COSL

ANNUAL REPORT 2010

CHINA OILFIELD SERVICES LIMITED

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

1. Company Profile

China Oilfield Services Limited (the "Company", the "Group" 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 the 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 2010, COSL operated 29 drilling rigs (of which 25 are jack-up drilling rigs (one leased) and 4 are semi-submersible drilling rigs, 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 75 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 2010, COSL's DOC (Document of Compliance) was approved by Maritime Safety Administration of the People's Republic of China for change of certificate. COSL maintained the 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 2010 financial statements prepared under the Accounting Standards for Business Enterprises, or Chinese Accounting Standards ("CAS") and the Hong Kong Financial Reporting Standards ("HKFRS"). Mr. Li Yong, CEO and President, Mr. Li Feilong, 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 2010.

Contents

2. Principal Financial Data and Financial Indicators

(Financial data prepared in accordance with CAS)

1. Principal Financial Data for the Reporting Period (Consolidated)

Unit: Million Currency: RMB

Item	amount
Profit from operations	4,610.1
Profit for the year	4,834.2
Net profit attributable to owners of the Parent	4,128.5
Net profit excluding non-recurring gain and loss for the year attributable to owners of the Parent	3,938.0
Net cash flow from operating activities	7,855.1

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

Unit: Million Currency: RMB

Item	2010	2009	Increase/ Decrease	2008
Revenue	18,059.9	18,345.4	(1.6%)	12,430.3
Profit for the year	4,834.2	3,759.6	28.6%	3,307.3
Net profit attributable to owners of the Parent	4,128.5	3,135.3	31.7%	3,102.2
Net profit excluding non-recurring gain and loss for the year attributable to owners of the Parent	3,938.0	3,389.2	16.2%	3,334.1
Basic earnings per share (RMB Yuan)	0.92	0.70	31.7%	0.69
Diluted earnings per share (RMB Yuan)	0.92	0.70	31.7%	0.69
Basic earnings per share after deduction of non-recurring gain and loss (RMB Yuan)	0.88	0.75	16.2%	0.74
Weighted average net assets earnings ratio (%)	17.16	14.89	2.27bp	16.76
Ratio of weighted average net assets earnings after deduction of non-recurring gain and loss (%)	16.37	16.10	0.27bp	18.02
Net cash flow from operating activities	7,855.1	5,604.9	40.1%	4,036.7
Net cash flow from operating activities per share (RMB Yuan)	1.75	1.25	40.1%	0.90
	At the end of 2010	At the end of 2009	Increase/ Decrease	At the end of 2008
Total assets	63,593.3	60,933.3	4.4%	56,272.9
Equity attributable to owners of the parent	25,589.6	22,305.6	14.7%	19,797.8
Net assets per share attributable to owners of the Parent (RMB Yuan)	5.69	4.96	14.7%	4.40

3. Non-recurring gain and loss items (Consolidated)

Unit: Yuan Currency: RMB

Items of non-recurring gain and loss	2010 Income/(Loss)
Loss on disposal of non-current assets	(25,642,851)
Government grant credited to the income statement	11,801,402
Net amounts of other non-operating income/(loss)	237,972,245
Total of non-recurring gain and loss	224,130,796
Tax effect	(33,619,619)
Net amounts affecting under non-recurring gain and loss	190,511,177

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 2010 and 2009, there were no substantial differences between the accounting policies adopted in the consolidated financial statements of the Group prepared in accordance with CAS issued by the Ministry of Finance in 2006 and the consolidated financial statements of the Group prepared in accordance with HKFRS issued by Hong Kong Institute of Certified Public Accountants for the corresponding periods. As such, for both 2010 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, among which 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
China National Offshore Oil Corporation	2,410,468,000	(2,410,468,000)	–	–	The commitment of controlling shareholder made during the IPO of A Shares of the Company	29 November 2010
Total	2,460,468,000	(2,410,468,000)	–	50,000,000	/	/

3. 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 due to issuance of bonus shares or allotment.

4. 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 2010, 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
113,313	245

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	–	–	–
Hong Kong Securities Clearing Company Nominees Limited	Others	34.07	1,531,623,899	250,000	–	–
Transferred Holding Account No.1 of National Council for Social Security Fund	State-owned	1.11	50,000,000	–	50,000,000	–
ChinaAMC GARP Fund	Others	0.76	33,999,245	–	–	–
ChinaAMC Prosperity Fund	Others	0.34	15,217,818	–	–	–
ChinaAMC Dividend Fund	Others	0.23	10,310,918	–	–	–
National Social Security Fund 104	Others	0.19	8,699,965	–	–	–
ChinaAMC Blue Chip Core Fund	Others	0.19	8,634,013	–	–	–
China Universal Growth Fund	Others	0.18	8,299,738	–	–	–
BOCOM Schroders Select Fund	Others	0.18	7,935,256	–	–	–

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
China National Offshore Oil Corporation	2,410,468,000	A shares
Hong Kong Securities Clearing Company Nominees Limited	1,531,623,899	H shares
ChinaAMC GARP Fund	33,999,245	A shares
ChinaAMC Prosperity Fund	15,217,818	A shares
ChinaAMC Dividend Fund	10,310,918	A shares
National Social Security Fund 104	8,699,965	A shares
ChinaAMC Blue Chip Core Fund	8,634,013	A shares
China Universal Growth Fund	8,299,738	A shares
BOCOM Schroders Select Fund	7,935,256	A shares
Wu Xiangfen	6,796,633	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) Save for ChinaAMC GARP Fund, ChinaAMC Prosperity Fund, ChinaAMC Dividend Fund and ChinaAMC Blue Chip Core Fund, which are all managed by China Asset Management Co., Ltd, 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 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	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

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	227,117,886(L) 0(S) 102,620,900(P)	14.80(L) 0.00(S) 6.69(P)
Commonwealth Bank of Australia	Interest in controlled corporation	130,500,000(L)	8.50(L)
Allianz SE	Interest in controlled corporation	107,310,000(L)	6.99(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 are organization for exploration, development, production and refining of offshore oil and natural gas, processing and utilization of petrochemical and gas; sales of oil, natural gas, oil and gas processing products, petrochemical products and their production, provision of services for users with oil, exploration of natural gas development, production and sales; import and export of three types commodities approved; the above import and export for related units and the agents; technology export of the system; crude oil imports; contractor for Sino-foreign joint ventures, co-production; countertrade and re-exports.

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

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

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

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

↓ 100%

China National Offshore Oil Corporation

↓ 53.63%

China Oilfield Services Limited

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

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

Liu Jian *Chairman*

4. Chairman's Statement

Dear shareholders and friends:

In the past year, the Company worked vigorously to overcome a variety of challenges brought to the oilfield services industry caused by the impact of the international financial crisis and the Gulf of Mexico oil well blowout and oil pollution incidents. We designed strategic plans by assessing the situations, actively developed domestic and international markets, strengthened management, and enhanced governance mechanism; in particular, we have adopted effective measures in cost control, and the results were remarkable. The Company has achieved phased results in the integration of CDE (COSL Drilling Europe) business after its acquisition, and built a solid foundation for the Company's future sustainable development. In 2010, steady progress was made in science and technology research and development, and the staff's professional qualifications and skills were further improved, continually enhancing the competitiveness of the Company.

Business performances

In 2010, the Company achieved net profit of RMB4,128 million, representing an increase of 31.7% over the previous year; earnings per share was RMB0.92, representing an increase of 31.7% over the last year; return on equity was 17.16%, rose 2.27% over the previous year; and the asset quality continued to improve. The Board of Directors recommended to distribute RMB0.18 per share as the final dividend of 2010, which will be submitted for the approval at the Annual General Meeting to be held in May 2011.

Board of directors and corporate governance

In 2010, the Company continued to improve its corporate governance practices and enhance governance standards. By learning earnestly from the lessons of the global financial crisis, and integrating with the Company's actual situations, the Board made vigorous endeavours in formulating development strategies, preventing systemic risks and enhancing scientific decision-making capabilities and fulfilling our social responsibilities. Gulf of Mexico oil well blowout and oil pollution incidents attracted great concerns from the board of directors. The Board requested the management to carry out detailed study and analysis in the incidents and learnt from the event. The key point was to identify and eliminate those potential safety risks that could lead to disasters, and recognize weak links in the management and technical aspects through comparative studies, to enable the Company to avert such major risks more effectively. In addition, the Company was the honor receiver of the "Golden Shield Award" in legal risk management in the 2010 China Listed Companies Legal Risk Management Summit Forum.

On 26 August 2010, Mr. Fu Chengyu resigned from the roles of director and chairman of the board due to work reasons. And I was appointed as chairman. Moreover, two independent directors, namely Gordon C.K. Kwong and Simon X. Jiang also left their positions in the year as their terms of office expired. By applying his outstanding vision and excellent management skills, Mr. Fu Chengyu successfully led COSL to gain honorable achievements during his tenure. These two departing independent directors, by virtue of their diligence and professional knowledge, have played an unique role in the Company's development, especially in the continuing progress of the corporate governance and internal control practices. On behalf of the board of directors, senior management and all company employees, I would like to take this opportunity to express my sincere gratitude to Mr. Fu Chengyu, Mr. Gordon C.K. Kwong and Mr. Simon X. Jiang for their outstanding contributions made to the Company during their tenures.

To actively fulfill social responsibilities

In 2010, the Company continues to implement the "Safety first, preventions is fundamental" management approach. Through strengthening QHSE and emergency exercises drills, keeping close watch on major safety issues, enhancing supervision and inspection efforts, and paying close-attention to investigation of hidden risk and risk control work, the staff safety culture and safety standards were further enhanced. The Company's operation safety environment continues to improve, and there were no death accidents occurred in 2010. The Company's daily operational activities were in strict compliance with international conventions, domestic laws and regulations and the provisions on environmental protection. The Company built up the efforts in the recycling of pollutants, and strictly observed the emissions standards, and there were no environmental pollution accidents occurred in 2010.

In 2010, the Company maintained a relatively high level of implement of staff's physical examination and prevention of occupational diseases. The staff's medical check rate was close to 100%, and the Company has also established Staff's Occupational Health Care Monitoring Files for those employees having exposures to occupational hazards.

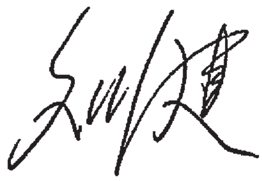
In 2010, the Company continued to make a donation of RMB19.7 million to Sichuan disaster area; the Company's employees donated RMB1.407 million to Yunnan, Guizhou those areas suffered from serious drought. When the oil pipeline explosion occurred in Dalian brought about oil spill disaster, the Company immediately sent three vessels to participate in oil spill emergency rescue; the move was highly praised by the Dalian Municipal Government, the State Oceanic Administration and other relevant departments. In addition, the Company's utility vessels have involved in salvage actions 17 times, and successfully rescued 11 people in distress. In 2010, the Company was placed in the outstanding Social Responsibility Corporate 2010 list.

The challenges facing the Company in 2011 and the Board's major concerns

In 2011, the global economy will continue to maintain its recovery momentum, but the recovery basis is still fragile. Recently, the international crude oil prices increased due to the effects of supply and demand relations and other factors, yet the oilfield services market is still facing oversupply situation, the drilling platforms were still in the trend of excess supply. After the Gulf of Mexico accident, the global operating standards were raised gradually, reducing the chance of competing new business for the older equipment. Meanwhile, the operating costs continue to increase, the market became more competitive. The competitors for different sectors of China's offshore oilfield services increased gradually, the traditional customers have more choices, which increased the Company's competitive pressures. When the major customers successfully reach the production capacity of 50 million tons, the needs for production output enhancement and output stabilization services are most urgent. Moreover, with the attempts of conducting deep-water exploration, the major customers have made new requests for a set of deep-water drilling technology. Meanwhile, the criteria for geophysical acquisition and processing and interpretation techniques are ever increasing; and the environmental and safety standards also increase.

Faced with such challenges, the Company must adopt a pragmatic attitude and innovative spirit, with focused strategy and optimal management, to carry out all aspects of work earnestly. The Board will continue to focus on and promote the Company's sustainable development and risk management through the following means. First, to put greater efforts in developing new markets, especially in the oilfield production output stabilization, output enhancement services markets and international oilfield services market; and to seize the opportunity to boost capacity and to expand business, especially in improving deep water operation capacity and developing related business. Second, to further improve the cost control and efficiency enhancement as to maintain the Company's cost advantage. Third, continually improve the risk management and internal control standards, in order to meet the Company's rapid growth and the environment of international operations. Fourth, gradually increase the ability of technological innovation, making R&D work not just a catalyst for the Company's development, but also a main support for the Company's sustainable development.

Finally, on behalf of the Board, I would like to express my gratitude to shareholders for their support and trust to the Company, to management and staff for their immense contributions made to the Company's development!



Liu Jian
Chairman

22 March 2011

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.


COSL
OSL

Li Yong *Chief Executive Officer and President*

5. Chief Executive Officer's Report

Dear shareholders,

2010 was another extraordinary year in the history of COSL. The international oilfield services sector was affected by the financial crisis and the oil spill in the Gulf of Mexico, the competition in the market became more intense, the supervision of the sector was getting more and more stringent and operating costs increased. There was a certain drop in the level of demand in the oilfield services market in China due to work plan adjustments of clients, besides there were more competitors in the market. Faced with difficulties and challenges, under the guidance of the Board of Directors, the Company actively coped with market changes, strengthened cost management and risk control, increased technological research and development, conducted on all work seriously, and we achieved steady development and obtained satisfactory results.

In 2010 the Company realized revenue of RMB17,561.0 million, representing a decrease of 1.8% as compared with last year (an increase of 4.5% after excluding the impact at a deferred revenue of RMB1,073.1 million recognized in last year); operating profit was RMB5,200.1 million, representing an increase of 16.4% as compared with last year; net profit was RMB4,128.0 million, representing an increase of 31.7% as compared with last year. The drilling services segment of the Company achieved a revenue of RMB9,327.0 million, representing an increase of 5.8% as compared with last year after deducting the impact of the deferred income of last year; the well services segment adjusted the business scope, divested low-tech business, focused on the development of the core businesses, it achieved revenue of RMB4,327.0 million, representing an decrease of 2.0% as compared with last year; the marine support and transportation services segment achieved revenue of RMB2,346.0 million, representing an increase of 8.0% as compared with last year; the geophysical services segment achieved revenue of RMB1,561.0 million, representing an increase of 11.6% as compared with last year.

Continuous improvement of QHSE management system. The Company always pay attention to the coordinated sustainable development among the Company, the society and the environment. In 2010, the Company continued to implement the setting up of QHSE and SMS systems. At the same time, learning from the incident of the oil spill in the Gulf of Mexico, we strengthened the inspection of hidden risks, particularly special inspection of well control facilities and hazardous chemical goods and effectively eliminated the occurrence of substantial negative incidents, and ensured the safety of the operation and personal safety of staff, the recordabile incidents number in 2010 was 34, the OSHA index was 0.2. Besides, the Company adopted a series of effective measures, further enhanced the management of energy saving and emission reduction, the comprehensive energy consumption indices such as output value per ten thousand, incremental value per ten thousand and incremental value per ten thousand of fresh water usage fell by 4.8%, 4.8% and 2.6% respectively as compared with last year.

Steady development of the domestic and overseas markets. The pressure of the market in 2010 continued to increase, we expanded the exploration of key target markets while strengthening the domestic market, the new developments in the overseas markets were as follows: For the Indonesian market, COSLBoss, COSL 937 and cementing and acidizing services obtained the tender to operate in Indonesia; for Libya, the Company secured the following volume work amount of the 5 land drilling rigs projects and at the same time land launched logging and cementing operation successfully. In February 2011 the domestic situation of Libya continued to worsen, the Company already temporarily repatriated the employees working in Libya, the business concerned was suspended; in the Middle East Market, not only we successfully obtained the contract for the operation of 4 jack-up drilling rigs, but also actively made preparation to explore the oilfield services market in Iraq as the next step. In 2010 the overseas business achieved revenue of RMB4,312.1 million, accounting for 24.6% of the sales of the year.

Transitional results were obtained in the consolidation. For years, CDE and CDPL succeeded a number of challenges amid the intensification of the consolidation during the period of more than one year, they obtained some transitional results as follows: First, the Company handled the construction, delay in delivery and contract cancellation etc of the semi-submersible rigs in a rather good way, there was actual progress in the construction of rigs. In October 2010 the first semi-submersible rig COSLPioneer was successfully delivered, it was expected that COSLInnovator and COSLPromoter would be delivered in 2011 and 2012 respectively. Second, the legal disputes were solved properly and the interests of shareholders were protected. Third, after CDPL replaced PD, with continuous efforts, not only it had excellent operation in the market, but also controlled the costs of the rigs better than expected, the operating costs of rigs reduced by 40%. Four, through the consolidation, the operation and management capability of CDE were satisfactory, not only it took over the accommodation rig COSLRigmar, and also obtained the AOC certificate granted by the Petroluem Safety Authority of Norway (PSA), in the second half of this year, the semi-submersible rig COSLPioneer obtained the intention for operation for a maximum of 5 years from the Norwegian state oil company, Statoil. On top of these, during the consolidation process, the corporate culture and working concepts of the Company were understood and recognized by the expatriates of CDPL and CDE, with long term cooperation, the Chinese and foreign employees had more exchanges among themselves and this fostered cultural integration.

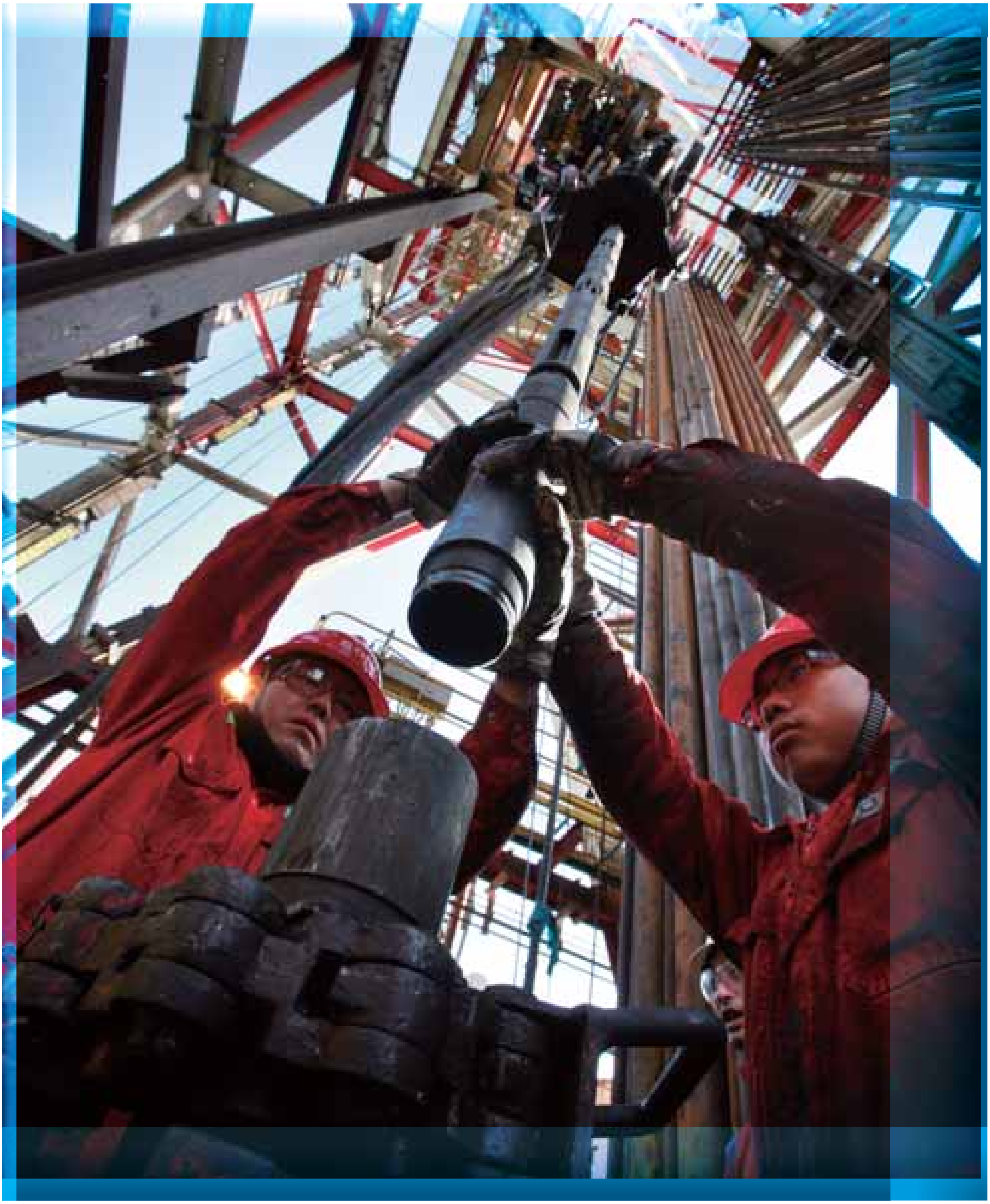
Steady progress in R&D in Technology. In 2010 the Company continued to focus on the R&D in technology, several R&D results were put in application with success, this improved the capability of our well services. They included the successful application and production of the offshore high precision seismic data collection equipment with self-owned intellectual property right which was the first of its kind in China, while the high performance lubricant RT101, new reservoir protection polyamine well completion fluid, In-situ CO2-generation collection rate improvement technology, Nitrogen-Filled Foam Profile Control Technology and skill were applied on site with success. Besides, the R&D of the nuclear magnetic resonance for inspecting well, the improvement of the condensate oil thermal recovery technique obtained further results. The Company was awarded as one of the first companies as "National Ocean High Technology Domain Commercialization of Results Base", and this brought more convenience in the subsequent commercialization of technological results. During the year there was an large progress in the patent application, the number of patent application accepted reached 147 (including 51 invention patent), 99 patents were granted for the year, including 16 invention patents, there was an increase of 81% in the number of patent application acceptance for the year over last year, the number of patent granted for the year increased by 75% over last year.

Strengthening of cost control, remarkable results of cost reduction. Cost advantage has always been one of the important strategies of the development of the Company. In 2010 the Company further refined its management, strengthened cost management and control. With the implementation of centralized procurement, re-streamlining procurement agreements for the year, optimization of the tender submission and bid selection mechanism and NOTES online approval system etc, we improved the procurement efficiency and reduced costs and improved efficiency at the source. Regarding large scale equipment construction projects, we centralized management resources, strengthened project design, construction and the management of outsourcing vendors, improved the control over the quality, safety, progress and costs of projects. Besides, by adopting number of measures such as "object of cost" the Company effectively transferred the operating pressure, enhanced the cost awareness of all segments, the variable costs fell substantially and the cost reduction and efficiency improvement were remarkable.

Looking forward to 2011, the global economy was picking up gradually, but uncertainty still existed. Competition in the global oilfield services market will be more intense, but the demand for high end large scale equipment will recover; the persistent high oil price will ignite the passion of oil companies to explore and develop, capital expenditure will increase; oil companies in China will have larger demand for those technologies which maintain stable production output and which enhance production output; the development of coal bed mettane and shale gas brings us new development opportunities, at the same time, we are highly confident of the bright market prospect of the deep water petroleum and gas exploration and development. Faced with opportunities and challenges, we will innovate new market models, actively explore domestic and overseas new markets; optimize management work flow, improve management efficiency; improve the establishment of internal control system, implement complete risk management; with realistic attitude and great passion, we will start a new chapter for our development.

Li Yong
Chief Executive Officer and President

22 March 2011



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 2,500 ft water depth and drilling depth of 30,000 ft.

2010 Drilling Services Revenue amounting to

RMB9,327.0 Million

Water depth can be reached up to

2,500 ft

Oil well drilling depth can be reached up to

30,000 ft


海洋石油937

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 2010, the global economy was recovering and the investments in global oil and gas exploration have increased. According to the analysis of Barclays Capital, global oil exploration and production expenditures amounted to US$439 billion in 2010, representing an increase of 11% over the previous year. The increase in upstream investment caused the whole oilfield services sector to recover slowly. According to Spears & Associate, Inc., the total global market value of oilfield services in 2010 increased by approximately 5% compared to 2009 to US$258 billion. Affected by the increase in the number of new platforms, the day rate and contract signing rate of drilling rigs both remained low. According to the statistics from ODS-data, in 2010, the comprehensive day rate of drilling rigs reduced by 10.91%, and overall global drilling rig contract signing rate reduced by 3.67% on a year-to-year basis. In 2010, Oil companies maintained a high level of capital expenditure in China offshore and offshore exploration and production in China remained active.

BUSINESS REVIEW

Drilling Services Segment

COSL is the major supplier of China offshore drilling services, and is 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 2010, we operated a total of 29 drilling rigs (of which 25 are jack-up drilling rigs (one leased), and 4 are semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 6 land drilling rigs.

In 2010, affected by the financial crisis and the Gulf of Mexican oil spill, market demand for drilling services declined as competition intensified and prices became volatile. Facing a complex market environment, COSL continued to solidify our leading position in the offshore drilling market in China and signed annual service contracts with major clients. Meanwhile, we strived to develop our overseas markets with new progress in a number of targets as our overseas drilling business has expanded further. The calendar day utilization rate of our drilling vessel team for the year reached 94.6% and the turnover of our drilling service operation recorded an increase of 5.8% to RMB9,327.0 million, after excluding the impact of a deferred revenue of RMB1,073.1 million recognized in last year.

As of the end of 2010, we had 8 drilling vessels operating in Bohai of China, 5 in South China Sea, 1 in East China Sea, 7 in overseas countries such as Indonesia and Saudi Arabia, while 5 vessels were in maintenance waiting for order in the shipyard and will soon be mobilized to their new assignments destinations. 2 jack-up drilling rigs delivered at the end of October commenced operation at the beginning of 2011. The semi-submersible drilling rig, COSL Poineer, is expected to commence operation in summer 2011.

2 accommodation rigs continued to provide services for customers in the North Sea in 2010. 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 semi-submersible drilling rig, COSL Innovator, was successfully combined in 2010, symbolizing the basic completion of the main body of the rig and the start of the mechanical finishing and system inspection stages. Two 200 feet jack-up drilling rigs under construction were under inspection and expected to be completed in the second quarter of 2011.

2010 operation details of our jack-up and semi-submersible drilling rigs are as follows:

	2010	2009	Increase/ (Decrease)	Percentage change
Operating days (day)	8,936	8,155	781	9.6%
Jack-up drilling rigs	7,933	7,089	844	11.9%
Semi-submersible drilling rigs	1,003	1,066	(63)	(5.9%)
Available day utilization rate	99.5%	98.9%	0.6%	
Jack-up drilling rigs	99.5%	98.7%	0.8%	
Semi-submersible drilling rigs	100.0%	100.0%	0.0%	
Calendar day utilization rate	94.6%	95.0%	(0.4%)	
Jack-up drilling rigs	94.9%	94.7%	0.2%	
Semi-submersible drilling rigs	91.6%	97.4%	(5.8%)	

The reasons for the increase by 844 days of operation of jack-up rigs compared with last year were that, firstly, the operating days of CDE increased by 316 days (the operating days of the two drilling rigs delivered last year increased by 265 days for the year and the operating days of other rigs increased by 51 days due to enhanced efficiency). Secondly, the total operating days of other rigs increased by 528 days mainly due to increase of 657 days by the operation of the two new rigs and a mere reduction of 129 days for repair and maintenance of other rigs.

The operation of semi-submersible drilling rigs decreased by 63 days compared with last year mainly due to the increase in the number of days for repair and maintenance during the year.

In 2010, the calendar day utilization rate of the jack-up and semi-submersible drilling vessel team decreased slightly by 0.4% compared with last year and reached 94.6% due to the increase in the number of days of repair and maintenance.

In 2010, our two accommodation rigs operated for 730 days in North Sea with available day utilization rate and calendar day utilization rate both reaching 100.0%. We continued to provide the services of 4 module rigs for the Mexican clients, which brought 1,418 days of operation for the whole year and the calendar day utilization rate reached 97.1%. The 6 land drilling equipment brought a total of 2,127 days of operation, and the calendar day utilization rate reached 97.1%.

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.

Affected by the global economic environment and the downtum in markets of oilfield services in 2010, the average day rate of drilling rigs of the Group decreased slightly compared with last year. The details are as follows:

Average day rate (ten thousand US$/day)	2010	2009	Increase/ (Decrease)	Percentage change
Jack-up drilling rigs	11.3	12.0	(0.7)	(5.8%)
of which: CDE	12.9	14.1	(1.2)	(8.5%)
Semi-submersible drilling rigs	19.4	18.8	0.6	3.2%
Accommodation rigs	22.1	19.6	2.5	12.8%
Average	12.9	13.4	(0.5)	(3.7%)

Note: 31 December 2010 US$/RMB exchange rate: 1:6.6227, 31 December 2009 US$/RMB exchange rate: 1:6.8282.

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 oil and gas companies in China (such as CNOOC Limited 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, the Group 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 2010, we continued to enhance our research and development capabilities and promote our development results. Our self-developed logging-while-drilling system succeeded in downhole testing for the first time, achieving real-time measurement of logging-while-drilling parameters such as directional parameter, natural gamma ray, electromagnetic wave resistivity, etc.. High-end logging service was provided in Africa for the first time and succeeded in high-end logging operations such as electrical imaging and rotary sidewall coring system. The nitrogen foam water control project, after a year of research and preparation, commenced operation successfully in the South China Sea and obtained customers compliment. The Enhanced Reservior Characteristic Tester (ERCT) was fully commercialized with 6 testers delivered to Bohai and South China Sea with a successful rate of 100%. The Crossline Dipole Array Acoust Logging Tool (EXDT) operated for 25 times in over 20 wells in Bohai and South China Sea with excellent results. The High Definition Array Induction Logging successfully operated in 5 wells in South China Sea and provided services for the market in Myanmar.

As for the markets, the Group has consolidated the original markets as well as actively developed the oversea market. Our logging and cementing business have entered into the Libyan market for the first time during the year and provided relevant services to the customers. At the same time, we actively developed new service domains and provided logging services to coal gas project on land for the first time and completed the logging operation for Sino Gas & Energy, symbolizing our entering into the operation market for coal gas project on land. In addition, the new business, EPS (Environmental Protection Services), has gradually become profitable with revenue for the year reaching RMB16.5 million.

In 2010, our well services segment focused on the principal operation and reduced low-tech business and as a result, the revenue for the year decreased slightly. The operating income for the year was RMB4,327.0 million, decreased by RMB89.7 million from RMB4,416.7 million of last year, representing a decrease of 2.0%.

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 2010, the Group owned an aggregate of 75 utility vessels of various types, 3 oil tankers, 5 chemical carriers, which were mainly operating 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 on 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, refined oil and gas product. The chemical carriers are used for carrying chemical products such as methanol.

In 2010, the marine support and transportation services segment faced intensified competition and the Group has maintained a higher calendar day utilization rate of 94.7% while guaranteeing safe operation and enhancing the quality of services. In addition, we have increased our channels through special operating technology for the marine support and transportation services and selective utilization of social resources. In 2010, the Group had 1 workover support barges joining the fleet and 2 high-powered deep water utility vessels under construction with expected completion in 2011. With the completion of the high-powered deep water utility vessels, the operating capabilities of our oilfield utility vessels in deep waters will be strengthened.

The operation of the Group-owned utility vessels in 2010 was as follows:

Operating days (day)	2010	2009	Increase/ (Decrease)	Percentage change
Standby vessels	16,466	16,433	33	0.2%
AHTS vessels	6,225	6,787	(562)	(8.3%)
Platform supply vessels	1,733	1,759	(26)	(1.5%)
Multi-purpose vessels	1,239	1,949	(710)	(36.4%)
Workover support barges	1,106	774	332	42.9%
Total	26,769	27,702	(933)	(3.4%)

The operation days of self-owned utility fleet decreased by 933 days compared with last year mainly because there were 8 utility vessels scrapped last year and 6 utility vessels scrapped and retired for the year which decreased operation by 2,987 days; the 3 new workover support barges fully operated in current year and 1 new workover support barge commenced to operate in 2010 resulted an increase of 332 days in total; the 10 new utility vessels commenced operation in last year fully operated in current year resulted an increase of 1,745 days; the operation days of other vessels decreased by a total of 23 days.

The total transportation volume of oil tankers and chemical carriers for the year increased due to the improvement in operation rate and utilization of external resources, of which, the transportation volume of oil tankers was 2,028 thousand tonnes, representing an increase of 43.5% from 1,413 thousand tonnes from last year, and the transportation volume of chemical carriers was 1,779 thousand tonnes, representing an increase of 62.0% from 1,098 thousand tonnes from last year.

Driven by the increase in transportation volume of oil tankers and chemical carriers, the marine support and transportation services segment achieved a turnover of RMB2,346.0 million in 2010, increased by RMB174.7 million from RMB2,171.3 million from last year, representing an increase of 8.0%.

Marine Support and Transportation Services

Owning and operating the largest and most comprehensive offshore utility fleets in China and currently has 75 utility vessels, 3 oil tankers and 5 chemical carriers.

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, the Group owns 8 seismic vessels and 4 integrated marine surveying vessels.

Seismic Services

Although the global financial crisis and the icy condition in China have affected the development of the geophysical services segment in 2010, we maintained the steady development in the geophysical services segment through refined management, enhanced operating efficiency, expanded deep water surveying services and etc. We also had reasonable arrangement and increased development in the market. In 2010, "HYSY718" seismic vessel received our first 5,000 km^2 3D collection contract; "HYSY718" seismic vessel also provided 3D collection services overseas during the non-operating period in China in winter. In addition, to enhance the operating capabilities of the geophysical services segment, we built our first large 12-cabled deep water surveying vessels in China, HYSY720, which was launched at the end of the year and will enter the installation and adjustment stages. The new vessel will effectively enhance our seismic data collection capabilities, particularly the 3D seismic data collection capabilities in deep waters.

The details of operation volume for the data collection and data processing businesses of the Group for the year are as follows:

Services	2010	2009	Increase/ (Decrease)	Percentage change
2D collection (km)	24,469	33,900	(9,431)	(27.8%)
2D processing (km)	14,846	22,588	(7,742)	(34.3%)
3D collection (km^2)	13,008	10,394	2,614	25.1%
of which: submarine cable (km^2)	405	–	405	100.0%
3D processing (km^2)	7,983	7,951	32	0.4%

The operation volume of 2D collection business reduced by 9,431 km compared with last year, which was principally attributable to the bad weather at the beginning of the year and the transformation of a 2D geophysical collection vessel into a submarine cable's source vessel for the 3D collection business. The operation volume of 3D collection business increased by 2,614 km^2 compared with last year, which was principally attributable to the increased market demand for the 3D collection business and the Group's active development of overseas market in winter when operation was not suitable to be carried out in domestic waters. In addition, our new submarine cable collection business for the year completed operation of 405 km^2. For the data processing business, affected by a decrease in demand, the operating volume of the 2D data processing business decreased by 34.3% compared with last year and the operating volume of the 3D data processing business was nearly the same as last year.

In 2010, driven by the submarine cable collection business, the turnover of the geophysical services of the Group amounted to RMB1,561.0 million, increased by RMB162.1 million from RMB1,398.9 million of last year, representing an increase of 11.6%.

Surveying Services

In 2010, we actively explored the markets and succeeded in the deep water surveying business. We completed the contract of deepwater surveying of Liwan obtained last year and laid a foundation for our deep water surveying business in the future. The 2010 surveying services recorded a revenue of RMB310.3 million, increased by 2.9%, compared with RMB301.6 million in last year.

Integrated Project Management

In 2010, the Group's integrated services operated in the four waters of Bohai, Yellow Sea, East China Sea and South China Sea and fully considered the customers' demand to provide integrated project management of 10 wells for external market customers such as China Geological Survey, Primeline, Shanghai Petroleum Company Limited and Singapore Petroleum Company Limited with excellent project management and higher level of technology. We demonstrated the advantage of our comprehensive service chain and developed our market. Among them, we overcame difficulties such as operating in deep waters, difficult control of well trajectory, drilling through 39 layers of coal and hard metamorphic rocks in our services for Shanghai Petroleum Company Limited, succeeded in working at the complex formation and opened up market for jack-up rig operation in 100m deep waters.

In 2010, the revenue of integrated project management of the Group reached RMB1.32 billion, increased by RMB310 million from RMB1.01 billion for last year, representing an increase of 30.7%.

Overseas Business

In 2010, affected by the global financial crisis and excess supply of large equipment, market competition for oilfield services remained intense. The Group strengthened the development in key markets overseas and achieved overseas revenue of RMB4,312.1 million, representing 24.6% of the Group revenue in 2010. Overseas revenue for the year decreased by RMB676.9 million from RMB4,989.0 million for last year mainly due to the deferred revenue of RMB1,073.1 million recognized in last year. Excluding this impact, our overseas revenue for the year would have increased by RMB396.2 million compared with last year, or an increase of 10.1%.

We selectively focused on our overseas projects in 2010. While we secured the continuation of the existing overseas projects (N6 Project in Australia, 4 module rigs in Mexico, 5 land drilling rigs in Libya and the integrated well workover project contract in Indonesia), at the same time we obtained a number of new projects. The new semi-submersible drilling rig COSL Pioneer was awarded an operating intent of up to 5 years from a Norway national petroleum company Statoil; 2 jack-up drilling rigs received drilling services contract in Indonesia; our cementing and acidizing business received new operating contract in Indonesia; our logging and cementing business succeeded in operating in Libya for the first time. In addition, our geophysical collection vessel navigated to Myanmar, Indonesia, Papua New Guinea etc. to conduct data collection services.

FINANCIAL REVIEW

1. Consolidated Income Statement Analysis

1.1 Revenue

In 2010, the oilfield services industry faced fierce competition and challenges as a result of the global financial crisis and the Mexican Gulf oil spill. Facing the complex market environment, we based on the domestic markets, developed the overseas market and actively communicated with the customers to maintain stability in the price of services with excellent standard of services. In 2010, our revenue for the year reached RMB17,561.0 million, representing a decrease of RMB317.7 million or 1.8% compared with RMB17,878.7 million for last year. It was mainly because last year the Group had a recognition of the related deferred revenue of RMB1,073.1 million caused by the cancellation of the contract for 1 semi-submersible drilling rig which was under construction. Excluding the impact, our revenue for the year would have increased by RMB755.4 million compared with last year, or an increase of 4.5% which was mainly due to operation of the new large equipment in last year and for the year.

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.

The following table presents income from each segment:

Unit: RMB million

Business segment	2010	2009	Increase/ (Decrease)	Percentage change
Drilling services	9,327.0	9,891.8	(564.8)	(5.7%)
Well services	4,327.0	4,416.7	(89.7)	(2.0%)
Marine support and transportation services	2,346.0	2,171.3	174.7	8.0%
Geophysical services	1,561.0	1,398.9	162.1	11.6%
Total	17,561.0	17,878.7	(317.7)	(1.8%)

1.2 Operating expenses

In 2010, operating expenses of the Group totaled RMB12,449.6 million, representing a decrease of RMB1,056.1 million or 7.8% from RMB13,505.7 million for last year.

The table below shows the breakdown of operating expenses for the Group in 2010 and 2009:

Unit: RMB million

	2010	2009	Increase/ (Decrease)	Percentage change
Depreciation of property, plant and equipment and amortisation of intangible assets	3,122.3	2,865.2	257.1	9.0%
Employee compensation costs	2,938.1	2,669.6	268.5	10.1%
Repair and maintenance costs	437.7	609.4	(171.7)	(28.2%)
Consumption of supplies, materials, fuel, services and others	3,277.0	3,610.0	(333.0)	(9.2%)
Subcontracting expenses	1,143.7	884.4	259.3	29.3%
Operating lease expenses	379.7	589.1	(209.4)	(35.5%)
Other operating expenses	936.8	1,076.2	(139.4)	(13.0%)
Other selling, general and administrative expenses	41.9	381.9	(340.0)	(89.0%)
Impairment of property, plant and equipment	172.4	819.9	(647.5)	(79.0%)
Total operating expenses	12,449.6	13,505.7	(1,056.1)	(7.8%)

Depreciation and amortisation increased by RMB257.1 million or 9.0% compared to last year, it was mainly due to new additions of large equipment, including two jack-up drilling rigs delivered in 2009 which depreciated for the whole year in 2010, and 1 workover support bange and 2 liftboats which started to depreciate since 2010.

Employee compensation costs increased by RMB268.5 million or 10.1%, which was mainly due to the increase of our staff number and remuneration.

Repair and maintenance costs decreased by RMB171.7 million or 28.2%, which was mainly due to 72-day repair work of accommodation rigs in last year while no repair work in this year.

Consumption of supplies, materials, fuel, services and others decreased by RMB333.0 million or 9.2% which as due to two main reasons. One, our well services segment reduced non-core business such as construction in the year. Second, we strengthened our refined management and strictly controlled the cost in this year.

Subcontracting expenses increased by RMB259.3 million or 29.3%, which was mainly due to the increase in subcontracting volume as a result of the business expansion of the Group and enlarged market share.

Operating lease expenses decreased by RMB209.4 million or 35.5%, which was mainly due to the strengthening of cost control and reduction of external lease of equipment.

Other operating expenses decreased by RMB139.4 million or 13.0%, which was mainly due to the provision for large amount of default compensation estimated for last year. The Group reversed the compensation provision based on the ultimate settlement in this year.

Other selling, general and administrative expenses decreased by RMB340.0 million or 89.0%, which was mainly due to the recognition of provisions estimated for litigation in last year. Due to the settlement of litigation in this year, the Group reversed or paid the provision based on the ultimate settlement.

Impairment of property, plant and equipment of the Group decreased by RMB647.5 million or 79.0%. This was primarily attributable to the adverse impact of the macroeconomic environment and the delay in the delivery of the semi-submersible rigs under construction, the Group recognized an asset impairment loss of RMB819.9 million in last year. During this year, based on the market price of drilling package and status of the vessel, the Group recognized a total asset impairment loss of RMB172.4 million for the drilling package and an oilfield utility vessel.

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

Unit: RMB million

Business segment	2010	2009	Increase/ (Decrease)	Percentage change
Drilling services	5,830.9	7,180.2	(1,349.3)	(18.8%)
Well services	3,560.4	3,679.9	(119.5)	(3.2%)
Marine support and transportation services	1,817.4	1,531.7	285.7	18.7%
Geophysical services	1,240.9	1,113.9	127.0	11.4%
Total	12,449.6	13,505.7	(1,056.1)	(7.8%)

1.3 Operating profit

The operating profit of the Group during the year amounted to RMB5,200.1 million, representing an increase of RMB732.0 million or 16.4% from RMB4,468.1 million in last year. This was primary attributable to the fact that the Group had implemented powerful cost control, and there were no material asset impairment loss and no large amount of provision for litigations and default compensation recognized in this year.

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

Unit: RMB million

Business segment	2010	2009	Increase/ (Decrease)	Percentage change
Drilling services	3,505.3	2,747.5	757.8	27.6%
Well services	813.9	743.3	70.6	9.5%
Marine support and transportation services	541.6	654.2	(112.6)	(17.2%)
Geophysical services	339.3	323.1	16.2	5.0%
Total	5,200.1	4,468.1	732.0	16.4%

1.4 Financial expenses, net

In 2010, the financial expenses was RMB509.7 million, representing a decrease of RMB309.1 million or 37.8% compared with RMB818.8 million of last year, which was mainly due to the decrease of RMB112.2 million in finance cost as a result of refinancing and optimising of debt, which reduced the debt cost this year. In addition, the exchange differences for the year increased by RMB180.4 million compared last year since an exchange gain of RMB87.7 million was recognized in 2010 while with an exchange loss of RMB92.7 million recognized in last year due to foreign exchange rates fluctuations.

1.5 Share of profits of jointly-controlled entities

In 2010, our share of profits of jointly-controlled entities amounted to RMB143.8 million, representing an increase of RMB33.5 million or 30.4% compared with RMB110.3 million for last year. This was primarily attributable to the increase in share of profits of China France Bohai Geoservices Co., Ltd. amounting to RMB26.6 million as compared with last year due to increase in work load.

1.6 Profit before tax

The profit before tax attained by the Group was RMB4,834.2 million in 2010, representing a growth of RMB1,074.6 million or 28.6% compared with RMB3,759.6 million for last year.

1.7 Income tax

The income tax expense in 2010 was RMB706.2 million, representing an increase of RMB81.9 million from RMB624.3 million of last year or an increase of 13.1%. It was in line with the increase of RMB1,074.6 million in profit before tax compared with last year.

1.8 Profit after tax

In 2010, the profit after tax of the Group was RMB4,128.0 million, representing an increase of RMB992.7 million or 31.7% from RMB3,135.3 million of last year.

1.9 Basic earnings per share

In 2010, the Group's basic earnings per share was approximately RMB92 cents, representing an increase of approximately RMB22 cents or 31.7% as compared with approximately RMB70 cents for last year.

1.10 Dividend

For 2010, the Board proposed a final dividend of RMB0.18 per ordinary share, totaling RMB809.2 million.

2. Consolidated Statement of Financial Position Analysis

As of 31 December 2010, the total assets of the Group amounted to RMB63,497.4 million, representing an increase of RMB2,720.9 million or 4.5% compared with RMB60,776.5 million at the end of 2009. The total liabilities was RMB37,907.5 million, representing a decrease of RMB563.4 million or 1.5% compared with RMB38,470.9 million at the end of 2009. The shareholders' equity was RMB25,589.9 million, representing an increase of RMB3,284.3 million or 14.7% compared with RMB22,305.6 million at the end of 2009. The analysis of reasons for significant changes in the amount of accounting items on the consolidated statement of financial position is as follows:

2.1 Property, plant and equipment

As of 31 December 2010, the property, plant and equipment of the Group were RMB46,371.1 million, representing an increase of RMB1,284.6 million or 2.8% compared with RMB45,086.5 million as of the beginning of the year. The increase was mainly due to continuing investment in the existing construction projects during the year.

2.2 Available-for-sale investments

As of 31 December 2010, the available-for-sale investments of the Group were RMB0.1 million, representing a decrease of RMB19.3 million compared with RMB19.4 million as of the beginning of the year. The main reason was the Group recognised the impairment losses for all the equity investment in Petrojack ASA in 2010, which withdrew its listing from stock market in March 2010.

2.3 Pledged time deposits (non-current portion)

As of 31 December 2010, the Group had no non-current pledged time deposit. The pledged deposits of RMB39.1 million at the beginning of 2010 would due within a year and was reclassified to the current portion of pledged time deposits.

2.4 Prepayments, deposits and other receivables

As of 31 December 2010, the prepayments, deposits and other receivables of the Group were RMB388.8 million, representing a decrease of RMB366.7 million or 48.5% compared with RMB755.5 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 projects of the 200-feet drilling rigs, 12 cable seismic vessels and deep water triple-functional utility vessel progressed, which resulted in a decrease of RMB459.6 million in prepayments.

2.5 Notes receivables

As of 31 December 2010, the notes receivable of the Group was RMB693.2 million, representing an increase of RMB263.5 million compared with RMB429.7 million as of the beginning of the year. The increase was mainly due to the receipt of cash for notes receivable balance as of the beginning of the year. In addition, there were trade acceptances amounted to RMB691.6 million issued by CNOOC Limited and banker's acceptances amounted to RMB1.6 million issued by other client during the year.

2.6 Pledged deposits (current portion)

As of 31 December 2010, the current portion of pledged deposits of the Group were RMB87.5 million, representing a decrease of RMB159.8 million or 64.6% compared with RMB247.3 million as of the beginning of the year. The decrease was mainly due to the release of bank deposit according to the procedures and payment of related amount after the Group has agreed with the counterparties on the litigations.

2.7 Cash and cash equivalents

As of 31 December 2010, cash and cash equivalents of the Group were RMB5,847.2 million, representing an increase of RMB2,632.6 million or 81.9% compared with RMB3,214.6 million as of the beginning of the year. The details were provided in "Consolidated Statement of Cash Flow Analysis" below.

2.8 Other current assets

As of 31 December 2010, other current assets of the Group were RMB41.1 million, representing an increase of RMB20.5 million or 99.8% compared with RMB20.6 million as of the beginning of the year. The increase was mainly due to the reclassification of the current portion of the deferred mobilization cost into other current assets during the year.

2.9 Salary and bonus payables

As of 31 December 2010, the salary and bonus payables of the Group were RMB781.4 million, representing an increase of RMB304.0 million or 63.7% compared with RMB477.4 million as of the beginning of the year, which was mainly due to the increase of our staff number and bonus during the year.

2.10 Tax payable

As of 31 December 2010, the tax payable of the Group was RMB124.0 million, representing an increase of RMB37.2 million or 42.8% compared with RMB86.8 million as of the beginning of the year. The main reason was the increase of income tax compared with last year resulting from the significant increase of profit before tax.

2.11 Interest-bearing bank borrowings (current portion)

As of 31 December 2010, the current portion of interest-bearing bank borrowings of the Group were RMB650.7 million, representing an increase of RMB367.6 million or 129.9% compared with RMB283.1million as of the beginning of the year. The increase was mainly due to the long-term borrowings amounting to approximately RMB650.7 million of the Group would due within one year, and were reclassified to this item. The borrowings amounting to RMB283.1 million as of the beginning of the year were repaid during the year.

2.12 Current portion of long term bonds

As of 31 December 2010, the current portion of long term bonds of the Group were RMB573.7 million, while there was no such item for last year. The increase was mainly due to one of the Group's bond amounting to RMB573.7 million would due within one year and was thus reclassified to this item.

2.13 Long term bonds

As of 31 December 2010, the long term bonds of the Group were RMB1,500.0 million, representing a decrease of RMB1,170.0 million or 43.8% compared with RMB2,670.0 million as of the beginning of the year. This was mainly due to the redemption of bonds by the Group amounting to RMB580.2 million during the year. In addition, bonds amounting to RMB573.7 million which would due within one year were reclassified to the current portion of long-term bonds during the year.

2.14 Other non-current liabilities

As of 31 December 2010, other non-current liabilities of the Group were RMB36.6 million, representing an increase of RMB30.3 million or 482.6% compared with RMB6.3 million as of the beginning of the year. This was mainly due to the increase of non-current liability due to joint-controlled entity Atlantis Deepwater Orient Ltd. for the year.

3. Consolidated Statement of Cash Flow Analysis

As of the beginning of 2010, the Group held cash and cash equivalents of RMB3,214.6 million. The net cash inflow from operating activities from the year was RMB7,855.1 million, net cash outflow from investing activities was RMB3,574.2 million, net cash outflow from financing activities was RMB1,577.6 million and the negative impact of foreign exchange fluctuations was RMB70.7 million. As of 31 December 2010, the Group's cash and cash equivalents were RMB5,847.2 million.

3.1 Cash flows from operating activities

As of 31 December 2010, net cash flows from operating activities of the Group reached RMB7,855.1 million, of which RMB17,996.8 million was received from the sales of goods and the provision of services and RMB10.4 million from tax refund, while RMB5,260.8 million was paid for the purchase of goods and receipt of services, RMB2,728.6 million was paid to or for employees, and RMB1,336.8 million was used to pay for various taxes. Cash outflow related to other operating activities amounted to RMB825.9 million.

3.2 Cash flows from investing activities

As of 31 December 2010, net cash outflows used in investing activities of the Group amounted to RMB3,574.2 million, of which RMB4,433.9 million was paid for the purchase of fixed assets, intangible assets and other long-term assets during the year. In addition, the investment recovered amounted to RMB642.2 million during the year and the investment income and interest income received during the year amounted to RMB194.7 million and RMB72.2 million, respectively, and RMB70.0 million was received from the disposal of fixed assets and other long-term assets during the year. A total cash outflow amounted to RMB119.4 million in relation to other investing activities.

3.3 Net cash flows from financing activities

As of 31 December 2010, net cash outflow used in financing activities amounted to RMB1,577.6 million, of which RMB1,645.5 million was paid for repayment of debt, RMB630.3 million was paid for dividends distribution, and RMB769.0 million was paid for the repayment of interest, and RMB1,478.3 million was received from borrowings and government grants during the year. A total cash outflow amounted to RMB11.1 million in relation to other financing activities.

3.4 The cash decreased by RMB70.7 million due to the impact of foreign exchange fluctuations.

4 Capital expenditure

In 2010, the capital expenditure of the Group amounted to RMB5,476.5 million, representing a decrease of RMB2,936.8 million or 34.9% compared with RMB8,413.3 million as of last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segment	2010	2009	Increase/ (Decrease)	Percentage change
Drilling services	3,328.1	6,062.8	(2,734.7)	(45.1%)
Well services	295.1	760.1	(465.0)	(61.2%)
Marine support and transportation services	1,016.1	924.7	91.4	9.9%
Geophysical services	837.2	665.7	171.5	25.8%
Total	5,476.5	8,413.3	(2,936.8)	(34.9%)

The decrease in our capital expenditure for the year was mainly due to the completion of one 375-feet jack-up drilling rig, one 400-feet jack-up drilling rig, one 2,500-feet semi-submersible drilling rigs, two land drilling rigs, two 350-feet jack-up drilling rigs, two 200-feet jack-up drilling rigs and 2 liftboats in this year which were under construction in last year.

OUTLOOK

Looking forward to 2011, the global economy will maintain its recovery trend. In the "World Economic Situation and Prospects 2011" published by the United Nations, it is forecasted that the global economy will achieve a growth rate of 3.1% in 2011. The developing economies will achieve a growth rate of 6.0%. According to the report from State Economic and Development Commission, the economic growth of China in 2011 is forecasted to be around 8%. There are uncertainties over the recovery of the world economy, such as the possible impact of the earthquake in Japan. High oil price and increasing global demand for oil and gas resources will motivate oil companies for more investments in exploration and development activities. After the Mexican Gulf incident, the safety and technical standards in drilling operation have been enhanced, reducing the competitiveness of low-end drilling platforms. In 2011, the situation of supply exceeding demand for drilling platforms will continue and the oil drilling industry will still face intense competition.

Faced with the challenges as well as opportunities in 2011, the Company will actively expand both the domestic and overseas markets to ensure stable growth of revenue. It will continue to strengthen its cost management in lowering cost and raising efficiency, persuing better QHSE management with more commitment to social responsibility; its internal control functions should be reinforced and overall risk management enhanced. The Company will further increase its competitiveness to achieve sustainable growth, striving for more promising results performance to pay back our shareholders and the society.

7. CORPORATE GOVERNANCE

1. Corporate Governance Report 2010

As a domestic and foreign listed company, the Company has reviewed the compliance with the Code on Corporate Governance Practices (hereafter referred to as "the Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the regulatory documents on listed companies issued by China Securities Regulatory Commission. Upon the review, the Board is of the view that the corporate governance of the Company has generally met the requirements set out in the Code and the regulation (the "Listing Rules") during the reporting period.

After reviewing the compliance with the provisions of the Code in 2010, the Board is of the view that further explanation in respect of the deviation from Code Provision E 1.2 during the reporting period: the annual general meeting of the Company held on 28 May 2010 was presided over by the Vice Chairman and CEO, Mr. Liu Jian, as the Chairman was unable to chair the meeting due to other urgent business. Mr. Liu'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 the Vice Chairman. Meanwhile, Mr. Tsui Yiu Wa, the Chairman of Audit Committee, and the other senior management of the Company also attended the meeting and answered the inquiries raised by shareholders together with the Chairman of the meeting. The absence of the Chairman did not affect the right to make inquiry and vote of shareholders.

Apart from the above deviation, the Board of the Company is not aware of any sufficient evident to demonstrate any other deviation from the provisions set out in the Code during the reporting period.

Besides, the Board is of the view that the corporate governance of the Company was further improved during 2010, which was reflected in several aspects as below:

1. We clarified the limit of authority of the Board and management for the disposal of the Company's fixed assets. With the Company's development, the number of activities from disposals relating to the Company's assets obviously increased. The Board believes that it is necessary to perform its duties to regulate such activities. However, the limit of authority of the Board and management has not been clearly defined within the related system. The Board passed a resolution during the year that if the expected value of the fixed asset to be disposed amounts to RMB100 million or above, such disposal would need to be approved by the Board or General Meeting.

2. We strengthened the supervision of the loan and guarantee provided to and in favor of the Company's subsidiaries. To better control our risk, the Board passed a resolution during the period as follows:

   If the loan provided to the subsidiaries amounts to RMB100 million or above, such loan would need to be approved by the Board; and those below RMB100 million should be approved by authorized management. If the guarantee made by the Company in favor of wholly-owned subsidiaries amounts to RMB100 million or above, such guarantee would need to be approved by the Board; and those below RMB100 million should be approved by the authorized management. If the accumulated amount of loan and guarantee provided to and in favor of the same subsidiary in 12 months is expected to exceed the above limit, approval from the Board would need to be obtained.

3. We continued to optimize the relevant system to further raise the standard of corporate governance. The Company amended the Articles of Association in 2010 to further clarify our business scope, the Board's authority and etc in order to secure the compliance of the Company's operation. Also, the Company formulated relevant system documents to establish clear and executable regulations for charity donation authority and procedure and management performance assessment.

4. We strengthened the Board's supervision on risk management control. In view of the increasingly complex business environment and rapid growth of the Company, the Board recognized that a sound risk management system is vital for the sustainable and healthy growth of the Company. As such, the Board instructed the management to strengthen the risk management and report such identified potential risks and relevant solutions to the Board at the beginning of the year. Furthermore, the Board asked the management to respond properly to the specific risks arising in a new situation. For example, as for the exploration and sinking of a drilling rig at the Gulf of Mexico as well as the incident of oil spill, the Board asked the management to prepare a special report about the Company's safety measures.

5. We enhanced the reporting system of the execution and implementation of the Board's resolutions and suggestions. During the reporting period, such reporting system was included in the regular agenda of the regular Board meeting, which facilitated the Board to better perform its decision-making and supervising duty.

I. Director's Involvement in Securities Transactions

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2010, 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. 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 2010, 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. 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:	Liu Jian (elected as the Chairman on 27 August 2010 following the resignation of Mr. Fu Chengyu, the former Chairman, on 26 August 2010).
Executive directors:	Li Yong and Li Feilong (Mr. Li Feilong was appointed as an executive director at the General Meeting convened on 22 December 2010)
Non-executive director:	Wu Mengfei (elected to continue his office at the annual general meeting on 28 May 2010)
Independent non-executive directors:	Tsui Yiu Wa, Chen Quansheng and Fong Wo, Felix (Mr. Chen Quansheng and Mr. Fong Wo were elected as the Company's directors at the General Meeting held on 28 May 2010)

(II) The Roles of the Board of Directors and the Management

The Articles of Association of the Company clearly define the duties and functions of the Board of Directors and the Management. The division of functions is consistent with those disclosed in the Corporate Governance Report 2009 (for details, please search our website for Articles of Association of the Company or Annual Report 2009).

The duty and authority of the Board was further clarified in the Articles of Association of the Company. Pursuant to the Articles of Association amended in 2010 (the amendments were approved by the shareholders in the General Meeting held on 22 December 2010), Article 107 of the Articles of Association stated that the Board should be responsible to the General Meeting and perform the following duties:

(1) Taking charge of convening General Meeting and making report to General Meeting;

(2) Implementing the resolution of the General Meeting;

(3) Deciding the Company's business planning and investment project;

(4) Making annual budget and final account;

(5) Formulating the profit distribution plan and making-up of losses;

(6) Formulating the proposal for capital increment or reduction and the issue of corporate bonds;

(7) Proposing the merger, splitting, reforming and dissolution of the Company;

(8) Deciding the establishment of the Company's internal management system;

(9) Engaging or dismissing the CEO;

(10) Engaging or dismissing the President, Vice President(s) and other senior management and determining their remuneration based on the CEO's nomination;

(11) Formulating the Company's basic management system;

(12) Formulating the amendment proposal for the Company's Articles of Association;

(13) Exercising the right to finance and borrow and deciding the related lease and subcontracting matters in accordance with the relevant laws, regulations, this Article and the authority granted by the General Meeting;

(14) Proposing to the General Meeting for engaging or changing the accounting firm responsible for the Company's audit;

(15) Other duties required by the Articles of Association or assigned by the General Meeting.

Any Board resolution relating to the above items (6), (7) and (11) should be approved by two-third or more of the directors; and the others can be just approved by a simple majority of directors.

(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 ad hoc items not within the regular Board Meeting's agenda and require approval from the Board, the Chairman may serve the Board's proposed resolutions in written form to the members of the Board in accordance with related requirements of the Articles of Association, and 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 should 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). In the year of 2010, 4 meetings were held in such regard. The Board is of the view that meeting proceedings and resolutions of the Board complied with requirements of laws, regulations and the Articles of Association, which ensured prudent discussion by directors before decision on material items, and performance of integrity and due diligence and act in the interests of the Company and shareholders as a whole by directors in the related decision making process. Please see Table II for detailed resolutions adopted by the Board in the year of 2010.

(IV) Duties of Independent Non-executive Directors

The Board currently has three independent non-executive directors, all of them have rich professional experience in the fields of finance law and macro policy, and are very familiar with the 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 Gordon C.K. Kwong and Simon X. Jiang, who resigned on 26 May 2010 when their term of office expired) effectively performed their due diligent and attentive responsibilities as directors, and provided various professional advices to the Company, especially in the review of financial reports, the review of connected transactions, the evaluation of major acquisitions, the review and examination of long term incentive plans for senior management, among which, please see Chapter 8 of this Corporate Governance Report for details of related reviews of financial reports and the internal control system. During the reporting period, independent non-executive directors also reviewed continuous connected transactions of the Company, and confirmed that such transactions are fair and reasonable and within the limits approved by the shareholders' in general meetings. In addition, during the reporting period, independent non-executive directors also reviewed and approved the connected transaction supplementary agreement, which was deemed a disclosable transaction of the Company (deposit with a connected party) as well as the transaction caps for the three years from 2011 to 2013. Please see Table I for details of Board and professional committee meeting attendance of independent non-executive 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 8 "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 the 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 the current independent non-executive directors of the Company is in compliance with the requirement set out in the Listing Rules 3.13.

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., Mr. Liu Jian as Chairman (the former Chairman, Mr. Fu Chengyu resigned from the duty of Chairman on 26 August 2010, and has been replaced by Mr. Liu Jian) and Mr. Li Yong as the Chief Executive Officer (the former CEO, Mr. Liu Jian resigned from the duty of CEO on 26 August 2010, and has been replaced by Mr. Li Yong).

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

The term of office of Liu Jian is from 3 June 2009 to the time when the 2012 Annual General Meeting is convened. The term of office of Wu Mengfei is from 28 May 2010 to the time when the 2013 Annual General Meeting is convened. The term of office of Tsui Yiu Wa is 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 terms of office of Chen Quansheng and Fong Wo, Felix are from 28 May 2010 to the time when the 2013 Annual General Meeting is convened. The term of office of Fu Chengyu is from 3 June 2009 to 26 August 2010.

V. Training for Directors

During the reporting period, three directors were newly appointed, two of whom were independent directors. To help these newly appointed directors to understand the Company's business and the Securities regulations, the Company organized training for them, including relevant training for all independent directors with respect to the industrial knowledge, basic and professional technique of the Company as well as the business management. In addition, the Company also arranged two newly appointed independent directors to participate in the business training for independent director organized by the Shanghai Stock Exchange.

VI. Directors' Remuneration

(I) The composition and functions of the Remuneration Committee

1. The Remuneration Committee of the Company consists of four members, all of them are non-executive directors, namely Wu Mengfei, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng. Three of them are independent non-executive directors. Fong Wo, Felix, 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 three meetings (please see Table I for meeting summaries), reviewing the results of performance assessment and arrangement for the exercise of share appreciation rights in 2009; performance assessment report for the year 2008 and 2009; reviewing comment on the annual remuneration of directors, supervisors and senior management disclosed in the 2009 Annual Report; the establishment, duty and function and work flow of the performance assessing team; and the management performance assessing indicators in 2010.

VII. 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 Li Yong (executive director), Fong Wo, Felix and Chen Quansheng (both independent non-executive directors), and Li Yong acts as Chairman.

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

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

During the reporting period, the committee held two meetings (please see Table I for meeting summaries), advising the Board with regard to the structure of the Board, renewal arrangements of directors and change in management, etc..

VIII. The Audit Committee

(I) The composition and functions of the Audit Committee

1. The Audit Committee consists of three members, namely Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng, all of them are independent non-executive directors, and Tsui Yiu Wa 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 auditors; and to be primarily responsible for the communication, supervision and review of the internal and external audits 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 are as follows:

1. Reviewed the financial reports of the annual operating results of 2009, the first quarterly operating results of 2010, the interim operating results of 2010 and the third quarterly operating results of 2010 of the Company. During the review process, the members performed sufficient and necessary communication with the external auditors and the management of the Company, 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 "Management Letter to Directors" from the auditors, 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 granted approval for the engagement of independent financial adviser.

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. Approvals for the re-appointment of the auditors were granted by the Board of Directors.

5. During the reporting period, the committee inspected and evaluated the deployment of accounting and finance staff of the Company.

IX. The Remuneration of Auditors

In 2010, 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 RMB14.48 million for audit and review of the annual and interim financial statements in 2010. The non-audit fees of tax compliance, tax consultation, transfer pricing consultation etc. which totaled RMB3.96 million were recognized in the income statement. Besides, the audit fee of follow-on issuance of A shares payable to the auditors during the reporting period is RMB2.40 million.

X. 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 reporting 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	30 March 2010	Shenzhen	Fu Chengyu, Wu Mengfei, Liu Jian, Li Yong, Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Fu Chengyu	Three supervisors attended as a non-voting delegate
Second Meeting of Board of Directors	28 April 2010	Yantai	Fu Chengyu, Wu Mengfei, Liu Jian, Li Yong, Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Fu Chengyu	Three supervisor attended as a non-voting delegate
Third Meeting of Board of Directors	26 August 2010	Shenzhen	Fu Chengyu, Wu Mengfei, Liu Jian, Li Yong, Tsui Yiu Wa, Fong Wo, Felix, Chen Quansheng	Fu Chengyu	Three supervisors attended as a non-voting delegate
Fourth Meeting of Board of Directors	27 October 2010	Yantai	Liu Jian, Wu Mengfei, Li Yong, Tsui Yiu Wa, Chen Quansheng	Liu Jian	Two supervisors attended as a non-voting delegate
Fifth Meeting of Board of Directors	10 December 2010	Xiamen	Liu Jian, Wu Mengfei, Li Yong, Tsui Yiu Wa, Chen Quansheng, Fong Wo, Felix	Liu Jian	Three supervisors attended as a non-voting delegate
First Meeting of Audit Committee	29 March 2010	Shenzhen	Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Gordon C.K. Kwong	One supervisor attended as a non-voting delegate
Second Meeting of Audit Committee	28 April 2010	Yantai	Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Gordon C.K. Kwong	Two supervisors attended as a non-voting delegate
Third Meeting of Audit Committee	25 August 2010	Shenzhen	Tsui Yiu Wa, Fong Wo, Felix, Chen Quansheng	Tsui Yiu Wa	Three supervisors attended as a non-voting delegate
Fourth Meeting of Audit Committee	25 October 2010	Yantai	Tsui Yiu Wa, Chen Quansheng	Tsui Yiu Wa	One supervisor attended as a non-voting delegate
First Meeting of Remuneration Committee	29 March 2010	Shenzhen	Simon X. Jiang, Gordon C.K. Kwong, Tsui Yiu Wa, Wu Mengfei	Simon X. Jiang	
Second Meeting of Remuneration Committee	28 April 2010	Yantai	Gordon C.K. Kwong, Simon X. Jiang, Tsui Yiu Wa	Simon X. Jiang	
Third Meeting of Remuneration Committee	26 August 2010	Shenzhen	Fong Wo, Felix, Tsui Yiu Wa, Chen Quansheng, Wu Mengfei	Fong Wo, Felix	
First Meeting of Nomination Committee	29 March 2010	Shenzhen	Liu Jian, Simon X. Jiang, Tsui Yiu Wa	Liu Jian	
Second Meeting of Nomination Committee	26 August 2010	Shenzhen	Liu Jian, Fong Wo, Felix, Chen Quansheng	Liu Jian	

Table II:

Particulars of the Board resolutions

Meeting	Matters considered
First Meeting of Board of Directors 30 March 2010	2009 Annual Result, and etc
Second Meeting of Board of Directors 28 April 2010	1. 2010 First Quarterly Result and certain asset disposal proposals 2. Considering the proposal about the management performance assessment indicators of 2010 3. Hearing the report concerning the additional issue of A shares 4. Hearing the report concerning the existing conditions and responses of a joint venture, Eastern Marine
Third Meeting of Board of Directors 26 August 2010	2010 Interim Result of the Company (including the opinions of the Audit Committee towards Interim Financial Report and the interim internal audit) and the amendments to the Articles of Association, and etc
Fourth Meeting of Board of Directors 27 October 2010	Considering the 2010 Third Quarterly Result (including the opinions of Audit Committee towards the Third Quarter Financial Report) and the arrangement for the continuing connected transaction of the Company for the year 2011/2012/2013, and etc
Fifth Meeting of Board of Directors 10 December 2010	Considering the proposal concerning the 2011 annual budget of the Company and the motion on banks facility of the Company for year 2011
Resolutions approved by fax in 2010	[COSL BOD motion (2010) No.16] Appointment of secretary to the Board and authorized representative (8 April) [COSL BOD motion (2010) No.17] Approval of an equipment investment project (13 April) [COSL BOD motion (2010) No.18] Nomination of two candidates for independent director (22 April) [COSL BOD motion (2010) No.24] Approval of the issuance of domestic listed RMB ordinary shares (A shares) to unspecific public (7 May) [COSL BOD motion (2010) No.25] Adjustment to the member comprising the professional committee of the Board (9 June) [COSL BOD motion (2010) No.26] Approval of a capital investment project (12 July) [COSL BOD motion (2010) No.27] Approval of providing loan on CDE (20 July) [COSL BOD motion (2010) No.28] Approval of providing guarantee in favor of a joint venture (9 August) [COSL BOD motion (2010) No.40] Defining the limit of authority for asset disposal (19 September) [COSL BOD motion (2010) No.41] Approval of providing loan to an Indonesian joint venture (13 September) [COSL BOD motion (2010) No.44] Approval of providing loan to CDE (2 November)

Meeting	Matters considered
	[COSL BOD motion (2010) No.45] Convening of an extraordinary general meeting (11 November)
	[COSL BOD motion (2010) No.46] Nominating Li Feilong as an executive director (3 December)
	[COSL BOD motion (2010) No.50] Approval of the capital increment of a foreign listed wholly-owned subsidiary (22 December)
	[COSL BOD motion (2010) No.51] Adjustment to the usage of the proceeds from the public offer of A shares (27 December)
	[COSL BOD motion (2010) No.52] Approval of the establishment of a foreign company (29 December)

The Board of Directors
China Oilfield Services Limited
22 March 2011

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

The Company has been committed to building up an internal control system, and has built up a complete internal control system as well as risk analysis and response mechanism. To satisfy the supervisions, laws and regulations of capital market and operational management in practice, the Company has been continuously amending and improving the existing internal control system. As at the end of 2010, the Company has formed 13 major internal control systems covering company strategy, investment finance, financial planning, legal issues, marketing human resources, operation safety, equipment procurement, technology R&D, administration, information disclosure, information technology and audit monitoring, totaling 370 documents. This ensured total coverage, a sound system, effective execution and formed the management feature of COSL. In view of the changes in operating environment, institutional setting and management duties, etc, some of the internal control systems of the Company have to be changed accordingly. In 2010, about 100 internal control systems at company level were added and amended, ensuring that the activities of the Company are based on rules, so that the governance of the Company has become more standardized and the management has become more transparent.

Through the building up and operation of an internal control system, COSL enhances internal control mechanism strengthens its governance and control standards and further optimizes 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 22 March 2011. 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 management during the reporting period

On 22 November 2006, the share appreciation rights plan for senior management 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 management. 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 management agreed and signed individual performance contracts with the Company, with a grant price of HK$4.09. According to the plan, the targeted senior management's 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 management 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$1.0 and HK$1.5, at 50%;

(2) between HK$1.5 and HK$2.0, at 30%;

(3) between HK$2.0 and HK$3.0, at 20%; and

(4) HK$3.0 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 2010, share appreciation rights granted to senior management of the Company are as follows:

			Value (RMB)		
Title	Name	Total shares at end of the year (shares in Thousand)	At 1 January 2010	Changes during the year	At 31 December 2010
Former Non-executive Director	Yuan Guangyu*	723.2	1,279,805	316,265	1,596,070
CEO and President	Li Yong	528.2	934,834	231,016	1,165,850
Former Executive Vice President and CFO	Zhong Hua*	528.2	934,834	231,016	1,165,850
Former Executive Vice President, CSO and Board Secretary	Chen Weidong*	528.2	934,834	231,016	1,165,850
Former Senior Vice President	Li Xunke*	492.8	871,919	215,468	1,087,387
Former Employee Supervisor	Tang Daizhi**	246.3	281,774	261,920	543,694
Vice President	Xu Xiongfei	456.8	808,472	199,790	1,008,262
		3,503.7	6,046,472	1,686,491	7,732,963

Note:

* *During 2010, Zhong Hua resigned as the Executive Vice President and CFO of the Company; During 2010, Chen Weidong resigned as the Executive Vice President, CSO and Board Secretary of the Company; During 2010, Li Xunke resigned as the Senior Vice President of the Company; During 2009, Yuan Guangyu resigned as the non-executive Director of the Company. According to the terms of the SAR Plan, the above senior management has completed the two year service period and all share appreciation rights granted have been fully vested.*

** *During 2007, Mr. Tang Daizhi resigned as the Employee Supervisor of the Company. According to the terms of the SAR Plan, he was entitled to his benefits up to the date of his resignation.*

As of 31 December 2010, share appreciation rights plan of the Company has recognised the payable staff remuneration of RMB7,732,963.

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. In 2009 the Remuneration Committee of the Board conducted 2008 annual assessment of performance of incentive targets. All of the incentive targets passed the assessment. During the reporting period, the Remuneration Committee of the Board conducted 2009 annual assessment of performance of incentive targets and again all of them passed the assessment. On 28 May 2010, the 2009 Annual General Meeting of the Company approved the 2008 and 2009 report of performance assessment for senior management of the Company in the SAR plan.

As approved by the Board, the first exercise 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 exercised 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 has been submitted to CNOOC and is subject to approval. If there are any updated results 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 2009 on 28 May 2010. Results announcement for the annual general meeting were published on the China Securities Journal, the Shanghai Securities News and the Securities Times on 29 May 2010.

The Annual General Meeting of 2009 was held on 28 May 2010 at the Room 504, CNOOC Plaza, 25 Chaoyangmen North Avenue, Docheng District, Beijing. The present shareholders and proxies attended the meeting represented 3,046,145,601 shares which amounted to 67.76% of total number of shares of the Company. The Annual General Meeting was chaired by Mr. Liu Jian, the chairman of the Company. The Annual General Meeting considered and passed by poll the following resolutions:

As ordinary resolutions

1. The audited financial statements and the auditor's report for the year ended 31 December 2009 were approved;
2. The profit distribution and allocation of dividends for 2009 was approved;
3. The Report of Directors for the year ended 31 December 2009 was approved;
4. The Supervisory Committee Report for the year ended 31 December 2009 was approved;
5. The performance assessment reports of the SAR Plan for the senior management for 2008 and 2009 were approved;
6. The re-appointment of Ernst & Young Hua Ming and Ernst & Young as the domestic and foreign auditors for 2010 respectively was approved and the Board was authorised to determine their remunerations;
7. Wu Mengfei, Chen Quansheng and Fong Wo, Felix were elected as directors of the Company;
8. An Xuefen was elected as supervisor of the Company.

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.

875,400 votes were against the above item 2 of the ordinary resolutions (0.03% of total number of votes); 4,841,000 votes were against the item 5 of the ordinary resolutions (0.16% of total number of votes); 3,761,040 votes were against the item 6 of the ordinary resolutions (0.12% of total number of votes); regarding to the item 7 of the ordinary resolutions, 14,580,051 votes were against electing Wu Mengfei as a director (0.48% of total number of votes), and 4,544,000 votes were against electing Chen Quansheng as a director (0.15% of total number of votes); regarding item 8 of the ordinary resolutions, 4,544,000 votes were against electing An Xuefen as a supervisor (0.15% of total number of votes). The rest of the resolutions were approved unanimously and all of the ordinary resolutions were approved.

Regarding the special resolution, 190,450,936 votes were against (6.41% of the total number of votes). As the number of shares voted for the resolution exceeds two-third of the number of voting shares, the special resolution was approved.

II. Particulars of Extraordinary General Meetings

(I) Introduction

1. The first Extraordinary General Meeting:

The Company convened the first Extraordinary General Meeting for 2010 on 28 June 2010. Results announcement for the extraordinary general meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 29 June 2010.

2. The second Extraordinary General Meeting:

The Company convened the second Extraordinary General Meeting for 2010 on 22 December 2010. Results announcement for the extraordinary general meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 23 December 2010.

(II) Details

1. The first Extraordinary General Meeting in 2010

The first Extraordinary General Meeting in 2010 was held on 28 June 2010 at Conference Room 504, CNOOC Plaza, NO.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The present shareholders and proxies totally represented 2,974,736,068 shares which amounted to 66.17% of total number of shares of the Company. The extraordinary general meeting was chaired by Mr. Liu Jian, the chairman of the Company and an On-site and online poll was used in this meeting.

As ordinary resolutions

1. The resolution regarding the fulfillment of conditions for the issuance of domestic listed RMB ordinary shares by the Company to the public was considered;
2. The resolution regarding the Company's feasibility report on the use of proceeds from the issuance of domestic listed RMB ordinary shares was considered;
3. The resolution regarding the use of proceeds from previous issuance was considered;

As special resolutions

1) The resolutions regarding the issuance of domestic listed RMB ordinary shares;

    (1) Class of shares;

    (2) Nominal value per share;

    (3) Number of shares to be issued;

    (4) Target subscribers;

    (5) Arrangement of allotment to original shareholders;

    (6) Method of price determination;

    (7) Method of issuance;

    (8) Arrangement regarding the accumulated undistributed earnings;

    (9) Listing of shares;

    (10) Validity period of resolutions;

    (11) Use of proceeds;

2) The resolution regarding the general authorization from the general meeting to the board of directors to process all related matters incidental to the issuance of domestic listed RMB ordinary shares was considered, and the board of directors' authorization to Liu Jian and Li Yong to process the related matters was approved.

1,360,000 votes were against the above item 1, 2 and 3 of the ordinary resolutions respectively (0.05% of total number of votes) and all of the ordinary resolutions were approved.

Regarding the special resolutions, 1,360,000 votes were against each of the 11 sub-items in item 1 of the special resolutions (0.05% of the total number of votes); 3,160,000 votes were against item 2 of the special resolutions (0.11% of the total number of votes). As the number of shares voted for the resolutions exceeds two-third of the number of voting shares, these two special resolutions were approved.

2. *The second Extraordinary General Meeting in 2010*

The second Extraordinary General Meeting in 2010 was held on 22 December 2010 at Conference Room 504, CNOOC Plaza, NO.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The present shareholders and proxies totally represented 3,332,193,499 shares which amounted to 74.26% of total number of shares of the Company. The extraordinary general meeting was chaired by Mr. Liu Jian, the chairman of the Company.

As ordinary resolutions

1. The resolution regarding the Framework Agreement for Integrated Services entered into between the Company and CNOOC on 5 November 2010 was considered and approved;
2. The resolution regarding the oilfield services and the annual caps of the oilfield services for the three financial years ending 31 December 2013 entered into between the Group and CNOOC Group was considered and approved;
3. The resolution regarding the energy, raw materials and other ancillary services and the annual caps of the energy, raw materials and other ancillary services for the three financial years ending 31 December 2013 entered into between the Group and CNOOC Group was considered and approved;
4. The resolution regarding the property services and the annual caps of the property services for the three financial years ending 31 December 2013 entered into between the Group and CNOOC Group was considered and approved;
5. The resolution regarding the authorization for the directors of the Company to sign the documents in relation to the above connected transactions and other agreements was considered and approved;
6. Li Feilong was elected as an executive director of the Company.

As special resolutions

1. The resolution regarding the amendments to the Articles of Association of China Oilfield Services Limited was considered and approved, and authorization was granted to any directors of the Company or secretary of the board to deal with the related filing, changes and registration (if necessary) and other related matters as a result of the amendments to the Articles of Association of the Company.

1,800,000 votes were against the above item 5 of the ordinary resolutions respectively (0.2% of total number of votes); 8,704,354 votes were against the item 6 of the ordinary resolutions (0.26% of total number of votes). The rest of the resolutions were approved unanimously and all of the ordinary resolutions were approved.

Regarding the special resolutions, 342,000 votes were against (0.01% of the total number of votes). As the number of shares voted for the resolution exceeds two-third of the number of voting shares, the special resolution was approved.

III. Particulars of Class Meetings

(I) Introduction

1. Class Meeting of the A Share Shareholders:

The Company convened the first Class Meeting of the A Share Shareholders for 2010 on 28 June 2010. Results announcement for the class meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 29 June 2010.

2. Class Meeting of the H Share Shareholders:

The Company convened the first Class Meeting of the H Share Shareholders for 2010 on 28 June 2010. Results announcement for the class meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 29 June 2010.

(II) Details

1. The first Class Meeting of the A Share Shareholders in 2010

The first Class Meeting of the A Share Shareholders in 2010 was held on 28 June 2010 at Conference Room 504, CNOOC Plaza, NO.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The class meeting was chaired by Mr. Liu Jian, the chairman of the Company, and an On-site and online poll was used in this meeting.

As special resolutions

1) The resolutions regarding the issuance of domestic listed RMB ordinary shares;

   (1) Class of shares;

   (2) Nominal value per share;

   (3) Number of shares to be issued;

   (4) Target subscribers;

   (5) Arrangement of placement to original shareholders;

   (6) Method of price determination;

   (7) Method of issuance;

   (8) Arrangement regarding the accumulated undistributed earnings;

   (9) Listing of shares;

   (10) Validity period of resolutions;

   (11) Use of proceeds;

2) The resolution regarding the general authorization from the general meeting to the board of directors to process all related matters incidental to the issuance of domestic listed RMB ordinary shares was considered, and the board of directors' authorization to Liu Jian and Li Yong to process the related matters was approved.

As 100% of shares voted for both item 1 and 2 of the resolutions, these two special resolutions were approved.

2. *The first Class Meeting of the H Share Shareholders in 2010*

The first Class Meeting of the H Share Shareholders in 2010 was held on 28 June 2010 at Conference Room 504, CNOOC Plaza, NO.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The class meeting was chaired by Mr. Liu Jian, the chairman of the Company and an On-site and online poll was used in this meeting.

As special resolutions

1) The resolutions regarding the issuance of domestic listed RMB ordinary shares;

   (1) Class of shares;

   (2) Nominal value per share;

   (3) Number of shares to be issued;

   (4) Target subscribers;

   (5) Arrangement of placement to original shareholders;

   (6) Method of price determination;

   (7) Method of issuance;

   (8) Arrangement regarding the accumulated undistributed earnings;

   (9) Listing of shares;

   (10) Validity period of resolutions;

   (11) Use of proceeds;

2) The resolution regarding the general authorization from the general meeting to the board of directors to process all related matters incidental to the issuance of domestic listed RMB ordinary shares was considered, and the board of directors' authorization to Liu Jian and Li Yong to process the related matters was approved.

Regarding the special resolutions, 1,360,000 votes were against each of the 11 sub-items (except for sub-item 8) in item 1 of the special resolutions (0.24% of the total number of votes) and 1,402,000 votes were against sub-item 8 (0.25% of the total number of votes); 3,160,000 votes were against item 2 of the special resolutions (0.56% of the total number of votes). As the number of shares voted for the resolutions exceeds two-third of the number of voting shares, these two special resolutions were approved.

9. Social Responsibility Report

Under the impact of the financial crisis and the Gulf of Mexico oil spill in 2010, the Company adopted effective measures such as increasing revenue and reducing expenditure with the united efforts of staff members in response to the negative positions such as intensified competition and volatility in price of services, so as to secure a steady growth in economic returns. The Company focused on optimizing a total risk management system, fully implemented the establishment of the internal audit system and secured its regulated operation. Through the continued improvement of the QHSE and SMS system, strengthening of potential risk management, establishment of the safe operation system and enhanced monitoring and inspection, the safety of staff and operation was secured. The Company adopted effective measures to improve energy saving and emission reduction and environmental protection as well as adding the concepts of low carbon and harmonious development into its production and operation. While protecting the rights of its employees, the Company has promoted team building and continued to improve the quality and skills of staff at all levels. The Company has actively participated in charitable activities and pursued development with the society. Through its efforts, the Company has maintained a strong and steady growth as well as actively performed its social responsibilities and continued to strengthen its sustainable development.

In 2010, the Company was on the list of the Top 80 Companies Performing Social Responsibilities in China.

1 Corporate governance and stakeholders

The Company focused on building a "five-in-one" monitoring system to verify and improve the effectiveness of the internal control system through discipline, supervision and auditing. We implemented risk evaluation throughout the whole process of prevention, assessment and improvement with success. Meanwhile, trust between the Company and the stakeholders was strengthened, so as to increase the corporate and social value.

1.1 Internal audit and monitoring and supervision

In 2010, the internal audit of the Company centered around the annual tasks and adhered to the direction of risk management based on the quality of audit and internal audit principles targeting strengthened execution. It was effectively implemented according to the annual audit schedule. Regarding to large scale equipment construction projects, the Company applied procedural audit and final settlement audit; internal audit and economic accountability system were carried out every two years in direct subsidiaries based on the auditing principles of "focus, effective coverage and moving forward".

Through the audit, the Company have found out in time various problems in operation and management, which has provided a lot of detailed and practical information upon which company decisions can be based. At the same time, we have strengthened the correction and tracking of problems and effectively solved the urgent problems in operation. For the improvement of our management system and enhancement of our execution, the monitoring function of internal audit played a better role in acquiring certain experiences in an innovative way of audit management.

1.2 Establishment of internal control and overall risk management

The Company added, supplemented and amended a series of internal control system in time in 2010 according to our development needs with a total of 98 articles in the system, of which 47 were added and 51 were amended and improved. The Company promulgated the "System for procurement and materials management", signifying the thirteenth internal control system existing in the Company. Whilst improving the system, the Company focused on the review on system execution in 2010 and took system training each unit self-examination, special inspection by jointly authority departments, end-year review etc., so as to inspect the system implementation, to identify problems in execution, to analyze and to sum up the reasons for ineffective execution in the system.

Risk management has changed from "project management" into normal management and a management system of "normalized overall risk management" was established to integrate "risk identification, evaluation, alert, control and supervision" into all aspects of our daily operation. General principles, all staff and all process principles and accountability principles of staff-in-charge and direct subordinates were observed in risk management; the concept of risk management and corporate risk culture were gradually formulated in the process of risk management, which provided effective protection for our continued and steady development.

1.3 Incorruptible practice and anti-corruption

To strengthen internal management, the Company revised, improved and promulgated the responsibility system for anti-corruption in 2010 based on the objective changes and signed a "Responsibility Statement" with 27 direct management staff to further implement "double responsibilities in one position". The Company practically implemented problem solving in projects construction, management of small safes and compliance operation, as well as the monitoring of incorruptible practice. The Company also continued to improve the internal control system and strengthen its execution to plug up management loopholes effectively. No illegal case such as corruption occurred for the whole year.

1.4 Stakeholders

Trust and support from the Company's stakeholders are the bases for the survival and sustainable development of the Company. The Company paid attention to communication and idea exchange with the stakeholders to understand their opinions, concerns and suggestions on its sustainable development. Through an open and transparent communication system, the Company integrated the suggestions and requirements of the stakeholders into the establishment and implementation of the Company policies, strategies and plans, so as to reward them with the results of development and to achieve a cooperative and win-win relationship with mutual trust and benefit.

Details of and communications between key stakeholders are as follows:

Stakeholders	Concerns	Ways of communications	Key measures
Government	legal operation, safety and environmental protection, taxation	updating on laws and regulations, inspection, visits, reports and statements strengthened information communications and exchange	compliance with laws and regulations, improvement, of internal management, conscious of tax payment
Shareholders	interest of shareholders, information disclosure, corporate governance	regular reports, general meetings and daily communications, information disclosure	assurance on quality in information disclosure maintenance of close communications, compliance disclosure
Employees and labour union	career development, protection of interests, health and safety	training, staff representatives meetings, communications and exchange	strengthened staff training, staff congress, health checks, increased information communications and exchange
partners and subcontractors	mutual benefit cooperative relationship	negotiation of business, cooperation in projects, information exchange	tender meetings, adherence to win-win concept, business exchange and sharing of information and resources
Charity and non-governmental organizations	social welfare, environmental protection	active participation in charity, information disclosure, participation in meetings and activities	support in disaster areas and helping the poor, donation to schools, energy saving and emission reduction, increased information communications and exchange

2 Safety and environmental protection

Safety and environmental protection are the most basic social responsibilities of the Company, and are vital for the Company's sustainable development. For management of safety and environmental protection, the Company strengthened the establishment and implementation of the QHSE/SMS system in 2010. The Company paid close attention to risk management, enhanced training, strengthened the management against the subcontractors, tracked and monitored the major projects, and carried out safety inspections and special inspections with enhanced self-test, self-inspection and monitoring. Through these efforts, the overall safety for production was steady throughout the year with no major accident and the QHSE management for the year was achieved (see table below).

Achievement of QHSE management objections in 2010

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 small scale and above	No incident of responsibility involving oil spillage of small 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	0.2
6	Coverage for staff health check over 96% and all frontline marine staff holding health certificate	Coverage for staff health check achieved 98%; all frontline marine staff holding health certificate

2.1 Safe Operation

Safe production is the fundamentals and guarantees of the Company's development. The Company implemented safe operation in all aspects as one of its core values and further improved the position of safety.

1) Effective annual review of the system

In 2010, the Company has further strengthened the review of its QHSE system and facilitated the continued improvement of the QHSE management system. The review mainly focuses on the division leaders and their related departments, so as to find out the problems in operation of the QHSE system. The content of the review has expanded to certain extent not only complied with the standards of the SMS or QHSE system of each division and the laws and regulations, but also included the implementation of each division on related documents of the Company. The Company arranged cross-review by reviewers from each division for learning and communications among them.

2) Enhancement of subcontractor management and strengthening of review

The Company implemented review of the QHSE management system, the HSE plan and the on-site HSE management of the subcontractors for large scale construction projects before and during the construction and before the inspection of the projects.

In 2010, the Company conducted a total of 18 on-site reviews on different kinds of shipyards and vessels of four subcontractors. The scope of review during the year was larger as compared with last year as the Company not only implemented reviews before and during the construction and at the inspection, but also reviews of the hulls, main equipment (safety and prevention equipment) and crew competency, which provided basic guarantee for safe production through these effective reviews.

3) *Strengthening of safety inspection and elimination of hidden risks*

The Company gradually organized, arranged and implemented various safety inspections and commenced its safety inspection activities with plans so as to achieve "planning for works and actions with step-by-step confirmation and conclusion", which ensured the success of safe operation. Meanwhile, the Company further improved the environment for safe operation through elimination of hidden risks.

- The Company commenced the annual safety inspection and the safe operation inspection in spring. The strengthened self-inspections with large scale and scope effectively dealt with the hidden risks through different forms of safety inspections and have certain effects in control of risks and prevention of accidents.

- Special inspection of the well control system. The Company have analyzed and learnt from the blowout, explosion and oil spill of the Deepwater Horizon drilling platform in the Gulf of Mexico in the U.S.A. on 20 April. Accordingly, the Company performed special safety inspection on the safety of the well control system, amended the related system and standards for well control and strengthened the management on aspects of related equipment and facilities for well control such as utilization, repair and maintenance so as to ensure normal operation of the well control equipment.

- Special inspection on fire safety. The scope of inspection includes the implementation of safety management in offshore operating units, workshops and plants of onshore units, and regulation implementation of safety management of flaming plants; availability of fire equipment; and the implementation of fire prevention works in all levels of authorities and office buildings. The safety awareness of staff in fire prevention, fire fighting and self-help was enhanced through inspections, advertising and rehearsals.

4) *Enhancement of emergency management and response capabilities*

- In 2010, the Company made a number of emergency rehearsals including joint rehearsals both on board and on land, and on-site emergency rehearsals on platform, on board and on land.

- The Company made 2 rehearsals including level one joint emergency rehearsal of blowout, fire and ship abandoning both on board and on land, improved the emergency response programs and procedures of all levels and enhanced the emergency response capabilities of the emergency command systems of all levels.

- The Company renewed the overseas emergency medical assistance agreement covering all overseas employees with International SOS.

5) *Contingency Measures for Libyan Crisis*

Since 15 February 2011, Libya has been in turmoil. Given the tense situation, the Company implemented the contingency measures and formed the Libya contingency team on 21 February and evacuated 77 staff stationed in Libya, including 22 staff of our contractors while preserving our assets. During the evacuation, the Company has received care and assistance from relevant authorities of the PRC government, the embassy in Libya and CNOOC and has also reported the progress of the evacuation to the family members of our staff in Libya and the related subcontractors in a timely manner to alleviate their concern.

During the process of the contingency plan, we adhered to the principle of "human based and safety first" and paid attention to the situation in Libya 24 hours a day. We also maintained close contact with our staff in seven areas of Libya including the desert and the capital and issued various instructions promptly. Facing the unfavourable factors such as changing situations, short of time and inadequate resources, the Company overcame the difficulties and mobilised all possible resources to evacuate our staff with international organisations and our partners in Libya. Our 77 staff in Libya all evacuated and returned to China on 28 February 2011 after seven days and eight weights' effort. The whole evacuation was organised effectively in a orderly manner and demonstrated the effectiveness in our contingency system.

2.2 Environmental protection

The Company paid attention to environmental protection as well as ensuring safety in production and operation and established itself as a "resource saving" and "environmental friendly" enterprise. The Company strictly abided by international covenants, international and domestic laws and regulations, and various requirements concerning environmental protection in various business activities. The Company strengthened the recycling of pollutant, strictly controlled emission and tried hard to minimize the damage to the environment.

1) The environmental protection works of each unit of the Company are managed systematically and related emergency budgets are formulated for prevention of oil spill. Emergency rehearsals for oil spill are carried out with records in accordance with the requirements of the regulatory authorities of the government; the environmental protection equipment on the platforms/vessels is in good condition and repair and maintenance records for environmental protection equipment are established.

2) The Company signed annual agreements with qualified units to recycle pollutant such as industrial, solid and household trash, hazardous waste and sewage. The pollutant of the production and operation sites was discharged within limits in accordance with the regulations and no pollution incident was recorded.

3) To fulfill the requirement of the "Effluent limitations for pollutants from offshore petroleum exploration and production" and strengthen the equipment requirement of new projects, the household sewage treatment facilities on the drilling platforms which did not meet the emission standard were modified.

4) To protect marine living things, all vessels were painted with high-quality environmental friendly paint.

5) The Company adopted new technology to facilitate the management for environmental protection. The Company researches and develops drilling waste treatment technology to effectively reduce the emission of drilling wastes.

2.3 Green and low carbon

In 2010, we comprehensively pushed forward our energy saving and emission reduction tasks according to the development concepts of "cleanliness, green, low carbon and circular economy" with support of system and technology and protection of system and mechanism.

1) Strengthening of projects with results in technical energy saving

Remarkable results have been achieved in upgrading of equipment, process optimization and technical innovation in 2010:

- The Company has injected a large amount of capital in the acquisition, upgrading and transformation of equipment and facilities in relation to energy saving and emission reduction.
- The two sets of marine system mooring drums have commenced operation. It is estimated that a 7,000-horsepower tugboat can reduce its diesel consumption by 1,654 tonnes per year by changing the low speed navigation mode to the system mooring mode, which is remarkable in terms of energy saving and emission reduction and economic benefits.
- A total of 17 salt spray filters were installed in the Penglai 19-3 oilfield, with 38,880 kwh of power consumption saved per platform per month.

2) Strengthening of process control through internal inspection and energy audit

- Commencement of inspection on energy saving and emission reduction. Systematic inspection and analysis were carried out on the energy (water) consumption and system (process and main equipment) of each unit, energy consumption statistic boundary, the energy (water) consumption for the "Eleventh Five-Year", management of measuring instruments (equipment and testing), system establishment, energy (water) saving measures adopted and the existing problems and shortcomings.
- Commencement of energy audit and monitoring. Energy audit was conducted on the Geophysical Services Division and environment monitoring and energy consumption monitoring were conducted on certain units. The related units were responsible for the implementation of corrective measures for the problems found during the audit and monitoring.

3) Energy saving appraisal on large construction and transformation projects

Appraisal was conducted on the energy saving measures of our large construction and transformation projects and suggestions and requests were made to the project implementation unit to facilitate control of sources of energy saving and emission reduction in fixed asset investments.

3 Staff and the Company

Employees are the most important wealth and resource of our Company. We always follow the "Human based" ideology to focus human resources management as one of our core duties for social responsibility, protect employees' rights and emphasize on their identity, so as to promote their holistic development and enhance the value of both the Company and our employees.

3.1 Labour rights protection

We strictly abided by the relevant laws and regulations of the PRC and established and continued to improve the employee management system to protect the legitimate rights of employees and promote harmony between the Company and employees.

1) Employment contracts were negotiated and entered into on an "equitable and voluntary" basis and clearly defined the rights and obligations of employees.

2) We provide medical insurance, pension, insurance for work-related injury, unemployment, housing fund, supplementary medical insurance, insurance for personal accident and injury and corporate supplementary pension on behalf of employees to provide reliable and multiple protection for employees.

3) We adhered to fair treatment for employees of different nationality, race, gender, religion and culture and equal rights for female and male employees. We prohibited the use of child labour and abandoned all kinds of forced and mandatory labour and implemented the paid leave system.

4) We and our labour unions emphasized on the protection of employees' legal rights and collected advice from employees through the Association of Employee Representatives and conferences as well as encouraging the employees to participate in the management of production and operation and supervision of matters to fully exhibit their impact in participation and management and supervision in a democratic manner, which effectively mobilize their enthusiasm, initiative and creativity in their positions.

3.2 Staff development

Staff development is the basic guarantee for corporate development. We continued to improve our personnel training and promotion system and paid attention to the needs of employees in different stages of development to achieve a harmonious win-win situation for their growth and our development.

1) We actively established an equal competition work environment and provided clear career development path for our staff. We have set up a scale of job standards in management (M series), technology (T series) and works (W series) 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 have targets to enhance their own capabilities and continue to increase their value.

2) To maximize the potential of employees, we established a performance management system. Through the implementation of the performance plan, performance evaluation and performance improvement, the efficiency, innovation and job competence of staff were enhanced and the results of performance evaluation have become an important basis for career development planning in staff promotion, incentives and training.

3) We further promoted the quality of staff and provided a broad stage for the growth of our front-line staff. In 2010, we organized the professional skill (cementing operators and cementing laboratory workers) contest. The contest created a corporate culture atmosphere of "Learn your techniques, practice your skills, love your industry" and selected some technical talents with good techniques and quality.

4) Our employees Hao Zhenshan and Zhang Rong were named national model workers in 2010. They have inherited and promoted the glorious tradition of the oil industry and the hard working, united and cooperative, austere, researchful, pioneering and sacrificial spirit, and injected the characteristics of COSL and the new era into the "spirit of Daqing" and the "spirit of an iron man" and fully displayed the contribution of a professional oilfield service company to the continued development in the offshore oil business.

3.3 Staff training and education

Training was centered around our staff development strategy as all our training programmes had specific targets resulting in substantive results, which improved the knowledge and working skills of employees and met our development needs.

1) For international staff training, we incorporated overseas operational knowledge and practice into our training course starting from the enhancement of the English communication skills to improve the general quality for internationalization, which formed a training course system for the general ability for internationalization with our characteristics of overseas operation.

2) We selected backup staff from middle management with development potentials to participate in the "training class for strategic backup staff" and added eight training modules including internal management system, multinational cultural communication and international business etiquette based on the EMBA module to develop strategic thinking and leadership in staff of international business management with multi-cultural background.

3) To reinforce the foundation for basic management, we conducted the "enhancement of basic management skills" training for frontline team leaders and basic management staff. Comparing the performance of the participants before and after the training, improvement for the management of the team leaders was obvious and a good atmosphere of learning, skill polishing, innovation and contribution was developed within the Company, which trained a large number of outstanding teams and improved the overall quality of our employees.

4) The following is the statistics of the training held in 2010:

Managerial skill category:	5,123 person-time
Technical category:	11,314 person-time
Operational category:	3,170 person-time

3.4 Occupational safety and health

Occupational safety and health reflects our ideology of "People-oriented and life-cherishing". We continued to improve various rules and regulations, strengthen the results of training and actively proceeded with our works through active prevention and strengthened management.

1) System establishment. We formulated the "Staff health record regulation", "Occupational safety regulation" and "COSL rules for the implementation of occupational safety management" and revised a number of rules and regulations including the "COSL employee protection regulation" and "COSL employee health regulation".

2) Establishment of health screening and health records. We organized routine physical examination for onshore staff and health certificate examination for offshore staff in accordance with company regulation and classified staff in contact with dangerous factors of occupational diseases and organized occupational health checks for them. The Company and its subsidiaries have established the "Occupational disease record" and an "Staff occupational health record" for staff in contact with dangerous factors of occupational diseases. In 2010, our staff health check rate reached 99%, and all frontline staff worked with qualified health certificates.

3) Detection, assessment and prevention of dangerous factors of occupational diseases in workplace. We formulated the detection and assessment plan for dangerous factors of occupational diseases in workplace and commenced the detection and assessment of dangerous factors of occupational diseases in workplace. Each unit has equipped with preventive facilities against hazards of occupational diseases in accordance with the requirement of the "Summary of dangerous factors of occupational diseases in the workplace of the Company" and performed repair and maintenance on the preventive facilities within the required period.

4) Improvement of staff health. For the improvement of the health level of our staff, the following works have been carried out:

- daily observation on the general health of our employees and control and prevention of sudden illness and communicable disease.
- increased promotion and popularization of health care knowledge and prevention of diseases and health care for staff to increase their awareness on health. We promoted simple exercise such as aerobics for our staff for physical and mental relaxation between works.
- promotion and education of mental health knowledge through various channels and ways.
- promotion of scientific catering for the catering companies to have rational use of oil and salt in their foods.

4 Social contribution and charity

We insist on the harmonious co-existence of company development and social progress. In 2010, while we achieved sustainable and healthy development, we strived to give back to society and stakeholders and actively participated in charity works.

4.1 Economic Contribution

In accordance with the HKFRS, the Company achieved operating revenue of RMB17,561.0 million, operating profit of RMB5,200.1 million and net profit of RMB4,128.0 million for 2010. Except that operating revenue decreased by 1.8%, operating profit and net profit increased by 16.4% and 31.7%, respectively, compared with last year.

4.2 Serving the community

We supported and participated in charity such as donation of funds, provision of scholarships and poverty relief work with high regards on social responsibilities.

1) Phase 1 of 7 Hope Schools in Yunnan subsidized by us was fully completed and 76 teachers and 2,452 children from the mountainous regions "bade farewell" to the dangerous old buildings and moved into the new and bright classrooms. In view of the frequent rate of earthquake in Yunnan Province, we increased the earthquake resistance level of every Hope School to Grade 8 and tracked the construction process regularly.

2) In 2010, we donated RMB19.7 million to the disaster area in Sichuan.

3) Yunnan and Guizhou suffered severe drought and a total of RMB1.407 million were donated to the disaster areas by 13,062 of our staff.

4) The staff of the Company donated RMB475,000 to the Yushu diaster area in Qinghai.

5) We organized youth volunteers to help the retired with difficulties and empty-nesters and show their care for the children in orphanages.

4.3 Problem solving

1) We pay attention to and care about the living of our staff. We established "Home of youth" in apartments for single staff with books about science and inspiration to open up network and enrich the leisure time of young employees; the canteens strived to improve their food and ensure to provide nutritious, clean and abundant food to the employees; we organized a number of youth meetings and "dating clubs" and helped the young employees to overcome their difficulties.

2) We care about the families of our employees and paid attention to those with difficulties. In 2010, we visited a total of 8,269 people in the production line, holiday workforce and of those with difficulties and handed out solatium amounted to RMB2,260,300.

4.4 Marine rescue

1) In 2010, our offshore utility vessels participated in 17 marine rescues and successfully saved 11 people's lives.

2) After the oil spill due to the Dalian pipeline explosion, we deployed three vessels to participate in rescue and emergency oil spill treatment and received compliment from authorities such as the Dalian Municipal Government and the State Oceanic Administration.

5. Overseas social responsibilities

In the Company's overseas developments, we strictly comply with the countries' environmental protection regulations, execute the latest standards in the industry, maintain an environmental way of operation, reduce the emission of drilling fluids, various types of sewage and solid waste during the exploration of oil and gas, reduce the impact of our operation on the environment to the greatest extent and protect the ecological environment of the operating areas.

We focus on staff localization and diversification, uphold the staff-hiring policy of fairness, freedom and anti-discrimination, respect the different values, personalities and privacy of the staff, strive to provide employment, training and development opportunities to the local people and actively perform the responsibilities of an employer.

To protect the health and safety of our overseas staff, the Company carried out systematic health and safety trainings, strictly execute body check system, provide work protection equipments for the staff, keep improving the working environment and purchase various insurances so as to provide our staff more protection.

In order to respond to emergency events such as natural disaster and social security problems overseas, the Company has established a overseas staff information system so as to understand the health and safety of the overseas staff in a timely manner. We assess each type of risks, formulate contingency plans, enhance emergency management training and raise the ability of the staff to cope with emergency events and the ability to save themselves; establish connection with international medical organizations and rescue groups so as to obtain timely support and help when necessary.

Respect local religions, cultures and customs, actively participate in local charitable activities, keep enhancing the harmony with the local community. Passionately share the technology and experiences of the Company so as to facilitate the development of the related industries in that area; organize sports competitions, hiking, etc, to enhance the communication and understandings among the local staff; provide humanitarian help to the disaster area, help the local residents to pass the difficult times; support local education development through the donation of books, etc.

6 Objective and prospect

6.1 Medium-term objective

The medium-term objective of our development is to develop into an international oilfield service company with competitiveness to a certain extent in 2015.

6.2 Future prospect

We will continue to improve the safety and environmental protection management system and strengthen our audit and implementation; focus on safety, thoroughly assess the hidden risk and establish protective measures, strengthen the safety and environmental protection monitoring in key aspects and enhance our emergency response capabilities; accelerate the application of advanced technology in energy saving and emission reduction and strive to create a resources saving and environmental friendly enterprise.

We will perform team building by further improving their overall quality, improve the personnel evaluation system, strengthen our staff training and focus on protecting the interests of our employees to provide them with the best way to achieve in their lives.

We will continue to participate in charity such as disaster relief, donation of funds and provision of scholarships and poverty relief and to enhance the results of charitable activities to facilitate the harmonious development of the Company and the society.

As an oilfield services company with a high degree of social responsibilities, we will continue to fulfill our responsibilities, adhere to our strategic objectives, steadily promote our business development and further improve our corporate governance and business management, so as to give back to the society and stakeholders by maximizing our value.

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)	
Liu Jian	Chairman, non executive director	Male	52	2009.6.3~2012.6.2	–	–	N/A	462,656	–	–	Yes
Li Yong	Executive director, CEO and president	Male	47	2009.6.3~2012.6.2	–	–	N/A	912,279	52.82	1,165,850	No
Li Feilong	Executive director, Executive vice president and CFO	Male	46	2010.12.22~2013.12.21	–	50,000 H shares	N/A	114,740	–	–	No
Wu Mengfei	Non executive director	Male	55	2010.5.28~2013.5.27	–	–	N/A	–	–	–	Yes
Tsui Yiu Wa	Independent non executive director	Male	61	2009.6.3~2012.6.2	–	–	N/A	400,000	–	–	No
Fong Wo, Felix	Independent non executive director	Male	60	2010.5.28~2013.5.27	–	–	N/A	200,000	–	–	No
Chen Quansheng	Independent non executive director	Male	60	2010.5.28~2013.5.27	–	–	N/A	200,000	–	–	No
An Xuefen	Chairman of Supervisory Committee	Female	56	2010.5.28~2013.5.27	–	–	N/A	–	–	–	Yes
Zi Shilong	Employee Supervisor	Male	39	2010.7.26~2013.7.25	–	–	N/A	459,344	–	–	No
Wang Zhile	Independent Supervisor	Male	62	2009.6.3~2012.6.2	–	–	N/A	80,000	–	–	No
Dong Weiliang	Executive vice president and CTO	Male	53	2007.6~	–	–	N/A	638,129	–	–	No
Xu Xiongfei	Vice president and chairman of Labour Committee	Male	49	2007.6~	–	–	N/A	770,364	45.68	1,008,262	No
Yu Zhanhai	Vice president	Male	56	2007.8~	–	–	N/A	595,418	–	–	No
Cao Shujie	Vice president	Male	46	2010.3~	–	–	N/A	588,204	–	–	No
Yang Haijiang	Secretary of the board	Male	41	2010.4~	–	–	N/A	356,050	–	–	No
Total	/	/	/	/	–	50,000 H shares	/	5,777,184	98.50	2,174,112	/

* *Include share appreciation right accrued during the year.*

** *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. Liu Jian

Chinese, male, born in 1958, Chairman and a Non-Executive Director 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 29 years of experience in the oil and gas industry. He served as the manager of CNOOC Bohai Corporation Oil Production Company, a subsidiary of CNOOC, 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, the director of CNOOC China Limited, CNOOC International Limited and CNOOC Southeast Asia 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. In May 2010, Mr. Liu was appointed as Deputy General Manager of CNOOC. He was also appointed as Chairman of COSL and Offshore Oil Engineering Co., Ltd in August and December 2010 respectively.

Mr. Li Yong

Chinese, male, born in 1963, Executive Director, Chief Executive Officer and the President of COSL. He graduated from Southwest Petroleum Institute with a Bachelor in Petroleum Engineering in 1984. 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 August 2010 Mr. Li has been the Executive Director, Chief Executive Officer and President of COSL. From April 2009 to August 2010, he served as Executive Director and President of COSL. From May 2006 to April 2009, he served 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 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 27 years.

Mr. Li Feilong

Chinese, male, born in 1964, Executive Director, Executive Vice President and CFO of COSL. He graduated from China University of Petroleum in 1986 with a Bachelor Degree in Management Engineering, and joined CNOOC in the same year. From 1986 to 1992, he served as an economist and senior analyst in the Planning Department of CNOOC. From 1993 to 1997, he served as senior auditor and audit manager in the Audit Department. From February to September 1998, he received a staff training from a petroleum company of the United States. From 1999 to 2001, Mr. Li served as head of the Accounting/Finance/Taxation Team of IPO Office and the Finance Manager of Hong Kong Office of CNOOC Ltd. From 2001 to 2003, he served as Assistant Controller of CNOOC Ltd and has been Controller since 2004. He has also been the director of CNOOC Southeast Asia Ltd, a subsidiary of CNOOC Ltd. and the director of CNOOC Insurance Company, a subsidiary of CNOOC. In 2007, Mr. Li was appointed as a member of Financial Accounting Standards Advisory Council by the Trustees of the Financial Accounting Foundation. In 2010, he was appointed as a member of the International Financial Reporting Standards Interpretations Committee by the Trustees of International Financial Reporting Standards Foundation. Mr. Li was appointed as the Executive Vice President and CFO of the Company on 16 September 2010 and Executive Director of the Company on 22 December 2010.

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 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 was appointed as Deputy Manager of Financial Planning Department and General Manager of the Funds Planning Department of CNOOC from 1988 to September 1999. Mr. Wu is Chairman of China Blue Chemical Ltd., Aegon-CNOOC Life Insurance Co., Ltd., CNOOC Insurance Ltd. and CNOOC Investment Co., Ltd.

Mr. Tsui Yiu Wa

China (Hong Kong) by nationality, male, born in 1949, an Independent Non-Executive Director of COSL. He has more than 32 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. Mr. Tsui is an independent non-executive director of Ageas Insurance Company (Asia) Ltd and Ageas Asia Holding Limited. He is also a director and the Chairman of Hong Kong Professional Consultant Association Limited and an independent executive director of Industrial and Commercial Bank of China (Asia) Ltd. At present, Mr. Tsui also serves as an independent non-executive director of number of listed companies in Hong Kong and NASDAQ, namely China Chengtong Development Group Ltd., COSCO International Holdings Ltd., China Power International Development Ltd., China Blue Chemical Limited, Pacific Online Limited, Melco PBL Entertainment (Macau) Limited and ATA Inc.

Mr. Fong Wo, Felix

JP, China (Hong Kong) by nationality, born in 1950, an Independent Non-Executive Director of COSL. He is a founder of Arculli Fong & Ng and a lawyer consultant of King & Wood. Mr. Fong gained a first-class honours and department chairman honours engineering degree in Canada in 1974, and received a bachelor degree in Law at Osgoode Hall Law School in Toronto in 1978. Mr. Fong is qualified to practice as a solicitor in England and Wales since 1986 and was admitted as a solicitor of the Supreme Court of Hong Kong in 1987. In 1992, Mr. Fong was appointed as one of the China-Appointed Attesting Officers in Hong Kong. In 2005, Mr. Fong was appointed as a Justice of the Peace by the Government of Hong Kong, and was awarded as a Bronze Bauhinia Star by the government of Hong Kong in 2009. He served at various times on the Advisory Council on Food and Environmental Hygiene, Town Planning Board, Film Development Council, Liquor Licensing Board, Broadcasting Authority, and Betting and Lotteries Commission as a member and a chairman. He is a member of the Guangdong Provincial Committee of Chinese People's Political Consultative Conference, and the director of China Overseas Friendship Association. Mr. Fong is an independent non-executive director of Kingway Brewery Holdings Limited (Stock Code: 00124), SPG Land (Holdings) Limited (Stock Code: 00337) and Evergreen International Holdings Limited (Stock Code: 00238), and was a non-executive director of Cinda International Holdings Limited (Stock Code: 00111) between May 2000 and December 2008. (The above 4 companies are Listed on the Main Board of the Stock Exchange).

Mr. Chen Quansheng

Chinese, male, born in 1950, an Independent Non-Executive Director of COSL. He is a counselor of the State Council of PRC. Mr. Chen graduated from the Beijing Institute of Economics in 1982 with a bachelor degree in Labour Economics. He has worked, among others, at the State Council staff education management committee, the National Economic Commission, State Planning Commission, the State Economic Restructuring Commission, the State Council Production Committee, the State Council Production Office, the State Council Economic and Trade Office, Economic and Trade Commission, State Council Research engaged in macro–economic policy research and enterprise reform and management. He is also an executive member of the council of the China Enterprise Confederation, the China Entrepreneurs Association, China Enterprise Group Improvement Association and the Chinese Enterprises Investment Association.

Boards of Supervisors

Ms. An Xuefen

Chinese, female, born in 1954, Chairman of Supervisory Committee of COSL, member of the Chinese Communist Party and a senior administrative officer. Ms. An graduated from the Tianjin Radio & TV University in Party Management. From June 1992 to March 2002, Ms. An was the union president of CNOOC Bohai Corporation, and was the deputy party secretary of CNOOC (China) Limited Tianjin Branch and secretary of the disciplinary committee and acting union president between March 2002 and April 2003. Between April 2003 and July 2005, Ms. An was the Vice President, Deputy Party Secretary, secretary of the disciplinary committee and acting union president of CNOOC (China) Tianjin Branch. From July 2005 to September 2006, Ms. An was the party secretary of CNOOC Bohai Corporation, and from September 2006 to November 2009, was the party secretary and secretary of the disciplinary of CNOOC Bohai Corporation.

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 an Independent Supervisor of COSL.

Mr. Zi Shilong

Chinese, male, born in 1971, an Employee Supervisor of COSL. He obtained a bachelor's degree in oil engineering from the University of Petroleum (East China) and a master's degree in oil corporation management from the training institute of ENI S.p.A. in Italy. Mr. Zi was appointed as an Employee Supervisor of COSL in July 2010 and he is the general manager of the Human Resources Department of COSL since February 2010. Between

March 2006 and January 2010, Mr. Zi was the general manager of the Indonesian company of COSL. He has been the deputy general manager of the Production Optimization Division of COSL from December 2005 to March 2006. Between November 2002 and December 2005, he was the general manager of the cementing service center of the Oilfield Technical Services Division of COSL. From January to November 2002, he was the manager of the Cementing Division of COSL. Between August and December 2001, he was the deputy manager of the cementing company of Petrotech Services, CNOOC. He was the project manager of the Project Division of Petrotech Services, CNOOC from July 2000 to July 2001. He studied at the training institute of ENI S.p.A. in Italy from July 1999 to July 2000 and was an engineer of the cementing company of Petrotech Services, CNOOC from July 1994 to July 1999. He has been working in the petroleum and natural gas industry for over 17 years.

Biographies of Company's Senior Management

Mr. Li Yong

Please refer to Biographies of Directors.

Mr. Dong Weiliang

Chinese, male, was born in 1957, Executive Vice President and Chief Technical Officer of COSL, Bachelor in Petroleum Geology of Geological Department. Mr. Dong has been Executive Vice President and Chief Technical Officer 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 29 years of working experience in the oil and natural gas industry.

Mr. Li Feilong

Please refer to Biographies of Directors.

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 34 years of experience in the oil and natural gas industry.

Mr. Yu Zhanhai

Chinese, male, was born in 1954, Vice President of COSL, Bachelor in Geophysics. He is 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 32 years of experience in the oil and natural gas industry.

Mr. Cao Shujie

Chinese, male, born in 1964, Vice President of COSL. He graduated from the East China Petroleum Institute in 1987 and received his MBA and EMBA degree from Tianjin University and China Europe International Business School respectively. Mr. Cao was appointed as Vice President of COSL in March 2010. Between April 2006 and March 2010, he was the general manager of the Drilling Division of COSL. From November 2001 to April 2006, he was the deputy general manager of the Drilling Division of COSL. He has been the drilling team leader, deputy superintendent, platform deputy manager and platform manager in Bohai Oil Corporation and China Offshore Oil Northern Drilling Company during the period from July 1987 to November 2001. Mr. Cao has around 24 years of experience in the oil and natural gas industry.

Mr. Yang Haijiang

Chinese, male, born in 1969, board secretary of COSL. He holds a bachelor degree in English from the China People's Liberation Army International Relations College in 1991 and is qualified as a lawyer in the PRC since 2003. In 2008, Mr. Yang obtained the qualification of corporate secretary issued by the Shanghai Stock Exchange. Mr. Yang joined COSL in 1998 after his retirement from the People's Liberation Army with the rank of Captain, and has since May 2003 been appointed an In-house Legal Counsel of the Corporate Secretarial Department of the Company, Manager in charge of Corporate Governance and Representative on Securities Matters responsible for handling legal related matters of the board of directors, the board of supervisors and shareholders of the Company. In April 2010, Mr. Yang was appointed as board secretary of the Company.

II. Work Positions in the Company of Shareholders

Name	Name of Shareholder	Position	Commencement of term	Termination of term	Remunerations and allowances received
Liu Jian	China National Offshore Oil Corporation	Vice General Manager	May 2010	Until now	Yes
Wu Mengfei	China National Offshore Oil Corporation	Chief Accountant	April 2006	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	Ageas Insurance Company (Asia) Ltd, etc.	Independent Non-Executive Director	2007	Until now	Yes
Fong Wo, Felix	Kingway Brewery Holdings Limited, etc.	Independent Non-Executive Director	2007	Until now	Yes
Chen Quansheng	Counselors' Office of the State Council	Counselor of the State Council	2008	Until now	Yes (Note)

Note: The remuneration was implemented according to relevant reglation of civil servant.

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
Wu Mengfei	Yes
An Xuefen	Yes

IV. Change of Directors, supervisors and senior management

1. Changes in Directors

(1) The Company convened the 2009 Annual General Meeting on 28 May 2010. Mr. Wu Mengfei, Mr. Fong Wo, Felix, and Mr. Chen Quansheng were elected as directors of the Company (in which, Mr. Wu Mengfei was selected as Non-executive Director and Mr. Fong Wo, Felix and Mr. Chen Quansheng were elected as Independent Non-executive Directors. Mr. Gordon C.K. Kwong and Mr. Simon X. Jiang retired and ceased to be Independent Non-executive Directors of the Company) by cumulative voting in the meeting, with a term of office for three years starting from the date the resolutions were passed at the Annual General Meeting.

(2) At the 2010 Third Board Meeting convened on 26 August 2010, Mr. Fu Chengyu resigned as Chairman and Mr. Liu Jian was elected as Chairman of the Company.

(3) On 22 December 2010, the Company convened the 2010 Second Extraordinary General Meeting. Mr. Li Feilong was elected as Executive Director of the Company with a term of office for three years starting from the date the resolutions were passed at the Extraordinary General Meeting.

2. Changes in Supervisors

(1) The Company convened 2009 Annual General Meeting on 28 May 2010. Ms. An Xuefen was elected as the new Non-employee Representative Supervisor of the Company, with a term of office for three years, starting from the date resolutions were passed at the Annual General Meeting. Mr. Zhu Liebin ceased to be Supervisor of the Company.

(2) On 26 July 2010, Mr. Zi Shilong was elected as the Employee Representative Supervisor of the Company. Mr. Yang Jinghong ceased to be the Employee Representative Supervisor of the Company.

3. Changes in Senior Management

(1) In January 2010, Mr. Xiao Guoqing ceased to be Vice President of the Company due to his retirement.

(2) In March 2010, Mr. Cao Shujie was appointed as Vice President of the Company.

(3) In April 2010, Mr. Li Xunke ceased to be Senior Vice President of the Company due to work rearrangement.

(4) In April 2010, Mr. Chen Weidong ceased to be Executive Vice President & CSO of the Company due to work rearrangement.

(5) On 8 April 2010, Mr. Yang Haijiang was appointed as the Board Secretary (Company Secretary) and Authorized Representative of the Company. Mr. Chen Weidong ceased to be the Secretary to the Board (Company Secretary) and authorized representative of the Company.

(6) At the 2010 Third Board Meeting convened on 26 August 2010, Mr. Liu Jian resigned as Chief Executive Officer of the Company and President Mr. Li Yong was also appointed as Chief Executive Officer of the Company. Mr. Zhong Hua resigned as Executive Vice President and CFO of the Company and Mr. Li Feilong was appointed as Executive Vice President and CFO of the Company.

V. Company's staff

As at the end of the reporting period, the Company had a total of 9,290 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	2,228
Technical post	4,874
Operational post	2,188

(II) Educational level

Education	Number of employees
Master degree of above	378
Undergraduate	4,149
College	2,420
Secondary	562
Technical college	462
Senior secondary or below	1,319

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 2010.

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 Section 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 2010 and the statement of financial position of the Company and the Group at that date are set out in the financial statements (Hong Kong) on pages 214 to 219.

The Directors recommend the payment of a final dividend of RMB0.18 (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 RMB809,157,600. 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 2010 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 41 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 of 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

	2010	2009	2008	2007	2006
Revenue	17,560,985	17,878,654	12,142,944	9,007,987	6,364,839
Other revenues	88,633	95,099	48,671	38,611	31,341
	17,649,618	17,973,753	12,191,615	9,046,598	6,396,180
Depreciation of property, plant and equipment and amortisation of intangible assets	(3,122,338)	(2,865,166)	(1,563,534)	(1,042,081)	(900,244)
Employee compensation costs	(2,938,103)	(2,669,618)	(2,106,497)	(1,643,857)	(936,936)
Repair and maintenance costs	(437,722)	(609,441)	(420,257)	(317,546)	(356,510)
Consumption of supplies, materials, fuel, services and others	(3,277,048)	(3,610,001)	(2,720,083)	(2,003,698)	(1,934,817)
Subcontracting expenses	(1,143,711)	(884,384)	(542,226)	(357,191)	(206,325)
Operating lease expenses	(379,690)	(589,118)	(356,136)	(365,706)	(313,431)
Other operating expenses	(936,679)	(1,076,167)	(693,870)	(387,108)	(274,444)
Other selling, general and administrative expenses	(41,860)	(381,870)	(158,523)	(102,003)	(81,231)
Impairment of property, plant and equipments	(172,401)	(819,889)	–	–	–
Total operating expenses	(12,449,552)	(13,505,654)	(8,561,126)	(6,219,190)	(5,003,938)
Profit from operations	5,200,066	4,468,099	3,630,489	2,827,408	1,392,242
Financial income/(expenses)					
Exchange gains/losses, net	87,584	(92,686)	(91,358)	(113,868)	(46,694)
Finance costs	(674,152)	(786,430)	(638,985)	(31,563)	(36,708)
Interest income	76,900	60,352	191,433	71,437	27,856
Financial income/(expenses), net	(509,668)	(818,764)	(538,910)	(73,994)	(55,546)
Share of profits of jointly-controlled entities	143,839	110,264	215,707	113,153	113,505
Profit before tax	4,834,237	3,759,599	3,307,286	2,866,567	1,450,201
Income tax expense	(706,239)	(624,282)	(205,045)	(628,983)	(321,966)
Profit for the year	4,127,998	3,135,317	3,102,241	2,237,584	1,128,235

Assets and liabilities

Unit: RMB'000

	2010	2009	2008	2007	2006
Total assets	63,497,392	60,776,518	56,200,901	23,088,985	13,130,170
Total liabilities	37,907,467	38,470,913	36,403,057	5,863,977	4,511,626

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, sale or redemption of listing securities of the Company

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

Dividend

The Group achieved a total net profit of RMB4,127,997,930 in 2010, of which RMB4,128,494,256 of net profit was attributable to equity holders of the parent, together with RMB8,378,412,798 of undistributed profit at the beginning of the year, and after deduction of RMB351,812,672 of withdrawal of statutory reserve, and RMB629,344,800 cash dividend for 2009 distributed in June 2010 to all shareholders by the Group, the Group had an undistributed profit of RMB11,525,749,582 as at the end of 2010. Based on 4,495,320,000 shares, being the total number of shares of the Group in issue as at the end of 2010, the Group proposed a cash dividend of RMB1.8 (tax inclusive) per 10 shares, with a total cash dividend of RMB809,157,600, and an undistributed profit of RMB10,716,591,982 to be distributed in following years. Such distribution is subject to the review and approval of the 2010 Annual General Meeting of the Company.

Dividend of the Group in the previous three years:

Dividend year	Cash dividend (tax inclusive)	Net profit attributable to owners of the parent of the year	Percentage (%)
2008	RMB629,344,800	RMB3,102,241,149	20
2009	RMB629,344,800	RMB3,135,316,585	20
2010	RMB809,157,600	RMB4,128,494,256	20

Charitable contributions

During the year, the Group made charitable donations totaling RMB19,700,000.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 83% of the total sales for the year and sales to the largest customer included therein accounted for approximately 61%. Purchases from the Group's five largest suppliers accounted for approximately 27% 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 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 of the Company during the reporting period, please see Note 19 to the financial statements prepared in accordance with HKFRS.

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 31 December 2010, the proceeds from the A share issuance used was RMB6,749 million, the remaining proceeds of RMB0.95 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		11 6,749
Commitment	Planned investment amount	Adjustment	Actual investment amount	Whether conform with the progress of the plan and estimated earnings
Build the second drilling rig with 400 inches	1,448	No	1,224	Yes
Build 2 multi-function drilling platforms	699	No	666	Note 1
Build 2 drilling ships with 300 inches and automatic rising arm	2,938	No	2,772	Yes
Build 18 oilfield operation ships involving six types	1,969	No	1,745	Yes
Build 2 ships with three functions in deep sea	1,528	No	1,191	Note 2
Rebuilt geophysical ship with 8 cables	530	No	517	Yes
Build geophysical ship with 12 cables	1,121	No	750	Note 2
Build geophysical ship investing in deep sea	689	No	376	Note 2
Purchase VSP	16	No	16	Note 3
Purchase 2 sets of oil pile and nitrogen equipment	41	No	36	Yes
Purchase 3 sets of LWD equipment items	243	No	197	Note 3
Purchase equipment with nuclear magnetic resonance for inspecting well	27	No	26	Note 3
Purchase equipment with function of scanning pictures for inspecting well	32	No	24	Note 3
Total	11,281	–	9,540	–

Notes to committed projects not conforming to the progress of the plan:

Note 1 The building process of two multi-function drilling platforms delayed mainly due to the delayed delivery of major components, which was completed in July 2010 and put into operation in October. Operation was not carried out throughout the year. Therefore, the actual earning was lower than the anticipated earning during the year.

Note 2 The amendment of the building and design process of the ship three functions in deep sea and geophysical ship with 12 cables and geophysical ship investing in deep sea delayed mainly due to the delayed delivery of major components. As of 31 December 2010, such projects have not completed yet.

Note 3 The actual time of delivery of such projects is later than the anticipated date of completion and operation. Accordingly, the actual performance achieved currently has not reached the anticipated level.

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

During the Reporting Period, there is no item not invested by the fund raised from the A Shares issued by the Company.

Charge on Assets with Restricted Use

As at 31 December 2010, the Group had no charges against its assets with restricted use.

Contingent Liabilities

As at 31 December 2010, the Group had contingent liabilities as set out in Note 38 to the financial statements (Hong Kong).

Directors and Supervisors

The directors and supervisors of the Company as at 31 December 2010 were:

Executive directors:
Li Yong
Li Feilong

Independent non-executive directors:
Tsui Yiu Wa
Fong Wo, Felix
Chen Quansheng

Supervisors:
An Xuefen
Zi Shilong *(Employee supervisor)*
Wang Zhile *(Independent supervisor)*

Non-executive directors:
Liu Jian
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 HKSE, the Company had received annual confirmations of independence from Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng, 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 68 to 72 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 2010 are set out in Note 7 to the financial statements (Hong Kong).

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 22 November 2006, with related information set out in pages 47 to 48 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 39 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' Interests and Short Positions in Shares, Underlying Shares and Debenture

As at 31 December 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Capacity	Number of interested shares	Approximate percentage of the interests (H) in COSL (%)
Li Feilong	Beneficial Owner	50,000	0.003%

Save as disclosed above, as at 31 December 2010, none of the Directors, chief executives of the Company or their respective associates had any other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and HKSE pursuant to the Model Code.

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.

Interests and Short Positions of Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2010, other than the Directors or the chief executive of the Company as disclosed above, the following persons had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO or were otherwise notified to the Company and HKSE:

Name of shareholder	Shares held	Number of shares in interest (share)	Shares in COSL's interest(%)
JPMorgan Chase & Co.	Interest in controlled corporation	227,117,886 (L)	14.80 (L)
		0 (S)	0.00 (S)
		102,620,900 (P)	6.69 (P)
Commonwealth Bank of Australia	Interest in controlled corporation	130,500,000 (L)	8.50 (L)
Allianz SE	Interest in controlled corporation	107,310,000 (L)	6.99 (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 HKSC 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 re-compliance with the requirements of the Listing Rules upon expiry. In 2010, the Company renewed connected transactions expired at the end of the gear.

On 5 November 2010, 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 2011 to 31 December 2013.The resolution in respect of the continuing connected transactions was approved by the independent shareholders of the Company at the extraordinary general meeting held on 22 December 2010.

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

For the year ended 31 December 2010, the Group had the following transactions:

	2010 RMB'000	2009 RMB'000
A. Included in revenue (not including operating tax)		
Revenue earned from provision of services to the following related parties:		
a. CNOOC Limited		
Provision of drilling services	4,682,766	4,913,421
Provision of well services	3,276,252	3,437,798
Provision of marine support and transportation services	1,787,156	1,547,896
Provision of geophysical services	1,209,451	1,013,549
	10,955,625	10,912,664
b. The CNOOC Group		
Provision of drilling services	150,957	302,997
Provision of well services	122,332	160,861
Provision of marine support and transportation services	186,132	219,166
Provision of geophysical services	151,080	158,835
	610,501	841,859
B. Included in operating expenses		
Services provided by the CNOOC Group:		
Labour services	30,534	24,481
Materials, utilities and other ancillary services	450,530	291,237
Transportation services	1,310	4,250
Leasing of office, warehouse, and berths	40,379	82,117
Repair and maintenance services	8,982	3,985
Management services	66,605	24,946
	598,340	431,016
C. Included in interest income/ expenses:		
CNOOC Finance Co., Ltd.		
Interest income	3,196	4,247
Interest expenses	60,157	22,812
D. Loans drawn down during the year		
CNOOC Finance Co., Ltd.	500,000	1,300,000
E. Deposits:		
Deposits placed with CNOOC Finance Co., Ltd. as at year end	1,259,245	541,962
F. Construction of 200 feet drilling rigs		
Offshore Oil Engineering Co. Ltd	976,745	1,262,965

The independent shareholders of the Company have approved 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 26 August 2010. 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 or 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.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 — Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

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 new master agreement with CNOOC on 5 November 2010. Please refer to the related announcements and their attachments on the China Securities Journal, the Shanghai Securities, the Securities Times, website of the Shanghai Stock Exchange (http://www.sse.com.cn), HKSE (http://www.hkex.com.hk/index.htm) and the website of the Company (http://www.cosl.com.cn) for details of continuing related transaction published on 28 October 2010 by the Company. All related transactions made in 2010 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 2010, the major transactions between the Company and related parties were as follows:

(1) Services between related parties

Services provided to related parties

	2010 Amount	2009 Amount
Provision of drilling services		
CNOOC Limited	4,682,766,318	4,913,421,326
Offshore Oil Engineering Co., Ltd.	7,677,859	6,325,412
CNOOC	139,362,126	291,954,603
CNOOC Energy Technology & Services Ltd. -Supervision and Monitoring of Technologies Branch	2,402	572
Other CNOOC Group companies	3,914,506	4,716,422
Jointly-controlled entities	6,429,221	172,528,724
Subtotal	4,840,152,432	5,388,947,059
Gross external revenue amount of provision of drilling services	9,551,745,054	10,135,321,629
Proportion in similar transactions	51%	53%
Provision of well services		
CNOOC Limited	3,242,707,754	3,432,382,620
CNOOC	21,178,750	47,637,983
CNOOC Research Center	43,500	269,500
Offshore Oil Engineering Co., Ltd.	40,360,573	68,589,686
CNOOC Energy Technology & Services Ltd. -Supervision and Monitoring of Technologies Branch	13,683,215	23,675
Other CNOOC Group companies	21,250,014	19,772,701
Jointly-controlled entities	9,953,924	5,563,384
Subtotal	3,349,177,730	3,574,239,549
Gross external revenue amount of provision of well services	4,462,850,422	4,523,577,858
Proportion in similar transactions	75%	79%
Provision of marine support and transportation services		
CNOOC Limited	1,787,156,164	1,547,895,592
Offshore Oil Engineering Co., Ltd.	23,042,640	114,259,877
CNOOC	33,545,035	37,424,020
CNOOC KaiShi Petrochemical Co., Ltd.	66,866,577	29,966,785
CNOOC Hainan Petroleum Transportation Service Co., Ltd.	15,721,240	–
CNOOC Zhong Jie Petrochemical Co., Ltd.	10,928,895	–
CNOOC Asphalt Co. Ltd.	9,905,113	6,759,788
Other CNOOC Group companies	26,122,894	30,755,671
Jointly-controlled entities	–	7,031,418
Subtotal	1,973,288,558	1,774,093,151
Gross external revenue amount of provision of marine support and transportation services	2,424,613,596	2,239,378,199
Proportion in similar transactions	81%	79%

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

(1) Services between related parties (continued)

Services provided to related parties (continued)

	2010 Amount	2009 Amount
Provision of geophysical services		
CNOOC Limited	1,209,451,199	1,013,549,070
Offshore Oil Engineering Co., Ltd.	136,981,500	129,923,031
CNOOC	–	2,059,336
Other CNOOC Group companies	14,098,736	26,852,646
Jointly-controlled entities	3,516,436	657,352
Subtotal	1,364,047,871	1,173,041,435
Gross external revenue amount of provision of geophysical services	1,620,647,762	1,447,123,729
Proportion in similar transactions	84%	81%

Services provided by related parties

	2010 Amount	2009 Amount
Offshore Oil Engineering Co., Ltd.	980,863,000	1,262,970,022
Other CNOOC Group companies	588,133,744	428,818,282
Jointly-controlled entities	77,439,617	110,921,891
Total	1,646,436,361	1,802,710,195

(2) 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.

(3) Guarantee provided to related parties

2010

Guarantor	Name of Guaranteed Party	Guaranteed Amount	Commencement Date of Guarantee	Expiry Date of Guarantee	Guarantee fully fulfilled
COSL	China-France Bohai	US$450,000	10 April 2010	9 April 2013	No

The Group has provided performance guarantee of US$450,000 to China-France Bohai for nil consideration in the year of 2010 (2009: Nil). The Group has not accepted the guarantee from related parties for 2010 and 2009.

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

(4) **Capital Loan from related parties**

2010 Loans borrowed	Amount of Loans RMB	Date of Commencement	Maturity Date
CNOOC Finance Co., Ltd			
Loan 1	**–**	**12 June 2009**	**2 September 2010**
Loan 2	**500,000,000**	**30 June 2009**	**29 June 2012**

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

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 the balance sheet date

The Group has been providing drilling services to onshore oilfields in Libya since 2008. From February 2011, because of social unrest, the social and economic conditions in Libya have become unstable, which have had an impact on the Group's operations in the country. In the opinion of the directors, given the current uncertainty of the situation, it is too early to reasonably assess the financial impact to the Group as at the date of approval of the financial statements. As at 31 December 2010, the assets deployed and the scale of operations in Libya are not considered to be material to the Group.

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 2010 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 38 to 48 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.

Changes to the Accounting Policy

For the direct related expenses arising from the business combination not under common control (except for the transaction fees in relation to equity securities or liability securities issued for the payment of the consideration under business combination), the Group originally included the expenses in the cost of combination. According to the Interpretation No.4 to the CAS promulgated in July 2010, with effect from 1 January 2010, all expenses are charged to the consolidated income statement as incurred. According to the interpretation, the Group adopts the prospective application method for the change of the accounting policies.

For a business combination achieved in stages by successive exchange, the Company and the Group originally recognized the aggregate costs of individual transactions as the cost of combination. According to the Interpretation No.4 to the CAS promulgated in July 2010, with effect from 1 January 2010, in the separate financial statements, the initial cost of investments is the sum of the carrying value of the acquiree's equity investment held prior to the acquisition date and the additional investment cost on the acquisition date. For the acquiree's equity held prior to the acquisition date which involves other comprehensive income, the relevant other comprehensive income is transferred to investment income in the current period when the investment is disposed. In the consolidated financial statements, the acquiree's equity investment held prior to the acquisition date is measured at the fair value of the equity on the acquisition date, and the difference between the fair value and its carrying value is recognized as investment income in the current period. For the acquiree's equity held prior to the acquisition date which involves other comprehensive income, the relevant other comprehensive income is transferred to investment income in the current period at the acquisition date. According to the interpretation, the Group adopts the prospective application method for the change of the accounting policies prospectively.

In the event of the loss of control of the original subsidiary due to disposal of part of equity investments or other reasons, the Group originally measured the remaining equity at the carrying value on the date of the loss of control. The sum of consideration obtained from the disposal of the equity and the carrying value of the remaining equity less the sum of the share of the remaining equity of the original subsidiary measured in proportion of the shareholdings from the acquisition date and the goodwill of the subsidiary is recognized as the investment income in the current period of the loss of control. According to the Interpretation No.4 to the CAS promulgated in July 2010 and the Notice of the Implementation of Corporate Accounting Standards for Listed Companies and Non-listed Enterprises in relation to Preparation for Annual Report in 2010 Issued by Ministry of Finance (Cai Kuai 2010 No.25) promulgated in December 2010, with effect from 1 January 2010, in the consolidated financial statements, the remaining equity is measured at the fair value on the date of the loss of control. The sum of consideration obtained from the disposal of the equity and the fair value of the remaining equity less the sum of the share of the remaining equity of the original subsidiary measured in proportion of the shareholdings from the acquisition date and the goodwill of the subsidiary is recognized as the investment income in the current period of the loss of control. Other comprehensive income in relation to the equity investments of the original subsidiary should be transferred to investment income in the current period. According to the interpretation, the Group adopts the prospective application method for the change of the accounting policies prospectively.

In the consolidated financial statements, for the responsibility originally taken by the Group pursuant to the articles of the subsidiary or the agreements which do not require minority shareholders to take the responsibility or so require but minority shareholders are unable to indemnify, if losses attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' interest in the equity of the subsidiary at the beginning of the period, the Group originally allocated the excess against the interest attributable to the Company's shareholders. According to the Interpretation No.4 to the CAS promulgated in July 2010, where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest in the equity of the subsidiary at the beginning of the period, the excess is allocated against the minority shareholders interest. According to the interpretation, the Group adopts the change of the accounting policies retrospectively.

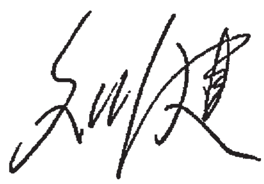
The above change of the accounting policy has no material effect on the Group's financial statements.

Execution of the Insiders Management System

In 2010, the Company proactively started the management of insiders according to the regulatory requirements and the related requirements of "share purchase by specific persons" approved by the Board. The insider management works of the Company mainly includes two parts – insiders of routine, significant and temporary items and insiders of regular statutory results disclosure. While the Company manages the insider information of regular statutory results disclosure, we also attach high importance to the registration of insider information regarding significant and temporary items, and we register every item. Apart from the registration of insiders, the Company also keep reminding and inspecting the insiders through mails and phone calls. We timely prepared the self-checking documents for insiders during the period for inspection.

According to Notice (2010) 37 of the China Securities Regulatory Commission, the Company carried out self-checking on the shareholding of insiders according to the requirements of the "share purchase by specific persons" documents of the Company. In this self-checking, no insider was found to have purchased or sold the shares of the Company in violation of the rules in 2010.

ON BEHALF OF THE BOARD



Liu Jian
Chairman
22 March 2011

12. Supervisory Committee Report

The Supervisory Committee of the Company for the year 2010 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.

In 2010, the Supervisory Committee of the Company further enhanced the daily supervision, monitoring and inspection of the production and operating activities of the Company: during the reporting period, the Supervisory Committee established the Office of the Supervisory Committee which is responsible for coordinating the daily inspection of the Supervisory Committee on the Company such as review of documents and attending meetings of the Company; during the reporting period, in addition to attending the Board meetings of the Company, members of the Supervisory Committee also attended the important management meetings of the Company to keep abreast of the major issues of our daily production and operating activities, so as to further improve our supervision and inspection on compliance and risk control from procedures to content.

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

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:

Supervisor Mr. Zhu Liebin resigned as the Company's supervisor and the term of office of Staff Representative, the term of Mr. Yang Jinghong expired on 25 July 2010 and Ms. An Xuefen and Mr. Zi Shilong have taken up their positions of supervisor, respectively.

As the date of this report, the Supervisory Committee of the Company comprises of:

Chairman: Ms. An Xuefen, elected as Supervisor at the General Meeting on 28 May 2010 and appointed as the Chairman of Supervisory Committee by the Supervisory Committee on 4 June 2010 (effected from 28 May 2010); Employee Representative: Zi Shilong, elected as the Supervisor and Employee Representative of the Company at the Employee Representatives' Meeting on 20 July 2010 for a term until 25 July 2013; Independent Supervisor: Wang Zhile, elected as Supervisor at the general meeting on 3 June 2009 for a term until 2 June 2012. In addition, the resolution of appointing Mr. Feng Zhen as the Director of the Office of the Supervisory Committee was approved by the Supervisory Committee on 30 March 2010.

The Supervisory Committee expressed its sincere gratitude to Mr. Zhu Liebin and Mr. Yang Jinghong for their contribution to the Company's development during their terms of office.

2. Operation of the Supervisory Committee

(1) During the reporting period, supervisor Zhu Liebin attended 2 regular Board meetings, supervisor Yang Jinghong attended 2 regular Board meetings, supervisor An Xuefen attended 3 regular Board meetings, supervisor Zi Shilong attended 3 regular Board meetings and supervisor Wang Zhile attended 4 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 professional committees 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 and the establishment and appraisal of the assessment standards on the management;

(3) The Supervisory Committee had given its professional audit advice in respect of the 2009 Annual Report, the 2010 Interim Report, the 1st quarterly report and the 3rd quarterly report for the year 2010 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) Wang Zhile attended the 2009 Annual General Meeting on 28 May 2010, Yang Jinghong attended the First Extraordinary General Meeting, First A Share Class Meeting and H share Class Meeting on 28 June 2010, and Zi Shilong attended the Second Extraordinary General Meeting on 22 December 2010.

3. Independent Opinions of the Supervisory Committee

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

After supervising and examining the establishment and 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. The Company has further revised its internal control system and optimized governance structure and internal disciplinary mechanism, through which increased the reasonableness and effectiveness of our internal control, enhanced the ability to guard against risks and regulated the operating standard. The Supervisory Committee suggested that the Company and its relevant departments have to further enhance the establishment of the support for the system, refine the process of the internal control system and strengthen its execution and control.

(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 and successfully accomplished the objectives set by the Board.

(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 2010 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 has not discovered any non-compliance of the usage set out in the prospectus and violation of the requirements of the China Securities Regulatory Commission.

(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.

(7) Other information

Through the annual assessment on the management of the Company, the Supervisory Committee is of the opinion that the annual assessment on the management is conducted in strict compliance with procedures approved at the general meetings and by the management authority of the state-owned assets and the Supervisory Committee has no disagreement with the result of the assessment.

For and on behalf of
Supervisory Committee

An Xuefen
Chairman of the Supervisory Committee
22 March 2011

13. Significant Events

(I) Significant litigation or arbitration

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 minority shareholder of Offrig	CDE	Nil	Litigation	Note 1	Note 2	Note 1	Note 1	Executed according to the final judgment

Note 1: In 2007, Awilco Offshore ASA made a compulsory acquisition of the outstanding shares in OffRig Drilling ASA ("Offrig"). Certain minority shareholders disagreed with the price paid per share. In 2009, an appraisement where the estimated value for the shares was set at NOK 56, higher than the original acquisition price, was made by a Norwegian court. After affirmative defense by the Company, an appraisement where the estimated value for the shares was set at NOK 34.56 was made by the Court of Appeal in August 2010. The minority shareholders were unsatisfied about the second appraisement and have filed an appeal to the Supreme Court of Norway, which has dismissed the appeal.

Note 2: This litigation has been executed according to the final judgment. The final acquisition price was approximately NOK 180 million.

(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

(I) 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	–	100%	(18,291,108)
Total			207,118,792	/	–	100%	(18,291,108)

The above mentioned financial asset was held by CDE acquired by the Company on 29 September 2008. Petojack ASA withdrew its listing from stock market in March 2010, and as a result, the Group fully recognized the impairment for the equity investment in it.

(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 energy, raw materials and other ancillary services by CNOOC Group to the Group;

(3) Provisions of property services by CNOOC Group to the Company.

As of 31 December 2010, 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.

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 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 party balances
Financial Statements (PRC)

Group	31 December 2010	31 December 2009
Accounts receivable		
CNOOC Limited	1,751,148,257	1,874,789,040
CNOOC	25,763	257,469,184
Offshore Oil Engineering Co., Ltd.	129,449,577	102,933,658
CNOOC Hainan Petroleum Transportation Service Co., Ltd.	15,721,240	–
CNOOC Research Center	10,089,500	15,109,500
CNOOC Energy Technology & Services Ltd.-Pipeline Engineering Branch	12,500,000	–
COSL-Expro Testing Services (Tianjin) Company Ltd. ("COSL-Expro")	256,746	1,443,357
China France Bohai Geoservices Co., Ltd. ("China France Bohai")	363,350	502,894
CNOOC-OTIS Well Completion Services Ltd. ("CNOOC-OTIS")	478,342	644,725
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	1,438,906	557,135
China offshore Fugro Geo Solutions (Shenzhen) Company Ltd. ("Fugro")	60,000	12,768
China Petroleum Logging-Atlas Cooperation Services Company ("Logging-Atlas")	1,580	2,911,943
Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater")	151,909,553	160,044,908
Others	37,870,134	17,145,721
	2,111,312,948	2,433,564,833
Bad debts provision*	(120,033,660)	(80,022,440)
	1,991,279,288	2,353,542,393

* All of the related party bad debts provision was made for accounts receivable due from Atlantis Deepwater.

Group	31 December 2010	31 December 2009
Accounts payable		
CNOOC Limited	31,292	1,593,506
Bohai Material Supply Company	63,321,693	22,595,651
Offshore Oil Engineering Co., Ltd.	501,998,250	64,555,747
CNOOC Energy Technology & Services Ltd.-Shanghai Logistics Branch	22,281,550	–
CNOOC Energy Technology & Services Ltd.-Well Services Branch	9,749,563	–
Magcobar	27,360	1,126,800
Fugro	–	5,417,087
China France Bohai	7,654,707	1,929,742
Logging-Atlas	8,107,389	23,442,814
CNOOC – OTIS	1,454,586	–
COSL – Expro	6,526,897	–
Others	35,090,299	31,836,700
	656,243,586	152,498,047

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

Related party balances
Financial Statements (PRC)

Group	31 December 2010	31 December 2009
Other receivables		
CNOOC Limited	29,885,172	844,605
CNOOC	1,314,648	1,983,532
CNOOC Research Center	7,744,000	–
COSL-Expro	1,093,794	4,511,608
China France Bohai	4,592,500	4,810,302
Fugro	–	2,027
Logging-Atlas	74,250	74,250
Atlantis Deepwater	32,857,272	30,115,828
Premium Drilling	95,785,387	147,177,452
Others	565,895	372,591
	173,912,918	189,892,195
Bad debts provision*	(33,309,765)	–
	140,603,153	189,892,195

* All of related party bad debts provision was made for other receivables due from Atlantis Deepwater.

Group	31 December 2010	31 December 2009
Other payables		
CNOOC Limited	765,429	–
CNOOC	3,248,229	3,248,229
China Offshore Oil Int'l Engineering Company	13,642,707	16,260,729
China France Bohai	96,073	96,072
COSL-Expro	13,432	13,432
Premium Drilling	18,392,178	32,353,555
Others	16,438,857	22,032,799
	52,596,905	74,004,816
Receipts in advance		
CNOOC Limited	110,000	–
	110,000	–
Prepayments		
Offshore Oil Engineering Co., Ltd.	–	298,097,500
	–	298,097,500
Notes receivable		
CNOOC Limited	691,574,221	427,107,943
	691,574,221	427,107,943

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

Cash on hand and at bank placed in related parties

Group	31 December 2010	31 December 2009
CNOOC Finance Co., Ltd.	1,259,244,653	541,962,050

(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**

Unit: RMB'0,000

External guarantees provided by the Company (excluding guarantee to controlled subsidiaries)													
Guarantor	Relationship between guarantor and the Company	Guaranteed party	Amount of guarantee	Date of guarantee (Agreement execution date)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Whether fully fulfilled	Whether overdue	Overdue amount	Whether any counter guarantee available	Whether related party guarantee	Related party relationship
COSL	Head quarter	China France Bohai Geoservices Co., Ltd.	298	10 April 2010	10 April 2010	9 April 2013	Under joint and several liabilities	No	No	Nil	No	Yes	Jointly-controlled entity

(VI) Major contracts and their performance (continued)

2. Guarantee (continued)

Total amount of guarantee occurred during the reporting period (excluding guarantee to controlled subsidiaries)	–
Total balance of guarantee as at the end of the reporting period (A) (excluding guarantee to controlled subsidiaries)	298
Guarantee provided by the Company to its controlled subsidiaries	
Total amount of guarantee occurred by the Company to its subsidiaries during the reporting period	–
Total balance of guarantee provided by the Company to its subsidiaries at the end of the reporting period (B)	–
Total guarantee provided by the Company (including guarantee to controlled subsidiaries)	
Total amount of guarantee (A+B)	298
Total amount of guarantee as a percentage of the Company's net assets (%)	0.01%
Including:	
Amount of guarantee provided to shareholders, the de facto controller and its related parties (C)	–
Debt guarantee directly or indirectly provided to parties with gearing ratio over 70% (D)	–
The excess of total amount of guarantee over 50% of the net assets (E)	–
Total amount of the above 3 guarantees (C+D+E)	–

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 5 November 2010, making supplement for terms of certain connected transactions effective from 1 January 2011 to 31 December 2013. Please refer to the related announcements and their attachments on the China Securities Journal, the Shanghai Securities, the Securities Times, website of the Shanghai Stock Exchange (http://www.sse.com.cn), HKSE (http://www.hkex.com.hk/index.htm) and the website of the Company (http://www.cosl.com.cn) for details of continuing related transaction published on 28 October 2010 by the Company.

(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

1. Share appreciation rights plan (for details, please see pages 47 to 48 of this Annual Report)

2. In 2010, the Company received an inspection notice from Tianjin Xin Gang Customs of the People's Republic of China ("Tianjin Customs") to inspect the Company's customs duties related to the imports and exports for the past three years. As at the report date, no conclusion has been received from Tianjin Customs.

(XI) Information disclosure reference

Event	Name of newspaper of posting	Posting date	Link of Worldwide Web of posting
Monthly Return of Equity issuer on Movements in Securities for the Month Ended 31 December 2009		2010-1-4	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 January 2010		2010-2-1	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement		2010-2-8	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the 2010 budget for capital expenditure and workload projection of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-2-9	http://www.sse.com.cn http://www.cosl.com.cn/
Monthly Return of Equity issuer on Movements in Securities for the Month Ended 28 February 2010		2010-3-2	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Board Meeting		2010-3-15	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of Annual Results for the Year Ended 31 December 2009		2010-3-30	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
2009 Report on Internal Control of COSL		2010-3-31	http://www.sse.com.cn http://www.cosl.com.cn/
2009 Annual Report of COSL		2010-3-31	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Summary of the 2009 Annual Report of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-3-31	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of Results of 2010 First Supervisory Committee Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-3-31	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Specified Description of the Amount Due from Controlling Shareholders and Other Related Parties of COSL		2010-3-31	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of the Results of 2010 First Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-3-31	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 March 2010		2010-4-1	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Changes in Secretary and Authorised Representative of the Company		2010-4-8	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

(XI) Information disclosure reference (continued)

Event	Name of newspaper of posting	Posting date	Link of Worldwide Web of posting
Announcement of change in Secretary of the Board of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-4-9	http://www.sse.com.cn http://www.cosl.com.cn/
Notice of Board Meeting		2010-4-16	http://www.sse.com.cn 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		2010-4-20	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Change in Date of Board Meeting		2010-4-23	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Circular of 2009 Annual General Meeting		2010-4-23	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of 2009 Annual General Meeting		2010-4-23	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proxy form for 2009 Annual General Meeting		2010-4-23	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Slip for 2009 Annual General Meeting		2010-4-23	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
2009 Annual Report (H Shares) of COSL		2010-4-23	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Results of Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-4-24	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Convening 2009 Annual General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-4-24	http://www.sse.com.cn http://www.cosl.com.cn/
2010 1st Quarter Report		2010-4-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Text of 2010 1st Quarter Report	China Securities Journal Shanghai Securities News Securities Times	2010-4-30	http://www.sse.com.cn http://www.cosl.com.cn/
Closure of Register of Shareholders		2010-5-4	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 2010		2010-5-4	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

(XI) Information disclosure reference (continued)

Event	Name of newspaper of posting	Posting date	Link of Worldwide Web of posting
Proposed Issue of New A Shares		2010-5-10	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Results of 2010 Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-5-11	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Convening 2010 First Extraordinary General Meeting and 2010 Class Meeting of the A Share Shareholders of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-5-11	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proposed Issue of New A Shares and Notice of Extraordinary General Meeting and Class Meeting of the H Share Shareholders		2010-5-11	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of 2010 First Extraordinary General Meeting		2010-5-11	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Class Meeting of the H Share Shareholders		2010-5-11	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proxy form for 2010 Extraordinary General Meeting		2010-5-11	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Slip for 2010 Extraordinary General Meeting		2010-5-11	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proxy form for 2010 Class Meeting of the H Share Shareholders		2010-5-12	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Slip for Class Meeting of the H Share Shareholders		2010-5-12	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Results of Annual General Meeting Convened on 28 May 2010, Final Dividend, Changes in Directors and Supervisors		2010-5-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Legal Opinion Letter on 2009 Annual General Meeting of COSL		2010-5-29	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of Results of 2009 Annual General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-5-29	http://www.sse.com.cn http://www.cosl.com.cn/
Monthly Return of Equity issuer on Movements in Securities for the Month Ended 31 May 2010		2010-6-1	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement for A Share 2009 Final Dividend of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-6-2	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Results of 2010 First Extraordinary General Meeting and Class Meeting for the H Share Shareholders Convened on 28 June 2010		2010-6-28	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

(XI) Information disclosure reference (continued)

Event	Name of newspaper of posting	Posting date	Link of Worldwide Web of posting
Legal Opinion Letter on 2010 First Extraordinary General Meeting, 2010 First Class Meeting for the A Share Shareholders and 2010 First Class Meeting for the H Share Shareholders of COSL		2010-6-29	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of the Results of 2010 First Extraordinary General Meeting, 2010 First Class Meeting for the A Share Shareholders and 2010 First Class Meeting for the H Share Shareholders of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-6-29	http://www.sse.com.cn http://www.cosl.com.cn/
Monthly Return of Equity issuer on Movements in Securities for the Month Ended 30 June 2010		2010-7-5	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Resignation and Appointment of Supervisors		2010-7-23	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement on Election Results of Employee Supervisor of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-7-24	http://www.sse.com.cn http://www.cosl.com.cn/
Monthly Return of Equity issuer on Movements in Securities for the Month Ended 31 July 2010		2010-8-4	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Board Meeting		2010-8-10	http://www.sse.com.cn 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	2010-8-17	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of Interim Results for the Six Months Ended 30 June 2010		2010-8-26	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Resignation of Directors and Resignation and Appointment of Executive Staff		2010-8-26	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Revised Cap of the Continued Connected Transaction and Amendment of the Articles		2010-8-26	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Results of 2010 Third Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-8-27	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Summary of Interim Report 2010 of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-8-27	http://www.sse.com.cn http://www.cosl.com.cn/
Interim Report 2010 of COSL		2010-8-27	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

(XI) Information disclosure reference (continued)

Event	Name of newspaper of posting	Posting date	Link of Worldwide Web of posting
Monthly Return of Equity issuer on Movements in Securities for the Month Ended 31 August 2010		2010-9-3	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Interim Report 2010 (H share)		2010-9-9	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Letter and Application Form for Non-registered Shareholders		2010-9-9	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Letter and Application Form for Registered Shareholders		2010-9-9	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 2010		2010-10-8	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Board Meeting		2010-10-13	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Renewal of Continued Connected Transaction		2010-10-27	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
2010 3rd Quarter report of COSL		2010-10-28	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Text of 2010 3rd Quarter report of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-10-28	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of the Results of 2010 Fourth Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-10-28	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 2010		2010-11-3	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Letter and Application Form for Non-registered Shareholders		2010-11-15	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Letter and Application Form for Registered Shareholders		2010-11-15	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Reply Slip for Extraordinary General Meeting		2010-11-15	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proxy form for Extraordinary General Meeting		2010-11-15	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Extraordinary General Meeting		2010-11-15	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Renewal of Continued Connected Transaction and Amendment of the Articles		2010-11-15	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

(XI) Information disclosure reference (continued)

Event	Name of newspaper of posting	Posting date	Link of Worldwide Web of posting
Announcement of the Results of Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-11-16	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of 2010 Second Extraordinary General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-11-16	http://www.sse.com.cn http://www.cosl.com.cn/
Alert on Trading of Restricted Shares Held by Controlling Shareholders of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-11-25	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 November 2010		2010-12-2	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Supplementary Circular for Circular dated 15 November 2010, Proposed Appointment of Director and Supplementary Notice of Extraordinary General Meeting		2010-12-6	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Supplementary Notice of Extraordinary General Meeting		2010-12-6	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Proxy Form for Supplementary Extraordinary General Meeting		2010-12-6	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Notice of Additional Extraordinary Resolution for 2010 Second Extraordinary General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-12-7	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement on Reports of Use of Proceeds and Special Verification of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-12-7	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
COSL's Announcement on Letter of Undertaking of CNOOC	China Securities Journal Shanghai Securities News Securities Times	2010-12-7	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Announcement of the Results of 2010 Fifth Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-12-11	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Results of Extraordinary General Meeting Convened on 22 December 2010		2010-12-22	http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/
Legal Opinion Letter on 2010 Second Extraordinary General Meeting of COSL		2010-12-23	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of the Results of 2010 Second Extraordinary General Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-12-23	http://www.sse.com.cn http://www.cosl.com.cn/
Announcement of the Results of Board Meeting of COSL	China Securities Journal Shanghai Securities News Securities Times	2010-12-30	http://www.sse.com.cn http://www.hkex.com.hk/index.htm http://www.cosl.com.cn/

Auditors' Report

Ernst & Young Hua Ming (2011) 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 2010, and the consolidated and company income statements, the consolidated and company statements of changes in equity and the consolidated and company statements of cash flows for the year then ended, and notes to the financial statements.

I. Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

II. 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 Standards on Auditing. Those standards require that we comply with Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about 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, the auditor considers the internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting polices 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.

III. Opinion

In our opinion, the financial statements present fairly, in all material aspects, the consolidated and company's financial position of China Oilfield Services Limited as at 31 December 2010 and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming

Chinese Certified Public Accountant: Zhong Li
Chinese Certified Public Accountant: An Xiuyan

Beijing, the People's Republic of China

22 March 2011

Consolidated Balance Sheet

31 December 2010
RMB Yuan

Assets	Note 5	31 December 2010	31 December 2009
Current Assets			
Cash on hand and at bank	1	6,296,792,698	4,222,832,778
Notes receivable	2	693,190,621	429,657,902
Accounts receivable	3	3,460,751,504	3,745,547,364
Prepayments	4	68,630,499	528,233,255
Interest receivable		5,752,228	1,080,000
Dividend receivable	5	24,447,240	23,754,415
Other receivables	6	432,679,124	389,123,571
Inventories	7	815,539,945	820,548,546
Current portion of non-current assets	8	37,904,858	39,081,032
Total current assets		11,835,688,717	10,199,858,863
Non-current Assets			
Available-for-sale financial assets	9	–	19,281,034
Held-to-maturity investment	8	–	39,081,025
Long-term equity investments	11	482,233,820	531,735,085
Fixed assets	12	31,542,443,089	30,092,311,149
Construction in progress	13	14,420,081,308	14,147,200,718
Intangible assets	14	409,834,183	461,844,210
Goodwill	15	4,462,018,387	4,600,473,214
Long-term prepaid expenses	16	434,767,747	841,551,247
Other non-current assets	20	6,265,008	–
Total non-current assets		51,757,643,542	50,733,477,682
Total Assets		63,593,332,259	60,933,336,545

Consolidated Balance Sheet (continued)

31 December 2010
RMB Yuan

Liabilities and Shareholders' Equity	Note 5	31 December 2010	31 December 2009
Current Liabilities			
Accounts payable	18	3,612,821,584	3,175,095,974
Receipts in advance	19	5,365,901	5,255,901
Staff cost payable	20	781,374,585	477,407,095
Taxes payable	21	249,796,473	153,070,242
Interests payable	22	95,032,922	139,212,858
Other payables	23	569,294,415	358,827,721
Current portion of non-current liabilities	24	1,224,449,784	283,081,032
Other current liabilities		199,508,214	606,038,526
Total current liabilities		6,737,643,878	5,197,989,349
Non-current Liabilities			
Long-term bank borrowings	25	27,090,538,733	28,151,039,943
Long-term bonds	26	1,500,000,000	2,670,019,752
Deferred tax liabilities	27	1,716,051,787	1,790,789,029
Staff cost payable	20	–	1,381,058
Other non-current liabilities	28	959,173,166	816,512,769
Total non-current liabilities		31,265,763,686	33,429,742,551
Total Liabilities		38,003,407,564	38,627,731,900
Shareholders' Equity			
Share capital	29	4,495,320,000	4,495,320,000
Capital reserve	30	8,074,565,726	8,074,565,726
Statutory reserve funds	31	1,687,452,367	1,335,639,695
Retained earnings	32	11,525,749,582	8,378,412,798
Including: Proposed Cash Dividends	33	809,157,600	629,344,800
Cumulative translation reserves		(193,511,048)	21,666,426
Equity attributable to equity holders of the Parent		25,589,576,627	22,305,604,645
Minority interest		348,068	–
Total Shareholders' Equity		25,589,924,695	22,305,604,645
Total Liabilities and Shareholders' Equity		63,593,332,259	60,933,336,545

The financial statements were signed by the following persons:

Chief Executive Officer
Li Yong
22 March 2011

Executive Vice President & Chief Financial Officer
Li Feilong
22 March 2011

General Manager (Finance Department)
Liu Zhenyu
22 March 2011

Consolidated Income Statement

Year ended 31 December 2010
RMB Yuan

	Note 5	2010	2009
Revenue	34	**18,059,856,834**	18,345,401,415
Less: Operating costs	34	**11,716,691,881**	11,688,942,398
Business taxes and surcharges	35	**498,871,544**	466,747,758
Selling expenses	36	**8,391,345**	7,455,590
General and administrative expenses	37	**442,068,642**	427,995,982
Financial expenses	38	**509,668,819**	868,061,764
Assets impairment losses	39	**417,896,817**	879,390,769
Add: Investment income	40	**143,838,601**	159,562,623
Including: Share of profits of jointly-controlled entities		**143,838,601**	110,264,186
Operating profit		**4,610,106,387**	4,166,369,777
Add: Non-operating income	41	**88,633,338**	95,098,628
Less: Non-operating expenses	42	**(135,497,458)**	501,869,382
Including: Loss on disposal of non-current assets		**33,870,197**	19,185,603
Total profit		**4,834,237,183**	3,759,599,023
Less: Income tax expenses	43	**706,239,253**	624,282,438
Net Profit		**4,127,997,930**	3,135,316,585
Net profit attributable to equity holders of the Parent		**4,128,494,256**	3,135,316,585
Minority interests		**(496,326)**	–
Earnings per share			
Basic and diluted earnings per share	44	**0.92**	0.70
Other comprehensive income	45	**(215,198,920)**	1,788,700
Total comprehensive income		**3,912,799,010**	3,137,105,285
Including: Total comprehensive income attributable to equity holders of the Parent		**3,913,316,782**	3,137,105,285
Total comprehensive income attributable to minority shareholders		**(517,772)**	–

Consolidated Statement of Changes in Equity

Year ended 31 December 2010
RMB Yuan

		2010							
		Attributable to equity holders of the Parent							
		Share capital Note 5 (29)	Capital reserve Note 5 (30)	Statutory reserve funds Note 5 (31)	Retained earnings Note 5 (32)	Others	Sub-total	Minority interests	Total shareholders' equity
1.	1 January 2010	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
2.	Increase/decrease during the year								
	(1) Net profit	–	–	–	4,128,494,256	–	4,128,494,256	(496,326)	4,127,997,930
	(2) Other comprehensive income	–	–	–	–	(215,177,474)	(215,177,474)	(21,446)	(215,198,920)
	Total comprehensive income	–	–	–	4,128,494,256	(215,177,474)	3,913,316,782	(517,772)	3,912,799,010
	(3) Contribution by Minority interests	–	–	–	–	–	–	865,840	865,840
	(4) Appropriation of profits								
	1. Transfer to statutory reserve funds	–	–	351,812,672	(351,812,672)	–	–	–	–
	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	1,687,452,367	11,525,749,582	(193,511,048)	25,589,576,627	348,068	25,589,924,695

		2009							
		Attributable to equity holders of the Parent							
		Share capital Note 5 (29)	Capital reserve Note 5 (30)	Statutory reserve funds Note 5 (31)	Retained earnings Note 5 (32)	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

Consolidated Cash Flow Statement

Year ended 31 December 2010
RMB Yuan

		Note 5	2010	2009
1.	**Cash flows from operating activities**			
	Cash received from sale of goods and rendering of services		17,996,815,155	16,308,692,327
	Tax refund received		10,359,313	37,192,542
	Cash received relating to other operating activities		44,393,002	58,186,073
	Subtotal of cash inflows from operating activities		18,051,567,470	16,404,070,942
	Cash paid for goods and services		(5,260,774,930)	(6,045,982,971)
	Cash paid to and for employees		(2,728,646,605)	(2,938,500,538)
	Cash paid for taxes		(1,336,789,431)	(1,242,296,062)
	Cash paid relating to other operating activities	46	(870,286,900)	(572,426,475)
	Subtotal of cash outflows from operating activities		(10,196,497,866)	(10,799,206,046)
	Net cash flows from operating activities	47	7,855,069,604	5,604,864,896
2.	**Cash flows from investing activities**			
	Cash received from disposal of investments		642,255,098	39,154,292
	Cash received from return on investments		194,670,730	218,854,213
	Cash received on interest income from bank deposits		72,226,142	63,614,510
	Cash received from disposal of fixed assets		69,957,440	12,670,819
	Cash received from other investing activities		–	7,291,552
	Subtotal of cash inflows from investing activities		979,109,410	341,585,386
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(4,433,899,230)	(7,398,673,060)
	Cash paid for acquisition of long-term equity investments		–	(424,884)
	Cash paid for acquisition of other investments		(43,396,246)	–
	Cash paid for other investing activities		(76,040,801)	(725,197,031)
	Subtotal of cash outflows from investing activities		(4,553,336,277)	(8,124,294,975)
	Net cash flows used in investing activities		(3,574,226,867)	(7,782,709,589)
3.	**Cash flows from financing activities:**			
	Cash received from government grants and subsidies		295,646,000	100,720,000
	Cash received from minority interests		865,840	–
	Cash received from new borrowings		1,182,690,000	23,227,900,560
	Subtotal of cash inflows from financing activities		1,479,201,840	23,328,620,560
	Cash paid for repayment of borrowings		(1,645,510,594)	(20,177,338,947)
	Cash paid for dividends		(630,258,098)	(629,344,800)
	Cash paid for interest expenses		(769,045,106)	(1,318,422,624)
	Cash paid for other financing activities		(12,014,288)	(66,697,600)
	Subtotal of cash outflows from financing activities		(3,056,828,086)	(22,191,803,971)
	Net cash flows used in financing activities		(1,577,626,246)	1,136,816,589
4.	**Effect of foreign exchange rate fluctuation on cash and cash equivalents**		(70,654,918)	(39,857,037)
5.	**Net increase/(decrease) in cash and cash equivalents**		2,632,561,573	(1,080,885,141)
	Add: Cash and cash equivalents at the beginning of year		3,214,602,911	4,295,488,052
6.	**Cash and cash equivalents at the end of year**	48	5,847,164,484	3,214,602,911

Balance Sheet

31 December 2010
RMB Yuan

Assets	Note 12	31 December 2010	31 December 2009
Current Assets			
Cash on hand and at bank		**4,803,971,111**	2,555,012,686
Notes receivable		**693,190,621**	429,657,902
Accounts receivable	*1*	**3,633,312,846**	4,197,063,076
Prepayments		**34,439,985**	489,374,487
Interest receivable		**5,314,222**	1,080,000
Dividend receivable		**24,447,240**	23,754,415
Other receivables	*2*	**564,791,765**	965,033,453
Inventories		**588,314,143**	617,242,127
Total current assets		**10,347,781,933**	9,278,218,146
Non-current Assets			
Long-term receivables		**21,291,980,500**	20,450,459,000
Long-term equity investments	*3*	**7,247,548,719**	7,231,157,657
Fixed assets		**16,001,100,461**	13,296,788,952
Construction in progress		**3,994,363,510**	5,397,656,694
Intangible assets		**310,626,956**	317,392,113
Long-term prepaid expenses		**382,609,411**	808,203,334
Total non-current assets		**49,228,229,557**	47,501,657,750
Total assets		**59,576,011,490**	56,779,875,896

Balance Sheet (continued)

31 December 2010
RMB Yuan

Liabilities and Shareholders' Equity	31 December 2010	31 December 2009
Current liabilities		
Accounts payable	2,589,313,013	2,707,769,658
Receipts in advance	5,365,901	5,255,901
Staff cost payable	725,468,952	433,104,738
Taxes payable	216,552,074	122,947,646
Interests payable	85,565,856	81,561,535
Other payables	237,340,748	197,613,352
Current portion of non-current liabilities	612,815,670	244,000,000
Other current liabilities	44,344,313	44,213,902
Total current liabilities	4,516,766,527	3,836,466,732
Non-current Liabilities		
Long-term bank borrowings	27,090,538,733	28,111,958,918
Long-term bonds	1,500,000,000	1,500,000,000
Deferred tax liabilities	458,036,207	365,889,553
Other non-current liabilities	207,353,707	36,565,316
Total non-current liabilities	29,255,928,647	30,014,413,787
Total Liabilities	33,772,695,174	33,850,880,519
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	1,687,452,367	1,335,639,695
Retained earnings	11,564,127,603	9,027,158,354
Including: Proposed Cash Dividends	809,157,600	629,344,800
Cumulative translation reserves	(18,149,380)	(3,688,398)
Total Shareholders' Equity	25,803,316,316	22,928,995,377
Total Liabilities and Shareholders' Equity	59,576,011,490	56,779,875,896

The financial statements were signed by the following persons:

Chief Executive Officer:
Li Yong
22 March 2011

Executive Vice President & Chief Financial Officer:
Li Feilong
22 March 2011

General Manager (Finance Department):
Liu Zhenyu
22 March 2011

Income Statement

Year ended 31 December 2010
RMB Yuan

	Note 12	2010	2009
Revenue	4	**14,374,725,805**	13,497,409,427
Less: Operating costs	5	**9,048,024,220**	8,762,688,740
Business taxes and surcharges		**473,789,347**	371,912,155
Selling expenses		**3,012,053**	3,688,387
General and administrative expenses		**256,793,003**	252,368,383
Financial expenses		**534,350,162**	455,591,223
Assets impairment losses		**47,302,386**	40,648,494
Add: Investment income	6	**219,970,752**	198,623,003
Including: Share of profits of jointly-controlled entities		**204,970,752**	187,623,003
Operating profit		**4,231,425,386**	3,809,135,048
Add: Non-operating income		**90,626,907**	72,098,668
Less: Non-operating expenses		**54,981,087**	31,272,666
Including: Loss on disposal of non-current assets		**22,454,970**	19,145,693
Total profit		**4,267,071,206**	3,849,961,050
Less: income tax expenses		**748,944,485**	494,120,774
Net profit		**3,518,126,721**	3,355,840,276
Other comprehensive income		**(14,460,982)**	1,503,016
Total comprehensive income		**3,503,665,739**	3,357,343,292

Statement of Changes in Equity

Year ended 31 December 2010
RMB Yuan

		2010					
		Share capital	Capital reserve	Statutory reserve funds	Retained earnings	Others	Total shareholders' equity
1.	1 January 2010	4,495,320,000	8,074,565,726	1,335,639,695	9,027,158,354	(3,688,398)	22,928,995,377
2.	Increase/(decrease) during the year						
	(1) Net profit	–	–	–	3,518,126,721	–	3,518,126,721
	(2) Other comprehensive income	–	–	–	–	(14,460,982)	(14,460,982)
	Total comprehensive income	–	–	–	3,518,126,721	(14,460,982)	3,503,665,739
	(3) Appropriation of profits						
	1. Transfer to statutory reserve funds	–	–	351,812,672	(351,812,672)	–	–
	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	1,687,452,367	11,564,127,603	(18,149,380)	25,803,316,316

		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 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

Cash Flow Statement

Year ended 31 December 2010
RMB Yuan

		2010	2009
1.	**Cash flows from operating activities**		
	Cash received from sale of goods and rendering of services	**13,926,546,174**	12,099,324,433
	Tax refund received	**10,359,313**	2,512,447
	Cash received relating to other operating activities	**44,382,252**	65,479,634
	Subtotal of cash inflows from operating activities	**13,981,287,739**	12,167,316,514
	Cash paid for goods and services	**(4,686,951,860)**	(3,855,557,460)
	Cash paid to and for employees	**(1,949,169,477)**	(2,035,099,099)
	Cash paid for taxes	**(1,046,092,690)**	(918,501,797)
	Cash paid relating to other operating activities	**(431,603,119)**	(356,029,126)
	Subtotal of cash outflows from operating activities	**(8,113,817,146)**	(7,165,187,482)
	Net cash flows from operating activities	**5,867,470,593**	5,002,129,032
2.	**Cash flows from investing activities**		
	Cash received from disposal of investments	**400,000,000**	–
	Cash received from return on investments	**202,887,068**	177,047,269
	Cash received on interest income from bank deposits	**34,809,471**	30,142,572
	Cash received from disposal of fixed assets	**212,508,213**	9,207,675
	Cash received from other investing activities	**1,189,090,845**	–
	Subtotal of cash inflows from investing activities	**2,039,295,597**	216,397,516
	Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	**(2,742,744,010)**	(5,988,642,838)
	Cash paid for acquisition of other investments	**–**	(531,654,000)
	Cash paid for acquisition of long term equity investments	**–**	(424,884)
	Cash paid for other investing activities	**(1,664,762,900)**	(20,450,459,000)
	Subtotal of cash outflows from investing activities	**(4,407,506,910)**	(26,971,180,722)
	Net cash flows used in investing activities	**(2,368,211,313)**	(26,754,783,206)
3.	**Cash flows from financing activities**		
	Cash received from government grants and subsidies	**295,646,000**	100,720,000
	Cash received from new borrowings	**1,182,690,000**	22,792,070,000
	Subtotal of cash inflows from financing activities	**1,478,336,000**	22,892,790,000
	Cash paid for repayment of borrowings	**(1,044,000,000)**	(944,000,000)
	Cash paid for dividends	**(630,258,098)**	(629,344,800)
	Cash paid for interest expenses	**(609,917,365)**	(504,568,166)
	Cash paid for other financing activities	**(12,014,288)**	(66,697,600)
	Subtotal of cash outflows from financing activities	**(2,296,189,751)**	(2,144,610,566)
	Net cash flows (used in)/from financing activities	**(817,853,751)**	20,748,179,434
4.	**Effect of foreign exchange rate fluctuation on cash and cash equivalents**	**(32,299,569)**	(15,653,542)
5.	**Net increase/(decrease) in cash and cash equivalents**	**2,649,105,960**	(1,020,128,282)
	Add: Cash and cash equivalents at the beginning of year	**1,750,110,504**	2,770,238,786
6.	**Cash and cash equivalents at the end of year**	**4,399,216,464**	1,750,110,504

Notes to the Financial Statements

31 December 2010

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 RMB1,356,654.3 thousand 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.

The financial statements were approved by the board of directors of the Company on 22 March 2011. Pursuant to the Articles of Association of the Company, the financial statements shall be submitted to shareholders general meeting for approval.

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 2010 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 2010
RMB Yuan

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.

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

Any excess of the sum of the fair value of the consideration payable for a business combination (or the fair value of the equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is subsequently measured at cost less any accumulated impairment losses. If the acquirer's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the fair value of the consideration payable for a business combination (or the fair value of the equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the fair value of the identifiable assets, liabilities or contingent liabilities as well as the fair value of the consideration payable for a business combination (or the fair value of the equity securities issued) and the fair value of the acquiree's equity held before the acquisition date are reassessed, and after reassessment, any excess of the acquirer's interest in the fair value of the acquiree's identifiable net assets over the sum of the fair value of the consideration payable for a business combination (or the fair value of the equity securities issued) and the fair value of the acquiree's equity held before the acquisition date is recognized as current profit and loss 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 2010. 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 balance, transactions and unrealized gains and losses resulting from intercompany transactions and dividends within the Group are eliminated on consolidation in full.

Where the current loss assumed by the minority shareholders of a subsidiary exceeds the minority interests of beginning equity, the balance of minority interests shows as deficits. Any changes in the minority interests without losing its control is recognized as an equity transaction.

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 2010
RMB Yuan

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. The exchange differences arising from the above translation, except the ones relating to foreign currency borrowings for the acquisition, construction or production of assets eligible for the capitalization shall be dealt with according to the principle of borrowing cost capitalization, 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 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 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 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 and current portion of non-current assets.

Notes to the Financial Statements

31 December 2010
RMB Yuan

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 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. Such financial assets are subsequently measured at amortized cost using the effective interest rate method. Gains or losses arising from amortization or impairment are recognized in the 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 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 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 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: accounts payable, interest payable, other payables, current portion of non-current liabilities, long-term bank borrowings and long-term bonds.

Notes to the Financial Statements

31 December 2010
RMB Yuan

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 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 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 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 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 2010
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 individually insignificant financial assets, an impairment assessment is made collectively for financial assets which share similar credit risk characteristics. 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

(1) Individually significant receivables with bad debt provision

The Group recognizes the account receivables with an individual balance exceeding RMB50 million and other receivables with an individual balance exceeding RMB10 million as individually significant receivables.

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.

(2) Receivables with bad debt provision assessed collectively in groups

The Group recognizes the portfolio of receivables individually non-significant and receivables without individual impairment on the basis of their ages as the signs of credit risks and the provision ratios of bad debts in respect of account receivables and other receivables under aging analysis are set out 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

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31 December 2010
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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 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 those complete the business combination not under common control in various stages by means of numerous transactions, the initial investment cost is the sum of the acquiree's equity investments held before the acquisition date and new investment cost on the acquisition date). The combination cost comprises the sum of the assets provided by the acquirer, the liability incurred or taken and the fair value of the equity securities issued. 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. Control refers to the right to decide on the financial and operating policies of a company and to obtain profit from operating earnings 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 2010
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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.

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 (25). 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 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)	5-30 years	10%	3%-18%
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 (25).

Notes to the Financial Statements

31 December 2010
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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 (25).

(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 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 income statement until the construction or production activities resume.

(16) Intangible assets

The intangible assets are recognized and initially measured at cost when it is probably that the related economic benefits will flow to the Group the cost of which can be reliably measured. The intangible assets acquired in the business combination the fair value of which can be reliably measured are separately recognized as intangible assets at fair value.

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 2010
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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 (25).

(17) Long-term prepaid expenses

The long-term prepaid 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
Renovation expenses for drilling rigs	Beneficial period of contract

(18) Provision

Except for the contingent consideration and contingent liabilities under business combination, 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 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 payment settled in cash. For details of the SAR Plan, please refer to Note 5 (49).

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 2010
RMB Yuan

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, investments 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, investments 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.

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.

Notes to the Financial Statements

31 December 2010
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2. Significant accounting policies and accounting estimates (continued)

(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 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 income statement on the straight-line basis over the lease terms. Contingent rentals are credited to consolidated income statement when they are incurred.

(24) Changes in accounting policies and accounting estimates

Changes in accounting policies

For the direct related expenses arising from the business combination not under common control (except for the transaction fees in relation to equity securities or liability securities issued for the payment of the consideration under business combination), the Group originally included the expenses in the cost of combination. According to the Interpretation No.4 to the CAS promulgated in July 2010, with effect from 1 January 2010, all expenses are charged to the consolidated income statement as incurred. According to the interpretation, the Group adopts the prospective application method for the change of the accounting policies.

For a business combination achieved in stages by successive exchange, the Company and the Group originally recognized the aggregate costs of individual transactions as the cost of combination. According to the Interpretation No.4 to the CAS promulgated in July 2010, with effect from 1 January 2010, in the separate financial statements, the initial cost of investments is the sum of the carrying value of the acquiree's equity investment held prior to the acquisition date and the additional investment cost on the acquisition date. For the acquiree's equity held prior to the acquisition date which involves other comprehensive income, the relevant other comprehensive income is transferred to investment income in the current period when the investment is disposed. In the consolidated financial statements, the acquiree's equity investment held prior to the acquisition date is measured at the fair value of the equity on the acquisition date, and the difference between the fair value and its carrying value is recognized as investment income in the current period. For the acquiree's equity held prior to the acquisition date which involves other comprehensive income, the relevant other comcprehensive income is transferred to investment income in the current period at the acquisition date. According to the interpretation, the Group adopts the prospective application method for the change of the accounting policies prospectively.

In the event of the loss of control of the original subsidiary due to disposal of part of equity investments or other reasons, the Group originally measured the remaining equity at the carrying value on the date of the loss of control. The sum of consideration obtained from the disposal of the equity and the carrying value of the remaining equity less the sum of the share of the remaining equity of the original subsidiary measured in proportion of the shareholdings from the acquisition date and the goodwill of the subsidiary is recognized as the investment income in the current period of the loss of control. According to the Interpretation No.4 to the CAS promulgated in July 2010 and the Notice of the Implementation of Corporate Accounting Standards for Listed Companies and Non-listed Enterprises in relation to Preparation for Annual Report in 2010 Issued by Ministry of Finance (Cai Kuai 2010 No.25) promulgated in December 2010, with effect from 1 January 2010, in the consolidated financial statements, the remaining equity is measured at the fair value on the date of the loss of control. The sum of consideration obtained from the disposal of the equity and the fair value of the remaining equity less the sum of the share of the remaining equity of the original subsidiary measured in proportion of the shareholdings from the acquisition date and the goodwill of the subsidiary is recognized as the investment income in the current period of the loss of control. Other comprehensive income in relation to the equity investments of the original subsidiary should be transferred to investment income in the current period. According to the interpretation, the Group adopts the prospective application method for the change of the accounting policies prospectively.

In the consolidated financial statements, for the responsibility originally taken by the Group pursuant to the articles of the subsidiary or the agreements which do not require minority shareholders to take the responsibility or so require but minority shareholders are unable to indemnify, if losses attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' interest in the equity of the subsidiary at the beginning of the period, the Group originally allocated the excess against the interest attributable to the Company's shareholders. According to the Interpretation No.4 to the CAS promulgated in July 2010, where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest in the equity of the subsidiary at the beginning of the period, the excess is allocated against the minority shareholders interest. According to the interpretation, the Group adopts the change of the accounting policies retrospectively.

The above change of the accounting policy has no material effect on the Group's financial statements.

Notes to the Financial Statements

31 December 2010
RMB Yuan

2. Significant accounting policies and accounting estimates (continued)

(25) 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 indicator that an asset may be impaired at the balance date. If there is any indicator 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 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.

(26) 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 income statement.

The welfares for internal retirements and supplementary pension are partialy undertaken by CNOOC; consequently, such cost is not recorded in the income statement of the Group. Please refer to Note 6 (8) for details.

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 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.

(27) Profit distribution

The cash dividends of the Company are recognized as a liability upon the approval at the shareholders general meeting.

Notes to the Financial Statements

31 December 2010
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2. Significant accounting policies and accounting estimates (continued)

(28) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control, joint control or significant influence from another party, they are considered to be related parties.

(29) Segment reporting

Reportable segments are identified and segments' information are disclosed based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system.

An operating segment is a component of the Group and meets all the following conditions:
(1) it may earn revenues and incur expense from business activities;
(2) its operating results are regularly reviewed by the Group's management to make decisions about the resources to be allocated to the segment and to assess its performance;
(3) its financial information regarding financial position, results of operations and cash flows are available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics and fulfill certain conditions.

(30) Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgements and estimates 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 estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

Estimates with uncertainty

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

On 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. As of 31 December 2010, provision for impairment of the Group's fixed assets was RMB26,701,845 (2009: Nil) and provision for impairment of the Group's construction in progress was RMB145,699,400 (2009: RMB819,888,718). Please refer to Note 5 (17) for details.

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 2010, the Group recognized RMB226,575,445 (31 December 2009: RMB43,428,342) for doubtful debt provision of receivables and RMB629,019 (31 December 2009: RMB1,070,665) for inventory impairment provision. Please refer to Note 5 (17) for details.

Notes to the Financial Statements

31 December 2010
RMB Yuan

2. Significant accounting policies and accounting estimates (continued)

(30) Significant accounting judgements and estimates (continued)

Estimates with uncertainty (continued)

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 2010, impairment losses of RMB18,291,108 (2009: RMB15,003,044) 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 2010 was nil (2009: RMB16,404,539). Please refer to Note 5 (27) for details.

Applicable tax rate for deferred income tax

When calculating deferred tax assets and liabilities, the Group shall base on the applicable tax rate for the periods expected for collecting such assets or repaying such liabilities. This requires the management to judge and estimate the applicable tax rates for the Group in future periods, combining the Company's tax planning strategies and the Company's advanced technology enterprise self-assessment and review so as to determine the applicable tax rates for deferred income tax that should be recognized.

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 Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation (the "TSAT"), and Tianjin Local Taxation Bureau, which is effective since 1 January 2008 for three years. In 2009, the Company received the "Taxpayer tax reduction and waiver record report" from the marine petroleum taxation branch of Tianjin State Taxation Bureau. According to the record report, the corporate income tax rate was approved to be 15% for 2009 and 2010, and therefore, the Company has applied the corporate income tax rate of 15% for 2010 (2009: 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 25% on the basis of a 15% deemed profit rate (2009: income tax at 25% on the basis of a 10% deemed profit rate) of service income generated from drilling activities in the PRC.

The Group's business in Indonesia is subject to corporate income tax at 25% (2009: 28%) based on the taxable profit.

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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% (2009: 30%) based on the taxable profit.

The Group's business in Myanmar is subject to income tax at 3.5% (2009: 3%) based on the taxable profit.

The Group's business in Mexico is subject to the higher of income tax of 30% or business flat tax of 17.5% (2009: 28% and 17%, respectively).

The Group's business in Norway is subject to corporate income tax at 28% (2009: 28%) based on the taxable profit.

The Group's business in Vietnam is subject to withholding tax at 10% (2009: 10%) on income derived from the provision of services.

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

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

The Group's drilling activities in Dubai is not subject to income tax.

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

(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 (including subsidiaries held indirectly through 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
PT. Samudar Timur Santosa ("PT STS")	Limited company	Jakata, Indonesia	Not applicable	Service	US$250,000	Provision of marine and transportation service	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

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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 rigs.

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	2,712,100	–	100%	–	100%	Yes	–	
COSL (BVI)	8	–	100%	–	100%	Yes	–	
COSL (Labuan)	8	–	–	100%	100%	Yes	–	
COSSA (BVI)	24,830,708	–	–	100%	100%	Yes	–	
COSL Chemicals	21,709,948	–	100%	–	100%	Yes	–	
COSL (Australia)	59,262	–	–	100%	100%	Yes	–	
COSL Hong Kong International Limited	6,827,665,500	–	100%	–	100%	Yes	–	
CDPL	8	–		100%	100%	Yes	–	
CDPLL	8	–		100%	100%	Yes	–	
COSL Norwegian	6,766,351,630	–	–	100%	100%	Yes	–	
PT STS	1,697,725	–	–	49%	100%	Yes	348,068	*Note 1*
Subsidiaries acquired through business combination not under common control								
CDE	16,094,229,578	–	–	100%	100%	Yes	–	

Note 1: In the opinion of the directors, the Company has control over PT Samudra Timur Santosa's ("PT STS") financial and operating decisions, and accordingly, the financial statements of PT STS have been incorporated into the Group's consolidated financial statements as a subsidiary, and minority interests were recognised in the consolidated financial statements.

The above table lists out the principal subsidiaries 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.

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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 2010 are as follows:

	Net assets at the end of 2010	Net profit of 2010
PT STS	682,486	(973,189)

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 6.6227 (31 December 2009: 6.8282) and the average exchange rate is 6.6507 (2009: 6.8312).

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

(1) Cash on hand and at bank

	31 December 2010 Original currency	31 December 2010 Exchange rate	31 December 2010 RMB equivalent	31 December 2009 Original currency	31 December 2009 Exchange rate	31 December 2009 RMB equivalent
Cash on hand						
– RMB	130,304	1.0000	130,304	133,984	1.0000	133,984
– US$	125,964	6.6227	834,220	197,103	6.8282	1,345,859
– Libya Dinar	6,725	5.1989	34,960	1,912	5.5195	10,553
– Philippine Peso	657,943	0.1507	99,152	956,738	0.1467	140,377
– A$	1	6.7139	9	392	6.1242	2,401
– UAE Dirham	37	1.7943	67	38	1.8600	71
– Myanmar Kyat	12,621	1.0049	12,683	4,584	1.0382	4,759
– Indonesia Rupiah	156,210,909	0.0007	115,230	156,569,682	0.0007	113,733
– NOK	-	1.1231	–	1,885	1.1820	2,228
– Nigerian Naira	421,936	0.0444	18,734	–	0.0447	–
– SGD	–	5.1191	–	36	4.8605	177
			1,245,359			1,754,142
Cash at bank						
– RMB	3,554,571,424	1.0000	3,554,571,424	1,862,632,538	1.0000	1,862,632,538
– US$	371,733,694	6.6227	2,461,880,866	298,256,309	6.8282	2,036,553,749
– HK$	1,009,187	0.8509	858,747	956,756	0.8805	842,405
– Indonesia Rupiah	2,137,074,466	0.0007	1,576,432	3,527,015,281	0.0007	2,562,039
– Euro	674,596	8.8065	5,940,806	–	9.7971	–
– A$	268,535	6.7139	1,802,917	604,244	6.1242	3,700,516
– Philippine Peso	573,808,561	0.1507	86,472,950	262,472,463	0.1467	38,509,674
– Malaysia Ringit	62,963	2.1366	134,528	171,359	1.9880	340,661
– Mexican Peso	136,761,959	0.5321	72,764,200	71,368,168	0.5229	37,317,354
– Libya Dinar	19,551	5.1989	101,644	–	5.5195	–
– NOK	52,052,408	1.1231	58,460,059	19,298,535	1.1820	22,811,338
– SGD	127,610	5.1191	653,246	1,421,567	4.8605	6,909,529
– UAE Dirham	124,642	1.7943	223,651	88,002	1.8600	163,688
– Nigerian Naira	–	0.0444	–	1,068,371	0.0447	47,756
			6,245,441,470			4,012,391,247
Other monetary funds						
– RMB	477,655	1.0000	477,655	457,522	1.0000	457,522
– US$	7,493,653	6.6227	49,628,214	912,681	6.8282	6,231,968
– NOK	–	1.1231	–	170,891,489	1.1820	201,997,899
			50,105,869			208,687,389
Total			6,296,792,698			4,222,832,778

As at 31 December 2010, the restricted cash at bank of the Group amounted to RMB49,628,214 (31 December 2009: RMB208,229,867).

As at 31 December 2010, cash at bank of the Group placed in overseas banks amounted to RMB1,600,048,434 (31 December 2009: RMB1,829,017,640).

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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31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(2) Notes receivable

	31 December 2010	31 December 2009
Trade acceptances	691,574,221	427,107,943
Banker's acceptances	1,616,400	2,549,959
	693,190,621	429,657,902

As at 31 December 2010, the Group has no discounted note for short term loan.

As at 31 December 2010, the Group has no pledged note for short term loan.

(3) Accounts receivable

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 and CNOOC Limited account for 47% 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 2010	31 December 2009
Within 1 year	3,691,999,509	3,808,257,495
1-2 years	21,099,885	21,343,799
2-3 years	21,208,859	5,697,181
Over 3 years	7,923,520	2,439,510
	3,742,231,773	3,837,737,985
Less: Provision for impairment	281,480,269	92,190,621
	3,460,751,504	3,745,547,364

The movements in provision for impairment of accounts receivable are as follow:

	2010	2009
Balance at the beginning of the year	92,190,621	53,308,614
Provision during the year	196,442,441	88,211,220
Reversal during the year	(4,109,889)	(49,326,498)
Exchange realignment	(3,042,904)	(2,715)
Balance at the end of the year	281,480,269	92,190,621

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

(3) Accounts receivable (continued)

Category of accounts receivable of the Group and the analysis of provision for impairment of accounts receivables are as follows:

	2010				2009			
	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio	Amount	Ratio	Provision for impairment of accounts receivable	Provision ratio
Individually significant items and individual provision for impairment of accounts receivable	3,206,058,266	86%	260,161,747	8%	3,373,779,393	88%	80,022,440	2%
Provision for impairment of accounts receivables on the basis of groups:								
within 1 year	496,995,585	13%	–	–	442,122,271	12%	–	–
1-2 years	17,689,712	1%	5,256,188	30%	13,699,630	–	4,109,889	30%
2-3 years	13,564,690	–	8,138,815	60%	5,697,181	–	5,618,782	99%
over 3 years	7,923,520	–	7,923,519	100%	2,439,510	–	2,439,510	100%
	536,173,507	14%	21,318,522		463,958,592	12%	12,168,181	
Total	3,742,231,773	100%	281,480,269	8%	3,837,737,985	100%	92,190,621	2%

There is dispute on the amount of individually significant items and individual provision for part of impairment of accounts receivable. Since a more detailed disclosure might prejudice seriously the outcome of the litigations, the management did not make any further disclosure on the amount of individually significant items with individual provision for impairment of accounts receivable.

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31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(3) Accounts receivable (continued)

As at 31 December 2010, the 5 largest accounts receivable are listed as follows:

	Relationship with the Group	Amount	Ageing	Percentage of total accounts receivable
CNOOC Limited	Related party	1,751,148,257	Within 1 year	47%
Global Petro Tech FZCO	Non-related party	492,003,151	Within 1 year	13%
ConocoPhillips	Non-related party	288,228,671	Within 1 year	8%
Atlantis Deepwater Orient Ltd. (“Atlantis Deepwater”)	Related party	151,909,553	Within 1 year	4%
Off shore Oil Engineering Co., Ltd	Related party	129,449,577	Within 1 year	3%
		2,812,739,209		75%

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	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%

The accounts receivable balance as at 31 December 2010 included an amount of RMB25,763 due from CNOOC, a shareholder holding 53.63% voting rights of the Company (31 December 2009: RMB257,469,184). The accounts receivable due from other related parties amounted to RMB2,111,287,185 (31 December 2009: RMB2,176,095,649). Please refer to Note 6(6) for details.

As at each year-end of the financial statements, except for 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 the provision made for impairment of account receivable due from Atlantis Deepwater.

The Group’s accounts receivable are mainly denominated in RMB and US$. As at 31 December 2010, the balance denominated in US$ was US$261,357,807 (equivalent to RMB1,730,894,349) (31 December 2009: the balance denominated in US$ was US$199,594,759, equivalent to RMB1,362,872,935).

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 2010 Amount	Ratio	31 December 2009 Amount	Ratio
Within 1 year	65,903,853	96%	354,732,697	67%
1-2 years	2,726,646	4%	173,500,558	33%
Total	68,630,499	100%	528,233,255	100%

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31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(4) Prepayments (continued)

As at 31 December 2010, the Group's prepayment balance did not include amount due from a shareholder holding 5% or more voting rights of the Company (31 December 2009: nil).

As at 31 December 2010, the 5 largest prepayments are as follows:

2010	Relationship with the Group	Amount	Prepayment time	Reasons for outstanding
China Pacific Property Insurance Co., Ltd	Non-related party	15,998,180	2010	Prepayment for insurance premium is still unsettled
National Oilwell Varco L.P.	Non-related party	9,786,696	2010	The goods are not yet delivered and the payment is not due.
Marsh Brokers (Hong Kong) Limited	Non-related party	6,567,063	2010	Prepayment for insurance premium is still unsettled
Terasa-Star International Shipping Pte. Ltd.	Non-related party	5,601,146	2010	Prepayment for service fee is still unsettled
Storebrand liveforsikring As	Non-related party	5,162,421	2010	The payment is not due.
		43,115,506		

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		

The balance of prepayments was nil prepaid to related parties (31 December 2009: RMB298,097,500). Please refer to Note 6(6) for details.

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

(5) Dividend receivable

2010	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	23,754,415	195,363,353	(194,642,222)	(28,306)	24,447,240	Some dividends are not paid after the declaration for grant	No

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

Dividend receivable as at 31 December 2010 and 31 December 2009 were all dividend receivable due from jointly-controlled entities.

(6) Other receivables

Ageing analysis of other receivables is as follows:

	31 December 2010	31 December 2009
Within 1 year	434,308,591	376,829,748
1-2 years	30,960,338	16,479,579
2-3 years	4,358,639	1,275,165
Over 3 years	2,939,198	1,870,361
	472,566,766	396,454,853
Less: provision for impairment	39,887,642	7,331,282
	432,679,124	389,123,571

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

(6) Other receivables (continued)

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

	2010	2009
Balance at the beginning of the year	7,331,282	2,787,662
Provision during the year	45,166,314	8,269,455
Reversal during the year	(10,923,421)	(3,725,835)
Exchange realignment	(1,686,533)	–
Balance at the end of the year	39,887,642	7,331,282

Category of other receivables of the Group and the analysis of provision for impairment of other receivables are as follows:

	2010				2009			
	Amount	Ratio	Provision for impairment of other receivables	Provision ratio	Amount	Ratio	Provision for impairment of other receivables	Provision ratio
Individually significant items and individual provision for impairment of other receivables	252,249,592	53%	32,809,765	13%	230,217,712	58%	–	–
Provision for impairment of other receivables on the basis of groups								
within 1 year	207,925,559	44%	–	–	146,878,516	37%	–	–
1-2 years	5,093,778	1%	1,528,133	30%	16,479,579	4%	4,855,710	29%
2-3 years	4,358,639	1%	2,615,183	60%	1,008,685	–	605,211	60%
over 3 years	2,939,198	1%	2,934,561	100%	1,870,361	1%	1,870,361	100%
	220,317,174	47%	7,077,877		166,237,141	42%	7,331,282	
Total	472,566,766	100%	39,887,642	8%	396,454,853	100%	7,331,282	2%

As of 31 December 2010, provision for impairment of other receivables with individually significant items are as follows:

	Amount	Provision for impairment	Provision ratio	Reason
Atlantis Deepwater	32,857,272	32,809,765	100%	As Atlantis Deepwater has liquidated, the Group expected that the amount could not be recovered.

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31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(6) Other receivables (continued)

As at 31 December 2010, the 5 largest other receivables are as follows:

	Relationship with the Group	Amount	Percentage of total other receivables	Account nature
Premium Drilling as ("Premium Drilling")	Related party	**95,785,387**	**20%**	Funds transfer
Maersk Drilling Pty Ltd	Non-related party	**93,721,761**	**20%**	Operational fees
CNOOC Limited	Related party	**29,885,172**	**6%**	Compensation for operation
Atlantis Deepwater	Related party	**32,857,272**	**7%**	Funds transfer
CNOOC Research Centre	Related party	**7,744,000**	**2%**	Funds for technology research
		259,993,592	**55%**	

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
Premium Drilling	Related party	147,177,452	37%	Funds transfer
Atlantis Deepwater	Related party	30,115,828	8%	Funds borrowed
Maersk Drilling Pty Ltd	Non-related party	13,317,246	3%	Operating expenses
NOX fee	Non-related party	9,798,467	2%	Surcharges of Norway port
Xingang Customs of Tianjin of the Peoples' Republic of China ("Tianjin Customs")	Non-related party	9,311,897	2%	Tariff deposits
		209,720,890	52%	

The other receivable balance as at 31 December 2010 included an amount of RMB1,314,648 due from CNOOC, a shareholder holding 53.63% voting shares of the Company (31 December 2009: RMB1,983,532). The other receivables due from other related parties amounted to RMB172,598,270 (31 December 2009: RMB187,908,663) as at 31 December 2010. Please refer to Note 6(6) for details.

The Group's other receivables are mainly denominated in RMB and US$. As at 31 December 2010, the balance denominated in US$ was US$58,082,206 (equivalent to RMB384,661,025) (31 December 2009: the balance denominated in US$ was US$50,415,629, equivalent to RMB344,247,996).

The Group had no impairment provision of other receivables written-off during the year.

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

(7) Inventories

	31 December 2010	31 December 2009
Materials and spare parts for production	832,933,446	837,313,028
Less: Provision for impairment	17,393,501	16,764,482
	815,539,945	820,548,546

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

	2010	2009
Balance at the beginning of the year	16,764,482	15,693,817
Provision during the year	629,019	1,070,665
Reversal during the year	–	–
Balance at the end of the year	17,393,501	16,764,482

(8) Held-to-maturity investment/Current portion of non-current assets

	31 December 2010			31 December 2009		
	Gross carrying amount	Impairment provision	Net carrying amount	Gross carrying amount	Impairment provision	Net carrying amount
Held-to-maturity investment	–	–	–	39,081,025	–	39,081,025
Current portion of non-current assets*	37,904,858	–	37,904,858	39,081,032	–	39,081,032
Total	37,904,858	–	37,904,858	78,162,057	–	78,162,057

* 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 (24) 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 2010	31 December 2009
Available-for-sale financial assets (note 1)	136,339,684	140,792,296
Less: Provision for impairment of financial assets	136,339,684	121,511,262
	–	19,281,034

note 1:

	31 December 2010	31 December 2009
Equity percentage attributable to the Group	18.5%	18.5%
Share investment, at cost	140,366,447	140,366,447
Exchange realignment	(4,026,763)	425,849
Less: Provision for impairment of financial assets	136,339,684	121,511,262
Net carrying value	–	19,281,034

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 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. In March 2010, Petrojack ASA was liquidated and withdraw from Norway Security Exchange. The Group fully recognized the impairment provision for the investment of available-for-sale financial assets amounting to RMB136,339,684. 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) Investments in jointly-controlled entities

2010 and 2009	Type of entity	Place of registration	Authorized representative	Nature of business	Registered capital	Organization code
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	Limited company	Shenzhen, China 25 October 1984	Zhang Xingyun	a	RMB4,640,000	61889612-8
China France Bohai Geoservices Co., Ltd. ("China France Bohai")	Limited company	Tianjin, China 30 November 1983	Li Yong	b	US$6,650,000	60055009-x
CNOOC-OTIS Well Completion Services Ltd. ("CNOOC-OTIS")	Limited company	Tianjin, China 14 April 1993	Zhao Shunqiang	c	US$2,000,000	60056885-5
China Petroleum Logging-Atlas Cooperation Service Company ("Logging-Atlas")	Limited company	Shenzhen, China 10 May 1984	Yu Feng	d	US$2,000,000	618834787
China Offshore Fugro Geo Solutions (Shenzhen) Company Ltd.("Fugro")	Limited company	Shenzhen, China 24 August 1983	Yu Zhanhai	e	US$1,720,790	600550081
PT Tritunggal Sinergi Company Ltd. ("PTTS")	Limited company	Indonesia 30 December 2004	Not applicable	Provision of oilfield maintenance services	US$700,000	Not applicable
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	Not applicable
COSL-Expro Testing Services (Tianjin) Company Ltd. ("COSL-Expro")	Limited company	Tianjin, China 28 February 2007	Zhao Shunqiang	f	US$5,000,000	79727432-3
Atlantis Deepwater	Limited company	Hong Kong, China 28 August 2006	Not applicable	Provision of artificial buoyant seabed unit	HK$1,000	Not applicable
Premium Drilling (note 1)	Limited company	Norway June 2005	Not applicable	Operation of jack-up rigs	NOK100,000	Not applicable

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

(10) Investments 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: Premium Drilling 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. In May 2009, the Group and the other investor made the common decision to terminate the management agreement of Premium Drilling (Cayman) Ltd. Subsequent to the termination, the liquidation process has commenced for Premium Drilling Inc. and Premium Drilling (Cayman) Ltd..

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.

2010	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	351,138,712	141,203,952	209,934,760	583,197,188	88,130,355
China France Bohai	250,634,151	106,386,141	144,248,010	468,993,551	151,852,676
CNOOC-Otis	68,623,632	9,817,714	58,805,918	63,295,903	10,107,625
Logging-Atlas	66,929,957	20,304,999	46,624,958	101,766,750	10,933,790
Fugro	198,184,301	36,155,217	162,029,084	179,197,329	62,544,103
PTTS	1,822,259	29,096	1,793,163	–	(137,266)
Eastern Marine	183,410,840	14,564,940	168,845,900	65,248,616	(108,382,531)
COSL-Expro	177,330,505	50,887,613	126,442,892	253,302,860	68,746,884
Atlantis Deepwater	55,170,552	227,114,909	(171,944,357)	1,795,676	(7,652,803)
Premium Drilling	24,915,732	216,311,365	(191,395,633)	–	(7,233,101)

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) Investments in jointly-controlled entities (continued)

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)
Premium Drilling	242,185,520	430,667,534	(188,482,014)	68,347,551	(46,027,312)

(11) Long-term equity investments

	31 December 2010	31 December 2009
Cost method	99,884	99,884
Equity method	482,133,936	531,635,201
	482,233,820	531,735,085

	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 ("ADTH")	99,884	99,884	–	–	99,884

There is no impairment for the long-term equity investments as at 31 December 2010. 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)

2010	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	71,317,967	806,038	–	72,124,005	50%	–	50%	–	(75,120,300)
Magcobar (note 3)	25,170,585	130,049,883	(4,089,027)	–	125,960,856	60%	–	50%	–	(56,967,240)
CNOOC-OTIS	27,520,607	28,349,146	1,053,813	–	29,402,959	50%	–	50%	–	(4,000,000)
Logging-Atlas	10,167,012	21,258,984	2,053,495	–	23,312,479	50%	–	50%	–	(3,413,400)
Fugro	10,134,627	66,821,241	14,193,301	–	81,014,542	50%	–	50%	–	(17,078,750)
PTTS (note 3)	3,186,453	1,093,531	(107,291)	–	986,240	–	55%	50%	–	–
Eastern Marine (note 3)	163,113,033	151,896,445	(65,785,036)	–	86,111,409	–	51%	50%	–	(6,783,663)
COSL-Expro	19,352,250	60,848,004	2,373,442	–	63,221,446	50%	–	50%	–	(32,000,000)
Atlantis Deepwater (note 2)	46,771,639	–	(1,347,211)	1,347,211	–	–	50%	50%	–	–
Premium Drilling (note 1)	24,644,100	–	(4,293,060)	4,293,060	–	–	50%	50%	–	–
Subtotal	386,396,962	531,635,201	(55,141,536)	5,640,271	482,133,936				–	(195,363,353)

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 Premium Drilling terminated the management agreement of Premium Drilling. The jointly-controlled entity will soon be liquidated and the losses would be reclassified into other current liabilities (31 December 2009: other 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 (28) 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 but the mutual control with other shareholders. 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.

Notes to the Financial Statements

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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 (%)		Voting right ratio (%)	Provision for impairment	Cash dividend during the year
						Direct	Indirect			
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%	–	–
Premium Drilling (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)

Notes to the Financial Statements

31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(12) Fixed assets

2010	Balance at the beginning of the year	Increase/ provision during the year	Decrease during the year	Balance at the end of the year
Cost				
Land and buildings	70,438,981	80,000	5,395,090	65,123,891
Tankers and vessels	8,581,468,038	173,477,817	139,211,277	8,615,734,578
Drilling rigs	27,245,874,970	3,657,937,627	640,396,191	30,263,416,406
Machinery and equipment	6,643,884,767	901,127,876	181,930,403	7,363,082,240
Other vehicles	77,860,498	1,792,850	10,563,609	69,089,739
Total	42,619,527,254	4,734,416,170	977,496,570	46,376,446,854
Accumulated depreciation				
Land and buildings	8,223,981	3,458,561	3,011,203	8,671,339
Tankers and vessels	3,756,419,367	374,123,380	131,010,600	3,999,532,147
Drilling rigs	6,203,220,972	1,434,937,615	61,538,437	7,576,620,150
Machinery and equipment	2,512,736,648	764,154,945	101,455,398	3,175,436,195
Other vehicles	46,615,137	10,007,672	9,580,720	47,042,089
Total	12,527,216,105	2,586,682,173	306,596,358	14,807,301,920
Net carrying amount				
Land and buildings	62,215,000			56,452,552
Tankers and vessels	4,825,048,671			4,616,202,431
Drilling rigs	21,042,653,998			22,686,796,256
Machinery and equipment	4,131,148,119			4,187,646,045
Other vehicles	31,245,361			22,047,650
Total	30,092,311,149			31,569,144,934
Impairment provision				
Land and buildings	–	-	–	-
Tankers and vessels	–	26,701,845	–	26,701,845
Drilling rigs	–	-	–	-
Machinery and equipment	–	-	–	-
Other vehicles	–	-	–	-
Total	–	26,701,845	–	26,701,845
Carrying amount				
Land and buildings	62,215,000			56,452,552
Tankers and vessels	4,825,048,671			4,589,500,586
Drilling rigs	21,042,653,998			22,686,796,256
Machinery and equipment	4,131,148,119			4,187,646,045
Other vehicles	31,245,361			22,047,650
Total	30,092,311,149			31,542,443,089

Notes to the Financial Statements

31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(12) Fixed assets (continued)

2009	Balance at the beginning of the year	Increase/ provision 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			62,215,000
Tankers and vessels	3,180,363,239			4,825,048,671
Drilling rigs	17,227,783,238			21,042,653,998
Machinery and equipment	3,665,896,662			4,131,148,119
Other vehicles	30,531,441			31,245,361
Total	24,137,207,634			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			62,215,000
Tankers and vessels	3,180,363,239			4,825,048,671
Drilling rigs	17,227,783,238			21,042,653,998
Machinery and equipment	3,665,896,662			4,131,148,119
Other vehicles	30,531,441			31,245,361
Total	24,137,207,634			30,092,311,149

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31 December 2010
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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 2010 was RMB2,586,682,173 (2009: RMB2,331,609,328).

The original cost of the fixed assets transferred from construction in progress in 2010 amounted to RMB4,524,073,476 (2009: RMB8,058,722,945).

As at 31 December 2010, fixed assets of an original cost of RMB7,084,830,702 have been fully depreciated but continue to be used by the Group, and the carrying value of such assets amounted to RMB150,592,339 (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).

The Group had no significant temporarily-idle fixed assets as at 31 December 2010.

The Group had no fixed asset leased by financing as at 31 December 2010.

The Group had no ownership-restricted fixed assets as at 31 December 2010.

The Group had no fixed assets held for sale as at 31 December 2010.

The Group had no significant fixed asset without certificate of title as at 31 December 2010.

Details of the fixed assets under operating leases of the Group is as follows:

31 December 2010	Carrying amount of original cost	Accumulated depreciation	Impairment provision	Exchange gains/(losses)	Carrying amount
Drilling rig COSL Power	1,835,596,177	235,014,212	–	(54,256,027)	1,546,325,938

Notes to the Financial Statements

31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(13) Construction in progress

	31 December 2010		
	Carrying amount	Impairment provision	Book balance
Deep water 3-purpose workboat	1,191,167,378	–	1,191,167,378
200ft platform	1,173,104,118	–	1,173,104,118
Exploration 12 cable ship construction	750,230,117	–	750,230,117
Deep water reconnaissance vessel	375,914,955	–	375,914,955
6-type-3-purpose workboat	26,744,882	–	26,744,882
Two lift boat multi-functional drilling platforms	17,536,695	–	17,536,695
Indonesia barge	10,174,308	–	10,174,308
ELIS system	9,079,215	–	9,079,215
350ft drilling platform	–	–	–
N5 shipyard renovation	–	–	–
COSL Pioneer	3,217,713,648	–	3,217,713,648
COSL Promoter	2,190,769,631	(364,248,500)	1,826,521,131
COSL Innovator	2,421,890,955	(430,475,500)	1,991,415,455
Drilling packages	1,909,661,436	(145,699,400)	1,763,962,036
Others	2,066,517,370	–	2,066,517,370
Total	15,360,504,708	(940,423,400)	14,420,081,308

	31 December 2009		
	Carrying amount	Impairment provision	Book balance
Deep water 3-purpose workboat	272,511,574	–	272,511,574
200ft platform	1,513,527,628	–	1,513,527,628
Exploration 12 cable ship construction	186,506,661	–	186,506,661
Deep water reconnaissance vessel	129,117,795	–	129,117,795
6-type-3-purpose workboat	71,131,964	–	71,131,964
Two lift boat multi-functional drilling platforms	679,210,800	–	679,210,800
Indonesia barge	49,693,196	–	49,693,196
ELIS system	62,215,931	–	62,215,931
350ft drilling platform	1,363,758,496	–	1,363,758,496
N5 shipyard renovation	146,878,750	–	146,878,750
COSL Pioneer	2,469,987,522	–	2,469,987,522
COSL Promoter	2,031,990,026	(375,551,000)	1,656,439,026
COSL Innovator	2,203,825,106	(443,833,000)	1,759,992,106
Drilling packages	1,268,803,872	–	1,268,803,872
Others	2,517,425,397	–	2,517,425,397
Total	14,966,584,718	(819,384,000)	14,147,200,718

Notes to the Financial Statements

31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(13) Construction in progress (continued)

2010	Budget	At the beginning of the year	Increase during the year: Purchase	Increase during the year: Transfer from fixed assets	Decrease during the year: Transfer to fixed assets	Decrease during the year: Transfer to intangible assets	Decrease during the year: Transfer to long-term deferred assets	Exchange realignment	At the end of the year	Capital source	Project investment as proportion of budget
Deep water 3-purpose workboat	1,528,320,000	272,511,574	918,655,804	-	-	-	-	-	1,191,167,378	Fund raised from issue of A share	78%
200ft platform	2,982,472,000	1,513,527,628	992,073,206	-	(1,332,496,716)	-	-	-	1,173,104,118	Self-financing	84%
Exploration 12 cable ship construction	1,120,620,000	186,506,661	563,723,456	-	-	-	-	-	750,230,117	Fund raised from issue of A share	67%
Deep water reconnaissance vessel	768,320,000	129,117,795	246,797,160	-	-	-	-	-	375,914,955	Fund raised from issue of A share	49%
6-type-3-purpose workboat	1,968,524,095	71,131,964	(22,435,134)	-	(21,951,948)	-	-	-	26,744,882	Bonds and fund raised from issue of A share	89%
Two lift boat multi-functional drilling platforms	698,910,000	679,210,800	(13,424,105)	-	(648,250,000)	-	-	-	17,536,695	Bonds and fund raised from issue of A share	95%
Indonesia barge	151,670,000	49,693,196	103,554,712	-	(143,073,600)	-	-	-	10,174,308	Self-financing	75%
ELIS system	555,000,000	62,215,931	24,496,261	-	(77,632,977)	-	-	-	9,079,215	Self-financing	64%
350ft drilling platform	2,938,200,000	1,363,758,496	8,129,820	-	(1,371,888,316)	-	-	-	-	Fund raised from issue of A share	100%
N5 shipyard renovation	-	146,878,750	-	-	(146,878,750)	-	-	-	-	Self-financing	100%
COSL Pioneer	3,372,800,000	2,469,987,522	838,688,766	-	-	-		(90,962,640)	3,217,713,648	Self-financing and loans	112%
COSL Promoter	3,304,800,000	2,031,990,026	228,628,797	-	-	-		(69,849,192)	2,190,769,631	Self-financing and loans	83%
COSL Innovator	3,372,800,000	2,203,825,106	296,768,091	-	-	-		(78,702,242)	2,421,890,955	Self-financing and loans	98%
Drilling packages	3,311,350,000	1,268,803,872	689,327,836	-	-	-		(48,470,272)	1,909,661,436	Self-financing and loans	55%
Others	16,847,963,905	2,517,425,397	359,474,671	-	(781,901,169)	(15,753,318)	(12,728,211)	-	2,066,517,370		
Total	42,921,750,000	14,966,584,718	5,234,459,341	-	(4,524,073,476)	(15,753,318)	(12,728,211)	(287,984,346)	15,360,504,708		

Capitalized interest expenditure of the Group in 2010 amounted to RMB91,855,640 (2009: RMB264,943,374) (Note 5(38)), and the capitalization rate of capitalized amount of borrowing cost was 0.31%.

As at 31 December 2010, 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 RMB5,639,604,603 have been pledged as security for its bonds. Please refer to Note 5(26) for details.

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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: Purchase	Increase during the year: Transfer from fixed assets	Decrease during the year: Transfer to fixed assets	Decrease during the year: Transfer to intangible assets	Exchange realignment	At the end of the year	Capital source	Project investment as proportion of budget
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)

Impairment provision of construction in progress

2010	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)	443,833,000	–	--	(13,357,500)	430,475,500
– COSL Promoter (note 1)	375,551,000	–	-	(11,302,500)	364,248,500
– COSL Rig 4 (note 2)	–	145,699,400	–	-	145,699,400
	819,384,000	145,699,400	–	(24,660,000)	940,423,400

note 1: Impairment loss of construction in progress of RMB819,888,718 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 higher 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%.

note 2: Impairment loss of construction in progress of RMB145,669,400 was recognized by the Group in 2010 to reduce the carrying amount of a drilling package under construction to its recovered amounts, primarily arising from the decrease in the international market price for similar construction. The impairment losses have been classified under the drilling services segment of the segment report. Please refer to Note 11(4) for details.

(14) Intangible assets

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

2010	Balance at the beginning of the year	Increase/ provision during the year	Decrease during the year	Balance at the end of the year
Cost				
Land use rights	262,188,683	–	720,300	261,468,383
Management system and software	263,313,050	24,002,812	11,293,369	276,022,493
Contract value (note 1)	122,880,288	–	3,698,178	119,182,110
Total	648,382,021	24,002,812	15,711,847	656,672,986
Accumulated amortization				
Land use rights	6,212,828	5,263,842	412,271	11,064,399
Management system and software	85,161,019	38,184,687	553,289	122,792,417
Contract value (note 1)	95,163,964	20,769,341	2,951,318	112,981,987
Total	186,537,811	64,217,870	3,916,878	246,838,803
Net carrying amount				
Land use rights	255,975,855			250,403,984
Management system and software	178,152,031			153,230,076
Contract value (note 1)	27,716,324			6,200,123
Total	461,844,210			409,834,183

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

(14) Intangible assets (continued)

2009	Balance at the beginning of the year	Increase/ provision 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			255,975,855
Management system and software	190,440,511			178,152,031
Contract value (note 1)	81,877,160			27,716,324
Total	533,599,646			461,844,210

note 1: Please refer to the note 4 of Note 5(28) for details.

Amortization of intangible assets amounted to RMB64,217,870 in 2010 (2009: RMB95,352,724).

(15) Goodwill

Goodwill was generated in the acquisition of CDE on 28 September 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	Impairment provision
2010	4,600,473,214	–	–	(138,454,827)	4,462,018,387	–
2009	4,604,785,191	–	–	(4,311,977)	4,600,473,214	–

Goodwill acquired through business combinations has been allocated to the drilling services cash-generating unit, which is reportable in the drilling segment, for impairment test.

The recoverable amount of the drilling services cash-generating unit has been determined based on a value in use calculation using cash flow projections based on budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections is 9.5% (2009: 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 services cash-generating unit. 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 are before tax and reflect specific risks relating to the relevant 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 prepaid expenses

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

	At the beginning of the year	Current year additions	Amortization during the year	Disposal during the year	At the end of the year
2010	**841,551,247**	**65,027,398**	**(471,438,788)**	**(372,110)**	**434,767,747**

	At the beginning of the year	Current year additions	Amortization during the year	Disposal during the year	At the end of the year
2009	769,252,771	510,502,532	(438,204,056)	–	841,551,247

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

(17) Provision for impairment of assets

31 December 2010	Balance at the beginning of the year	Provision during the year	Decrease during the year Reversal	Decrease during the year Write-off	Exchange realignment	Balance at the end of the year
Provision for impairment of accounts receivable and other receivables	99,521,903	241,608,755	(15,033,310)	–	(4,729,437)	321,367,911
Provision for impairment of inventories	16,764,482	629,019	–	–	–	17,393,501
Provision of impairment of fixed assets	–	26,701,845	–	–	–	26,701,845
Provision for impairment of construction in progress	819,384,000	145,699,400	–	–	(24,660,000)	940,423,400
Provision for impairment of available-for-sale financial assets	121,511,262	18,291,108	–	–	(3,462,686)	136,339,684
Total	1,057,181,647	432,930,127	(15,033,310)	–	(32,852,123)	1,442,226,341

31 December 2009	Balance at the beginning of the year	Provision during the year	Decrease during the year Reversal	Decrease during the year Write-off	Exchange realignment	Balance at the end of the year
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
Provision for impairment of 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

Impairment loss of fixed assets of RMB26,701,845 was recognized to reduce the carrying amount of a vessel by the Group in 2010, mainly due to the deterioration of the vessel's condition. The impairment loss was recognized in the marine support and transportation services segment of the segment report. Please refer to Note 11(4) for details.

Notes to the Financial Statements

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

(18) 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 2010 did not include accounts payable to the shareholders holding 5% or more voting rights of the Company (31 December 2009: nil). Amounts due to other related parties was RMB656,243,586 (31 December 2009: RMB152,498,047). Please refer to Note 6(6) for details.

Significant balance of accounts payable which was aged over one year as at 31 December 2010 is set forth below:

Company	Amount payable balance	Reason
CSSC Guangzhou Shipbuilding Company Limited	10,459,500	not due
China Merchants Heavy Industry (Shenzhen) Co. Ltd.	17,970,000	not due

With respect to the above significant balance of accounts payable which was aged over one year, no repayment was made after the balance sheet date.

The Group's accounts payable are mainly denominated in RMB or US$. As at 31 December 2010, accounts payable included balances denominated in US$ of US$180,024,477 (equivalent to RMB1,192,248,101) (31 December 2009: US$95,422,146 (equivalent to RMB651,561,495)).

(19) Receipts in advance

The balance of receipts in advance as at 31 December 2010 did not include any advances received from the shareholders holding 5% or more voting rights of the Company (31 December 2009: nil).

The balance of receipts in advance as at 31 December 2010 included advances of RMB110,000 received from a related party, CNOOC Limited (31 December 2009: RMB nil).

The Group had no significant balance of receipts in advance which was aged over one year as at 31 December 2010.

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31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(20) Staff cost payable

31 December 2010	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	425,432,092	2,521,637,556	2,230,953,324	716,116,324
Staff welfares	6,108,334	68,693,836	68,061,066	6,741,104
Social insurances	18,930,272	297,472,872	301,339,151	15,063,993
Including: Basic pension insurance	18,187,490	140,553,789	157,657,531	1,083,748
Medical insurance	700,218	46,907,812	46,913,112	694,918
Unemployment insurance	46,342	9,114,351	9,114,017	46,676
Work-related injury insurance	17,705	2,649,162	2,645,873	20,994
Maternity insurance	7,814	3,091,570	3,090,604	8,780
Commercial insurance	146,239	39,564,670	39,568,856	142,053
Annuity	(175,536)	55,591,518	42,349,158	13,066,824
Housing fund	(63,905)	81,069,355	81,090,709	(85,259)
Union fees and education fees	27,000,302	51,500,343	34,962,222	43,538,423
Sub-total	477,407,095	3,020,373,962	2,716,406,472	781,374,585
	Amount at the beginning of the year	**Benefit expense**	**Contributions**	**Amount at the end of the year**
Non-current liability/(asset) defined benefit plan (note 1)	1,381,058	4,594,067	12,240,133	(6,265,008)
	478,788,153	3,024,968,029	2,728,646,605	775,109,577

Notes to the Financial Statements

31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(20) Staff cost payable (continued)

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
	Amount at the beginning of the year	**Benefit expense**	**Contributions**	**Amount at the end of the year**
Non-current liability defined benefit plan (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

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31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(20) Staff cost payable (continued)

There was no accrued payroll in arrears in the consolidated financial statements of the Group as at the balance sheet date.

In 2010, union fees and education fees amounted to RMB51,500,343 (2009: RMB43,424,169); non-monetary welfare was RMB3,599,417 (2009: RMB2,500,152); no compensation was incurred arising from release of labor (2009: nil).

note 1: Explanation of defined benefit plan

CDE, a subsidiary of the Company, has various pension plans for its employees.

CDE has a defined benefit plan set up together with a life insurance company for the provision of pension benefits for certain employees in Norway. The plan provides entitlement to benefits based on future service from the commencement date of the plan. 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 plan also includes entitlement to disability, spouses and children's pensions. The retirement age under the plan is 67 years old.

CDE may at any time make alterations to the terms and conditions of the pension plan and undertake that they will inform the employees of any such changes. The benefits accruing under the plan 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 2010	31 December 2009
Pension cost		
Service cost	4,083,019	969,849
Interest cost	228,161	53,404
Estimated returns on plan assets	(496,669)	(49,973)
General and administrative expenses	86,902	108,196
Amortization of actuarial gains	154,808	710,653
Net pension cost	4,056,221	1,792,129
Social security tax	537,846	137,232
Total	4,594,067	1,929,361
Benefit assets/(obligation)		
Benefit obligation	(13,784,928)	(2,257,027)
Plan assets	12,141,828	6,757,359
Funded status	(1,643,100)	4,500,332
Social security tax	(263,007)	(230,046)
Unamortized actuarial gains, past service cost	8,171,115	(5,651,344)
Net assets/(obligation)	6,265,008	(1,381,058)
Movements in the benefit asset/(obligation) during the year		
Benefit asset/(obligation), balance at the beginning of the year	(1,381,058)	(5,663,626)
Benefit expense	(4,594,067)	(1,929,361)
Contributions	12,240,133	6,211,929
Benefit assets/(obligation), balance at the end of the year	6,265,008	(1,381,058)

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31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(20) Staff cost payable (continued)

note 1: Explanation of defined benefit scheme (continued)

	2010 31 December	2009 31 December
Assumptions		
Estimated return on plan assets	6%	6%
Discount rate	5%	4%
Salary increase	5%	4%
Increase of National Insurance	4%	4%
Rate of pension increase	1.40%-4.25%	1.50%-3.75%
Voluntary resignations	0-8%	0-8%
Social security tax	14%	14%
Analysis of the plan assets		
The asset allocation at the end of the year is set out as follows:		
Debt instruments	50%	55%
Equity instruments	15%	7%
Money market and similar	19%	22%
Property	16%	16%
Total	100%	100%

Notes to the Financial Statements

31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(21) Taxes payable

	31 December 2010	31 December 2009
Corporate income tax	124,027,556	86,825,656
Business tax	93,237,021	126,625,018
Value added tax	14,546,440	(33,559,625)
Urban maintenance and construction tax	6,086,091	4,450,954
Individual income tax	25,531,048	(33,497,166)
Education surcharge	2,626,368	2,181,480
Other overseas taxes	(16,258,051)	43,925
Total	249,796,473	153,070,242

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

(22) Interest payable

The balance of interest payable as at 31 December 2010 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	38,916,847	610,771,497	(606,119,128)	43,569,216
Bonds	100,296,011	132,023,445	(180,855,750)	51,463,706
Total	139,212,858	742,794,942	(786,974,878)	95,032,922

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

Notes to the Financial Statements

31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(23) Other payables

	31 December 2010	31 December 2009
Amounts due to CNOOC	3,248,229	3,248,229
Marine meal fees payable	26,341,338	33,257,730
Service fees for contracted workers	31,481,663	16,814,778
Equipment cost payable	26,555,888	292,582
Amounts due to other related parties	30,846,993	38,293,528
Deposits and quality guarantee fees	3,198,950	1,505,411
Scientific research cooperation fees payable	66,264,021	–
Amounts due to the jointly-controlled entities	18,501,683	32,463,059
Service fees payable	87,174,824	167,470,890
Fuel payable	29,520,344	172,434
Others	246,160,482	65,309,080
Total	569,294,415	358,827,721

The balance of other payables as at 31 December 2010 included an amount of RMB3,248,229 (31 December 2009: RMB3,248,229) due to CNOOC, which held 53.63% voting rights of the Company. Amounts due to other related parties was RMB49,348,676 (31 December 2009: RMB70,756,587).

As at 31 December 2010, the Group had no other significant payables with the aging of more than one year.

The original amount of other payables of the Group is mainly denominated in RMB or US. The balance of other payables denominated in US$ as at 31 December 2010 was US$55,013,633 (equivalent to RMB364,338,789) (31 December 2009: The balance denominated in US$ was US$29,036,399, equivalent to RMB198,266,329).

(24) Current portion of non-current liabilities

Non-current liabilities due within one year

	31 December 2010	31 December 2009
Long-term borrowings due within one year	650,720,521	283,081,032
Long-term bonds due within one year	573,729,263	–
Total	1,224,449,784	283,081,032

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

	31 December 2010	31 December 2009
Secured borrowings (note 1)	37,904,858	39,081,032
Unsecured borrowings	612,815,663	244,000,000
Total	650,720,521	283,081,032

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

(24) Current portion of non-current liabilities (continued)

The breakdown of the current portion of long-term borrowings as at 31 December 2010 is set out as follows:

	Borrowing Starting date	Ending date	Interest rate %
Export-Import Bank of China	1 June 2006	30 June 2011	RMB export seller's credit interest rate
Export-Import Bank of China	19 November 2008	19 November 2011	RMB export seller's credit interest rate
Export-Import Bank of China	7 April 2009	7 April 2011	RMB export seller's credit interest rate
Eksportfinans	1 August 2006	24 August 2011	3.20%
Export-Import Bank of China	2 September 2008	2 September 2011	LIBOR+170pts

		Balance at the end of 2010		Balance at the end of 2009	
	Currency	Foreign currency	RMB equivalent	Foreign currency	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
Export-Import Bank of China	RMB	–	90,000,000	–	–
Eksportfinans	US$	5,723,474	37,904,858	5,723,475	39,081,032
Export-Import Bank of China	US$	42,100,000	278,815,663	–	–
			650,720,521		283,081,032

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.

The current portion of long-term bonds due within one year as at 31 December 2010 is set out as follows:

Bonds	Balance at the beginning of the year	Increase in the year	Decrease in the year	Exchange realignment	Balance at the end of the year
Secondary security priority US$ bond (Note 1)	–	608,041,214	(16,080,055)	(18,231,896)	573,729,263

Bonds	Nominal Value	Date of Issue	Period	Issuance amount	balance Closing
Secondary security priority US$ bond (Note 1)	US$200,000,000	27 April 2006	5 years	US$195,500,000	573,729,263

note 1: Please refer to note 4 of Note 5(26) for details.

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

(25) Long-term bank borrowings

	31 December 2010	31 December 2009
Secured borrowings (note 1)	–	39,081,025
Unsecured borrowings	27,090,538,733	28,111,958,918
Total	27,090,538,733	28,151,039,943

note 1: Please refer to Note 1 of Note 5(24) for details of the security of the secured borrowings.

The five largest long-term bank borrowings as at 31 December 2010 are as follows:

	Borrowings Starting date	Borrowings Ending date	Interest rate %
Bank of China	14 May 2009	13 May 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.	30 June 2009	29 June 2012	Floating interest rate commission of the entrusted loan at 0.15%

	Currency	Balance at the end of 2010		Balance at the end of 2009	
		Foreign currency	Local currency	Foreign currency	Local currency
Bank of China	US$	1,676,952,223	11,105,951,490	1,578,374,195	10,777,454,682
Bank of China	US$	800,000,000	5,298,160,000	800,000,000	5,462,560,000
Export-Import Bank of China	US$	788,141,228	5,219,622,913	786,301,549	5,369,024,236
Industrial and Commercial Bank of China	US$	600,000,000	3,973,620,000	600,000,000	4,096,920,000
CNOOC Finance Co., Ltd.	RMB	–	1,000,000,000	–	500,000,000
			26,597,354,403		26,205,958,918

As at 31 December 2010, the Group had no long-term bank borrowing due but outstanding.

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

(26) Long-term bonds

31 December 2010 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 US$ bond (note 3)	561,978,538	5,303,301	(552,669,015)	(14,612,824)	-
Second security priority US$ bond (note 4)	608,041,214	–	(589,809,318)	(18,231,896)	-
Total	2,670,019,752	5,303,301	(1,142,478,333)	(32,844,720)	1,500,000,000

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

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%. 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 the remaining bonds at the end of the year has been reclassified to non-current liabilities due within one year. Please refer to Note 5(24) for details.

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

(26) Long-term bonds (continued)

The balance of long-term bonds as at 31 December 2010 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

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

(27) Deferred tax assets and liabilities

Recognized deferred tax assets and deferred tax liabilities

	31 December 2010	31 December 2009
Deferred tax assets:		
Provision for staff bonuses (note 1)	(175,087,015)	(114,573,831)
Accrued liabilities	–	(76,278,787)
Tax losses carried forward	–	(16,404,539)
Income tax assets arising from deferred revenue	(32,500,000)	–
Others	(6,143,248)	(29,065,372)
	(213,730,263)	(236,322,529)
Deferred tax liabilities:		
Accelerated depreciation of fixed assets (note 2)	907,758,209	766,959,825
Revaluation surplus of fixed assets (note 3)	40,100,000	58,145,000
Deferred tax liabilities arising from acquisition of a subsidiary (note 4)	981,304,427	1,118,458,334
Others	619,414	83,548,399
	1,929,782,050	2,027,111,558
Net deferred tax liabilities	1,716,051,787	1,790,789,029

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

(27) Deferred tax assets and liabilities (continued)

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 the difference between tax basis and carrying value is recognized on the balance sheet.

note 4: In 2008, 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.

In 2010, the Group has tax losses mainly arising in COSL Norwegian of approximately RMB3,197,898,334 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.

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

	2010	2009
Deductable temporary differences		
Provision for staff bonuses	700,348,062	463,214,506
Accrued liabilities	–	272,424,239
Tax losses carried forward	–	58,587,639
Deferred revenue	130,000,000	
Others	21,191,824	105,126,272
Total	851,539,886	899,352,656
Taxable temporary differences		
Accelerated depreciation of fixed assets	3,510,534,199	2,950,313,887
Revaluation surplus of fixed assets	160,400,000	280,700,000
Acquisition of a subsidiary	3,504,658,668	3,994,494,050
Others	3,643,612	345,289,804
Total	7,179,236,479	7,570,797,741

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

(28) Other non-current liabilities

	31 December 2010	31 December 2009
Share of losses from a jointly-controlled entity (note 1)	36,650,536	36,398,775
Deferred revenue	922,522,630	780,113,994
	959,173,166	816,512,769

Among which, the deferred revenue is set out as follows

	31 December 2010	31 December 2009
Government grant in relation to asset (Note 2)	130,000,000	-
Government grant in relation to revenue (Note 3)	77,353,707	36,565,315
Contract value and others (Note 4)	715,168,923	743,548,679
	922,522,630	780,113,994

note 1: Represents the excess losses through sharing of the losses from a jointly-controlled entity, Atlantis Deepwater, using equity method based on the equity ratio held.

note 2: The government grant in relation to asset was the industry guiding fund received by the Group in 2010.

note 3: The government grant in relation to revenue was the research project fund for state major project received by the Group.

note 4: The contract value in the 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 rest of related contract period using straight-line method.

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

(29) 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:

2010	Balance at the beginning of the year	Change during the year: New shares issued	Bonus shares	Shares converted from reserves	Others	Sub-total	Balance at the end of the year
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

2009	Balance at the beginning of the year	Change during the year: New shares issued	Bonus shares	Shares converted from reserves	Others	Sub-total	Balance at the end of the year
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

(30) Capital reserve

	31 December 2010	31 December 2009
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)

(31) Statutory reserve funds

2010	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	1,335,639,695	351,812,672	–	1,687,452,367

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

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.

(32) Retained earnings

	31 December 2010	31 December 2009
Retained earnings at the end of last year	8,378,412,798	6,208,025,040
Net profit for the year	4,128,494,256	3,135,316,585
Less: Provision for statutory reserve funds	351,812,672	335,584,027
Cash dividends paid	629,344,800	629,344,800
Retained earnings at the end of the year	11,525,749,582	8,378,412,798

According to the Artical of the Company, the retained earning distributable to the shareholder of the company is the lower of that calculated under CAS and HKFRS.

(33) Proposed cash dividends

	31 December 2010	31 December 2009
Category of shares:		
State-owned shares	442,884,240	344,465,520
Ordinary shares ("H shares") listed abroad	276,273,360	214,879,280
Ordinary shares ("A shares") in RMB	90,000,000	70,000,000
	809,157,600	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.

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31 December 2010
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5. Notes to the major items of the consolidated financial statements (continued)

(34) Revenue and costs

	2010	2009
Revenue from main business	18,059,856,834	18,345,401,415
Costs of main business	11,716,691,881	11,688,942,398

Revenue from top 5 customers in 2010 is as follows:

	Amount	Ratio to revenue (%)
CNOOC Limited	10,922,081,435	61%
Global Petro Tech FZCO	1,271,840,661	7%
ConocoPhillips	1,094,484,545	6%
Kerr-McGee China Petroleum Ltd.	981,752,556	5%
Woodside Energy Ltd	629,805,156	4%
	14,899,964,353	83%

Revenue from top 5 customers in 2009 is as follows:

	Amount	Ratio to revenue (%)
CNOOC Limited	10,907,248,608	59%
ConocoPhilips	1,571,279,509	9%
Woodside Energy Ltd	683,330,117	4%
Repsol	441,701,073	2%
Kerr-McGee China Petroleum Ltd.	423,984,315	2%
	14,027,543,622	76%

The Group's revenue by category	2010	2009
Revenue from services	17,891,056,667	18,175,231,136
Revenue from lease	168,800,167	170,170,279
Total	18,059,856,834	18,345,401,415

The information of the Group's revenue from main business and cost of main business classified by operating segment is set out in Note 11(4) – Segment reporting.

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

(35) Business taxes and surcharges

	2010	2009
Business tax	450,922,298	431,437,068
Urban maintenance and construction tax	28,834,110	20,791,295
Education surcharge	13,665,865	10,184,451
Flood control expenses and others	5,449,271	4,334,944
Total	498,871,544	466,747,758

Please refer to Note 3 Taxation for rates.

(36) Sales expenses

	2010	2009
Depreciation fee	44,858	31,843
Staff cost	2,852,755	2,366,847
Consumption of materials	4,458,225	3,786,179
Office expenses	334,419	685,719
Others	701,088	585,002
Total	8,391,345	7,455,590

(37) General and administrative expenses

	2010	2009
Depreciation fee	5,329,696	4,074,204
Staff cost	191,879,731	163,497,264
Repair expenses	3,665,293	6,980,229
Consumption of materials	43,237,649	62,996,668
Office expenses	159,487,402	160,068,529
Operating lease	38,468,871	30,379,088
Total	442,068,642	427,995,982

(38) Finance expenses

	2010	2009
Interest expense	742,794,942	1,091,734,359
Less: Capitalized interests	91,855,640	264,943,374
Less: Interest income	76,898,369	60,352,148
Exchange (profit)/loss	(87,584,426)	92,685,947
Others	23,212,312	8,936,980
Total	509,668,819	868,061,764

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

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

(39) Assets impairment losses

	2010	2009
Provision for impairment of accounts receivable and other receivables (Note 5(17))	**226,575,445**	43,428,342
Provision for impairment of inventories (Note 5(7))	**629,019**	1,070,665
Provision for impairment of fixed assets (Note 5(12))	**26,701,845**	–
Provision for impairment of construction in progress (Note 5(13))	**145,699,400**	819,888,718
Provision for impairment of available-for-sale financial assets (Note 5(17))	**18,291,108**	15,003,044
Total	**417,896,817**	879,390,769

(40) Investment income

	2010	2009
Investment income from long-term equity investments under equity method of accounting	**143,838,601**	110,264,186
Including: Investment income from jointly-controlled entities	**143,838,601**	110,264,186
Gain/(loss) arising from disposal of financial instruments	**–**	49,298,437
Total	**143,838,601**	159,562,623

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

(41) Non-operating income

	2010	2009
Gains from fixed assets inspection and disposal of fixed assets	**8,227,346**	168,181
Insurance claims received	**30,377,960**	52,140,173
Government grants	**11,801,402**	6,489,526
Others	**38,226,630**	36,300,748
Total	**88,633,338**	95,098,628

(42) Non-operating expenses

	2010	2009
Losses from disposal of fixed assets	**33,870,197**	19,185,603
Charity donation	**19,820,000**	150,000
Others (note 1)	**(189,187,655)**	482,533,779
Total	**(135,497,458)**	501,869,382

note 1: The deficit amount of other non-operating expenses were mainly resulted from the reversal of the provision for certain claims and litigations according to the final settlement during the year by the Group.

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

(43) Income tax expenses

	2010	2009
Income tax expenses	738,616,354	529,298,174
Deferred tax expenses	(32,377,101)	94,984,264
	706,239,253	624,282,438

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

	2010	2009
Profit before tax	4,834,237,183	3,759,599,023
Tax at the statutory tax rate of 25%	1,208,559,296	939,899,756
Tax reduction as an advanced technology enterprise	(373,874,460)	(310,687,198)
Income not subject to tax	(32,856,337)	(1,008,966,815)
Expenses not deductible for tax	91,933,834	556,154,971
Effect of different tax rates for overseas subsidiaries	(313,221,728)	(134,123,919)
Tax benefit for qualifying research and development expense	(16,740,976)	(28,761,121)
Unrecognised deductible losses	51,537,820	–
Utilisation of previous unrecognised tax losses	–	(475,416,439)
Deductible translation adjustment (note 1)	(61,392,664)	1,057,765,429
Adjustment in respect of current tax of previous periods	58,171,903	(66,908,769)
Others	94,122,565	95,326,543
Income tax charge at the Group's effective tax rate	706,239,253	624,282,438

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: Deductible 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 of such group companies.

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

(44) 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:

	2010	2009
Earnings		
Net profits attributable to the ordinary equity holders of the Company	**4,128,494,256**	3,135,316,585
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.

(45) Other comprehensive income

Other comprehensive income of the Group in 2010 and 2009 were differences from translation of foreign currency financial statements.

(46) Cash paid relating to other operating activities

Including significant cash flows listed as follows:

	2010	2009
Domestic and overseas traveling expenses	**358,385,666**	179,851,939
Entertainment, office and conference expenses	**104,100,117**	110,513,129
Technical research transfer expenses	**67,434,057**	103,649,000
Fees paid to agent institutions	**60,633,376**	72,094,318
Greening, environmental protection and sewage charges	**14,275,035**	12,826,448
Quality security expenses	**8,951,065**	11,587,452
Information and system certification expenses	**6,725,665**	7,679,227
Others	**249,781,919**	74,224,962
Total	**870,286,900**	572,426,475

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

(47) Net cash flows from operating activities

	2010	2009
Reconciliation of net profit to net cash flows from operating activities:		
Net profit	4,127,997,930	3,135,316,585
Add: Provision for asset impairments	417,896,817	879,390,769
Depreciation of fixed assets	2,586,682,173	2,331,609,328
Amortization of intangible assets	64,217,870	95,352,724
Provision of liabilities	(227,922,009)	467,583,617
Amortization of long-term prepaid expenses	471,438,788	438,204,056
Amortization/(reversal of deferred revenue)	51,584,134	(1,113,501,709)
Net losses on disposal of fixed assets, intangible assets and other long-term assets	25,642,851	19,017,422
Financial expenses	486,456,507	859,124,784
Investment income	(143,838,601)	(159,562,623)
Increase/(decrease) in deferred income tax liabilities	(74,737,242)	93,657,278
Decrease/(increase) in inventories	4,379,582	(40,748,558)
Amount of non-operating income not related to operating activities	(20,532,648)	(26,939,475)
Decrease in operating receivables	(292,638,389)	(1,241,180,989)
Increase/(decrease) in operating payables	378,441,841	(132,458,313)
Net of cash flows from operating activities	7,855,069,604	5,604,864,896

(48) Cash and cash equivalents

	31 December 2010	31 December 2009
Cash	4,547,164,484	3,422,832,778
Including: Cash on hand	1,245,359	1,754,142
Unrestricted bank deposits	4,545,441,470	2,412,391,246
Unrestricted other monetary funds	477,655	457,522
Cash equivalents	1,349,628,214	–
Including: Notice deposits	1,000,000,000	–
Time deposits for less than three months	300,000,000	–
Guarantee deposit	49,628,214	–
Time deposits with original maturity over three months	400,000,000	800,000,000
Balance of monetary funds in the consolidated balance sheet	6,296,792,698	4,222,832,778
Less: Time deposits pledged	49,628,214	208,229,867
Time deposits with original maturity over three months	400,000,000	800,000,000
Cash and cash equivalents at the end of the year in the consolidated cash flow statement	5,847,164,484	3,214,602,911

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5. Notes to the consolidated financial statements (continued)

(49) 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 2010, the details of the SAR granted to senior officers by the Company are as follows:

			Value		
Position	Name	Total shares at end of the year (shares in Thousand)	Balance at the beginning of the year	Current year changes	Balance at the end of the year
Former Non-executive Director	Yuan Guangyu [(1)]	723.2	1,279,805	316,265	1,596,070
President and Chief Executive Officer	Li Yong	528.2	934,834	231,016	1,165,850
Fomer Executive Vice President and Chief Financial Officer	Zhong Hua [(2)]	528.2	934,834	231,016	1,165,850
Former Executive Vice President, Chief Strategy Officer and Secretary of Board of Directors	Chen Weidong [(2)]	528.2	934,834	231,016	1,165,850
Fomer Senior Vice President	Li Xunke [(2)]	492.8	871,919	215,468	1,087,387
Fomer Staff Supervisor	Tang Daizhi [(3)]	246.3	281,774	261,920	543,694
Vice President	Xu Xiongfei	456.8	808,472	199,790	1,008,262
		3,503.7	6,046,472	1,686,491	7,732,963

(1) In 2009, Yuan Guangyu resigned as Non-Executive Director 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.

(2) In 2010, Chen Weidong, Li Xunke and Zhong Hua resigned as Executive Vice President, Chief Strategy Officer and Secretary of Board of Directors, and Senior Vice President, and Executive Vice President and Chief Financial Officer respectively. According to the terms of the SAR Plan, Chen Weidong, Li Xunke and Zhong Hua had completed the two years service period and all share appreciated rights granted have been fully vested.

(3) During 2007, Tang Daizhi resigned as a supervisor of the Company. 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 2010, the staff cost payable in relation to the SAR Plan as recognized by the Company amounted to RMB7,732,963.

(50) Restricted assets

Restricted assets are set out in Note 5(1), Note 5(8) and Note 5(13).

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6. Related party relationships and transactions

(1) Parent company

Parent company name	Place of registration	Corporate Representive	Business nature	Share proportion in the Company	Voting proportion in the Company	Registered capital	Organization code
CNOOC	Beijing, PRC	Fu Chengyu	Exploration, development, production and fabrication of ocean petroleum and natural gas	53.63%	53.63%	RMB94,931,614,000	100001043

CNOOC is the ultimate holding company of the Group.

(2) Subsidiary

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

(3) Jointly-Controlled entities

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

(4) 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	Company under control of the same ultimate holding company	Not applicable
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 Research Center (note 1)	Company under control of the same ultimate holding company	710926078
CNOOC Hainan Petroleum Transportation Service Co., Ltd. (note 1)	Company under control of the same ultimate holding company	730065834
Bohai Material Supply Company (note 1)	Company under control of the same ultimate holding company	103626049
CNOOC Energy Technology & Services Ltd. – Supervision and Monitoring of Technologies Branch (note 1)	Company under control of the same ultimate holding company	770641103
CNOOC Asphalt Co. Ltd.(note 1)	Company under control of the same ultimate holding company	706208970
CNOOC Kaishi Petrochemical Company Limited (note 1)	Company under control of the same ultimate holding company	673087374
CNOOC Zhong Jie Petrochemical Co., Ltd. (note 1)	Company under control of the same ultimate holding company	723359121
CNOOC Energy Technology & Services Ltd. -Pipeline Engineering Branch (note 1)	Company under control of the same ultimate holding company	673703624
CNOOC Energy Technology & Services Ltd. -Shanghai Logistics Branch (note 1)	Company under control of the same ultimate holding company	78283448X
CNOOC Energy Technology & Services Ltd. -Well Services Branch (note 1)	Company under control of the same ultimate holding company	732820629

note 1: Other CNOOC Group companies.

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6. Related party relationships and transactions (continued)

(5) Major transactions between the Group and related parties

(1) Services between the Group and related parties

Services provided to related parties

	2010 Amount	2010 Percentage (%)	2009 Amount	2009 Percentage (%)
Provision of drilling services				
CNOOC Limited	4,682,766,318	97%	4,913,421,326	91%
Offshore Oil Engineering Co., Ltd.	7,677,859	–	6,325,412	–
CNOOC	139,362,126	3%	291,954,603	6%
CNOOC Energy Technology & Services Ltd. -Supervision and Monitoring of Technologies Branch (note 1)	2,402	–	572	–
Other CNOOC Group companies	3,914,506	–	4,716,422	–
Jointly-controlled entities	6,429,221	–	172,528,724	3%
Subtotal	4,840,152,432	100%	5,388,947,059	100%
Gross external revenue amount of provision of drilling services	9,551,745,054		10,135,321,629	
Proportion in similar transactions	51%		53%	
Provision of well services				
CNOOC Limited	3,242,707,754	97%	3,432,382,620	96%
CNOOC	21,178,750	1%	47,637,983	1%
CNOOC Research Center	43,500	–	269,500	–
Offshore Oil Engineering Co., Ltd.	40,360,573	1%	68,589,686	2%
CNOOC Energy Technology & Services Ltd. -Supervision and Monitoring of Technologies Branch (note 1)	13,683,215	–	23,675	–
Other CNOOC Group companies	21,250,014	1%	19,772,701	1%
Jointly-controlled entities	9,953,924	–	5,563,384	–
Subtotal	3,349,177,730	100%	3,574,239,549	100%
Gross external revenue amount of provision of well services	4,462,850,422		4,523,577,858	
Proportion in similar transactions	75%		79%	
Provision of marine support and transportation services				
CNOOC Limited	1,787,156,164	90%	1,547,895,592	88%
Offshore Oil Engineering Co., Ltd.	23,042,640	1%	114,259,877	6%
CNOOC	33,545,035	2%	37,424,020	2%
CNOOC KaiShi Petrochemical Co., Ltd.	66,866,577	3%	29,966,785	2%
CNOOC Hainan Petroleum Transportation Service Co., Ltd.	15,721,240	1%	–	–
CNOOC Zhong Jie Petrochemical Co., Ltd.	10,928,895	1%	–	–
CNOOC Asphalt Co. Ltd.	9,905,113	1%	6,759,788	–
Other CNOOC Group companies	26,122,894	1%	30,755,671	2%
Jointly-controlled entities	–	–	7,031,418	–
Subtotal	1,973,288,558	100%	1,774,093,151	100%
Gross external revenue amount of provision of marine support and transportation services	2,424,613,596		2,239,378,199	
Proportion in similar transactions	81%		79%	

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6. Related party relationships and transactions (continued)

(5) Major transactions between the Group and related parties (continued)

(1) Services between the Group and related parties (continued)

Services provided to related parties (continued)

	2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Provision of geophysical services				
CNOOC Limited	1,209,451,199	89%	1,013,549,070	86%
Offshore Oil Engineering Co., Ltd.	136,981,500	10%	129,923,031	11%
CNOOC	–	–	2,059,336	–
Other CNOOC Group companies	14,098,736	1%	26,852,646	3%
Jointly-controlled entities	3,516,436	–	657,352	–
Subtotal	1,364,047,871	100%	1,173,041,435	100%
Gross external revenue amount of provision of geophysical services	1,620,647,762		1,447,123,729	
Proportion in similar transactions	84%		81%	

Services provided by related parties

	2010		2009	
	Amount	Percentage (%)	Amount	Percentage (%)
Offshore Oil Engineering Co., Ltd.	980,863,000	59%	1,262,970,022	70%
Other CNOOC Group companies	588,133,744	36%	428,818,282	24%
Jointly-controlled entities	77,439,617	5%	110,921,891	6%
Total	1,646,436,361	100%	1,802,710,195	100%

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6. Related party relationships and transactions (continued)

(5) Major transactions between the Group and related parties (continued)

(2) 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.

(3) Guarantee provided to related parties

2010

Guarantor	Name of Guaranteed Party	Guaranteed Amount	Commencement Date of Guarantee	Expiry Date of Guarantee	Guarantee fully fulfilled
COSL	China-France Bohai	US$450,000	10 April 2010	9 April 2013	No

The Group has provided performance guarantee of US$450,000 to China-France Bohai for nil consideration in the year of 2010 (2009: Nil). The Group has not accepted the guarantee of related parties for 2010 and 2009.

(4) Capital Loan from related parties

2010 Loans borrowed	Amount of Loans RMB	Date of Commencement	Maturity Date
CNOOC Finance Co., Ltd			
Loan 1 *(note 1)*	**–**	**12 June 2009**	**2 September 2010**
Loan 2 *(note 2)*	**500,000,000**	**30 June 2009**	**29 June 2012**

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

note 1: The Group borrowed an RMB loan from CNOOC Finance Co., Ltd. with interest rate at 3.71% and premium fee at 0.275%, which has been fully repaid by 31 December 2010. The interest expense of Loan 1 was RMB21,335,556 in 2010 (2009: RMB16,857,096).

note 2: The Group borrowed an RMB loan from CNOOC Finance Co., Ltd. with a floating interest rate and premium fee at 0.15%. The interest expense of Loan 2 was RMB38,821,111 in 2010 (2009: RMB5,954,945).

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.

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31 December 2010
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6. Related party relationships and transactions (continued)

(5) Major transactions between the Group and related parties (continued)

(5) Key managerial personnel remuneration

	2010 amount	2010 percentage (%)	2009 amount	2009 percentage (%)
Yuan Guangyu [1]	–	–	235,470	5%
Liu Jian	462,656	8%	362,954	7%
Li Yong	912,279	15%	528,923	10%
Zhong Hua [2]	736,900	12%	579,212	11%
Li Feilong [2]	114,740	2%	–	–
Chen Weidong [3]	489,283	8%	629,698	12%
Li Xunke [3]	383,315	6%	564,070	11%
Dong Weiliang	638,129	10%	700,917	13%
Xu Xiongfei	770,364	13%	483,203	9%
Xiao Guoqing [4]	–	–	565,269	11%
Yu Zhanhai	595,418	10%	582,509	11%
Cao Shujie	588,204	10%	–	–
Yang Haijiang	356,050	6%	–	–
Total	6,047,338	100%	5,232,225	100%

(1) In June 2009, Yuan Guangyu resigned as Non-Executive Director of the Company.
(2) In August 2010, Zhong Hua resigned as Executive Vice President and Chief Financial Officer of the Company. Li Feilong was appointed as Executive Vice President and Chief Financial Officer of the Company.
(3) In April 2010, Chen Weidong and Li Xunke resigned as Executive Vice President, Chief Strategy Officer and Secretary of Board of Directors, and Senior Vice President of the Company.
(4) In October 2009, former President Xiao Guoqing retired.

(6) Balance of receivables/(payables) from/(to) related parties

Group

	31 December 2010	31 December 2009
Accounts receivable		
CNOOC Limited	1,751,148,257	1,874,789,040
CNOOC	25,763	257,469,184
Offshore Oil Engineering Co., Ltd.	129,449,577	102,933,658
CNOOC Hainan Petroleum Transportation Service Co., Ltd.	15,721,240	-
CNOOC Research Center	10,089,500	15,109,500
CNOOC Energy Technology & Services Ltd.-Pipeline Engineering Branch	12,500,000	-
COSL-Expro	256,746	1,443,357
China France Bohai	363,350	502,894
CNOOC-OTIS	478,342	644,725
Magcobar	1,438,906	557,135
Fugro	60,000	12,768
Logging-Atlas	1,580	2,911,943
Atlantis Deepwater	151,909,553	160,044,908
Others	37,870,134	17,145,721
	2,111,312,948	2,433,564,833
Bad debts provision *	(120,033,660)	(80,022,440)
	1,991,279,288	2,353,542,393

* All of the related party bad debts provision was made for account receivable due from Atlantis Deepwater.

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6. Related party relationships and transactions (continued)

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

Group

	31 December 2010	31 December 2009
Accounts payable		
CNOOC Limited	31,292	1,593,506
Bohai Material Supply Company	63,321,693	22,595,651
Offshore Oil Engineering Co., Ltd.	501,998,250	64,555,747
CNOOC Energy Technology & Services Ltd.-Shanghai Logistics Branch	22,281,550	–
CNOOC Energy Technology & Services Ltd.-Well Services Branch	9,749,563	–
Magcobar	27,360	1,126,800
Fugro	–	5,417,087
China France Bohai	7,654,707	1,929,742
Logging-Atlas	8,107,389	23,442,814
CNOOC – OTIS	1,454,586	–
COSL – Expro	6,526,897	–
Others	35,090,299	31,836,700
	656,243,586	152,498,047
Other receivables		
CNOOC Limited	29,885,172	844,605
CNOOC	1,314,648	1,983,532
CNOOC Research Center	7,744,000	–
COSL-Expro	1,093,794	4,511,608
China France Bohai	4,592,500	4,810,302
Fugro	–	2,027
Logging-Atlas	74,250	74,250
Atlantis Deepwater	32,857,272	30,115,828
Premium Drilling	95,785,387	147,177,452
Others	565,895	372,591
	173,912,918	189,892,195
Bad debts provision *	(33,309,765)	–
	140,603,153	189,892,195

* Mainly of the provision for impairment of other receivables from related party is made for Atlantis Deepwater.

	31 December 2010	31 December 2009
Other payables		
CNOOC Limited	765,429	–
CNOOC	3,248,229	3,248,229
China Offshore Oil Int'l Engineering Company	13,642,707	16,260,729
China France Bohai	96,073	96,072
COSL-Expro	13,432	13,432
Premium Drilling	18,392,178	32,353,555
Others	16,438,857	22,032,799
	52,596,905	74,004,816
Receipts in advance		
CNOOC Limited	110,000	–
	110,000	–

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6. Related party relationships and transactions (continued)

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

Group

	31 December 2010	31 December 2009
Prepayments		
Offshore Oil Engineering Co., Ltd.	–	298,097,500
	–	298,097,500
Notes receivable		
CNOOC Limited	691,574,221	427,107,943
	691,574,221	427,107,943

Accounts of the Group and the Company receivable or payable to related parties are free of interest, unsecured and have no fixed repayment term.

(7) Cash on hand and at bank placed in related parties

Group

	31 December 2010	31 December 2009
CNOOC Finance Co., Ltd.	1,259,244,653	541,962,050

(8) 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 RMB14,781,023 (2009: RMB21,027,004).

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 2010
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7. Material litigations

As of the balance sheet date, the Group had no discloseable material litigation.

8. Contingency

(a) In 2009 and 2010, certain subsidiaries of the Group received notifications from the local tax authorities requesting information on the valuation basis and the fair value used by the respective companies for the transfer of certain jack-up rigs' contracts and options and semi-submersible drilling rigs' contracts, respectively, to certain entities within the Group, and indicating their intent to consider additional assessment. If the valuation basis and the fair value indicated by the tax authorities are adopted, the tax liability relating to the transfers could increase substantially for those companies. The respective subsidiaries have submitted the response letter to the local tax authorities regarding the above notifications as at 30 June 2010 and 19 January 2011, respectively, and no further requests have been received from the local tax authorities as at the report date. After giving due consideration to the circumstances, 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 contingencies in these financial statements.

In 2010, the Company received an inspection notice from Tianjin Customs to inspect the Company's customs duties related to the imports and exports for the past three years. As at the report date, no conclusion has been received from Tianjin Customs. 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 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 2010	31 December 2009
Contracted, but not provided for	**3,492,713,321**	7,022,701,678
Authorised, but not contracted for	**6,810,487,640**	7,671,765,368
Total	**10,303,200,961**	14,694,467,046

The Group has no commitments with jointly-controlled entity as at the balance sheet date.

10. Events subsequent to the report period

The Group has been providing drilling services to onshore oilfields in Libya since 2008. From February 2011, because of social unrest, the social and economic conditions in Libya have become unstable, which have had an impact on the Group's operations in the country. In the opinion of the directors, given the current uncertainty of the situation, it is too early to reasonably assess the financial impact to the Group as at the date of approval of the financial statements. As at 31 December 2010, the assets deployed and the scale of operations in Libya are not considered to be material to the Group.

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11. Other significant events

(1) Leases

Major Operating Leases – the Group as lessee

According to the lease contracts signed with the lessers, the minimum amount of lease payment for irrevocable lease of the Group is stated as follows:

	31 December 2010	31 December 2009
Within 1 year (including 1 year)	120,961,651	139,337,962
1-2 years (including 2 years)	99,108,551	119,048,805
2-3 years (including 3 years)	13,857,200	55,564,058
Over 3 years	38,159,801	46,955,987
Total	272,087,203	360,906,812

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 2010	31 December 2009
Within 1 year (including 1 year)	81,359,870	170,482,631
1-2 years (including 2 years)	–	83,884,437
Total	81,359,870	254,367,068

Notes to the Financial Statements

31 December 2010
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11. Other significant events (continued)

(2) Assets and liabilities measured as at fair value

2010	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 the year
Available-for-sale financial assets	19,281,034	–	–	(18,291,108)	(989,926)	–

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 the year
Available-for-sale financial assets	34,317,535	–	–	(15,003,044)	(33,457)	19,281,034

(3) Foreign currency financial assets and financial liabilities

Foreign currency financial assets (in RMB)

2010	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 the year
Current Assets:					
Cash on hand and at bank	2,359,608,734	–	–	–	2,741,613,315
Accounts receivable	1,358,413,142	–	–	(184,711,876)	1,463,197,131
Dividend receivable	10,754,415	–	–	–	23,841,720
Other receivables	332,208,903	–	–	(34,496,297)	352,029,374
Current portion of non-current assets	39,081,032	–	–	–	37,904,858
Non-current Assets:					
Available-for-sale financial assets	19,281,034	–	–	(18,291,108)	–
Held-to-maturity investment	39,081,025	–	–	–	–
Total financial assets	4,158,428,285	–	–	(237,499,281)	4,618,586,398

Notes to the Financial Statements

31 December 2010
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11. Other significant events (continued)

(3) Foreign currency financial assets and financial liabilities (continued)

Foreign currency financial liabilities (in RMB)

2010	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 the year
Current Liabilities:					
Accounts payable	651,471,495	–	–	–	1,298,918,716
Interests payable	137,667,449	–	–	–	49,261,197
Other payables	200,294,610	–	–	–	365,104,218
Current portion of non-current liabilities	39,081,032	–	–	–	890,449,784
Non-current Liabilities:					
Long-term bank borrowings	25,784,120,975	–	–	–	25,318,538,733
Long-term bonds	1,170,019,752	–	–	–	–
Total financial liabilities	27,982,655,313	–	–	–	27,922,272,648

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 the year
Current Assets:					
Cash on hand and at bank	1,921,807,940	–	–	–	2,359,608,734
Accounts receivable	1,284,237,440	–	–	(4,459,793)	1,358,413,142
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	–	–	–	39,081,025
Total financial assets	3,565,154,821	–	–	(4,793,940)	4,158,428,285

Notes to the Financial Statements

31 December 2010
RMB

11. Other significant events (continued)

(3) 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 the year
Current Liabilities:					
Short-term bank borrowings	6,835,596,924	–	–	–	–
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

(4) 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:

– the drilling services segment is engaged in the provision of oilfield drilling services;

– 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;

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

– 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 COSL Norwegian 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 2010
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11. Other significant events (continued)

(4) 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:

2010	Drilling services	Well services	Geophysical services	Marine support and transportation services	Total
External revenue	9,551,745,054	4,462,850,422	1,620,647,762	2,424,613,596	18,059,856,834
Inter-segment revenue	776,234,151	433,701,776	82,752,903	158,388,639	1,451,077,469
Share of profits of jointly-controlled entities	85,896,901	50,705,586	25,994,613	(18,758,499)	143,838,601
Assets impairment losses	352,931,571	1,975,999	717,568	62,271,679	417,896,817
Capital expenditure	3,328,130,827	295,062,088	837,174,126	1,016,092,057	5,476,459,098
Total profit	3,230,632,546	742,170,120	298,055,176	561,240,162	4,832,098,004
Unallocated profit					(221,991,617)
Operating Profit					4,610,106,387
Income tax expenses					706,239,253
Total assets					
Segment assets	45,670,424,574	4,254,237,865	2,733,602,713	5,313,802,524	57,972,067,676
Unallocated assets					5,621,264,583
Subtotal					63,593,332,259
Total liabilities					
Segment liabilities	5,923,423,150	1,121,932,154	611,751,916	469,343,878	8,126,451,098
Unallocated liabilities					29,876,956,466
Subtotal					38,003,407,564
Other disclosures					
Long-term equity investment in jointly-controlled entities	–	315,007,983	81,014,542	86,211,295	482,233,820

Notes to the Financial Statements

31 December 2010
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11. Other significant events (continued)

(4) Segment reporting (continued)

Operation Segments (continued)

2009	Drilling services	Well services	Geophysical services	Marine support and transportation services	Total
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
Share of profits of jointly-controlled entities	59,439,566	52,087,266	21,162,253	(22,424,899)	110,264,186
Assets impairment losses	859,476,220	10,972,490	3,510,174	5,431,885	879,390,769
Capital expenditure	6,062,823,469	760,091,795	665,704,228	924,718,780	8,413,338,272
Total operating profit	4,037,050,675	766,029,471	296,213,364	654,966,177	5,754,259,687
Unallocated profit					(1,587,889,910)
Operating profit					4,166,369,777
Income tax expenses					624,282,438
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					
Long-term equity investment in jointly-controlled entities	–	312,917,513	66,821,241	151,996,331	531,735,085

Notes to the Financial Statements

31 December 2010
RMB

11. Other significant events (continued)

(4) 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, Dubai and certain countries in the Middle East such as Libya and other countries etc.

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% in 2010 (2009: less than 10%), and approximately 76% (2009: 72%) of the Group's revenues are generated from customers in Mainland China in 2010.

External revenue	2010	2009
Domestic	13,747,768,068	13,356,398,375
Overseas	4,312,088,766	4,989,003,040
Total	18,059,856,834	18,345,401,415

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

A significant portion of the non-current assets are drilling rigs and vessels 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 of major customers

Details of revenue from major customers (including all entities under such customers) are set out in Note 6(5).

Notes to the Financial Statements

31 December 2010
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11. Other significant events (continued)

(5) 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 etc. 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

2010	Held-to-maturity investment	Loans and receivables	Available-for-sale financial assets	Total
Current assets:				
Cash on hand and at bank	–	**6,296,792,698**	–	**6,296,792,698**
Notes receivable	–	**693,190,621**	–	**693,190,621**
Accounts receivable	–	**3,460,751,504**	–	**3,460,751,504**
Interest receivable	–	**5,752,228**	–	**5,752,228**
Dividend receivable	–	**24,447,240**	–	**24,447,240**
Other receivables	–	**432,679,124**	–	**432,679,124**
Current portion of non-current assets	**37,904,858**	–	–	**37,904,858**
Non-current assets:				
Available-for-sale financial assets	–	–	–	–
Held-to-maturity investments	–	–	–	–
Total financial assets	**37,904,858**	**10,913,613,415**	–	**10,951,518,273**

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

Notes to the Financial Statements

31 December 2010
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11. Other significant events (continued)

(5) Financial instruments and related risks (continued)

Financial instruments by category (continued)
Financial liabilities

2010	Other financial liabilities	Total
Accounts payable	3,612,821,584	3,612,821,584
Interests payable	95,032,922	95,032,922
Other payables	569,294,415	569,294,415
Current portion of non-current liabilities	1,224,449,784	1,224,449,784
Long-term bank borrowings	27,090,538,733	27,090,538,733
Long-term bonds	1,500,000,000	1,500,000,000
Total financial liabilities	**34,092,137,438**	**34,092,137,438**

2009	Other financial liabilities	Total
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
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

Notes to the Financial Statements

31 December 2010
RMB

11. Other significant events (continued)

(5) 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(6) and Note 5(3), together with the receivables due from the Group's top 5 customers.

As at 31 December 2009 and 31 December 2010, 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 bonds and bank borrowings. 6% (31 December 2009: 3%) of the Group's debts will mature within one year as at 31 December 2010.

The maturity profile of the Group's financial assets and liabilities, based on the contracted undiscounted payments, is as follows:

2010

Financial assets	Within one year	One to two years	Over two years	Total
Cash on hand and at bank	**6,296,792,698**	–	–	**6,296,792,698**
Notes receivable	**693,190,621**	–	–	**693,190,621**
Accounts receivable	**3,460,751,504**	–	–	**3,460,751,504**
Interest receivable	**5,752,228**	–	–	**5,752,228**
Dividend receivable	**24,447,240**	–	–	**24,447,240**
Other receivables	**432,679,124**	–	–	**432,679,124**
Current portion of non-current assets	**37,904,858**	–	–	**37,904,858**
	10,951,518,273	–	–	**10,951,518,273**

Notes to the Financial Statements

31 December 2010
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11. Other significant events (continued)

(5) Financial instruments and related risks (continued)

Liquidity risk (continued)

2010 (continued)

Financial liabilities	Within one year	One to two years	Two to five years	Over five years	Total
Accounts payable	3,612,821,584	–	–	–	3,612,821,584
Interests payable	95,032,922	–	–	–	95,032,922
Other payables	569,294,415	–	–	–	569,294,415
Current portion of non-current liabilities	1,243,067,849	–	–	–	1,243,067,849
Long-term bank borrowings	503,787,537	3,143,136,996	10,244,730,245	15,341,241,076	29,232,895,854
Long-term bonds	67,200,000	67,200,000	201,600,000	1,970,400,000	2,306,400,000
	6,091,204,307	3,210,336,996	10,446,330,245	17,311,641,076	37,059,512,624

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	19,281,034	–	–	19,281,034
Available-for-sale financial assets	39,081,032	–	–	39,081,032
Held-to-maturity investments	–	39,081,025	–	39,081,025
	8,870,358,096	39,081,025	–	8,909,439,121

Financial liabilities	Within one year	One to two years	Two to five years	Over five years	Total
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	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

Notes to the Financial Statements

31 December 2010
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11. Other significant events (continued)

(5) Financial instruments and related risks (continued)

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 net profit (through effect on floating interest borrowings) and shareholders' equity.

2010	**Basic point increase/(decrease)**	**Net profit increase/(decrease)**	**Shareholders' equity increase/(decrease)***
RMB and US$	**-50bps**	**117,788,527**	**117,788,527**
	+50bps	**(117,788,527)**	**(117,788,527)**

2009	**Basic point increase/(decrease)**	**Net profit increase/(decrease)**	**Shareholders' equity increase/(decrease)***
RMB and US$	-50bps	60,093,208	60,093,208
	+50bps	(60,093,208)	(60,093,208)

* Excluding retained earnings.

Notes to the Financial Statements

31 December 2010
RMB

11. Other significant events (continued)

(5) Financial instruments and related risks (continued)

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 recognized as the functional currency of the Company and some subsidiaries. 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 currency 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 net profit and shareholders' equity.

2010	Exchange rate of US$ increase/(decrease)	Net profit increase/(decrease)	Shareholders' equity increase/(decrease)*
RMB appreciates against US$	+5%	986,866,770	653,211,819
RMB depreciates against US$	-5%	(986,866,770)	(653,211,819)

2009	Exchange rate of US$ increase/(decrease)	Net profit increase/(decrease)	Shareholders' equity increase/(decrease)*
RMB appreciates against US$	+5%	1,061,727,807	942,133,851
RMB depreciates against US$	-5%	(1,061,727,807)	(942,133,851)

* Excluding retained earnings.

Notes to the Financial Statements

31 December 2010
RMB

11. Other significant events (continued)

(5) 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	Carrying amount 31 December 2010	Carrying amount 31 December 2009	Fair value 31 December 2010	Fair value 31 December 2009
Current assets:				
Cash on hand and at bank	**6,296,792,698**	4,222,832,778	**6,296,792,698**	4,222,832,778
Notes receivable	**693,190,621**	429,657,902	**693,190,621**	429,657,902
Accounts receivable	**3,460,751,504**	3,745,547,364	**3,460,751,504**	3,745,547,364
Interest receivable	**5,752,228**	1,080,000	**5,752,228**	1,080,000
Dividend receivable	**24,447,240**	23,754,415	**24,447,240**	23,754,415
Other receivables	**432,679,124**	389,123,571	**432,679,124**	389,123,571
Current portion of non-current assets	**37,904,858**	39,081,032	**37,904,858**	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
Financial liabilities				
Accounts payable	**3,612,821,584**	3,175,095,974	**3,612,821,584**	3,175,095,974
Interests payable	**95,032,922**	139,212,858	**95,032,922**	139,212,858
Other payables	**569,294,415**	358,827,721	**569,294,415**	358,827,721
Current portion of non-current liabilities	**1,224,449,784**	283,081,032	**1,224,449,784**	283,081,032
Long-term bank borrowings	**27,090,538,733**	28,151,039,943	**27,090,538,733**	28,056,182,323
Long-term bonds	**1,500,000,000**	2,670,019,752	**1,411,482,000**	2,665,060,487

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The following method and assumption are used in estimating fair value.

As the short term maturities of these instruments including cash on hand and at bank, notes receivable, accounts receivable, interest receivable, dividend receivable, other receivables, available-for-sale financial assets, current portion of non-current assets, held-to-maturity investments, accounts payable, interests payable, other payables, current portion of non-current liabilities, their fair value approximate to their carrying amounts.

The fair value of the non-current portion of the long-term bank borrowings with floating interest rate loan approximated to the carrying amount as at 31 December 2010.

The fair value of the available-for-sale financial assets and long-term bonds is determined by the quoted market price.

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11. Other significant events (continued)

(5) Financial instruments and related risks (continued)

Fair value (continued)
The fair values adopted by the Group are divided into the following levels in measurement (only applicable to financial assets and financial liabilities which adopt subsequent fair value measurement):

Level 1 refers to the use of quoted prices for identical assets and liabilities existing on active markets available to entities that have access on the measurement date. The fair value is determined based on these quoted prices. Level 2 refers to the use of quoted prices for similar assets and liabilities existing on active markets, or quoted prices for identical or similar assets and liabilities existing on non-active markets, available to entities that have access on the measurement date. The fair value is determined based on these quoted prices with necessary adjustment. Level 3 refers to the fair value determined based on the other parameters which reflects the parameters adopted by the market participants in respect of the pricing the asset or liability, when the enterprise is unable to have access to the comparable market price of identical or similar asset.

The financial instrument measured at fair value held by the Group at the end of the reporting period ending 31 December 2010 and 2009:

2010	Level 1	Level 2	Level 3	Total
Available-for-sale investment				
Equity share	–	–	–	–

2009	Level 1	Level 2	Level 3	Total
Available-for-sale investment				
Equity share	19,281,034	–	–	19,281,034

As at 31 December 2010 and 2009, the Company has no other financial instruments measured at fair value.

During the year of 2010 and 2009, the Group and the Company had no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

(6) Comparative Data

Certain comparative figures have been re-presented to conform to the current year's presentation.

12. Notes to the major items of the financial statements of the company

(1) Accounts receivable

The ageing analysis of accounts receivable is as follows:

	31 December 2010	31 December 2009
Within 1 year	3,735,583,080	4,259,773,206
1-2 years	20,930,798	21,343,799
2-3 years	7,779,668	196,000
Over 3 years	1,053,575	857,575
	3,765,347,121	4,282,170,580
Less: provision for impairment	132,034,275	85,107,504
	3,633,312,846	4,197,063,076

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12. Notes to the major items of the financial statements of the company (continued)

(1) Accounts receivable (continued)

The analysis of types of accounts receivable and bad debts provision made is as follows:

	2010				2009			
	Carrying amount		Provision for impairment of accounts receivable		Carrying amount		Provision for impairment of accounts receivable	
	Amount	Ratio (%)	Amount	Provision ratio (%)	Amount	Ratio (%)	Amount	Provision ratio (%)
Individually significant items and individual provision for impairment of accounts receivable	3,332,514,630	89%	125,643,213	4%	3,858,490,631	90%	80,022,440	2%
Provision for impairment of accounts receivable on the basis of group:								
Within 1 year	414,122,792	11%	–	–	408,926,744	10%	–	–
1-2 years	17,520,625	–	5,256,188	30%	13,699,630	–	4,109,890	30%
2-3 years	135,499	–	81,299	60%	196,000	–	117,600	60%
Over 3 years	1,053,575	–	1,053,575	100%	857,575	–	857,574	100%
	432,832,491	11%	6,391,062		423,679,949	10%	5,085,064	
Total	3,765,347,121	100%	132,034,275	4%	4,282,170,580	100%	85,107,504	2%

The movements in of provision for impairment of accounts receivable are as follows:

	2010	2009
Balance at the beginning of the year	85,107,504	50,073,295
Provision during the year	51,036,660	84,360,707
Reversal during the year	(4,109,889)	(49,326,498)
Balance at the end of the year	132,034,275	85,107,504

	31 December 2010	31 December 2009
Total for top 5 debtors	2,634,071,151	2,933,743,139
Ratio to total accounts receivable	70%	69%
Ageing	Within 1 year	Within 1 year

The accounts receivable balance as at 31 December 2010 includes an amount of RMB25,763 (31 December 2009: RMB257,469,184) due from CNOOC, a shareholder holding 53.63% voting rights of the Company.

Notes to the Financial Statements

31 December 2010
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12. Notes to the major items of the financial statements of the company (continued)

(2) Other receivables

The ageing analysis of other receivables is as follows:

	31 December 2010	31 December 2009
Within 1 year	559,478,028	953,033,508
1-2 years	5,093,778	16,185,701
2-3 years	4,358,639	1,275,165
Over 3 years	2,939,197	1,870,361
	571,869,642	972,364,735
Less: provision for impairment	7,077,877	7,331,282
	564,791,765	965,033,453

The movement in provision for impairment of other receivables are as follows:

	2010	2009
Balance at the beginning of the year	7,331,282	2,787,662
Provision during the year	10,670,016	8,269,455
Reversal during the year	(10,923,421)	(3,725,835)
Balance at the end of the year	7,077,877	7,331,282

The analysis of types of other receivables and bad debts provision made is as follows:

	2010				2009			
	Carrying amount		Provision for impairment of accounts receivable		Carrying amount		Provision for impairment of accounts receivable	
	Amount	Ratio (%)	Amount	Provision ratio (%)	Amount	Ratio (%)	Amount	Provision ratio (%)
Individually significant items and individual provision for impairment of other receivables	465,873,597	81%	–	–	841,136,910	87%	–	–
Provision for impairment of other receivables on the basis of group:								
Within 1 year	93,604,431	16%	–	–	112,163,078	11%	–	–
1-2 years	5,093,778	1%	1,528,133	30%	16,185,701	2%	4,855,710	30%
2-3 years	4,358,639	1%	2,615,183	60%	1,008,685	–	605,211	60%
Over 3 years	2,939,197	1%	2,934,561	100%	1,870,361	–	1,870,361	100%
	105,996,045	19%	7,077,877		131,227,825	13%	7,331,282	
Total	571,869,642	100%	7,077,877	1%	972,364,735	100%	7,331,282	1%

The other receivable balance as at 31 December 2010 include an amount of RMB1,314,648 (31 December 2009: RMB1,983,532) 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.

Notes to the Financial Statements

31 December 2010
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12. Notes to the major items of the financial statements of the company (continued)

(2) Other receivables (continued)

	31 December 2010	31 December 2009
Total for top 5 debtors	439,650,839	799,690,430
Ratio to the total other receivables	77%	82%
Ageing	Within 1 year	Within 1 year

(3) Long-term equity investments

	31 December 2010	31 December 2009
Cost method	6,852,512,432	6,852,512,432
Equity method	395,036,287	378,645,225
	7,247,548,719	7,231,157,657

2010	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	71,317,967	806,038	72,124,005	50%	-	50%	-	(75,120,300)
Magcobar	25,170,585	130,049,883	(4,089,027)	125,960,856	60%	-	50%	-	(56,967,240)
CNOOC-OTIS	27,520,607	28,349,146	1,053,813	29,402,959	50%	-	50%	-	(4,000,000)
Logging-Atlas	10,167,012	21,258,984	2,053,495	23,312,479	50%	-	50%	-	(3,413,400)
Fugro	10,134,627	66,821,241	14,193,301	81,014,542	50%	-	50%	-	(17,078,750)
COSL-Expro	19,352,250	60,848,004	2,373,442	63,221,446	50%	-	50%	-	(32,000,000)
Subtotal	148,681,737	378,645,225	16,391,062	395,036,287				-	(188,579,690)
Cost method:									
Subsidiaries									
COSL Chemicals (Tianjin) Ltd.	4,639,327	21,709,948	-	21,709,948	100%	-	100%	-	(15,000,000)
COSL America Inc.	2,712,100	2,712,100	-	2,712,100	100%	-	100%	-	-
China Oilfield Services(BVI) Limited	8	-	-	-	100%	-	100%	-	-
COSL Hong Kong International Limited	6,827,665,500	6,827,665,500	-	6,827,665,500	100%	-	100%	-	-
Haiyang Petro Services Ltd.	325,000	325,000	-	325,000	100%	-	100%	-	-
ADTH	99,884	99,884	-	99,884	-	-	-	-	-
Subtotal	6,835,441,819	6,852,512,432	-	6,852,512,432				-	(15,000,000)
Total	6,984,123,556	7,231,157,657	16,391,062	7,247,548,719					(203,579,690)

Notes to the Financial Statements

31 December 2010
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12. Notes to the major items of the financial statements of the company (continued)

(3) Long-term equity investments (continued)

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.	4,639,327	10,709,948	11,000,000	21,709,948	100%	–	100%	–	–
COSL America Inc.	2,712,100	2,712,100	–	2,712,100	100%	–	100%	–	–
China Oilfield Services (BVI) Limited	8	–	–	–	100%	–	100%	–	–
COSL Hong Kong International Limited	6,827,665,500	6,827,665,500	–	6,827,665,500	100%	–	100%	–	–
Haiyang Petro Services Ltd.	325,500	–	325,000	325,000	100%	–	100%	–	–
ADTH	99,884	–	99,884	99,884				–	–
Subtotal	6,835,441,819	6,841,087,548	11,424,884	6,852,512,432				–	–
Total	6,984,123,556	7,216,576,177	14,581,480	7,231,157,657				–	(184,466,407)

(4) Revenue

	2010	2009
Geophysical services	**1,698,727,319**	1,438,079,090
Drilling services	**5,921,258,216**	5,528,330,762
Oilfield services	**4,295,141,348**	4,309,700,510
Marine support and transportation services	**2,459,598,922**	2,221,299,065
Total	**14,374,725,805**	13,497,409,427

Notes to the Financial Statements

31 December 2010
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12. Notes to the major items of the financial statements of the company (continued)

(5) Operating costs

	2010	2009
Geophysical services	**1,204,770,227**	1,071,481,166
Drilling services	**2,914,024,382**	2,808,334,062
Oilfield services	**3,243,725,727**	3,414,735,889
Marine support and transportation services	**1,685,503,884**	1,468,137,623
Total	**9,048,024,220**	8,762,688,740

(6) Investment income

	2010	2009
Investment income from long-term equity investments using equity method	**204,970,752**	187,623,003
Return on government bonds and other investment income	**15,000,000**	11,000,000
Total	**219,970,752**	198,623,003

As of balance sheet date, there were no material restrictions on the repatriation of investment income of the Company.

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2010

RMB Yuan

1. Items of non-recurring gain and loss

	2010	2009
Losses on disposal of non-current assets	**(25,642,851)**	(19,017,422)
Government grants credited to the income statement	**11,801,402**	6,489,526
Gain on swap and forward currency contracts	**–**	49,298,437
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)	**237,972,245**	(394,242,858)
Total of non-recurring gain and loss	**224,130,796**	(307,393,270)
Income tax effect	**(33,619,619)**	53,503,756
Net amount affecting under non-recurring gain and loss	**190,511,177**	(253,889,514)

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".

Please refer to Note 5(41) and Note 5(42) for non-recurring gain and loss in the non-operating income and non-operating expenses for 2010.

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 2010 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 2010

RMB Yuan

3. Return on net assets and earnings per share

2010	Return on net assets ratio Weighted average	Earnings per share Basic	 Diluted
Net profit attributable to the ordinary share shareholders of the Parent	**17.16%**	**0.92**	**0.92**
Net profit, after deduction of non-recurring gains and losses, attributable to the ordinary share shareholders of the Parent	**16.37%**	**0.88**	**0.88**

2009	Return on net assets ratio Weighted average	Earnings per share Basic	 Diluted
Net profit attributable to the ordinary share shareholders of the Parent	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	16.10%	0.75	0.75

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2010

RMB Yuan

4. Fluctuation analysis of items in consolidated 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	Ratio	Remark
Items in Balance Sheet					
Current Assets					
Monetary fund	6,296,792,698	4,222,832,778	2,073,959,920	49%	(1)
Notes receivable	693,190,621	429,657,902	263,532,719	61%	(2)
Prepayments	68,630,499	528,233,255	(459,602,756)	(87%)	(3)
Interest receivable	5,752,228	1,080,000	4,672,228	433%	(4)
Non-current assets					
Available-for-sale financial assets	–	19,281,034	(19,281,034)	(100%)	(5)
Held-to-maturity investments	–	39,081,025	(39,081,025)	(100%)	(6)
Long-term prepaid expenses	434,767,747	841,551,247	(406,783,500)	(48%)	(7)
Other non-current assets	6,265,008	–	6,265,008	100%	(8)
Current liabilities					
Staff cost payable	781,374,585	477,407,095	303,967,490	64%	(9)
Tax payable	249,796,473	153,070,242	96,726,231	63%	(10)
Interest payable	95,032,922	139,212,858	(44,179,936)	(32%)	(11)
Other payable	569,294,415	358,827,721	210,466,694	59%	(12)
Current portion of non-current liabilities	1,224,449,784	283,081,032	941,368,752	333%	(13)
Other current liabilities	199,508,214	606,038,526	(406,530,312)	(67%)	(14)
Non-current liabilities					
Long-term bonds	1,500,000,000	2,670,019,752	(1,170,019,752)	(44%)	(15)
Staff cost payable	–	1,381,058	(1,381,058)	(100%)	(16)
Shareholders' Equity					
Retained earnings	11,525,749,582	8,378,412,798	3,147,336,784	38%	(17)
Cumulative translation reserves	(193,511,048)	21,666,426	(215,177,474)	(993%)	(18)
Items in Income Statement					
Financial expenses	509,668,819	868,061,764	(358,392,945)	(41%)	(19)
Assets impairment loss	417,896,817	879,390,769	(461,493,952)	(52%)	(20)
Non-operating expenses	(135,497,458)	501,869,382	(637,366,840)	(127%)	(21)

Supplementary Information Prepared by the Management to Financial Statements Prepared in Accordance with Accounting Standards for Business Enterprises

31 December 2010
RMB Yuan

4. Fluctuation analysis of items in consolidated financial statements (continued)

(1) Cash on hand and at bank: The increase in cash on hand and at bank was mainly due to the increase in cash inflow from operating activities.

(2) Notes receivable: The increase in notes receivable was mainly due to the receipt of all notes receivable balance of RMB429,700,000 at the end of last year, as well as the commercial promissory note of RMB691,600,000 issued by CNOOC Limited in the current period.

(3) Prepayments: The decrease in prepayments was mainly due to the transfer of prepayments for projects, to construction in progress, such as 200 feet jack-up rigs, twelve-streamer seismic vessel and deep-water AHTS vessel, according to the progress of the construction.

(4) Interest receivable: Interest receivable increased mainly due to the increase of the Group's bank deposit for the year which resulted in the corresponding increase in interest income.

(5) Available-for-sale financial assets: Available-for-sale financial assets decreased mainly due to the recognition of the investment balance of the Group's original share investment in Petrojack ASA as asset impairment losses since the company withdraw from stock market in March 2010.

(6) Held-to-maturity investment: pledged deposit was transferred to current portion of non-current assets as it will due within 1 year.

(7) Long-term deferred expenses: Long-term deferred expenses decreased mainly due to the amortization of part of the drilling rod, drilling tools and cable equipments.

(8) Other non-current assets: the balance of this item was the benefit assets from the defined benefit plan set by CDE.

(9) Staff cost payable: Staff cost payable increased mainly due to the increased staff number and staff bonus of the Group in the year.

(10) Tax payable: Tax payable increased mainly due to the increase of profit before tax, which led to increase of income tax expense.

(11) Interest payable: Interest payable decreased mainly due to the redemption of some bonds by the Group during the year.

(12) Other payable: Other payable increased mainly due to the accrual of some agent fees and research collaboration fees that were not paid.

(13) Current portion of non-current liabilities: Current portion of non-current liabilities increased mainly due to the maturing of long-term borrowings of approximately RMB650,700,000 and bonds of RMB573,700,000 of the Group maturing within one year, and were reclassified under this item. The borrowings of RMB283,100,000 at the beginning of the year has been repaid during the year.

(14) Other current liabilities: Other current liabilities decreased mainly due to the provision for a larger amount of liquidated damages and provision for litigations in last year. This year, some of the litigations have been settled and provision on liquidated damages and litigation have been paid or reversed.

(15) Long-term bonds: Long-term bonds decreased mainly due to the redemption by the Group of bonds of RMB580,200,000 during the year. On the other hand, bonds maturing within one year of RMB573,700,000 has been reclassified under current portion of non-current liabilities.

(16) Staff cost payable (Non-current portion): The balance was the amount for defined benefit plan, and the benefit assets formed during the year was included in other non-current assets.

(17) Retained earnings: The change in retained earnings during the year was mainly affected by factors such as the transfer of net profit, surplus reserve provision and profit distribution to shareholders.

(18) Cumulative translation reserves: The changes in balance of this item was mainly affected by the fluctuations in foreign exchange rate.

(19) Finance cost: Finance cost decreased mainly due to the Group's debt restructuring and optimization last year, which reduced debt cost and reduced the borrowing cost for the year by RMB175,900,000 compared with last year. Moreover, as impacted by foreign exchange fluctuations, exchange loss in the year decreased by RMB180,400,000 compared with last year.

(20) Asset impairment loss: Asset impairment loss decreased mainly due to factors such as the macro economic conditions and the delay in delivery of the three semi submersible rigs under construction last year, and as a result the Group recognized asset impairment loss of RMB819,900,000. This year, no provision for impairment was provided for this portion of assets. The asset impairment loss recognized in 2010 was mainly the Group's provision for asset impairment loss of drilling package under construction and one oilfield utility vessel according to the market price and vessel conditions, the recognition of asset impairment loss of the share investment in Petrojack ASA, and the provision for bad debt and inventory price fall for some receivables and inventories.

(21) Non-operating expenses: Non-operating expenses decreased mainly due to the provision for a larger amount of liquidated damages and litigations last year. This year, some of the litigations have been settled and the provision of liquidated damages or litigations were written back.

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 consolidated financial statements of China Oilfield Services Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 214 to 286, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 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 Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

22 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
REVENUE	4	**17,560,985**	17,878,654
Other revenues	4	**88,633**	95,099
		17,649,618	17,973,753
Depreciation of property, plant and equipment and amortisation of intangible assets	5	**(3,122,338)**	(2,865,166)
Employee compensation costs	5	**(2,938,103)**	(2,669,618)
Repair and maintenance costs	5	**(437,722)**	(609,441)
Consumption of supplies, materials, fuel, services and others		**(3,277,048)**	(3,610,001)
Subcontracting expenses		**(1,143,711)**	(884,384)
Operating lease expenses	5	**(379,690)**	(589,118)
Other operating expenses		**(936,679)**	(1,076,167)
Other selling, general and administrative expenses		**(41,860)**	(381,870)
Impairment of property, plant and equipment	5	**(172,401)**	(819,889)
Total operating expenses		**(12,449,552)**	(13,505,654)
PROFIT FROM OPERATIONS		**5,200,066**	4,468,099
Financial income/(expenses)			
Exchange gains/(losses), net		**87,584**	(92,686)
Finance costs	6	**(674,152)**	(786,430)
Interest income		**76,900**	60,352
Financial expenses, net		**(509,668)**	(818,764)
Share of profits of jointly-controlled entities	18	**143,839**	110,264
PROFIT BEFORE TAX	5	**4,834,237**	3,759,599
Income tax expense	10	**(706,239)**	(624,282)
PROFIT FOR THE YEAR		**4,127,998**	3,135,317
Attributable to:			
Owners of the parent	11	**4,128,494**	3,135,317
Non-controlling interests		**(496)**	–
		4,127,998	3,135,317
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**91.84 cents**	69.75 cents

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR		**4,127,998**	3,135,317
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(215,199)**	1,789
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(215,199)**	1,789
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,912,799**	3,137,106
Attributable to:			
Owners of the parent	*11*	**3,913,317**	3,137,106
Non-controlling interests		**(518)**	–
		3,912,799	3,137,106

Consolidated Statement of Financial Position

31 December 2010

	Note	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**46,371,109**	45,086,542
Goodwill	*15*	**4,462,018**	4,600,473
Other intangible assets	*16*	**407,897**	456,366
Investments in jointly-controlled entities	*18*	**487,785**	540,924
Available-for-sale investments	*19*	**100**	19,381
Pledged time deposits	*25*	**–**	39,081
Defined benefit assets	*9*	**6,265**	–
Other non-current assets		**28,120**	–
Total non-current assets		**51,763,294**	50,742,767
CURRENT ASSETS			
Inventories	*20*	**815,540**	820,549
Prepayments, deposits and other receivables	*21*	**388,791**	755,500
Accounts receivable	*22*	**3,460,752**	3,745,547
Notes receivable	*23*	**693,191**	429,658
Other current assets	*24*	**41,127**	20,583
Pledged deposits	*25*	**87,533**	247,311
Time deposits with original maturity over three months	*25*	**400,000**	800,000
Cash and cash equivalents	*25*	**5,847,164**	3,214,603
Total current assets		**11,734,098**	10,033,751
CURRENT LIABILITIES			
Trade and other payables	*26*	**4,435,823**	4,223,972
Salary and bonus payables	*27*	**781,375**	477,407
Tax payable		**124,028**	86,826
Interest-bearing bank borrowings	*29*	**650,721**	283,081
Current portion of long term bonds	*30*	**573,729**	–
Other current liabilities	*24*	**76,074**	–
Total current liabilities		**6,641,750**	5,071,286
NET CURRENT ASSETS		**5,092,348**	4,962,465
TOTAL ASSETS LESS CURRENT LIABILITIES		**56,855,642**	55,705,232
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*28*	**1,716,052**	1,790,789
Interest-bearing bank borrowings	*29*	**27,090,539**	28,151,040
Long term bonds	*30*	**1,500,000**	2,670,020
Deferred revenue	*31*	**922,523**	780,114
Defined benefit obligations	*9*	**–**	1,381
Other non-current liabilities	*32*	**36,603**	6,283
Total non-current liabilities		**31,265,717**	33,399,627
Net assets		**25,589,925**	22,305,605
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*33*	**4,495,320**	4,495,320
Reserves	*34*	**20,285,099**	17,180,940
Proposed final dividend	*12*	**809,158**	629,345
		25,589,577	22,305,605
Non-controlling interests		**348**	–
Total equity		**25,589,925**	22,305,605

Director: **Li Yong** *Director:* **Li Feilong**

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	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	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 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
Profit for the year	–	–	–	3,135,317	–	–	3,135,317	–	3,135,317
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	1,789	1,789	–	1,789
Total comprehensive income for the year	–	–	–	3,135,317	–	1,789	3,137,106	–	3,137,106
Final 2008 dividend declared	–	–	–	–	(629,345)	–	(629,345)	–	(629,345)
Proposed final 2009 dividend (note 12)	–	–	–	(629,345)	629,345	–	–	–	–
Transfer from retained profits	–	–	335,584	(335,584)	–	–	–	–	–
At 31 December 2009 and 1 January 2010	4,495,320	8,074,565*	1,335,640*	7,749,069*	629,345	21,666*	22,305,605	–	22,305,605
Profit for the year	–	–	–	4,128,494	–	–	4,128,494	(496)	4,127,998
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	(215,177)	(215,177)	(22)	(215,199)
Total comprehensive income for the year	–	–	–	4,128,494	–	(215,177)	3,913,317	(518)	3,912,799
Contribution by non-controlling interests	–	–	–	–	–	–	–	866	866
Final 2009 dividend declared	–	–	–	–	(629,345)	–	(629,345)	–	(629,345)
Proposed final 2010 dividend (note 12)	–	–	–	(809,158)	809,158	–	–	–	–
Transfer from retained profits	–	–	351,813	(351,813)	–	–	–	–	–
At 31 December 2010	4,495,320	8,074,565*	1,687,453*	10,716,592*	809,158	(193,511)*	25,589,577	348	25,589,925

* *These reserve accounts comprise the consolidated reserves of approximately RMB20,285,099,000 (2009: RMB17,180,940,000) in the consolidated statement of financial position.*

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	37	8,598,254	6,301,124
Taxes paid:			
Mainland China corporate income tax paid		(662,649)	(540,344)
Overseas income taxes paid		(80,535)	(155,915)
Net cash flows from operating activities		7,855,070	5,604,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(4,433,900)	(7,398,673)
Purchase of available-for-sale investments		–	(100)
Proceeds from disposal of items of property, plant and equipment		69,957	12,671
(Decrease)/increase in net balances with jointly-controlled entities		(76,040)	7,292
Decrease/(increase) in time deposits with original maturity over three months		400,000	(531,654)
Decrease/(increase) in pledged time deposits		198,859	(154,389)
Interest received		72,226	63,615
Dividends received from jointly-controlled entities		194,671	218,854
Investment in a subsidiary		–	(325)
Net cash flows used in investing activities		(3,574,227)	(7,782,709)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of government grants and subsidies		295,646	100,720
New bank loans		1,182,690	23,227,901
Receipt of the investment from non-controlling interests		866	–
Repayment of bank loans and long term bonds		(1,645,511)	(20,177,339)
Dividends paid		(630,258)	(629,345)
Loan arrangement fees paid		(12,014)	(66,698)
Interest paid		(769,045)	(1,318,423)
Net cash flows from financing activities		(1,577,626)	1,136,816
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,703,217	(1,041,028)
Cash and cash equivalents at beginning of year		3,214,603	4,295,488
Effect of foreign exchange rate changes, net		(70,656)	(39,857)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		5,847,164	3,214,603
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	25	6,334,697	4,300,995
Less: Pledged deposits with original maturity less than three months	25	(87,533)	(247,311)
Pledged deposits at bank with original maturity over three months when acquired	25	–	(39,081)
Non-pledged time deposits at banks with original maturity over three months when acquired	25	(400,000)	(800,000)
Cash and cash equivalents as stated in consolidated statement of cash flows		5,847,164	3,214,603

Statement of Financial Position

31 December 2010

	Note	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**20,380,010**	19,508,127
Intangible assets	*16*	**308,690**	311,914
Investments in subsidiaries	*17*	**6,852,413**	6,852,413
Investments in jointly-controlled entities	*18*	**134,981**	138,728
Available-for-sale investments		**100**	100
Other long term receivables	*39*	**21,291,981**	20,450,459
Total non-current assets		**48,968,175**	47,261,741
CURRENT ASSETS			
Inventories	*20*	**588,314**	617,242
Prepayments, deposits and other receivables	*21*	**623,232**	1,469,844
Accounts receivable	*22*	**3,633,313**	4,197,063
Notes receivable	*23*	**693,191**	429,658
Pledged deposits	*25*	**4,755**	4,902
Time deposits with original maturity more than three months	*25*	**400,000**	800,000
Cash and cash equivalents	*25*	**4,399,216**	1,750,111
Total current assets		**10,342,021**	9,268,820
CURRENT LIABILITIES			
Trade and other payables	*26*	**3,056,886**	3,117,485
Salary and bonus payables	*27*	**725,469**	433,105
Tax payable		**121,486**	41,877
Interest-bearing bank borrowings	*29*	**612,816**	244,000
Total current liabilities		**4,516,657**	3,836,467
NET CURRENT ASSETS		**5,825,364**	5,432,353
TOTAL ASSETS LESS CURRENT LIABILITIES		**54,793,539**	52,694,094
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*28*	**458,036**	365,890
Interest-bearing bank borrowings	*29*	**27,090,539**	28,111,959
Long term bonds	*30*	**1,500,000**	1,500,000
Deferred revenue		**207,354**	36,565
Total non-current liabilities		**29,255,929**	30,014,414
Net assets		**25,537,610**	22,679,680
EQUITY			
Issued capital	*33*	**4,495,320**	4,495,320
Reserves	*34*	**20,233,132**	17,555,015
Proposed final dividend	*12*	**809,158**	629,345
Total equity		**25,537,610**	22,679,680

Director: **Li Yong**   *Director:* **Li Feilong**

Notes to Financial Statements

31 December 2010

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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instruments, which has 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

Notes to Financial Statements

31 December 2010

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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), and Improvements to HKFRSs 2009, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

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. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) Improvements to HKFRSs 2009

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

HKAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

Notes to Financial Statements

31 December 2010

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

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.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes resulting from the Amendments only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. 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.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

Notes to Financial Statements

31 December 2010

2.3 Issued but not yet effective hong kong financial reporting standards (continued)

(a) HKFRS 3 Business Combinations: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 Presentation of Financial Statements: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 Consolidated and Separate Financial Statements: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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 investments 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 investments 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 investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Business combination and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Notes to Financial Statements

31 December 2010

2.4 Summary of significant accounting policies (continued)

Business combination and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. 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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), 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 income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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 income statement in the period in which it arises (only if there are revalued assets in the financial statements).

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31 December 2010

2.4 Summary of significant accounting policies (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where 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)	5 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 and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the 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.

Notes to Financial Statements

31 December 2010

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 system	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 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 investments, 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, deposits and other receivables, accounts receivable, notes receivable, pledged time deposits, time deposit with original maturity over three months 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 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.

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.

Notes to Financial Statements

31 December 2010

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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 by 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 income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

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 income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

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 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 in other operating expenses 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 other income in accordance with the policies set out for "Revenue recognition" below.

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.

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 difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other 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.

Notes to Financial Statements

31 December 2010

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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 through the use of an allowance account and the amount of the impairment loss is recognised in the 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 other expenses in 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 income statement, is removed from other comprehensive income and recognised in the 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 2010

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 when:

- the rights to receive cash flows from the asset have expired; or
- 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, amounts 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 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 instruments 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 income statement.

Notes to Financial Statements

31 December 2010

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.

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 2010

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 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 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 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.

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) from day rate contracts is recognised as and when services have been performed;

(b) 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) from time charters and bareboat charters accounted for as operating leases under HKAS 17 are recognised on the 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 income statement.

Defined benefit plan

The Group's employees in Mainland China are required to participate in a central pension plan operated by local municipal governments. The Group is required to contribute 19% to 22% of its payroll costs to the central pension plan. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension plan.

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.

Notes to Financial Statements

31 December 2010

2.4 Summary of significant accounting policies (continued)

Research and development costs

All research costs are charged to the 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 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 accumulated 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 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.

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 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, impairment of non-financial assets (other than goodwill), deferred tax assets as well as the estimation 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 2010, a provision for impairment of the property, plant and equipment amounting to RMB172,401,000 (2009: RMB819,889,000) 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 2010, impairment losses of approximately RMB192,333,000 (2009: RMB38,885,000) have been recognised for accounts receivable and losses of approximately RMB629,000 (2009: RMB1,070,000) have been recognised for inventories. Further details are given in note 22 and note 20 respectively.

(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 2010, no impairment of goodwill was recognised (2009: 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 income statement. At 31 December 2010, impairment losses of approximately RMB18,291,000 (2009: RMB15,003,000) have been recognised for available-for-sale assets. Further details are given in note 19.

(5) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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2.5 Significant accounting judgements and estimates (continued)

Significant accounting estimates with uncertainty (continued)

(6) 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. No deferred tax assets relating to recognised tax losses at 31 December 2010 were recognised (2009: RMB16,405,000). Further details are contained in note 28 to the financial statements.

(7) Tax rates for deferred tax calculation

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Management judgement is required to determine the applicable tax rates in the further periods, based on the future tax planning strategies and the forecast made on the compliance with the High-New Technical Enterprise ("HNTE") criteria.

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, pledged deposits, time deposits with original maturity over three months 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 COSL Norwegian AS 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 2010	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	9,327,014	4,326,967	2,346,021	1,560,983	17,560,985
Intersegment sales	776,234	433,702	158,389	82,753	1,451,078
	10,103,248	4,760,669	2,504,410	1,643,736	19,012,063
Reconciliation:					
Elimination of intersegment sales					(1,451,078)
Revenue					17,560,985
Segment results	3,591,213	864,601	522,835	365,256	5,343,905
Reconciliation:					
Exchange gains, net					87,584
Finance costs					(674,152)
Interest income					76,900
Profit before tax					4,834,237
Segment assets	68,434,240	4,507,059	5,442,414	3,110,591	81,494,304
Reconciliation:					
Elimination of intersegment assets					(23,618,177)
Unallocated assets					5,621,265
Total assets					63,497,392
Segment liabilities	28,586,258	1,598,582	680,612	783,236	31,648,688
Reconciliation:					
Elimination of intersegment liabilities					(23,618,177)
Unallocated liabilities					29,876,956
Total liabilities					37,907,467
Other segment information:					
Capital expenditure	3,328,131	295,062	1,016,092	837,174	5,476,459
Depreciation of property, plant and equipment and amortisation of intangible assets	2,053,539	475,877	328,215	264,707	3,122,338
Provision for impairment of accounts receivable	188,742	1,884	1,023	684	192,333
Provision for impairment of other receivables	(133)	(63)	34,462	(23)	34,243
Provision for impairment of inventories	334	155	84	56	629
Impairment provision for an available-for-sale investment	18,291	–	–	–	18,291
Impairment provision for property, plant and equipment	145,699	–	26,702	–	172,401
Share of profits of jointly-controlled entities	85,896	50,706	(18,758)	25,995	143,839
Investments in jointly-controlled entities*	(112,677)	320,659	86,111	81,015	375,108

* The investments in jointly-controlled entities included investments in Premium Drilling and Atlantis Deepwater which were classified as other current liabilities and other non-current liabilities amounting to RMB76.1 million and RMB36.6 million, respectively.

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31 December 2010

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
	11,141,369	4,561,297	2,230,418	1,449,143	19,382,227
Reconciliation:					
Elimination of intersegment sales					(1,503,573)
Revenue					17,878,654
Segment results	2,806,984	795,347	631,732	344,300	4,578,363
Reconciliation:					
Exchange losses, net					(92,686)
Finance costs					(786,430)
Interest income					60,352
Profit before tax					3,759,599
Segment assets	68,075,601	5,115,367	5,238,398	2,576,235	81,005,601
Reconciliation:					
Elimination of intersegment assets					(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
Reconciliation:					
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 investments	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
Investments in jointly-controlled entities*	14,300	322,205	151,896	66,823	555,224

* The investments in jointly-controlled entities included investments 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)

Geographical Information

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical services in Mainland China. Activities outside Mainland China are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway, Vietnam, Dubai, and certain countries in the Middle-East, such as Libya and other countries.

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% (2009: less than 10%), and approximately 75.4% (2009: approximately 72.1%) 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 2010 and 2009.

Year ended 31 December 2010	Mainland China RMB'000	Others RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	13,248,896	4,312,089	17,560,985

Year ended 31 December 2009	Mainland China RMB'000	Others RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	12,889,651	4,989,003	17,878,654

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 is known to be under common control with that customer) is provided in note 39.

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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:

	Group 2010 RMB'000	2009 RMB'000
Revenue:		
Rendering of services*	17,392,185	17,708,484
Gross rental income	168,800	170,170
Total revenue	17,560,985	17,878,654
Other revenues:		
Gain on disposal of scrap equipment	8,227	168
Insurance claims received	30,378	52,140
Government grants	11,801	6,490
Others	38,227	36,301
Total other revenues	88,633	95,099

* Included in the amount was deferred revenue of RMB43,679,000 (2009: 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):

	Note	Group 2010 RMB'000	2009 RMB'000
Auditors' remuneration:			
Audit		14,480	15,570
Non-audit		3,958	6,262
Employee compensation costs (including directors' remuneration):			
Wages, salaries and bonuses		2,485,019	2,153,116
Social security costs		293,716	398,069
Retirement benefits and pensions		157,678	118,986
Share appreciation rights	*27*	1,690	(553)
		2,938,103	2,669,618

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5. Profit before tax (continued)

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

	Note	Group 2010 RMB'000	2009 RMB'000
Depreciation of property, plant and equipment and amortisation of intangible assets	*14,16*	**3,122,338**	2,865,166
Loss on disposal of property, plant and equipment, net		**25,643**	19,017
Lease payments under operating leases in respect of land and buildings, berths and equipment		**379,690**	589,118
Impairment of property, plant and equipment	*14*	**172,401**	819,889
Impairment of accounts receivable, net	*22*	**192,333**	38,885
Impairment of other receivables, net		**34,243**	4,543
Provision against inventories	*20*	**629**	1,070
Impairment of an available-for-sale investment	*19*	**18,291**	15,003
Repair and maintenance costs		**437,722**	609,441
Research and development costs, included in:		**173,812**	197,228
Depreciation of property, plant and equipment		**11,890**	15,454
Employee compensation costs		**21,629**	26,444
Consumption of supplies, materials, fuel, services and others		**135,830**	149,324
Other operating expenses		**4,463**	6,006

6. Finance costs

An analysis of finance costs is as follows:

	Group 2010 RMB'000	2009 RMB'000
Interest on bank borrowings		
Wholly repayable within five years	**186,480**	399,442
Wholly repayable after five years	**472,351**	408,158
Interest on long term bonds	**83,965**	284,134
Total interests	**742,796**	1,091,734
Less: Interest capitalised	**(91,856)**	(264,943)
	650,940	826,791
Other finance costs:		
Realised (gains)/losses of derivative instruments	**–**	(49,298)
Others	**23,212**	8,937
	674,152	786,430

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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 2010 RMB'000	2009 RMB'000
Fees	1,280	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	968	824
Bonuses	1,064	892
Share appreciation rights (note 27)	231	(212)
Pension scheme contributions	163	116
	2,426	1,620
	3,706	2,900

(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 2010 RMB'000	2009 RMB'000
Independent non-executive directors:		
Gordon C. K. Kwong (i)	200	400
Simon X. Jiang (i)	200	400
Tsui Yiu Wa (ii)	400	200
Andrew Y. Yan (iii)	–	200
Fong Wo, Felix (iv)	200	–
Chen Quansheng (iv)	200	–
	1,200	1,200
Independent supervisors:		
Wang Zhile (ii)	80	40
Zhang Dunjie (iii)	–	40
	1,280	1,280

There were no other emoluments payable to the independent non-executive directors and the independent supervisors during the year (2009: Nil).

Notes:

(i) The term of office of Mr. Gordon C. K. Kwong and Mr. Simon X. Jiang has expired on 28 May 2010.

(ii) Mr. Tsui Yiu Wa and Mr. Wang Zhile were elected as an independent non-executive director and an independent supervisor, respectively, with effect from 3 June 2009.

(iii) Mr. Andrew Y. Yan and Mr. Zhang Dunjie resigned as an independent non-executive director and an independent supervisor, respectively, with effect from 3 June 2009.

(iv) Mr. Fong Wo, Felix and Mr. Chen Quansheng were elected as independent non-executive directors with effect from 28 May 2010.

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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
2010					
Executive directors:					
Li Yong	297	336	48	231	912
Li Feilong (i)	71	32	12	–	115
	368	368	60	231	1,027
Non-executive directors:					
Liu Jian (ii)	164	277	22	–	463
Fu Chengyu (iii)	–	–	–	–	–
Wu Mengfei	–	–	–	–	–
	164	277	22	–	463
Supervisors:					
Zhu Liebin (iv)	–	–	–	–	–
Yang Jinghong (v)	237	200	40	–	477
An Xuefen (iv)	–	–	–	–	–
Zi Shilong (v)	199	219	41	–	459
	436	419	81	–	936
Total	968	1,064	163	231	2,426
2009					
Executive directors:					
Liu Jian (ii)	197	140	26	–	363
Li Yong	283	291	44	(90)	528
	480	431	70	(90)	891
Non-executive directors:					
Yuan Guangyu (vi)	91	261	6	(122)	236
Fu Chengyu (iii)	–	–	–	–	–
Wu Mengfei	–	–	–	–	–
	91	261	6	(122)	236
Supervisors:					
Zhang Benchun (vii)	–	–	–	–	–
Zhu Liebin (iv)	–	–	–	–	–
Yang Jinghong (v)	253	200	40	–	493
	253	200	40	–	493
Total	824	892	116	(212)	1,620

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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.

Notes:

(i) Mr. Li Feilong was elected as an executive director of the Company with effect from 22 December 2010.
(ii) Mr. Liu Jian was elected as an executive director of the Company with effect from 3 June 2009, and was re-designated as a non-executive director of the Company with effect from 27 August 2010.
(iii) Mr. Fu Chengyu resigned as a non-executive director of the Company with effect from 26 August 2010.
(iv) Mr. Zhu Liebin resigned as a supervisor of the Company, and Ms. An Xuefen was elected as a supervisor of the Company with effect from 28 May 2010.
(v) Mr. Yang Jinghong resigned as an employee supervisor of the Company, and Mr. Zi Shilong was elected as an employee supervisor of the Company with effect from 26 July 2010.
(vi) Mr. Yuan Guangyu resigned as a non-executive director of the Company with effect from 3 June 2009.
(vii) Mr. Zhang Benchun resigned as a supervisor of the Company with effect from 3 June 2009.

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 (2009: Nil), details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration of the five (2009: five) non-director, non-supervisor, highest paid employees for the year are as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Basic salaries, allowances and benefits in kind	9,191	9,642
Bonuses	11,403	3,871
Shares appreciation rights	–	–
Pension scheme contributions	1,651	739
	22,245	14,252

The number of non-director, non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2010	2009
HK$2,500,001 to HK$3,000,000	–	3
HK$3,000,001 to HK$3,500,000	2	1
HK$3,500,001 to HK$5,500,000	1	1
HK$5,500,001 to HK$7,500,000	1	–
HK$7,500,001 to HK$9,500,000	1	–
	5	5

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9. Defined benefit plan 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 2010 (2009: Nil).

The expenses attributed to the PRC government-regulated pension scheme are as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Contributions to the PRC government–regulated pension scheme	115,704	109,936

At 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2009: Nil).

The Group has various pension plans for its employees who are located outside of Mainland China.

The Group also has a defined benefit plan with a life insurance company to provide pension benefits for certain employees in Norway. The plan provides entitlement to benefits based on future service from the commencement date of the plan. 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 plan pension-qualifying income (limited to the stipulated Norwegian National Insurance Basic Amount). The plan also includes entitlement to disability, spouses and children's pensions. The retirement age under the plan is 67 years.

The Group may at any time make alterations to the terms and conditions of the pension plan and undertake that they will inform the employees of any such changes. The benefits accruing under the plan are funded obligations.

All pension plans 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. Defined benefit plan and pensions (continued)

	Group 2010 RMB'000	2009 RMB'000
Pension cost		
Service cost	4,083	970
Interest cost	228	53
Estimated return on plan assets	(497)	(50)
Administrative expenses	87	108
Amortisation of actuarial gains	155	711
Net pension cost	4,056	1,792
Social security tax	538	137
Total	4,594	1,929
Benefit assets/(obligation)		
Benefit obligation	(13,785)	(2,257)
Plan assets	12,142	6,757
Funded status	(1,643)	4,500
Social security tax	(263)	(230)
Unamortised actuarial gains/(losses), past service cost	8,171	(5,651)
Net assets/(obligation)	6,265	(1,381)
Movements in the benefit assets/(obligation) during the year		
Benefit assets/(obligation), opening balance	(1,381)	(5,664)
Benefit expense	(4,594)	(1,929)
Contributions	12,240	6,212
Benefit asset/(obligation) ending balance	6,265	(1,381)
Assumptions		
Estimated return on plan assets	6%	6%
Discount rate	5%	4%
Salary increase	5%	4%
Increase of National Insurance	4%	4%
Rate of pension increase	1.40%-4.25%	1.50%-3.75%
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	50%	55%
Equity instruments	15%	7%
Money market and similar	19%	22%
Property	16%	16%
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 profits tax in Hong Kong as it does not have assessable profits 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%.

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 commenced 1 January 2008. Further, the Company obtained the approval of tax deduction and exemption registration report from Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of the TSAT in 2009. According to the approval, the corporate income tax rate was approved to be 15% for the year 2009 and 2010. 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 2010 (2009: 15%).

Certain overseas subsidiaries of the Group with permanent establishment status in the PRC are subject to deemed income tax calculated at 3.75% (2009: 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 25% (2009: 28%). The Group's drilling activities in Australia are subject to income tax of 30% (2009: 30%) based on its taxable profit generated. The Group's drilling activities in Myanmar are subject to income tax of 3.5% (2009: 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 30% or business flat tax of 17.5% (2009: 28% and 17%, respectively). The Group's activities in Norway are mainly subject to a corporate income tax of 28% (2009: 28%). The Group's activities in Vietnam are subject to withholding tax of 10 % on income derived from the provision of drilling services (2009: 10%). The Group's taxes pertaining to drilling activities in Libya and Saudi Arabia are borne by the customer. The Group's drilling activities in Dubai are not subject to any income tax. The Group's taxes pertaining to drilling activities in Iran are borne by the customer.

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

	Group	
	2010 RMB'000	2009 RMB'000
Hong Kong profits tax	–	–
Overseas income taxes:		
Current	75,703	116,811
Deferred	(124,524)	10,922
PRC corporate income taxes:		
Current	662,913	412,487
Deferred	92,147	84,062
Total tax charge for the year	706,239	624,282

Notes to Financial Statements

31 December 2010

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 key 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:

	2010 RMB'000	2010 %	2009 RMB'000	2009 %
Profit before tax	4,834,237		3,759,599	
Tax at the statutory tax rate of 25% (2009: 25%)	1,208,559	25.0	939,900	25.0
Tax reduction as an advanced technology enterprise	(373,874)	(7.7)	(310,687)	(8.3)
Income not subject to tax	(32,856)	(0.7)	(1,008,967)	(26.8)
Expense not deductible for tax	91,934	1.9	556,155	14.8
Tax benefit for qualifying research and development expense	(16,741)	(0.3)	(28,761)	(0.8)
Effect of different tax rates for overseas subsidiaries	(313,222)	(6.5)	(134,124)	(3.6)
Unrecognised tax losses	51,538	1.1	–	–
Utilisation of previous unrecognised tax losses	–	–	(475,416)	(12.6)
Deductible translation adjustment*	(61,393)	(1.3)	1,057,765	28.1
Adjustments in respect of current tax of previous periods	58,172	1.2	(66,909)	(1.8)
Others	94,122	1.9	95,326	2.5
Total tax charge at the Group's effective rate	706,239	14.6	624,282	16.5

* Deductible 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.

The share of tax attributable to jointly-controlled entities amounting to approximately RMB66,586,000 (2009: RMB62,091,000) is included in "Share of profits of jointly-controlled entities" in the consolidated income statement.

11. Profit attributable to owners of the parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of approximately RMB3,501,736,000 (2009: RMB3,352,684,000) which has been dealt with in the financial statements of the Company (note 34(b)).

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12. Dividends

	Group 2010 RMB'000	2009 RMB'000
Proposed final dividend-RMB0.18 per ordinary share (2009: RMB0.14 per ordinary share)	809,158	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 RMB4,128,494,000 (2009: RMB3,135,317,000), and the weighted average number of ordinary shares of 4,495,320,000 (2009: 4,495,320,000) in issue during the year.

There were no potentially diluting events for the years ended 31 December 2010 and 2009.

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14. Property, plant and equipment

Group

	31 December 2010						
	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 2009 and at 1 January 2010							
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
At 1 January 2010, 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
Additions	–	87,934	156,673	1,793	80	5,221,730	5,468,210
Depreciation provided during the year	(374,123)	(1,434,938)	(1,258,681)	(10,008)	(3,459)	–	(3,081,209)
Disposals/write-offs	(6,857)	(85,146)	(54,642)	(975)	(2,383)	–	(150,003)
Transfers from/(to) construction in progress ("CIP")	173,478	3,569,996	780,599	–	–	(4,524,073)	–
CIP transfers to intangible assets	–	–	–	–	–	(15,753)	(15,753)
Impairment	(26,702)	–	–	–	–	(145,699)	(172,401)
Exchange realignment	(1,345)	(493,704)	(5,897)	(7)	–	(263,324)	(764,277)
At 31 December 2010, net of accumulated depreciation and impairment	4,589,500	22,686,796	4,596,230	22,048	56,453	14,420,082	46,371,109
At 31 December 2010							
Cost	8,642,379	31,147,110	9,229,326	69,090	65,124	15,360,505	64,513,534
Accumulated depreciation and impairment	(4,052,879)	(8,460,314)	(4,633,096)	(47,042)	(8,671)	(940,423)	(18,142,425)
Net carrying amount	4,589,500	22,686,796	4,596,230	22,048	56,453	14,420,082	46,371,109

Notes to Financial Statements

31 December 2010

14. Property, plant and equipment (continued)

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:							
Cost	6,854,488	23,001,543	6,937,370	70,761	39,089	15,428,951	52,332,202
Accumulated depreciation and impairment	(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 and impairment	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

Impairment of property, plant and equipment

An impairment loss of approximately RMB145,699,000 was recognised in 2010 to reduce the carrying amount of a drilling package under construction to its recoverable amounts, primarily arising from the decrease in the international market price for similar package. The impairment losses have been classified under the segment of drilling services in note 3 to the financial statements.

In addition, an impairment loss of approximately RMB26,702,000 was also recognised in 2010 to reduce the carrying amount of a vessel, arising from the deterioration of the vessel's condition. The impairment loss has been classified under the segment of marine support and transportation services in note 3 to the financial statements.

Notes to Financial Statements

31 December 2010

14. Property, plant and equipment (continued)

Company

	31 December 2010						
	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 2009 and at 1 January 2010							
Cost	8,537,721	9,910,814	8,116,944	76,171	67,203	5,397,656	32,106,509
Accumulated depreciation and impairment	(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
At 1 January 2010, net of accumulated depreciation and impairment	4,778,818	4,495,079	4,746,264	30,449	59,861	5,397,656	19,508,127
Additions	–	–	82,504	1,794	80	3,136,056	3,220,434
Depreciation provided during the year	(362,768)	(451,109)	(1,208,964)	(9,702)	(3,279)	–	(2,035,822)
CIP transfers to intangible assets	–	–	–	–	–	(15,753)	(15,753)
Disposals/write-offs	(155,247)	(85,146)	(53,224)	(975)	(2,384)	–	(296,976)
Transfers from/(to) CIP	173,478	3,569,996	780,121	–	–	(4,523,595)	–
At 31 December 2010, net of accumulated depreciation and impairment	4,434,281	7,528,820	4,346,701	21,566	54,278	3,994,364	20,380,010
At 31 December 2010, net of accumulated depreciation and impairment							
Cost	8,425,717	13,388,623	8,808,256	67,421	61,888	3,994,364	34,746,269
Accumulated depreciation and impairment	(3,991,436)	(5,859,803)	(4,461,555)	(45,855)	(7,610)	–	(14,366,259)
Net carrying amount	4,434,281	7,528,820	4,346,701	21,566	54,278	3,994,364	20,380,010

Notes to Financial Statements

31 December 2010

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 and impairment	(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 and impairment	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 2009, net of accumulated depreciation and impairment	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 and impairment							
Cost	8,537,721	9,910,814	8,116,944	76,171	67,203	5,397,656	32,106,509
Accumulated depreciation and impairment	(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 2010

15. Goodwill

Goodwill was generated in the acquisition of CDE on 28 September 2008.

	Group 2010 RMB'000
Cost at 1 January 2010, net of accumulated impairment	4,600,473
Exchange realignment	(138,455)
Cost and net carrying value at 31 December 2010	4,462,018
Cost	4,600,473
Exchange realignment	(138,455)
Net carrying amount	4,462,018

	2009 RMB'000
Cost at 1 January 2009, net of accumulated impairment	4,604,785
Exchange realignment	(4,312)
Cost and net carrying value at 31 December 2009	4,600,473
Cost	4,604,785
Exchange realignment	(4,312)
Net carrying amount	4,600,473

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 Drilling Services 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% (2009: 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 Drilling Services cash-generating unit for 31 December 2010. 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 are before tax and 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. Other intangible assets

Group

	31 December 2010			
	Prepaid land lease payments RMB'000	Management system & software RMB'000	Contract value RMB'000	Total RMB'000
Cost at 1 January 2010, net of accumulated amortisation	255,975	172,675	27,716	456,366
Additions	–	8,249	–	8,249
Transferred from CIP	–	15,753	–	15,753
Amortisation provided during the year	(5,263)	(15,097)	(20,769)	(41,129)
Disposals	(308)	(26,829)	–	(27,137)
Exchange realignment	–	(3,458)	(747)	(4,205)
At 31 December 2010	250,404	151,293	6,200	407,897
At 31 December 2010:				
Cost	261,468	239,590	119,182	620,240
Accumulated amortisation	(11,064)	(88,297)	(112,982)	(212,343)
Net carrying amount	250,404	151,293	6,200	407,897

	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 accumulate 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

Notes to Financial Statements

31 December 2010

16. Other intangible assets (continued)

Company

	31 December 2010 Prepaid land lease payments RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2010, net of accumulated amortisation	255,975	55,939	311,914
Additions	–	7,835	7,835
Transferred from CIP	–	15,753	15,753
Amortisation provided during the year	(5,263)	(1,695)	(6,958)
Disposals	(308)	(19,546)	(19,854)
At 31 December 2010	250,404	58,286	308,690
At 31 December 2010:			
Cost	261,468	117,223	378,691
Accumulated amortisation	(11,064)	(58,937)	(70,001)
Net carrying amount	250,404	58,286	308,690

	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 2009	255,975	55,939	311,914
At 31 December 2009:			
Cost	262,188	92,829	355,017
Accumulated amortisation	(6,213)	(36,890)	(43,103)
Net carrying amount	255,975	55,939	311,914

17. Investments in subsidiaries

	Company 2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	6,852,413	6,852,413

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31 December 2010

17. Investments in subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name of entity	Place and date of incorporation/ registration and operations	Nominal value of issued and paid-up capital	Percentage of equity directly attributable to the Group		Principal activities
			Direct	Indirect	
COSL America Inc.	United States of America 2 November 1994	US$100,000	100	–	Sale of logging equipment
China Oilfield Services (BVI) Limited	British Virgin Islands 19 March 2003	US$1	100	–	Investment holding
COSL (Labuan) Company Limited	Malaysia 11 April 2003	US$1	–	100	Provision of drilling services in Indonesia
China Oilfield Services Southeast Asia (BVI) Ltd.	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$10,000	–	100	Provision of drilling services in Australia
COSL Hong Kong International Limited	Hong Kong 3 December 2007	HK$ 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”)	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$1	–	100	Management of jack-up drilling rigs
PT Samudra Timur Santosa	Indonesia 27 July 2010	US$ 250,000	–	49 *	Provision of marine support and transportation services

* In the opinion of the directors, the Company has control over PT Samudra Timur Santosa’s (“PT STS”) financial and operating decisions, and accordingly, the financial statements of PT STS have been incorporated into the Group’s consolidated financial statements as a subsidiary, and non-controlling interests were recognised in the consolidated financial statements.

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.

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18. Investments in jointly-controlled entities

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	–	–	129,330	129,330
Share of net assets	482,134	531,635	–	–
Due from jointly-controlled entities	5,761	9,398	5,761	9,398
Due to jointly-controlled entities	(110)	(109)	(110)	–
	487,785	540,924	134,981	138,728

The amounts due from and due to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal jointly-controlled entities are as follows:

Name	Nominal value of issued and paid-up capital	Place and date of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
China France Bohai Geoservices Co., Ltd. ("China France")	US$ 6,650,000	Tianjin, PRC 30 November 1983	50	50	Provision of logging services
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	RMB 4,640,000	Shenzhen, PRC 25 October 1984	60(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 Sinergi 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	NOK 100,000	Norway 1 June 2005	50(b)	50	Management of jack-up drilling rigs

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18. Investments 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 AS, Premium Drilling Inc. and Premium Drilling (Cayman) Ltd., collectively, named as 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.

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.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	Group	
	2010 RMB'000	2009 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**506,103**	647,513
Non-current assets	**219,456**	259,560
Current liabilities	**(394,455)**	(527,518)
Non-current liabilities	**(31,201)**	(29,412)
Net assets*	**299,903**	350,143
Share of the jointly-controlled entities' results:		
Revenue	**916,474**	910,714
Other revenues	**898**	4,591
Total expenses	**(706,947)**	(742,950)
Tax	**(66,586)**	(62,091)
Share of profits of jointly-controlled entities	**143,839**	110,264

* The share of the jointly-controlled entities' net assets includes the net liabilities of Premium Drilling and Atlantis Deepwater as at 31 December 2010, amounting to approximately RMB95,698,000 (2009: RMB94,241,000) and RMB36,651,000 (2009: RMB36,399,000), which are classified as other current liabilities (2009: other current assets) and other non-current liabilities in the consolidated statement of financial position, respectively, as further described in note 24 and note 32, respectively, to the financial statements.

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19. Available-for-sale investments

	Group 2010 RMB'000	2009 RMB'000
Unlisted investment, at acquired cost*	100	100
Unlisted/listed equity investment, at acquired cost**	140,366	140,366
Less: Provision for impairment	(136,340)	(121,511)
Exchange realignment	(4,026)	426
Net carrying amount, at fair value	–	19,281
Total	100	19,381

* The unlisted equity investment is an investment in Atlantis Deepwater Technology Holding AS.

** As at 31 December 2010, the equity investment in an equity security, Petrojack ASA was an unlisted investment. Impairment losses of approximately RMB18,291,000 (2009: RMB15,003,000) have been fully recognised for the investment during the year for all the equity investment in Petrojack ASA, which withdrew its listing from stock market in March 2010. The investment in Petrojack ASA was recorded as a listed equity investment as at 31 December 2009.

20. Inventories

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Gross inventory	832,933	837,313	605,707	634,006
Less: Provisions	(17,393)	(16,764)	(17,393)	(16,764)
	815,540	820,549	588,314	617,242

Inventories consist of materials and supplies.

21. Prepayments, deposits and other receivables

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Prepayments	68,630	528,233	34,440	489,374
Deposits	22,354	54,316	1,596	54,311
Other receivables	337,695	180,282	594,274	933,490
	428,679	762,831	630,310	1,477,175
Less: Provision for impairment of other receivables	(39,888)	(7,331)	(7,078)	(7,331)
	388,791	755,500	623,232	1,469,844

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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 during the reporting period. All accounts receivable are non-interest-bearing.

An ageing analysis of the accounts receivable as at the end of the reporting period, based on the invoiced date, is as follows:

	Group		Company	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Outstanding balances aged:				
Within one year	**3,692,000**	3,808,257	**3,735,582**	4,259,773
One to two years	**21,100**	21,344	**20,931**	21,344
Two to three years	**21,209**	5,697	**7,780**	196
Over three years	**7,923**	2,440	**1,054**	858
	3,742,232	3,837,738	**3,765,347**	4,282,171
Less: Provision for impairment of accounts receivable	**(281,480)**	(92,191)	**(132,034)**	(85,108)
	3,460,752	3,745,547	**3,633,313**	4,197,063

The movements in provision for impairment of accounts receivable are as follows:

	Group	
	2010 RMB'000	**2009 RMB'000**
At 1 January	**92,191**	53,309
Impairment losses recognised	**196,443**	88,211
Impairment losses reversed	**(4,110)**	(49,326)
Exchange realignment	**(3,044)**	(3)
At 31 December	**281,480**	92,191

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of RMB196,443,000 (2009: RMB88,211,000) with a carrying amount before provision of RMB375,722,000 (2009: RMB181,881,000). The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2009 and 2010, 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 2010 was an amount due from its subsidiaries of approximately RMB1,251,874,000 (2009: RMB1,113,885,000) 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 2010 RMB'000	2009 RMB'000
Trade acceptances	**691,574**	427,108
Banker's acceptances	**1,617**	2,550
	693,191	429,658

24. Other current assets/(liabilities)

	Group 2010 RMB'000	2009 RMB'000
Negative investment in a jointly-controlled entity (note 18)*	**(95,698)**	(94,241)
Due to a jointly-controlled entity	**(18,391)**	(32,354)
Due from a jointly-controlled entity	**95,785**	147,178
Current portion of deferred revenue	**(57,770)**	–
	(76,074)	20,583
Current portion of deferred expenses	**41,127**	–

* 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. In 2009, 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. The current year balance was recorded as other current liabilities by the Group.

25. Cash and cash equivalents, pledged deposits and time deposits

	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
Cash and balances with banks	**3,375,452**	2,959,033	**1,844,726**	1,213,051
Deposit with CNOOC Finance Corporation Ltd. ("CNOOC Finance")	**1,259,245**	541,962	**1,259,245**	541,962
Time deposits at banks	**1,700,000**	800,000	**1,700,000**	800,000
Cash and balances with banks and financial institutions	**6,334,697**	4,300,995	**4,803,971**	2,555,013
Less:				
Pledged deposits – current	**(87,533)**	(247,311)	**(4,755)**	(4,902)
Pledged deposits – non-current	**–**	(39,081)	**–**	–
Time deposit with original maturity over three months	**(400,000)**	(800,000)	**(400,000)**	(800,000)
Cash and cash equivalents	**5,847,164**	3,214,603	**4,399,216**	1,750,111

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25. Cash and cash equivalents, pledged deposits and time deposits (continued)

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 RMB3,555,179,000 (2009: RMB1,863,224,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2010, 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 RMB400,000,000 (2009: RMB800,000,000).

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 ageing analysis of the trade and other payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Outstanding balances aged:				
Within one year	**4,173,676**	3,635,281	**2,802,147**	2,740,855
One to two years	**138,652**	475,749	**133,493**	264,463
Two to three years	**33,448**	87,226	**32,043**	86,729
Over three years	**90,047**	25,716	**89,203**	25,438
	4,435,823	4,223,972	**3,056,886**	3,117,485

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 2010, included in trade and other payables was a balance for a research and development subsidy of approximately RMB44.34 million (31 December 2009: RMB44.21 million).

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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 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.

The fair value of the share appreciation rights granted as at 31 December 2010 was measured at HK$3.01 per share. The fair value of the rights is calculated using the Black-Scholes model with the following assumptions: expected dividend yield of 1.17%, expected life of two years, expected volatility of 49.68% 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.

The increase of the share appreciation rights liability amounted to approximately RMB1,690,000 for the year ended 31 December 2010, and was recorded in salary and bonus payables under general and administrative expenses:

		Total shares at end of the year	At 1 January 2010 RMB'000	Changes during the year RMB'000	At 31 December 2010 RMB'000
Former Non-executive Director	Yuan Guangyu(i)	723,150	1,280	318	1,598
Executive Director, Chief Executive Officer and President	Li Yong	528,225	934	231	1,165
Former Executive Vice President and Chief Finance Officer	Zhong Hua(ii)	528,225	934	231	1,165
Former Executive Vice President	Chen Weidong(iii)	528,225	934	231	1,165
Former Senior Vice President	Li Xunke(iv)	492,675	872	215	1,087
Supervisor	Tang Daizhi(v)	246,338	282	264	546
Vice President	Xu Xiongfei	456,825	807	200	1,007
		3,503,663	6,043	1,690	7,733

(i) Mr. Yuan Guangyu resigned as non-executive director of the Company in 2009. According to the terms of the SAR Plan, he has completed the two year service period and all share appreciation rights granted have been fully vested.

(ii) Mr. Zhong Hua resigned as an executive vice president and Chief Finance Officer of the Company with effect from 16 September 2010, he has completed the two year service period and all share appreciation rights granted have been fully vested.

(iii) Mr. Chen Weidong resigned as an executive vice director of the Company with effect from 8 April 2010, he has completed the two year service period and all share appreciation rights granted have been fully vested.

(iv) Mr. Li Xunke resigned as senior vice president of the Company with effect from 8 April 2010, he has completed the two year service period and all share appreciation rights granted have been fully vested.

(v) Mr. Tang Daizhi resigned as a supervisor of the Company in 2007. According to the term 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.

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28. Deferred tax liabilities

The movements of deferred tax liabilities during the year are as follows:

	Group 2010 RMB'000	Group 2009 RMB'000	Company 2010 RMB'000	Company 2009 RMB'000
Balance at beginning of the year	1,790,789	1,697,132	365,890	281,828
Charged to the income statement during the year *(note 10)*	(32,377)	94,984	92,146	84,062
Exchange realignment	(42,360)	(1,327)	–	–
Balance at end of the year	1,716,052	1,790,789	458,036	365,890

The principal components of the provision for deferred tax are as follows:

Group

	Balance at 1 January 2009 RMB'000	Recognised in income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2009 and 1 January 2010 RMB'000	Recognised in income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2010 RMB'000
Deferred tax assets:							
Provision for staff bonus	(112,552)	(2,022)	–	(114,574)	(60,548)	35	(175,087)
Accelerated amortisation	(1,135)	1,135	–	–	–	–	–
Accrued liabilities	(3,534)	(72,780)	34	(76,280)	72,636	3,644	–
Tax loss carried forward	(29,300)	12,875	20	(16,405)	17,985	(1,580)	–
Others	(19,309)	(9,778)	22	(29,065)	(10,664)	1,087	(38,642)
Deferred tax liabilities:							
Accelerated depreciation	641,255	121,864	3,841	766,960	150,543	(9,745)	907,758
Revaluation surplus on Reorganisation	100,250	(42,105)	–	58,145	(18,045)	–	40,100
Fair value adjustment arising from acquisition of a subsidiary	1,119,823	3,855	(5,219)	1,118,459	(103,930)	(33,225)	981,304
Others	1,634	81,940	(25)	83,549	(80,354)	(2,576)	619
Net deferred tax liabilities	1,697,132	94,984	(1,327)	1,790,789	(32,377)	(42,360)	1,716,052

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28. Deferred tax liabilities (continued)

Company

	Balance at 1 January 2009 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2009 and 1 January 2010 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2010 RMB'000
Deferred tax assets:					
Provision for staff bonus	(112,552)	(1,727)	(114,279)	(60,808)	(175,087)
Accelerated amortisation	(1,135)	1,135	–	–	–
Others	–	(427)	(427)	(33,145)	(33,572)
Deferred tax liabilities:					
Accelerated depreciation	295,265	111,489	406,754	219,841	626,595
Revaluation surplus on Reorganisation	100,250	(42,105)	58,145	(18,045)	40,100
Others	–	15,697	15,697	(15,697)	–
Net deferred tax liabilities	281,828	84,062	365,890	92,146	458,036

At 31 December 2010, there was no significant unrecognised deferred tax liability (2009: 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.

Accumulated tax losses arising in Norway of approximately RMB 3,197,898,000 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:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Current portion of long term bank loan	650,721	283,081

Non-current:

	Contractual interest rate (%)	Year of maturity	31 December 2010 RMB'000	31 December 2009 RMB'000
Export-Import Bank of China-unsecured (a)	i	2013	344,000	544,000
Export-Import Bank of China-unsecured (b)	ii	2017	312,000	356,000
Export-Import Bank of China-unsecured (c)	LIBOR+170pts	2020	5,219,623	5,369,024
Export-Import Bank of China-unsecured (d)	iii	2015	450,000	450,000
Bank of China-unsecured (e)	LIBOR+138pts	2017	11,105,952	10,777,455
Bank of China-unsecured (f)	LIBOR+90pts	2017	5,298,160	5,462,560
Industrial and Commercial Bank of China-unsecured (f)	LIBOR+90pts	2017	3,973,620	4,096,920
Headquarter entrusted loan-unsecured (g)	3.71%	2011	–	800,000
Headquarter entrusted loan-unsecured (g)	iv	2012	1,000,000	500,000
Eksportfinans-secured (h)	3.20%	2011	37,905	78,162
			27,741,260	28,434,121
Less: current portion of long term bank loan			(650,721)	(283,081)
			27,090,539	28,151,040

i Market interest rate of a 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 a 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 a similar loan type quoted by the People's Bank of China.

iv Floating interest rate, with commission of the entrusted loan at 0.15%.

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29. Interest-bearing bank borrowings (continued)

Company

Current:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Current portion of long term bank loan	612,816	244,000

Non-current:

	Contractual interest rate (%)	Year of maturity	31 December 2010 RMB'000	31 December 2009 RMB'000
Export-Import Bank of China-unsecured (a)	i	2013	344,000	544,000
Export-Import Bank of China-unsecured (b)	ii	2017	312,000	356,000
Export-Import Bank of China-unsecured (c)	LIBOR+170pts	2020	5,219,623	5,369,024
Export-Import Bank of China-unsecured (d)	iii	2015	450,000	450,000
Bank of China-unsecured (e)	LIBOR+138pts	2017	11,105,952	10,777,455
Bank of China-unsecured (f)	LIBOR+90pts	2017	5,298,160	5,462,560
Industrial and Commercial Bank of China-unsecured (f)	LIBOR+90pts	2017	3,973,620	4,096,920
Headquarter entrusted loan-unsecured (g)	3.71%	2011	–	800,000
Headquarter entrusted loan-unsecured (g)	iv	2012	1,000,000	500,000
			27,703,355	28,355,959
Less: current portion of long term bank loan			(612,816)	(244,000)
			27,090,539	28,111,959

i Market interest rate of a 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 a 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 a similar loan type quoted by the People's Bank of China.

iv Floating interest rate, with commission of the entrusted loan at 0.15%.

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29. Interest-bearing bank borrowings (continued)

(a) The Group borrowed an RMB denominated bank loan for the purpose of financing the construction of certain modular drilling rigs. The borrowings are to be repaid from 30 June 2008 to 30 June 2013 by instalments as follows: RMB200 million on every 30 June from 2008 to 2011, RMB100 million on 30 June 2012, and RMB44 million on 30 June 2013.

(b) The Group borrowed an RMB400 million loan for the purpose of financing the construction of boats for the workover operation in Indonesia. The borrowing should be repaid from 19 November 2009 to 19 November 2017 by 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 for the purpose of funding the acquisition of a subsidiary. 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 for the purpose of financing the construction of Libya drilling rigs on April 2009. The repayment will start on 7 April 2011, with instalments amounting to RMB90 million annually.

(e) The Group borrowed US$1,680 million to replace CDE's loans and bond. The repayment will start on 14 May 2012 over eleven instalments, paid bi-annually.

(f) The Group borrowed US$800 million from Bank of China and US$600 million from Industrial and Commercial Bank of China in May 2009 to replace CDE's Syndicated bank loan. The loans will be repaid on 24 May 2017 and 21 May 2017, respectively.

(g) The Group obtained entrusted loan facilities from CNOOC Finance Co., Ltd., entrusted by CNOOC, amounting to RMB2 billion for the purpose of loan refinancing and working capital. An additional entrusted loan facility from CNOOC Finance Co., Ltd. amounting to RMB1 billion was obtained for the purpose of financing the construction of jack-up drilling rigs and working capital. The loan facilities will expire on 10 June 2011 and 29 June 2010, respectively.

(h) The loan was granted based on a subsidiary's extensive use of Norwegian suppliers in the construction of the jack-up drilling rig, COSL Power (formerly known as WilPower). In return, the loan carries a fixed interest rate of 3.2%. The loan is to be repaid in semi-annual instalments beginning six months after the loan drawdown date. Proceeds of the loan were deposited in an account with the agent bank, which serve as a security for the loan and are classified as a pledged time deposits in the statement of financial position.

	Group		Company	
	2010	**2009**	**2010**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Bank borrowings repayable:				
Within one year, inclusive	**650,721**	283,081	**612,816**	244,000
In the second year	**2,712,806**	1,460,548	**2,712,806**	1,421,467
In the third to fifth year	**9,258,165**	7,753,175	**9,258,165**	7,753,175
Beyond five years	**15,119,568**	18,937,317	**15,119,568**	18,937,317
	27,741,260	28,434,121	**27,703,355**	28,355,959

The Eksportfinans loan is secured by a pledged time deposit amounting to RMB38 million as at 31 December 2010 (31 December 2009: RMB78 million). There were no other assets pledged for any of the above bank borrowings as at 31 December 2010 (31 December 2009: nil).

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30. Long term bonds

Group

	Year of maturity	31 December 2010 RMB'000	31 December 2009 RMB'000
Corporate bonds (a)	2022	**1,500,000**	1,500,000
Senior unsecured USD bonds (b)	2011	**–**	561,979
Second security priority USD bonds (c)	2011	**573,729**	608,041
		2,073,729	2,670,020
Less: current portion of long term bonds		**(573,729)**	–
		1,500,000	2,670,020

Company

	Year of maturity	31 December 2010 RMB'000	31 December 2009 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, the bonds were fully 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 RMB5,640 million as at 31 December 2010 (2009: RMB4,674 million).

31. Deferred revenue

	Group 2010 RMB'000	2009 RMB'000
Balance at beginning of the year	**780,114**	1,858,302
Addition	**218,096**	–
Credited to the consolidated income statement during the year	**(53,492)**	(1,076,937)
Exchange realignment	**(22,195)**	(1,251)
Balance at end of the year	**922,523**	780,114

31. Deferred revenue (continued)

Deferred revenue balance as at 31 December 2009 was generated in the process of the acquisition of CDE, of which 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 rest of related contract period.

In 2010, government grants of RMB180,602,000 (2009:nil) were recognised as deferred revenue and will be recognised to the consolidated income statement according to the related assets depreciation period and related costs incurred period. Meanwhile, part of mobilisation revenue of RMB37,494,000 (2009: nil) was recognised as deferred revenue and will be credited to the consolidated income statement according to the related contracts period.

In 2010, government grants of RMB9,813,000 (2009: nil) and mobilisation revenue of RMB4,365,000 (2009: nil) were credited to other revenue and revenue respectively. Also, included in the amount credit to the revenue during the year is RMB39,314,000 (2009: RMB3,839,000) arising from the amortisation of the contract value. No revenue was arisen from the cancellation of contract in 2010 (2009: RMB1,073,098,000).

32. Other non-current liabilities

	Group	
	2010 RMB'000	2009 RMB'000
Negative interest in a jointly-controlled entity	**36,651**	36,399
Due from a jointly-controlled entity	**(48)**	(30,116)
	36,603	6,283

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.

33. Issued capital

	Group and Company	
	2010 RMB'000	2009 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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34. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current year and prior years are presented in the consolidated statement of changes in equity on page 217 of the financial statements.

(b) Company

	Note	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 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
Balance at 1 January 2010		**8,074,565**	**1,335,640**	**8,148,498**	**(3,688)**	**17,555,015**
Total comprehensive income for the year		**–**	**–**	**3,501,736**	**(14,461)**	**3,487,275**
Proposed final 2010 dividend	*12*	**–**	**–**	**(809,158)**	**–**	**(809,158)**
Transfer to statutory reserve funds	*(i)*	**–**	**351,813**	**(351,813)**	**–**	**–**
At 31 December 2010		**8,074,565**	**1,687,453**	**10,489,263**	**(18,149)**	**20,233,132**

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 2010.

As at 31 December 2010, in accordance with PRC Company Law, an amount of approximately RMB8,075 million (2009: RMB8,075 million) standing to the credit of the Company's capital reserve account and an amount of approximately RMB1,687million (2009: RMB1,336million) 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 RMB11,298 million (2009: RMB8,778 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 2010.

The retained profits of the Company determined under the relevant PRC accounting standards and financial regulations amounted to approximately RMB11,564 million as at 31 December 2010 (2009: RMB 9,027 million).

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35. 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 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within one year	120,962	139,338	113,337	131,443
In the second to fifth year, inclusive	127,276	193,099	104,103	169,207
After five years	23,850	28,470	–	–
	272,088	360,907	217,440	300,650

(b) Group as lessor

The Group has entered into a bareboat lease with a lease term of five years.

At 31 December 2010, the Group had the total future minimum lease receivables under a non-cancellable operating lease falling due as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Within one year	81,360	170,483
In the second to fifth year, inclusive	–	83,884
	81,360	254,367

36. 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Contracted, but not provided for	3,492,713	7,022,702	2,237,101	2,962,305
Authorised, but not contracted for	6,810,488	7,671,765	6,810,488	7,671,766
	10,303,201	14,694,467	9,047,589	10,634,071

Notes to Financial Statements

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37. Notes to the consolidated statement of cash flows

Reconciliation of profit before tax to cash generated from operations

	Note	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	5	4,834,237	3,759,599
Adjustments for:			
Finance costs	6	650,940	777,493
Interest income		(76,900)	(60,352)
Share of profits of jointly-controlled entities	18	(143,839)	(110,264)
Exchange (gains)/losses, net		(87,584)	92,686
Loss on disposal of items of property, plant and equipment, net	5	25,643	19,017
Depreciation of property, plant and equipment and amortisation of intangible assets	5	3,122,338	2,865,166
Impairment of available-for-sale investments	5	18,291	15,003
Impairment of accounts receivable and other receivable	5	226,576	43,428
Provision against inventories	5	629	1,070
Impairment of property, plant and equipment	5	172,401	819,889
Recognition of deferred revenue	31	(53,492)	(1,076,937)
		8,689,240	7,145,798
Decrease/(increase) in inventories		4,380	(40,748)
Decrease/(increase) in accounts receivable		95,506	(1,049,404)
(Decrease)/increase in notes payable, trade and other payables, net of payables for property, plant and equipment purchases		(154,632)	336,419
Decrease/(increase) in notes receivable		(263,533)	(74,788)
Increase in prepayments, deposits and other receivables, net of receivables for property, plant and equipment		(44,176)	(3,402)
Increase/(decrease) in salary and bonus payables		271,469	(12,751)
Cash generated from operations		8,598,254	6,301,124

38. Contingency

(a) In 2009 and 2010, certain subsidiaries of the Group received notifications from the local tax authorities requesting information on the valuation basis and the fair value used by the respective companies for the transfer of certain jack-up rigs' contracts and options and semi-submersible drilling rigs' contracts, respectively, to certain entities within the Group, and indicating their intent to consider additional assessment. If the valuation basis and the fair value indicated by the tax authorities are adopted, the tax liability relating to the transfers could increase substantially for those companies. The respective subsidiaries have submitted the response letter to the local tax authorities regarding the above notifications as at 30 June 2010 and 19 January 2011, respectively, and no further requests have been received from the local tax authorities as at the report date. After giving due consideration to the circumstances, 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 contingencies in these financial statements.

(b) In 2010, the Company received an inspection notice from Tianjin Xin Gang Customs of the People's Republic of China ("Tianjin Customs") to inspect the Company's customs duties related to the imports and exports for the past three years. As at the report date, no conclusion has been received from Tianjin Customs. 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 contingency in these financial statements.

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39. Related party transactions

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

The Group has extensive transactions and relationships with the members of CNOOC. The transactions were made on terms agreed among the parties.

In addition to the 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:

		Group	
		2010 RMB'000	2009 RMB'000
i	CNOOC Limited Group		
	Provision of drilling services	4,682,766	4,913,421
	Provision of well services	3,242,708	3,432,383
	Provision of marine support and transportation services	1,787,156	1,547,896
	Provision of geophysical services	1,209,451	1,013,549
		10,922,081	10,907,249
ii	CNOOC Group		
	Provision of drilling services	150,957	302,997
	Provision of well services	96,516	136,294
	Provision of marine support and transportation services	186,132	219,166
	Provision of geophysical services	151,080	158,835
		584,685	817,292
iii	Jointly-controlled entities		
	Provision of drilling services	6,429	172,529
	Provision of well services	9,954	5,563
	Provision of marine support and transportation services	–	7,031
	Provision of geophysical services	3,516	657
		19,899	185,780

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39. Related party transactions (continued)

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

b. Included in operating expenses

	Group 2010 RMB'000	2009 RMB'000
Services provided by CNOOC Group and the Group's jointly-controlled entities:		
Labour services	**30,487**	24,287
Materials, utilities and other ancillary services	**522,375**	400,361
Transportation services	**1,310**	4,250
Leasing of offices, warehouses and berths	**39,932**	81,915
Repair and maintenance services	**8,982**	3,985
Management services	**66,605**	24,946
	669,691	539,744

c. Included in interest income/expenses CNOOC Finance Co., Ltd. (a subsidiary of CNOOC)

	Group 2010 RMB'000	2009 RMB'000
Interest income	**3,196**	4,247
Interest expenses	**60,157**	22,812

d. Loans drawn down during the year:

	Group 2010 RMB'000	2009 RMB'000
CNOOC Finance Co., Ltd.	**500,000**	1,300,000

e. Construction progress billing:

	Group 2010 RMB'000	2009 RMB'000
Drilling rigs construction service provided by CNOOC Group	**976,745**	1,262,965

Notes to Financial Statements

31 December 2010

39. Related party transactions (continued)

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

f. Deposits:

	Group 31 December 2010 RMB'000	31 December 2009 RMB'000
Deposits placed with CNOOC Finance Co., Ltd. as at the end of the reporting period	**1,259,245**	541,962

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.

	Group 31 December 2010 RMB'000	31 December 2009 RMB'000
Due from the ultimate holding company	**26**	257,469
Due from CNOOC Limited Group	**1,751,148**	1,874,789
Due from other CNOOC Group companies	**205,630**	135,189
Due from jointly-controlled entities	**34,475**	86,095
	1,991,279	2,353,542

h. Prepayments, deposits and other receivables

	Group 31 December 2010 RMB'000	31 December 2009 RMB'000
Due from the ultimate holding company	**1,315**	1,984
Due from CNOOC Limited Group	**29,885**	845
Due from other CNOOC Group companies	**7,810**	298,470
Due from jointly-controlled entities	**30,208**	23,754
	69,218	325,053

i. Notes receivable

	Group 31 December 2010 RMB'000	31 December 2009 RMB'000
Due from CNOOC Limited Group	**691,574**	427,108

Notes to Financial Statements

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39. Related party transactions (continued)

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

j. Trade and other payables

	Group 31 December 2010 RMB'000	31 December 2009 RMB'000
Due to the ultimate holding company	**3,248**	3,248
Due to CNOOC Limited Group	**907**	1,594
Due to other CNOOC Group companies	**662,523**	157,282
Due to jointly-controlled entities	**42,273**	64,380
	708,951	226,504

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 2010 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 RMB14.8million (2009: RMB21 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.

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

k. Transactions with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively the "State-owned Enterprises"). During the year ended 31 December 2010, the Group had transactions with the State-owned Enterprises including, but not limited to, the rendering of services and purchases of raw materials. The directors consider that transactions with such other State-owned Enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and such other State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

l. 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 RMB 1,712,787,000 (2009: RMB2,325,095,000) and RMB71,367,000 (2009: RMB79,284,000), respectively, are unsecured, interest free and are repayable on demand or within one year.

39. Related party transactions (continued)

(B) Compensation of key management personnel of the Group:

	31 December 2010 RMB'000	31 December 2009 RMB'000
Short-term employee benefits	4,564	5,404
Post-employment benefits	375	381
Share appreciation rights	1,108	(553)
Total compensation paid to key management personnel	6,047	5,232

Further details of directors' emoluments are included in note 7 to the financial statements.

Except for item a(iii), the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

40. 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					
	31 December 2010			31 December 2009		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets						
Available-for-sale investments *(note 19)*	–	100	100	–	19,381	19,381
Accounts receivable *(note 22)*	3,460,752	–	3,460,752	3,745,547	–	3,745,547
Notes receivable *(note 23)*	693,191	–	693,191	429,658	–	429,658
Financial assets included in deposits and receivables *(note 21)*	320,161	–	320,161	227,267	–	227,267
Pledged deposits *(note 25)*	87,533	–	87,533	286,392	–	286,392
Time deposit with original maturity over three months *(note 25)*	400,000	–	400,000	800,000	–	800,000
Cash and cash equivalents *(note 25)*	5,847,164	–	5,847,164	3,214,603	–	3,214,603
Due from jointly-controlled entities *(note 18)*	5,761	–	5,761	186,692	–	186,692
Total	10,814,562	100	10,814,662	8,890,159	19,381	8,909,540

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31 December 2010

40. Financial instruments (continued)

(a) Financial instruments by category (continued)

	Group 31 December 2010 Financial liabilities at amortised cost RMB'000	31 December 2009 Financial liabilities at amortised cost RMB'000
Financial liabilities		
Trade and other payables (note 26)	4,435,823	4,223,972
Long term bonds (note 30)	2,073,729	2,670,020
Interest-bearing bank borrowings (note 29)	27,741,260	28,434,121
Due to jointly-controlled entities (note 18 and note 24)	18,501	32,463
Total	34,269,313	35,360,576

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					
	31 December 2010			31 December 2009		
	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Financial assets						
Due from jointly-controlled entities (note 18)	–	5,761	5,761	–	9,398	9,398
Accounts receivable (note 22)	–	3,633,313	3,633,313	–	4,197,063	4,197,063
Notes receivable (note 23)	–	693,191	693,191	–	429,658	429,658
Financial assets included in deposits and other receivables (note 21)	–	588,792	588,792	–	980,470	980,470
Pledged time deposits (note 25)	–	4,755	4,755	–	4,902	4,902
Available-for-sale investments (note 19)	100	–	100	100	–	100
Time deposit with original maturity over three months (note 25)	–	400,000	400,000	–	800,000	800,000
Cash and cash equivalents (note 25)	–	4,399,216	4,399,216	–	1,750,111	1,750,111
Total	100	9,725,028	9,725,128	100	8,171,602	8,171,702

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40. Financial instruments (continued)

(a) Financial instruments by category (continued)

	Company	
	31 December 2010 Financial liabilities at amortised cost RMB'000	31 December 2009 Financial liabilities at amortised cost RMB'000
Financial liabilities		
Due to jointly-controlled entities (note 18)	110	–
Trade and other payables (note 26)	3,056,886	3,117,485
Long term bonds (note 30)	1,500,000	1,500,000
Interest-bearing bank borrowings (note 29)	27,703,355	28,355,959
Total	32,260,351	32,973,444

Group

	Carrying amounts		Fair values	
	31 December 2010 RMB'000	31 December 2009 RMB'000	31 December 2010 RMB'000	31 December 2009 RMB'000
Financial assets				
Available-for-sale investments (note 19)	100	19,381	100	19,381
Accounts receivable (note 22)	3,460,752	3,745,547	3,460,752	3,745,547
Notes receivable (note 23)	693,191	429,658	693,191	429,658
Financial assets included in deposits and receivables (note 21)	320,161	227,267	320,161	227,267
Pledged deposits (note 25)	87,533	286,392	87,533	286,392
Time deposit with original maturity over three months (note 25)	400,000	800,000	400,000	800,000
Cash and cash equivalents (note 25)	5,847,164	3,214,603	5,847,164	3,214,603
Due from jointly-controlled entities (note 18)	5,761	186,692	5,761	186,692
Total	10,814,662	8,909,540	10,814,662	8,909,540
Financial liabilities				
Trade and other payables (note 26)	4,435,823	4,223,972	4,435,823	4,223,972
Long term bonds-current portion (note 30)	573,729	–	573,729	–
Long term bonds (note 30)	1,500,000	2,670,020	1,411,482	2,665,060
Interest-bearing bank and other borrowings-current portion (note 29)	650,721	283,081	650,721	283,081
Interest-bearing bank and other borrowings (note 29)	27,090,539	28,151,040	27,090,539	28,056,182
Due to jointly-controlled entities (note 18 and note 24)	18,501	32,463	18,501	32,463
Total	34,269,313	35,360,576	34,180,795	35,260,758

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31 December 2010

40. Financial instruments (continued)

(a) Financial instruments by category (continued)

Company

	Carrying amounts		Fair values	
	31 December 2010 RMB'000	31 December 2009 RMB'000	31 December 2010 RMB'000	31 December 2009 RMB'000
Financial assets				
Due from jointly-controlled entities *(note 18)*	5,761	9,398	5,761	9,398
Accounts receivable *(note 22)*	3,633,313	4,197,063	3,633,313	4,197,063
Notes receivable *(note 23)*	693,191	429,658	693,191	429,658
Financial assets included in deposits and receivables *(note 21)*	588,792	980,470	588,792	980,470
Pledged time deposits *(note 25)*	4,755	4,902	4,755	4,902
Available-for-sale investments *(note 19)*	100	100	100	100
Time deposit with original maturity over three months *(note 25)*	400,000	800,000	400,000	800,000
Cash and cash equivalents *(note 25)*	4,399,216	1,750,111	4,399,216	1,750,111
Total	9,725,128	8,171,702	9,725,128	8,171,702
Financial liabilities				
Due to jointly-controlled entities *(note 18)*	110	–	110	–
Trade and other payables *(note 26)*	3,056,886	3,117,485	3,056,886	3,117,485
Long term bonds *(note 30)*	1,500,000	1,500,000	1,411,482	1,500,000
Interest-bearing bank and other borrowings-current portion *(note 29)*	612,816	244,000	612,816	244,000
Interest-bearing bank borrowings *(note 29)*	27,090,539	28,111,959	27,090,539	28,111,959
Total	32,260,351	32,973,444	32,171,833	32,973,444

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged deposits, time deposit with original maturity over three months, accounts receivable, notes receivable, trade and other payables, current portion of interest-bearing bank borrowings and long term bonds, financial assets included in deposits and other receivables, and amounts due from/to jointly-controlled entities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of the interest-bearing bank borrowings with floating interest rate approximated to the carrying amount as at 31 December 2010.

The fair values of listed equity investments and long term bonds are based on quoted market prices.

40. Financial instruments (continued)

(b) Fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Fair value measured based on quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Fair value measured based on valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2010 and 2009, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2010 and 2009:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
2010				
Available-for-sale investments:				
Equity investments	–	–	–	–

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
2009				
Available-for-sale investments:				
Equity investments	19,281	–	–	19,281

As at 31 December 2010 and 2009, the Company has no other financial instruments measured at fair value.

During the year of 2010 and 2009, the Group and the Company had no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

41. 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 functional currency of the Company and some subsidiaries. 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.

Notes to Financial Statements

31 December 2010

41. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

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 2010 and 2009. Based on the management's assessment at 31 December 2010, if the Renminbi had weakened five percent against the US dollar with all other variables held constant, net profit for the year would have been RMB987 million (2009: RMB1,062 million) lower. Conversely, if the Renminbi had strengthened five percent against the US dollar with all other variables held constant, net profit would have been RMB987 million (2009: RMB1,062 million) higher. The foreign currency exchange rate sensitivity in net profit in 2010 compared with 2009 is attributable to a decrease 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 2010, most of the Group's interest-bearing bank borrowings bore interest at floating rates.

Based on management's assessment, at 31 December 2010, if interest rates at that date had been 50 basis points lower with all other variables held constant, net profit for the year would have been RMB 118million (2009: RMB60 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, net profit for the year would have been RMB 118million (2009: RMB60 million) lower arising mainly as a result of higher interest expense on floating rate bank borrowings.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents and available-for-sale investments, arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group manages this credit risk by only dealing with reputable financial institutions.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector.

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

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. 4% of the Group's debts would mature in less than one year as at 31 December 2010 (2009: 3%) based on the carrying value of interest-bearing bank and other borrowings reflected in the financial statements.

Notes to Financial Statements

31 December 2010

41. 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, is as follows:

Group

	2010					
	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	–	1,154,508	3,143,137	10,244,730	15,341,241	29,883,616
Long term bonds	–	659,547	67,200	201,600	1,970,400	2,898,747
Trade and other payables	–	4,435,823	–	–	–	4,435,823
	–	6,249,878	3,210,337	10,446,330	17,311,641	37,218,186

	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

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

Company

	2010					
	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	–	1,116,603	3,143,137	10,244,730	15,341,241	29,845,711
Long term bonds	–	67,200	67,200	201,600	1,970,400	2,306,400
Trade and other payables	–	3,056,886	–	–	–	3,056,886
	–	4,240,689	3,210,337	10,446,330	17,311,641	35,208,997

Notes to Financial Statements

31 December 2010

41. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Company (continued)

	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	–	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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise 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 2010 and 31 December 2009.

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 are as follows:

Group

	2010 RMB'000	2009 RMB'000
Interest-bearing bank borrowings (note 29)	27,741,260	28,434,121
Trade and other payables (note 26)	4,435,823	4,223,972
Long term bonds (note 30)	2,073,729	2,670,020
Less: Cash and cash equivalents and time deposit with original maturity over three months (note 25)	(6,247,164)	(4,014,603)
Net debt	28,003,648	31,313,510
Equity attributable to equity holders of the parent	25,589,577	22,305,605
Non-controlling interests	348	–
Total capital	25,589,925	22,305,605
Capital and net debt	53,593,573	53,619,115
Gearing ratio	52%	58%

Notes to Financial Statements

31 December 2010

42. Events subsequent to the report period

The Group has been providing drilling services to onshore oilfields in Libya since 2008. From February 2011, because of social unrest, the social and economic conditions in Libya have become unstable, which have had an impact on the Group's operations in the country. In the opinion of the directors, given the current uncertainty of the situation, it is too early to reasonably assess the financial impact to the Group as at the date of approval of the financial statements. As at 31 December 2010, the assets deployed and the scale of operations in Libya are not considered to be material to the Group.

43. 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 year's presentation and accounting treatment.

44. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2011.

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
Mr. Li Yong

First registration Address
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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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A Share:
China Securities Depository and
Clearing Corporation Limited
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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
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The financial statements and the report of auditors set out on pages 105 to 212 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

Liu Jian
Chairman
22 March 2011

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 form, by utilizing two sound sources and two or more collection points; typically 3D is used to acquire refined seismic data and to raise the probability of successful exploration well drilling
AWO	Awilco Offshore ASA, known as COSL Drilling Europe AS after mergers and acquisitions, "CDE"
COSL	China Oilfield Services Limited
CDE	COSL Drilling Europe AS
CDPL	COSL Drilling Pan-Pacific Ltd
DNV	Det Norske Veritas
ELIS	Enhanced Logging Imaging System
LWD	Logging-while-drilling
MWD	Measuring-while-drilling
PD	Premium Drilling AS
Crude oil	Crude oil, including condensate and natural gas liquids
Day rate	Fixed daily fee charged with respect to the services provided by a drilling rig or offshore support vessel
Directional drilling	Intentional drilling of a well at a non-vertical or deviated angle, in order to improve reach or exposure to petroleum reservoirs; such drilling is especially common for offshore wells, given the multiple number of wells which may be drilled from a single production platform
E&P	Exploration and production
ERSC	ELIS Rotary Sidewall Coring Tool
FCT	Formation Characteristic Tool
FET	Formation Evaluation Tool
Field	A specified area within a block, which is designated under a PSC for development and production
HTHP	High-temperature and high-pressure downwell conditions, which typically includes temperatures greater than 200 degrees Celsius and 10,000psi; HTHP conditions make drilling more difficult
Jack-up rigs	Jack-up rigs are so named because they are self-elevating—with three or four movable legs that can be extended ("jacked") above or below the drilling deck, or hull. Jack-ups are towed to the drill site with the hull, which is actually a water-tight barge that floats on the water's surface, lowered to the water level, and the legs extended above the hull. When the rig reaches the drill site, the crew jacks the legs downward through the water and into the sea floor (or onto the sea floor with mat supported jack-ups). This anchors the rig and holds the drilling deck well above the waves.
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.
LWD	Logging-while-drilling; advanced logging tools which are attached near the drill bit string and measure the location of the drill bit and nature of adjacent geological structures, typically during the directional drilling process
MWD	Measuring-while-drilling; advanced tools which measure the pitch and orientation of the drill bit and other factors such as weight on the bit and rotary speed of the bit, typically during the directional drilling process
OPEC	Organization of the Petroleum Exporting Countries
PSC	A production sharing contract offshore China
PSC partners	Foreign parties to PSCs
QHSE	Quality, health, safety environment
Seismic data	Data recorded in either two-dimensional (2D) or three-dimensional (3D)form from sound wave reflections off of subsurface geology. This data is used to understand and map geological structures for exploratory purposes to predict the location of undiscovered reserves
SMS	Safety management system
ISMC	International Safety Management Code
DOC	Document of Compliance
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

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