end of the period is set out below:		
Debt instruments	55%	52%
Equity instruments	7%	27%
Money market and similar	22%	9%
Property	16%	12%
Total	100%	100%

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10. Income tax

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it does not have assessable 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.

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 Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation (the "TSAT"), and Tianjin Local Taxation Bureau, which is effective for three years. Further, the Company obtained the approval from Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of the TSAT in 2010. According to the Circular Jinguoshuihaishuijianmian [2009] Number 2, the corporate income tax rate was approved to be 15%. Consequently, the management considers 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 2009 (2008: 15%).

Certain overseas subsidiaries of the Group with permanent establishment status in the PRC are subject to deemed income tax calculated at 2.5% (2008: 2.5%) of service income generated from drilling activities in the PRC. The Group's drilling activities in Indonesia are mainly subject to a corporate income tax of 28% (2008: progressive rate ranging from 10% to 30%). The Group's drilling activities in Australia are subject to income tax of 30% (2008: 30%) based on its taxable profit generated. The Group's drilling activities in Myanmar are subject to income tax of 3% (2008: 3%) based on its gross service income generated from its drilling activities in Myanmar. The Group's drilling activities in Mexico are subject to the higher of income tax rate of 28% or business flat tax of 17% (2008: 28% and 16.5%, respectively). The Group's activities in Norway are mainly subject to a corporate income tax of 28% (2008: 28%). The Group's activities in Vietnam are subject to withholding tax of 10% on income derived from the provision of drilling services (2008: 10%). The Group's drilling activities in Libya are subject to income tax of 44% based on its deemed profit or at 18% based on its gross income (2008: 44% or 18%, respectively). The Group's drilling activities in Tunisia are subject to income tax of 35% (2008: not applicable), based on its taxable income. The Group's taxes pertaining to drilling activities in Saudi Arabia are borne by the customer. The Group's drilling activities in Dubai are not subject to any income tax.

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

	Group	
	2009 **RMB'000**	**2008** **RMB'000**
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current income taxes	**116,811**	67,928
Deferred income taxes	**10,922**	65,187
PRC corporate income taxes:		
Current income taxes	**412,487**	25,671
Deferred income taxes	**84,062**	46,259
Total tax charge for the year	**624,282**	205,045

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10. Income 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:

	2009		2008	
	RMB'000	%	RMB'000	%
Profit before tax	3,759,599		3,307,286	
Tax at the statutory tax rate of 25% (2008: 25%)	939,900	25.0	826,822	25.0
Tax refund/reduction as an advanced technology enterprise				
– current year	(310,687)	(8.3)	(220,793)	(6.7)
– prior year	–	–	(524,005)	(15.8)
Income not subject to tax	(1,008,967)	(26.8)	(145,377)	(4.4)
Expenses not deductible for tax	556,155	14.8	40,994	1.2
Tax benefit for qualifying research and development expense	(28,761)	(0.8)	(14,735)	(0.4)
Effect of different tax rates for overseas subsidiaries	(134,124)	(3.6)	63,165	1.9
Unrecognised tax losses	–	–	464,173	14.0
Utilisation of previous unrecognised tax losses	(475,416)	(12.6)	–	–
Translation adjustment*	1,057,765	28.1	(311,388)	(9.4)
Others	28,417	0.8	26,189	0.8
Total tax charge at the Group's effective rate	624,282	16.6	205,045	6.2

The share of tax attributable to jointly-controlled entities amounting to approximately RMB62,091,000 (2008: RMB58,277,000) is included in "Share of profits of jointly-controlled entities" on the face of the consolidated income statement.

* *Translation adjustment includes the tax effect of differences arising from foreign exchange effects to Norwegian Krone ("NOK"), 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 of such group companies.*

11. Profit attributable to owners of the parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of approximately RMB3,352,684,000 (2008: RMB3,145,684,000) which has been dealt with in the financial statements of the Company (Note 35(b)).

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12. Dividends

	2009 RMB'000	2008 RMB'000
Proposed final dividend – RMB0.14 per ordinary share (2008: RMB0.14 per ordinary share)	**629,345**	629,345

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.

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 the accounting principles generally accepted in PRC and financial regulations and (ii) the net profit determined in accordance with Hong Kong Financial Reporting Standards.

Pursuant to the State Administration of Taxation Circular Guoshuihan [2008] Number 897, the Company is required to withhold a 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders out of profit earned in 2008 and beyond. In respect of all shareholders whose names appear on the Company's register of members who are not individuals, which are considered as non-resident enterprise shareholders, the Company will distribute the dividend after deducting enterprise income tax of 10%.

13. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately RMB3,135,317,000 (2008: RMB3,102,241,000), and the weighted average number of ordinary shares of 4,495,320,000 (2008: 4,495,320,000) in issue during the year.

There were no potentially diluting events for the years ended 31 December 2009 and 2008.

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14. Property, plant and equipment

Group

	31 December 2009						
	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2008 and at 1 January 2009 (Restated):							
Cost	6,854,488	23,001,543	6,937,370	70,761	39,089	15,428,951	52,332,202
Accumulated depreciation	(3,674,125)	(5,773,760)	(2,492,421)	(40,229)	(6,456)	–	(11,986,991)
Net carrying amount	3,180,363	17,227,783	4,444,949	30,532	32,633	15,428,951	40,345,211
At 1 January 2009, net of accumulated depreciation	3,180,363	17,227,783	4,444,949	30,532	32,633	15,428,951	40,345,211
Additions	–	283,420	644,022	2,156	–	7,478,546	8,408,144
Depreciation provided during the year	(316,126)	(1,327,819)	(1,120,587)	(7,514)	(2,089)	–	(2,774,135)
Disposals/write-offs	(17,260)	(668)	(10,760)	(2,653)	(347)	–	(31,688)
Transfers from/(to) construction in progress ("CIP")	1,978,119	4,872,259	1,020,722	8,726	32,018	(7,911,844)	–
CIP transfers to intangible assets	–	–	–	–	–	(18,570)	(18,570)
Impairment	–	–	–	–	–	(819,889)	(819,889)
Exchange realignment	(47)	(12,321)	(168)	(2)	–	(9,993)	(22,531)
At 31 December 2009, net of accumulated depreciation and impairment	4,825,049	21,042,654	4,978,178	31,245	62,215	14,147,201	45,086,542
At 31 December 2009							
Cost	8,608,113	28,129,569	8,474,399	77,860	70,439	14,966,585	60,326,965
Accumulated depreciation and impairment	(3,783,064)	(7,086,915)	(3,496,221)	(46,615)	(8,224)	(819,384)	(15,240,423)
Net carrying amount	4,825,049	21,042,654	4,978,178	31,245	62,215	14,147,201	45,086,542

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31 December 2009

14. Property, plant and equipment (continued)

Group

	31 December 2008						
	Tankers and vessels RMB'000	Drilling rigs RMB'000 (Restated)	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000 (Restated)	Total RMB'000 (Restated)
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 36)	–	11,945,825	7,025	–	–	12,235,698	24,188,548
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	17,227,783	4,444,949	30,532	32,633	15,428,951	40,345,211
At 31 December 2008							
Cost	6,854,488	23,001,543	6,937,370	70,761	39,089	15,428,951	52,332,202
Accumulated depreciation	(3,674,125)	(5,773,760)	(2,492,421)	(40,229)	(6,456)	–	(11,986,991)
Net carrying amount	3,180,363	17,227,783	4,444,949	30,532	32,633	15,428,951	40,345,211

Impairment of property, plant and equipment

An impairment loss of US$120,000,000 (approximately RMB819,889,000) was recognised in June 2009 when preparing the 2009 interim financial information of the Group to reduce the carrying amount of certain semi-submersible rigs under construction to their respective recoverable amounts, primarily arising from the adverse change of economic environment since late 2008 and the delay in the delivery of the semi-submersible rigs under construction. The management of the Company performed a further impairment assessment when preparing these financial statements. Based on the assessment, the management of the Company believes that no further provision for impairment loss is required. The impairment loss has been classified under the segment of drilling services in Note 3 to the financial statements. The recoverable amount was calculated based on the respective asset's value in use and was determined at the cash generating unit level. In determining the value in use for the cash generating unit, cash flows were discounted at a rate of 9.5% on a pre-tax basis.

Notes to Financial Statements

31 December 2009

14. Property, plant and equipment (continued)

Company

	31 December 2009						
	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2008 and at 1 January 2009							
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
At 1 January 2009, net of accumulated depreciation	3,125,865	3,635,988	4,233,449	28,903	29,760	4,217,663	15,271,628
Additions	–	–	563,399	2,027	–	5,491,086	6,056,512
Depreciation provided during the year	(307,906)	(394,145)	(1,060,167)	(9,086)	(1,917)	–	(1,773,221)
CIP transfers to intangible assets	–	–	–	–	–	(18,570)	(18,570)
Disposals/write-offs	(17,260)	(81)	(10,760)	(121)	–	–	(28,222)
Transfers from/(to) CIP	1,978,119	1,253,317	1,020,343	8,726	32,018	(4,292,523)	–
At 31 December 2008, net of accumulated depreciation	4,778,818	4,495,079	4,746,264	30,449	59,861	5,397,656	19,508,127
At 31 December 2009, net of accumulated depreciation							
Cost	8,537,721	9,910,814	8,116,944	76,171	67,203	5,397,656	32,106,509
Accumulated depreciation	(3,758,903)	(5,415,735)	(3,370,680)	(45,722)	(7,342)	–	(12,598,382)
Net carrying amount	4,778,818	4,495,079	4,746,264	30,449	59,861	5,397,656	19,508,127

Notes to Financial Statements

31 December 2009

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	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, net of accumulated depreciation							
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

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15. Goodwill

	Group 2009 RMB'000
Cost at 1 January 2009, net of accumulated impairment	4,604,785
Exchange realignment	(4,312)
Cost and carrying value at 31 December 2009	4,600,473
Cost	4,604,785
Exchange realignment	(4,312)
Net carrying amount	4,600,473

	2008 RMB'000 (Restated)
Cost at 1 January 2008, net of accumulated impairment	–
Acquisition of a subsidiary	4,596,484
Exchange realignment	8,301
Cost and carrying value at 31 December 2008	4,604,785
Cost	4,596,484
Exchange realignment	8,301
Net carrying amount	4,604,785

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 pre-tax discount rate applied to the cash flow projections is 9.5%, 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 2009. 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.

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16. Intangible assets

Group

	31 December 2009			
	Prepaid land lease payments RMB'000	**Management system & software RMB'000**	**Contract value RMB'000**	**Total RMB'000**
Cost at 1 January 2009, net of accumulated amortisation	**261,281**	**180,641**	**81,877**	**523,799**
Additions	**–**	**5,194**	**–**	**5,194**
Transferred from CIP	**–**	**18,570**	**–**	**18,570**
Amortisation provided during the year	**(5,306)**	**(31,617)**	**(54,108)**	**(91,031)**
Exchange realignment	**–**	**(113)**	**(53)**	**(166)**
At 31 December 2009	**255,975**	**172,675**	**27,716**	**456,366**
At 31 December 2009:				
Cost	**262,188**	**226,077**	**122,880**	**611,145**
Accumulated amortisation	**(6,213)**	**(53,402)**	**(95,164)**	**(154,779)**
Net carrying amount	**255,975**	**172,675**	**27,716**	**456,366**

	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 accumulate 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 36)	–	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 2009

16. Intangible assets (continued)

Company

	31 December 2009		
	Prepaid land lease payments RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2009, net of accumulated amortisation	261,281	53,264	314,545
Additions	–	2,478	2,478
Transferred from CIP	–	18,570	18,570
Amortisation provided during the year	(5,306)	(18,373)	(23,679)
At 31 December 2008	255,975	55,939	311,914
At 31 December 2008:			
Cost	262,188	92,829	355,017
Accumulated amortisation	(6,213)	(36,890)	(43,103)
Net carrying amount	255,975	55,939	311,914

	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

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17. Investments in subsidiaries

	Company 2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**6,852,413**	6,841,088

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 Direct	Indirect	Principal activities
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	RMB20,000,000	100	–	Provision of drilling fluids services
COSL (Australia) Pty Ltd.	Australia 11 January 2006	A$10,000	–	100	Provision of drilling services in Australia

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31 December 2009

17. Investments in subsidiaries (continued)

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 Direct	Percentage of equity directly attributable to the Group Indirect	Principal activities
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	NOK 1,541,328,656	–	100	Investment holding
COSL Drilling Europe AS ("CDE")* (formerly known as Awilco Offshore ASA)	Norway 21 January 2005	NOK 1,494,415,487	–	100	Provision of drilling services
COSL Drilling Pan-Pacific Ltd.	Singapore 13 April 2009	US$1		100	Management of jack-up drilling rigs
COSL Drilling Pan-Pacific (Labuan) Ltd.	Malaysia 4 April 2009	US$1		100	Management of jack-up drilling rigs

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 opinion 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 36 to the financial statements.*

18. Interests in jointly-controlled entities

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Unlisted investments, at cost	–	–	**129,330**	129,330
Share of net assets	**531,635**	589,449	–	–
Due from jointly-controlled entities	**9,398**	30,976	**9,398**	4,281
Due to jointly-controlled entities	**(109)**	(96)	–	(96)
	540,924	620,329	**138,728**	133,515

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.

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31 December 2009

18. Interests in jointly-controlled entities (continued)

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")	RMB4,640,000	Shenzhen, PRC 25 October 1984	60(a)	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(a)	51	Marine transportation services
PT Tritunggal Sinergy Company Ltd ("PTTS")	US$700,000	Indonesia 30 December 2004	55(a)	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	50	Provision of well testing services
Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater")	HK$1,000	Hong Kong 28 August 2006	50	50	Provision of artificial buoyant seabed unit services
Premium Drilling AS ("PDAS")	NOK100,000	Norway 1 June 2005	50(b)	50	Management of jack-up drilling rigs

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.

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18. Interests in jointly-controlled entities (continued)

(a) 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.

(b) Premium Drilling 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 36 to the financial statements.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2009 RMB'000	2008 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**647,513**	763,533
Non-current assets	**259,560**	318,829
Current liabilities	**(527,518)**	(508,956)
Non-current liabilities	**(29,412)**	(56,363)
Net assets*	**350,143**	517,043
Share of the jointly-controlled entities' results:		
Revenue	**910,714**	981,761
Other revenues	**4,591**	13,481
Total expenses	**(742,950)**	(721,258)
Tax	**(62,091)**	(58,277)
Share of profits of jointly-controlled entities	**110,264**	215,707

* *The share of the jointly-controlled entities' net assets includes the net liabilities of Premium Drilling and Atlantis Deepwater as at 31 December 2009, amounting to approximately RMB94,241,000 (2008: RMB72,406,000) and RMB36,399,000 (2008: Nil), which are classified as other current assets and other non-current liabilities in the consolidated statement of financial position respectively, as further described in Note 24 and Note 33 to the financial statements.*

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19. Available-for-sale investments

	2009 RMB'000	2008 RMB'000
Unlisted investments, at acquired cost	100	–
Listed equity investment, at acquired cost	140,366	140,366
Less: Provision for impairment	(121,511)	(106,508)
Exchange realignment	426	460
Net carrying amount, at fair value	19,281	34,318
Total	19,381	34,318

The non-current available-for-sale investments primarily consist of an investment in a listed equity security, Petrojack ASA. Fair value equals the listed price at the year end. Impairment losses of approximately RMB15,003,000 have been recognised for the available-for-sale investment during the current period (2008: RMB106,508,000). The unlisted equity investment is an investment in Atlantis Deepwater Technology Holding AS.

20. Inventories

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Gross inventory	837,313	796,565	634,006	666,000
Less: Provisions	(16,764)	(15,694)	(16,764)	(15,694)
	820,549	780,871	617,242	650,306

Inventories consist of materials and supplies.

21. Prepayments, deposits and other receivables

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Prepayments	528,233	1,281,549	489,374	1,230,300
Deposits	54,316	76,407	54,311	76,407
Other receivables	180,282	150,688	933,490	469,408
	762,831	1,508,644	1,477,175	1,776,115
Less: Provision for impairment of other receivables	(7,331)	(2,788)	(7,331)	(2,788)
	755,500	1,505,856	1,469,844	1,773,327

22. Accounts receivable

The general credit terms of the Group range from 30 to 45 days upon the issuance of 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 as at the end of the reporting period, based on the invoiced date, is as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Outstanding balances aged:				
Within one year	3,815,901	2,777,864	4,267,417	3,364,184
One to two years	13,700	7,751	13,700	1,640
Two to three years	5,697	278	196	–
Over three years	2,440	2,441	858	858
	3,837,738	2,788,334	4,282,171	3,366,682
Less: Provision for impairment of accounts receivable	(92,191)	(53,309)	(85,108)	(50,073)
	3,745,547	2,735,025	4,197,063	3,316,609

The movements in provision for impairment of accounts receivable are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
At 1 January	53,309	4,798
Impairment losses recognised	88,211	49,215
Impairment losses reversed	(49,326)	(482)
Exchange realignment	(3)	(222)
At 31 December	92,191	53,309

The provision for impairment of accounts receivable as at 31 December 2009 mainly represents provision against individually impaired receivables with an aggregate carrying amount of approximately RMB181,881,000 (2008: RMB58,451,000). The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2008 and 2009, 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 Company's accounts receivable at 31 December 2009 was an amount due from its subsidiaries of approximately RMB1,113,885,000 (2008: RMB1,498,958,000) which is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

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23. Notes receivable

	Group and Company 2009 RMB'000	2008 RMB'000
Trade acceptances	**427,108**	338,270
Banker's acceptances	**2,550**	16,600
	429,658	354,870

24. Other current assets

	Group 2009 RMB'000	2008 RMB'000
Negative interest in a jointly-controlled entity *(Note 18)*	**(94,241)**	–
Due to a jointly-controlled entity	**(32,354)**	–
Due from a jointly-controlled entity	**147,178**	–
	20,583	–

The negative interest in Premium Drilling was recognised since the management of the Company is of the opinion that the Group has an obligation towards Premium Drilling which was established to manage the operations of some of the Group's jack-up drilling rigs. During the year, the shareholders of Premium Drilling had terminated their management agreements and subsequent to the termination, the liquidation process has commenced for Premium Drilling Inc. and Premium Drilling (Cayman) Ltd..

25. Cash and cash equivalents and pledged time deposits

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Cash and balances with banks	**2,959,033**	3,885,093	**1,213,051**	2,233,835
Deposit with CNOOC Finance Corporation Ltd. ("CNOOC Finance")	**541,962**	539,821	**541,962**	539,821
Time deposits at banks	**800,000**	270,923	**800,000**	268,346
Cash and balances with banks and financial institutions	**4,300,995**	4,695,837	**2,555,013**	3,042,002
Less:				
Pledged time deposits-current	**(247,311)**	(53,768)	**(4,902)**	(3,417)
Pledged time deposits-non-current	**(39,081)**	(78,235)	**–**	–
Cash and cash equivalents	**4,014,603**	4,563,834	**2,550,111**	3,038,585

At the end of the reporting period, the cash and bank balances and time deposits at banks of the Group denominated in RMB amounted to approximately RMB1,863,224,000 (2008: RMB2,651,255,000). 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.

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25. Cash and cash equivalents and pledged time deposits (continued)

As at 31 December 2009, 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 RMB800,000,000 (2008: RMB268,346,000).

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.

26. Trade and other payables

An aging analysis of the trade and other payables as at the end of the reporting period is as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Outstanding balances aged:				
Within one year	**3,635,281**	3,128,752	**2,740,855**	2,278,352
One to two years	**475,749**	288,836	**264,463**	108,956
Two to three years	**87,226**	2,847	**86,729**	2,569
Over three years	**25,716**	10,456	**25,438**	10,456
	4,223,972	3,430,891	**3,117,485**	2,400,333

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 2009, included in trade and other payables was a balance for a research and development subsidy of approximately RMB44.21million (2008: RMB54.18 million).

27. 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 a two year 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 2009 was measured at HK$2.01 per share. The fair value of the rights is calculated using the Black-Scholes model with the following assumptions: expected dividend yield of 1.71%, expected life of two years, expected volatility of 78.58% and a risk-free interest rate of 0.55%. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of the reporting period and including the settlement date with changes in fair value recognised in profit or loss.

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27. Share appreciation rights plan (continued)

The decrease of the share appreciation rights liability amounted to approximately RMB553,000 for the year ended 31 December 2009, and was recorded in salary and bonus payables under general and administrative expenses:

		Shares granted	At 1 January 2009 RMB'000	Addition RMB'000	Lapse RMB'000	At 31 December 2009 RMB'000
Chief Executive Officer and President	Yuan Guangyu*	964,200	1,402	111	(233)	1,280
President	Li Yong	704,300	1,024	81	(171)	934
Executive Vice President and Chief Financial Officer	Zhong Hua	704,300	1,024	81	(171)	934
Executive Vice President and Secretary of Board of Directors, Chief Strategy Officer	Chen Weidong	704,300	1,024	81	(171)	934
Senior Vice President	Li Xunke	656,900	955	76	(159)	872
Supervisor	Tang Daizhi**	656,900	282	–	–	282
Vice President	Xu Xiongfei	609,100	885	71	(149)	807
		5,000,000	6,596	501	(1,054)	6,043

* *Mr. Yuan Guangyu resigned as Chief Executive Officer and President of the Company in 2009. According to the terms of the SAR Plan, he had completed the two years service period and all share appreciation rights granted have been fully vested.*

** *Mr. Tang Daizhi resigned as Supervisor of the Company in 2007. 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.

28. Deferred tax liabilities

The movements of deferred tax liabilities during the year are as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000 (Restated)	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	1,697,132	235,569	281,828	235,569
Acquisition of a subsidiary during the year *(Note 36)*	–	1,385,001	–	–
Charged to the consolidated income statement during the year *(Note 10)*	94,984	111,446	84,062	46,259
Exchange realignment	(1,327)	(34,884)	–	–
Balance at end of year	1,790,789	1,697,132	365,890	281,828

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28. Deferred tax liabilities (continued)

The principal components of the provision for deferred tax are as follows:

Group

	Balance at 1 January 2008 RMB'000	Acquisition of a subsidiary (Restated) (Note 36) RMB'000	Recognised in consolidated income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2008 (Restated) RMB'000	Balance at 1 January 2009 RMB'000	Recognised in consolidated income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2009 RMB'000
Deferred tax assets:									
Provision for staff bonus	(111,101)	–	(1,451)	–	(112,552)	(112,552)	(2,022)	–	(114,574)
Accelerated amortisation	–	–	(1,135)	–	(1,135)	(1,135)	1,135	–	–
Accrued liabilities	–	(3,334)	(194)	(6)	(3,534)	(3,534)	(72,780)	34	(76,280)
Tax loss carried forward	–	(101,545)	73,345	(1,100)	(29,300)	(29,300)	12,875	20	(16,405)
Others	–	(9,212)	(10,194)	97	(19,309)	(19,309)	(9,778)	22	(29,065)
Deferred tax liabilities:									
Accelerated depreciation	216,345	350,420	113,237	(38,747)	641,255	641,255	121,864	3,841	766,960
Revaluation surplus on reorganisation	130,325	–	(30,075)	–	100,250	100,250	(42,105)	–	58,145
Fair value adjustment arising from acquisition of a subsidiary	–	1,140,926	(25,884)	4,781	1,119,823	1,119,823	3,855	(5,219)	1,118,459
Others	–	7,746	(6,203)	91	1,634	1,634	81,940	(25)	83,549
Net deferred tax liabilities	235,569	1,385,001	111,446	(34,884)	1,697,132	1,697,132	94,984	(1,327)	1,790,789

Company

	Balance at 1 January 2008 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2008 RMB'000	Balance at 1 January 2009 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2009 RMB'000
Deferred tax assets:						
Provision for staff bonus	(111,101)	(1,451)	(112,552)	(112,552)	(1,727)	(114,279)
Accelerated amortisation	–	(1,135)	(1,135)	(1,135)	1,135	–
Others	–	–	–	–	(427)	(427)
Deferred tax liabilities:						
Accelerated depreciation	216,345	78,920	295,265	295,265	111,489	406,754
Revaluation surplus on reorganisation	130,325	(30,075)	100,250	100,250	(42,105)	58,145
Others	–	–	–	–	15,697	15,697
Net deferred tax liabilities	235,569	46,259	281,828	281,828	84,062	365,890

At 31 December 2009, there was no significant unrecognised deferred tax liability (2008: Nil) for taxes that would be deducted from the unremitted earnings or cash of certain of the Group's subsidiaries or jointly-controlled entities should such amounts be remitted.

The Group has tax losses arising in Norway of approximately RMB3,476,354,000 that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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29. Interest-bearing bank borrowings

Group

Current:

	Contractual interest rate (%)	Year of maturity	31 December 2009 RMB'000	31 December 2008 RMB'000
Syndicated bank loan – secured	LIBOR+170pts	2009	–	6,359,459
Bank loans – secured	LIBOR+225pts	2009	–	476,138
			–	6,835,597
Current portion of long term loan			283,081	943,020
			283,081	7,778,617

Non-current:

	Contractual interest rate (%)	Year of maturity	31 December 2009 RMB'000	31 December 2008 RMB'000
Bank loans – unsecured (a)	*i*	2013	544,000	744,000
Bank loans – unsecured (b)	*ii*	2017	356,000	400,000
Bank loans – unsecured (c)	LIBOR+170pts	2020	5,462,560	5,467,680
Bank loans – unsecured (d)	*iii*	2015	450,000	–
Bank loans – unsecured (e)	LIBOR+138pts	2017	10,777,455	–
Bank loans – unsecured (f)	LIBOR+90pts	2017	5,369,024	–
Bank loans – unsecured (f)	LIBOR+90pts	2017	4,096,920	–
Headquarter entrusted loan – unsecured (g)	3.71%	2011	800,000	–
Headquarter entrusted loan – unsecured (g)	*iv*	2012	500,000	–
Syndicated bank loan – secured	LIBOR+170pts	2010	–	3,189,503
Bank loans – secured	LIBOR+162.5 pts	2010	–	6,725,859
Bank loans – secured	LIBOR+162.5 pts	2019	–	654,071
Bank loans – secured (h)	3.20%	2011	78,162	117,353
			28,434,121	17,298,466
Less: current portion of long term loan			(283,081)	(943,020)
			28,151,040	16,355,446

i *Market interest rate of similar loan type quoted by the People's Bank of China.*
ii *4.86% for the first quarter and thereafter the market interest rate of similar loan type quoted by the People's Bank of China.*
iii *3.51% for the first quarter and thereafter the market interest rate of similar loan type quoted by the People's Bank of China.*
iv *3.66% for the first quarter and thereafter the interest rate as determined by the loan entrustor.*

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29. Interest-bearing bank borrowings (continued)

Company

Current:

	Contractual interest rate (%)	Year of maturity	31 December 2009 RMB'000	31 December 2008 RMB'000
Current portion of long term loan			**244,000**	244,000
			244,000	244,000

Non-current:

	Contractual interest rate (%)	Year of maturity	31 December 2009 RMB'000	31 December 2008 RMB'000
Bank loans – unsecured (a)	*i*	2013	**544,000**	744,000
Bank loans – unsecured (b)	*ii*	2017	**356,000**	400,000
Bank loans – unsecured (c)	LIBOR+170pts	2020	**5,462,560**	5,467,680
Bank loans – unsecured (d)	*iii*	2015	**450,000**	–
Bank loans – unsecured (e)	LIBOR+138pts	2017	**10,777,455**	–
Bank loans – unsecured (f)	LIBOR+90pts	2017	**5,369,024**	–
Bank loans – unsecured (f)	LIBOR+90pts	2017	**4,096,920**	–
Headquarter entrusted loan – unsecured (g)	3.71%	2011	**800,000**	–
Headquarter entrusted loan – unsecured (g)	*iv*	2012	**500,000**	–
			28,355,959	6,611,680
Less: current portion of long term loan			**(244,000)**	(244,000)
			28,111,959	6,367,680

i *Market interest rate of similar loan type quoted by the People's Bank of China.*

ii *4.86% for the first quarter and thereafter the market interest rate of similar loan type quoted by the People's Bank of China.*

iii *3.51% for the first quarter and thereafter the market interest rate of similar loan type quoted by the People's Bank of China.*

iv *3.66% for the first quarter and thereafter the interest rate as determined by the loan entrustor.*

(a) The Group borrowed a RMB denominated bank loan 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.

(b) The Group borrowed a RMB400 million loan which should be repaid from 19 November 2009 to 19 November 2017 by instalments as follows: RMB44 million on every 19 November from 2009 to 2016, RMB48 million on 19 November 2017.

(c) The Group borrowed a US$800 million loan of which the repayment will start on 2 September 2011, with instalments amounting to US$42.1 million bi-annually.

(d) The Group borrowed a RMB450 million loan of which the repayment will start on 7 April 2011, with instalments amounting to RMB90 million annually.

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29. Interest-bearing bank borrowings (continued)

(e) The Group borrowed a US$1,580 million loan of which the repayment will start on 14 May 2012 over eleven instalments, paid bi-annually.

(f) The Group borrowed a US$800 million loan and a US$600 million which will be repaid on 24 May 2017 and 21 May 2017, respectively.

(g) The Group obtained entrusted loan facilities amounting to RMB2 billion and RMB1 billion which will be repaid on 10 June 2011 and 29 June 2012, respectively.

(h) The loan is denominated in United States dollars and is to be repaid in semi-annual instalments beginning six months after the loan drawdown date.

	Group		Company	
	2009 RMB'000	**2008 RMB'000**	**2009 RMB'000**	**2008 RMB'000**
Bank borrowings repayable:				
Within one year, inclusive	**283,081**	7,778,617	**244,000**	244,000
In the second year	**1,460,548**	9,619,692	**1,421,467**	244,000
In the third to fifth year	**7,753,175**	2,486,814	**7,753,175**	2,202,420
Beyond five years	**18,937,317**	4,248,940	**18,937,317**	3,921,260
	28,434,121	24,134,063	**28,355,959**	6,611,680

As at 31 December 2009, the carrying amount of the long term bank borrowings approximate their fair values of approximately RMB28,056,182,000 (2008: RMB17,298,466,000), 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 2009 RMB'000	**31 December 2008 RMB'000**
Security		
Drilling rigs pledged	–	13,531,780
Construction in progress pledged	–	12,789,664
Total	–	26,321,444

One of Group's bank loan is secured by a pledged time deposit amounting to RMB78 million. The assets pledged for securities as at 31 December 2008 are mainly pertaining to bank loans which were fully repaid in 2009.

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30. Long term bonds

Group

	Year of maturity	31 December 2009 RMB'000	31 December 2008 RMB'000
Corporate bonds (a)	2022	**1,500,000**	1,500,000
Senior unsecured USD bonds (b)	2011	**561,979**	675,949
Second security priority USD bonds (c)	2011	**608,041**	1,366,649
Senior unsecured NOK bonds (d)	2010	**–**	485,744
		2,670,020	4,028,342

Company

	Year of maturity	31 December 2009 RMB'000	31 December 2008 RMB'000
Corporate bonds (a)	2022	**1,500,000**	1,500,000

(a) 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.

(b) COSL Drilling Europe AS issued the bonds in February 2006, with a book value of US$100 million. The bonds 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. During the year, part of the bonds were redeemed by the Group.

(c) 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 bonds. The bonds carry a fixed coupon rate of 9.75% and have a five year bullet maturity. During the year, part of the bonds were redeemed by the Group. The bond is secured by construction in progress amounting to RMB4,674 million.

(d) COSL Drilling Europe AS issued the bonds in July 2007, with a book value of NOK 500 million, and an interest rate of NIBOR+2.25%. The bullet maturity is three years. The bonds were fully redeemed during the year.

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31. Deferred revenue

	31 December 2009 RMB'000	31 December 2008 RMB'000 (Restated)
Balance at beginning of the year	**1,858,302**	–
Acquisition of subsidiary during the year *(Note 36)*	–	1,864,771
Credited to the consolidated income statement during the year	**(1,076,937)**	(10,100)
Exchange realignment	**(1,251)**	3,631
Balance at end of year	**780,114**	1,858,302

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 is amortised according to the related contract period. Included in the amount credited to income during the year is an amount of RMB1,073,098,000 (2008: Nil) arising from the cancellation of a contract during the year.

32. Derivative financial instruments

	Group 2009 RMB'000	2008 RMB'000
Non-current:		
Cross currency interest rate swap	–	49,308

The carrying amount of the interest swap equals to its fair value.

Through a business combination, the Group acquired a cross currency interest rate swap agreement relating to the NOK500 million bonds. This swap receives NOK and pays USD 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 minimise the exposure to fluctuations in the USD/NOK exchange rate.

The NOK bond was fully redeemed during the year and the swap contract had expired as at 31 December 2009.

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 in 2008. There were no hedges in 2009.

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33. Other non-current liabilities

	Group 2009 RMB'000	2008 RMB'000
Negative interest in a jointly-controlled entity	**36,399**	72,406
Due to a jointly-controlled entity	**–**	93,771
Due from a jointly-controlled entity	**(30,116)**	(71,920)
	6,283	94,257

The negative interest in Atlantis Deepwater was recognised as other non-current liabilities since the management of the Company is of the opinion that the Group has an obligation towards Atlantis Deepwater.

The balance as at 31 December 2008 was the share of net liabilities in Premium Drilling. As at 31 December 2009, the corresponding negative interest and the amount due to/from Premium Drilling were classified as other current assets since the liquidation process of Premium Drilling had commenced.

34. Issued capital

	2009 RMB'000	2008 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

There were no movements in the Company's issued ordinary share capital during the year.

The Company does not have any share option scheme but has a share appreciation rights plan for senior officers (Note 27).

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35. 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 205 of the financial statements.

(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 2008		8,074,565	677,615	3,566,845	1,352	12,320,377
Total comprehensive income for the year		–	–	3,145,684	(6,543)	3,139,141
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
Balance at 1 January 2009		**8,074,565**	**1,000,056**	**5,760,743**	**(5,191)**	**14,830,173**
Total comprehensive income for the year		**–**	**–**	**3,352,684**	**1,503**	**3,354,187**
Proposed final 2009 dividend	*12*	**–**	**–**	**(629,345)**	**–**	**(629,345)**
Transfer to statutory reserve funds	*(i)*	**–**	**335,584**	**(335,584)**	**–**	**–**
At 31 December 2009		**8,074,565**	**1,335,640**	**8,148,498**	**(3,688)**	**17,555,015**

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 PRC Accounting Standards to the statutory common reserve fund in 2009.

As at 31 December 2009, in accordance with PRC Company Law, an amount of approximately RMB8,075 million (2008: RMB8,075 million) standing to the credit of the Company's capital reserve account and an amount of approximately RMB1,336 million (2008: RMB1,000million) 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 RMB8,778 million (2008: RMB6,390 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 2009.

The retained profits of the Company determined under the relevant PRC accounting standards and financial regulations amounted to approximately RMB9,027 million as at 31 December 2009.

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36. Business combination

On 29 September 2008, the Group acquired a 98.8% interest in Awilco Offshore ASA (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 Company has recognised a preliminary purchase price allocation immediately after its acquisition of CDE in September 2008, and in accordance with HKFRS 3 "Business Combinations", the Company has finalised the purchase price allocation during the year. A comparison of the preliminary and finalised fair value of identified assets and liabilities of CDE is presented below:

	Notes	Carrying amount RMB'000	Preliminary fair value recognised RMB'000	Adjustments RMB'000	Finalised fair value recognised RMB'000
Property, plant and equipment	*14*	13,732,107	25,698,994	(1,510,446)	24,188,548
Intangible assets	*16*	–	253,034	–	253,034
Cash and cash equivalents		447,197	447,197	–	447,197
Pledged time deposits		117,073	117,073	–	117,073
Other assets		815,671	815,671	–	815,671
Interest-bearing bank borrowings		(6,720,121)	(7,760,577)	–	(7,760,577)
Trade and other payables		(541,664)	(541,664)	–	(541,664)
Long term bonds		(2,615,202)	(2,615,202)	–	(2,615,202)
Deferred tax liabilities	*28*	(244,075)	(2,116,871)	731,870	(1,385,001)
Deferred revenue	*31*	–	(1,519,104)	(345,667)	(1,864,771)
Other non-current liabilities		(47,848)	(47,848)	–	(47,848)
Other liabilities		(1,149,170)	(108,714)	–	(108,714)
Total net assets acquired		3,793,968	12,621,989	(1,124,243)	11,497,746
Goodwill on acquisition	*15*		3,472,241	1,124,243	4,596,484
Satisfied by cash			16,094,230	–	16,094,230

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	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

If the combination had taken place at the beginning of 2008, the net profit of the Group for the year ended 31 December 2008 would have been RMB3,323.9 million and the revenue would have been RMB14,664.9 million.

The comparative figures of the consolidated financial statements were restated based on the finalised purchase price allocation in accordance with HKFRS 3, Business Combinations.

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37. 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 2009, the Group and the Company had the following minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Within one year	**139,338**	127,420	**131,443**	119,652
In the second to fifth year, inclusive	**193,099**	275,668	**169,207**	251,754
After five years	**28,470**	28,497	**–**	–
	360,907	431,585	**300,650**	371,406

(b) Group as lessor

The Group has entered into a bareboat lease with a lease term of five years.

At 31 December 2009, the Group had the following minimum lease receivables under a non-cancellable operating lease falling due as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Within one year	**170,483**	170,483
In the second to fifth year, inclusive	**113,655**	284,138
	284,138	454,621

38. Capital commitments

The Group and the Company had the following capital commitments, principally for construction and purchases of property, plant and equipment at the end of the reporting period:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Contracted, but not provided for	**12,556,797**	6,384,560	**2,962,305**	806,499
Authorised, but not contracted for	**7,671,765**	18,990,187	**7,671,766**	18,990,187
	20,228,562	25,374,747	**10,634,071**	19,796,686

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39. Notes to the consolidated statement of cash flows

Reconciliation of profit before tax to cash generated from operations

	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**3,759,599**	3,307,286
Adjustments for:		
Finance costs	**777,493**	638,985
Interest income	**(60,352)**	(191,433)
Share of profits of jointly-controlled entities	**(110,264)**	(215,707)
Exchange losses, net	**92,686**	91,358
Loss on disposal of items of property, plant and equipment, net	**19,017**	53,429
Depreciation of property, plant and equipment and amortisation of intangible assets	**2,865,166**	1,563,534
Impairment of available-for-sale investments	**15,003**	106,508
Impairment of accounts receivable and other receivables	**43,428**	49,132
Provision against inventories	**1,070**	3,853
Impairment of property, plant and equipment	**819,889**	–
Recognition of deferred revenue	**(1,078,188)**	(6,469)
	7,144,547	5,400,476
Increase in inventories	**(40,748)**	(288,302)
Increase in accounts receivable	**(1,049,404)**	(1,078,472)
Increase in notes payable, trade and other payables, net of payables for property, plant and equipment purchases	**337,670**	475,518
Increase in notes receivable	**(74,788)**	(352,620)
(Increase)/decrease in prepayments, deposits and other receivables	**(3,402)**	209,187
(Decrease)/increase in salary and bonus payables	**(12,751)**	91,021
Cash generated from operations	**6,301,124**	4,456,808

40. Material litigations and potential tax disputes

(a) In 2007, Awilco Offshore ASA made a compulsory acquisition of the outstanding shares in OffRig Drilling ASA ("OFRD"). The acquisition was made in accordance with the Norwegian Public Limited Companies Act. Certain minority shareholders owning an aggregate of 8.8% in OFRD disagreed with the price paid per share. In 2009, an appraisement where the redemption price for the shares was set at a price higher than the acquisition price was made by a Norwegian court. The Group has filed a petition for a second appraisement by a higher court and the proceedings have been set in 2010. The information usually required by HKAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The Directors are of the opinion that the final outcome of these items will not have significant adverse effect on the financial position of the Group.

(b) During the year, two subsidiaries of the Group received notification from the local tax authorities requesting information on the valuation basis used by the company for the transfer of certain contracts and options to entities within the Group, and indicating its intent to consider additional assessment. If the basis indicated by the tax authorities is adopted, the tax liability relating to the transfers could increase substantially for both companies. The Directors will defend vigorously against any additional assessment by the tax authorities. Considering the uncertainties relating to the final outcome of both the final assessment amount and the timing of the cash outflows, if any, the Directors have not made any provision for any amount arising from the above-mentioned tax contingency in these financial statements.

Notes to Financial Statements

31 December 2009

41. Related party transactions

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

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 transaction and balances detailed elsewhere in these financial statements, the following is a summary of significant transactions carried out between the Group and (i) CNOOC Limited and its Subsidiaries ("CNOOC Limited Group"); (ii) CNOOC and its Subsidiaries, excluding CNOOC Limited Group ("CNOOC Group"); and (iii) the Group's jointly-controlled entities.

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

		2009 RMB'000	2008 RMB'000
i	CNOOC Limited Group		
	Provision of drilling services	4,913,421	3,321,950
	Provision of well services	3,432,383	2,132,007
	Provision of marine support and transportation services	1,547,896	1,141,586
	Provision of geophysical services	1,013,549	1,013,630
		10,907,249	7,609,173
ii	CNOOC Group		
	Provision of drilling services	302,997	109,750
	Provision of well services	136,294	17,457
	Provision of marine support and transportation services	219,166	217,848
	Provision of geophysical services	158,835	135,118
		817,292	480,173
iii	Jointly-controlled entities		
	Provision of drilling services	172,529	4,689
	Provision of well services	5,563	11,081
	Provision of marine support and transportation services	7,031	4,637
	Provision of geophysical services	657	4,209
		185,780	24,616

Notes to Financial Statements

31 December 2009

41. Related party transactions (continued)

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

b. Included in operating expenses

	2009 RMB'000	2008 RMB'000
Services provided by CNOOC Group and the Group's jointly-controlled entities:		
Labour services	24,287	23,702
Materials, utilities and other ancillary services	400,361	229,210
Transportation services	4,250	2,981
Leasing of offices, warehouses and berths	81,915	69,519
Repair and maintenance services	3,985	13,795
Management services	24,946	53,513
	539,744	392,720

c. Included in interest income/expenses

	2009 RMB'000	2008 RMB'000
CNOOC Finance Co. Ltd. (a subsidiary of CNOOC)		
Interest income	4,247	1,716
Interest expenses	22,812	836

d. Loans drawn down and repaid during the year:

	2009 RMB'000	2008 RMB'000
CNOOC Finance Co. Ltd.	1,300,000	199,659

e. Construction progress billing:

	2009 RMB'000	2008 RMB'000
Drilling rigs construction service provided by CNOOC Group	1,262,965	107,038

f. Deposits:

	31 December 2009 RMB'000	31 December 2008 RMB'000
Deposits placed with CNOOC Finance Co. Ltd. as at the end of the reporting period	541,962	539,821

Notes to Financial Statements

31 December 2009

41. Related party transactions (continued)

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

g. Accounts receivable:

Included in accounts receivable are amounts due from related parties which arose from the ordinary course of business and are repayable on similar credit terms to those offered to independent third party customers.

	31 December 2009 RMB'000	31 December 2008 RMB'000
Due from the ultimate holding company	257,469	120,526
Due from CNOOC Limited Group	1,874,789	1,574,383
Due from other CNOOC Group companies	135,189	77,259
Due from jointly-controlled entities	86,095	3,199
	2,353,542	1,775,367

h. Prepayments, deposits and other receivables

	31 December 2009 RMB'000	31 December 2008 RMB'000
Due from the ultimate holding company	1,984	2,300
Due from CNOOC Limited Group	845	921
Due from other CNOOC Group companies	298,470	285,525
Due from jointly-controlled entities	23,754	16,391
	325,053	305,137

i. Notes receivable

	31 December 2009 RMB'000	31 December 2008 RMB'000
Due from CNOOC Limited Group	427,108	338,270

j. Trade and other payables

	31 December 2009 RMB'000	31 December 2008 RMB'000
Due to the ultimate holding company	3,248	3,248
Due to CNOOC Limited Group	1,594	38,490
Due to other CNOOC Group companies	157,282	85,818
Due to jointly-controlled entities	64,380	48,977
	226,504	176,533

k. Notes payable

	31 December 2009 RMB'000	31 December 2008 RMB'000
Due to other CNOOC Group companies	–	366,763

Notes to Financial Statements

31 December 2009

41. Related party transactions (continued)

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

The Company and the above related parties are within CNOOC Group and are under common control by the same ultimate holding company.

The balances with related parties at 31 December 2009 under prepayments, deposits and other receivables and trade and other payables and notes payable of the Group are unsecured and interest-free, and have no fixed terms of repayment.

In connection with the Reorganisation, the Company entered into several agreements with 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 RMB21 million (2008: 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 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.

l. Transactions with other state-owned enterprises in the PRC

The Group is indirectly controlled by the PRC government and operates in an economic environment predominated by entities directly or indirectly owned or controlled by the government through its agencies, affiliates or other organizations (collectively "State-owned Entities" ("SOEs")). During the year, the Group had transactions with other SOEs including, but not limited to, certain sales of goods and provision of services, certain purchases of goods or services; obtaining loans and making deposits with financial institutions and the rental of certain properties. The directors of the Company consider that these transactions with other SOEs are activities in the ordinary course of business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the other SOEs are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for its products and services and such pricing policies do not depend on whether or not the customers are SOEs. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosures.

m. Amount due from and to subsidiaries

Other long term receivables of the Company consist of long term loans to subsidiaries of the Company.

The amount due from and to subsidiaries included in the Company's current assets and current liabilities of RMB2,325,095,000 (2008: RMB1,884,809,000) and RMB79,284,000 (2008: RMB29,752,000), respectively, are unsecured, interest free and are repayable on demand or within one year.

(B) Compensation of key management personnel of the Group:

	31 December 2009 RMB'000	31 December 2008 RMB'000
Short term employee benefits	5,404	5,257
Post-employment benefits	381	390
Share appreciation rights	(553)	(714)
Total compensation paid to key management personnel	5,232	4,933

Notes to Financial Statements

31 December 2009

41. Related party transactions (continued)

(B) Compensation of key management personnel of the Group: (continued)

Further details of directors' emoluments are included in Note 7 to the financial statements.

Except for certain transactions in item a(iii), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

42. Financial instruments

(a) Financial instruments by category

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

	Group							
	2009				2008			
	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets								
Available-for-sale investments *(Note 19)*	–	–	19,381	19,381	–	–	34,318	34,318
Accounts receivable *(Note 22)*	–	3,745,547	–	3,745,547	–	2,735,025	–	2,735,025
Notes receivable *(Note 23)*	–	429,658	–	429,658	–	354,870	–	354,870
Financial assets included in deposits and receivables *(Note 21)*	–	227,267	–	227,267	–	224,307	–	224,307
Pledged deposits *(Note 25)*	78,162	208,230	–	286,392	117,353	14,650	–	132,003
Cash and cash equivalents *(Note 25)*	–	4,014,603	–	4,014,603	–	4,563,834	–	4,563,834
Due from jointly-controlled entities	–	186,692	–	186,692	–	102,896	–	102,896
Total	78,162	8,811,997	19,381	8,909,540	117,353	7,995,582	34,318	8,147,253

	Group			
	2009	2008		
	Financial liabilities at amortised cost RMB'000	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				
Trade and other payables *(Note 26)*	4,223,972	–	3,430,891	3,430,891
Notes payable	–	–	366,763	366,763
Long term bonds *(Note 30)*	2,670,020	–	4,028,342	4,028,342
Interest-bearing bank borrowings *(Note 29)*	28,434,121	–	24,134,063	24,134,063
Derivative financial instruments (non-current) *(Note 32)*	–	49,308	–	49,308
Due to jointly-controlled entities	32,463	–	93,867	93,867
Total	35,360,576	49,308	32,053,926	32,103,234

Notes to Financial Statements

31 December 2009

42. Financial instruments (continued)

(a) Financial instruments by category (continued)

The carrying amounts of each of the categories of financial instruments of the Company as the end of the reporting period are as follows:

	Company	
	2009	2008
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Financial assets		
Due from jointly-controlled entities *(Note 18)*	9,398	4,281
Accounts receivable *(Note 22)*	4,197,063	3,316,609
Notes receivable *(Note 23)*	429,658	354,870
Financial assets included in deposits and receivables *(Note 21)*	980,470	543,027
Pledged time deposits *(Note 25)*	4,902	3,417
Cash and cash equivalents *(Note 25)*	2,550,111	3,038,585
Total	8,171,602	7,260,789

	Company	
	2009	2008
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Financial liabilities		
Due to jointly-controlled entities *(Note 18)*	–	96
Trade and other payables *(Note 26)*	3,117,485	2,400,333
Notes payable	–	366,763
Long term bonds *(Note 30)*	1,500,000	1,500,000
Interest-bearing bank borrowings *(Note 29)*	28,355,959	6,611,680
Total	32,973,444	10,878,872

(b) Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Notes to Financial Statements

31 December 2009

42. Financial instruments (continued)

(b) Fair value hierarchy (continued)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2009:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Equity shares	19,281	–	–	19,281

As at 31 December 2009, the Company has no financial instruments measured at fair value.

During the reporting period ending 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements.

43. 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.

The Group has no significant transactional currency exposures as there are no significant sales or purchases by operating units in currencies other than the units' functional currency. As such, 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 Company is exposed to foreign currency risk as the Company had obtained debts denominated in US dollars.

The management has assessed the Group's exposure to foreign currency risk (due to changes in the fair value of monetary assets and liabilities) 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 2009 and 2008. Based on the management's assessment at 31 December 2009, 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 RMB1,249 million (2008: RMB255 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 RMB1,249 million (2008: RMB255million) higher. The foreign currency exchange rate sensitivity in profit before tax in 2009 compared with 2008 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 2009, most of the Group's interest-bearing bank borrowings bore interest at floating rates.

Based on management's assessment, at 31 December 2009, 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 RMB70.7 million (2008: RMB26.6 million) higher, arising mainly as a result of lower interest expense on floating rate bank borrowings. If the interest rate had been 50 basis points higher with all other variables held constant, profit before tax for the year would have been RMB70.7 million (2008: RMB26.6 million) lower arising mainly as a result of higher interest expense on floating rate bank borrowings.

Notes to Financial Statements

31 December 2009

43. Financial risk management objectives and policies (continued)

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.

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. 3% of the Group's debts would mature in less than one year as at 31 December 2009 (2008: 32%) based on the carrying value of interest-bearing bank and other borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

Group						**2009**
	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 borrowings	**–**	**828,749**	**1,936,526**	**8,969,637**	**19,402,100**	**31,137,012**
Long term bonds	**–**	**–**	**1,171,036**	**–**	**1,500,000**	**2,671,036**
Trade and other payables	**–**	**4,223,972**	**–**	**–**	**–**	**4,223,972**
	–	**5,052,721**	**3,107,562**	**8,969,637**	**20,902,100**	**38,032,020**

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 borrowings	–	8,357,284	9,865,111	3,017,812	4,631,128	25,871,335
Long term bonds	–	–	488,150	2,050,380	1,500,000	4,038,530
Trade and other payables	–	3,430,891	–	–	–	3,430,891
Notes payable	–	366,763	–	–	–	366,763
Derivative financial instruments	–	49,308	–	–	–	49,308
	–	12,204,246	10,353,261	5,068,192	6,131,128	33,756,827

Notes to Financial Statements

31 December 2009

43. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, was as follows:

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	2009 Total RMB'000
Interest-bearing bank borrowings	–	788,418	1,897,445	8,969,637	19,402,100	31,057,600
Long term bonds	–	–	–	–	1,500,000	1,500,000
Trade and other payables	–	3,117,485	–	–	–	3,117,485
	–	3,905,903	1,897,445	8,969,637	20,902,100	35,675,085

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 borrowings	–	486,095	471,601	2,700,286	4,295,165	7,953,147
Long term bonds	–	–	–	–	1,500,000	1,500,000
Trade and other payables	–	2,400,333	–	–	–	2,400,333
Notes payable	–	366,763	–	–	–	366,763
Interest in jointly-controlled entities	–	96	–	–	–	96
	–	3,253,287	471,601	2,700,286	5,795,165	12,220,339

Notes to Financial Statements

31 December 2009

43. 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 2009 and 31 December 2008.

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 end of the reporting period were as follows:

Group	2009 RMB'000	2008 RMB'000
Interest-bearing bank borrowings *(Note 29)*	**28,434,121**	24,134,063
Trade and other payables *(Note 26)*	**4,223,972**	3,430,891
Notes payable	**–**	366,763
Long term bonds *(Note 30)*	**2,670,020**	4,028,342
Less: Cash and cash equivalents *(Note 25)*	**(4,014,603)**	(4,563,834)
Net debt/(funds)	**31,313,510**	27,396,225
Equity attributable to equity holders of the parent	**22,305,605**	19,797,844
Total capital	**22,305,605**	19,797,844
Capital and net debt/(funds)	**53,619,115**	47,194,069
Gearing ratio	**58%**	58%

44. Comparative amounts

As further explained in Note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current's year's presentation and accounting treatment.

Further, as described in Note 36 to the financial statements, due to the finalisation of the purchase price allocation during the year, certain comparative amounts were restated. In addition, certain comparative amounts have been reclassified to conform with the current year's presentation.

45. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 30 March 2010.

16. 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
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The registration date
26 September 2002

Changed registration date
4 March 2008

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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

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Tel: (852)2509 7888
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Share Registrar
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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,
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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

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8 Finance Street, Central, Hong Kong

The financial statements and the report of auditors set out on pages 93 to 200 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.

17. 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
30 March 2010

18. 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, known as COSL Drilling Europe AS after mergers and acquisitions, "CDE"

CDE — COSL Drilling Europe AS

CDPL — COSL Drilling Pan-Pacific Ltd

CNA — COSL Norwegian AS

COSL — China Oilfield Services Limited

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

DNV — Det Norske Veritas

DOC — Document of Compliance

ELIS — Enhanced Logging Imaging System

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

ISMC — International Safety Management Code

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

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

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

PD — Premium Drilling AS

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

COSL

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