CHINA OILFIELD SERVICES LIMITED

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

ANNUAL REPORT 2011

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 and surveying 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 2011, COSL operated and managed 33 drilling rigs (of which 27 are jack-up drilling rigs and 6 are semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 8 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, 5 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 2011, COSL's DOC (Document of Compliance) was approved by the Maritime Safety Administration of the People's Republic of China for renewal 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's top class oilfield services companies.

2. FINANCIAL HIGHLIGHTS

1. Revenue was RMB18,426.1 million
2. Profit from operations was RMB4,982.8 million
3. Profit of the year was RMB4,039.5 million
4. Earnings per share were RMB89.86 cents
5. Total assets were RMB64,851.1 million
6. Shareholders' interest was RMB28,459.2 million

CONTENT

3. CHAIRMAN'S STATEMENT

Liu Jian *Chairman*

Dear shareholders and friends,

In 2011, given the intricacies of the external environment, China Oilfield Services Limited (hereinafter referred to as "COSL" or "the Company") actively adapted to new changes arising from the market of the oilfield services industry with incessant efforts to consolidate the domestic market while expanding overseas market. The utilization rate of our large equipment remained high and the Company was able to maintain safe operations. We strived to optimize the management, in particular, to improve our internal control and risk management; we continued to upgrade the capabilities of our equipment and established the initial capability in deep-water operation, which lays a solid foundation for the Company's sustainable development in the future.

Business performances

Benefitting from the operation of new equipment and the growth in geophysical business, the Company realized revenue of RMB18,426.1 million in 2011, representing an increase of 4.9% over last year. The Company's profit of the year amounted to RMB4,039.5 million, decreasing by 2.1% over last year, mainly attributable to the suspension of the operation in Libya and a significant reduction in our well services operation owing to the oil spillage incident in Penglai 19-3 oilfield. Basic earnings per share amounted to RMB90 cents. The Company recommended to distribute RMB0.18 per share as the final dividend for 2011, which will be submitted for the approval at the Annual General Meeting to be held in May 2012.

Board of directors and corporate governance

The Board of directors is the main frame of our corporate governance structure, the effective functioning of which is closely related to the entire company. Over the past year, in the face of a complex environment, we have communicated openly and exchanged insightful opinions; we assessed the situation seriously and carefully with our think tank to devise the reform and development of the Company and to actively promote the implementation of each significant measure. In 2011, the Board mainly focused on the our risk management and internal control, and discussed and analyzed the business exposure of the Company, particularly risk factors in respect of safety and environmental protection and overseas operations in several regular meetings during the year, and proposed the corresponding solutions. Built on experience gained in the past, the Company's internal control system was further improved according to the relevant governmental requirements on enterprise internal control and by addressing new issues in the Company's production and operation discovered by the Board and the management.

Capitalizing on our outstanding performance in the five areas including capital return, strategic management standard, the Board governance, social responsibility and market value management, the Board of the Company was honored with the titles of "2011 Top 10 Best Boards among State-owned Listed Companies of China" and "2011 Top 50 Best Boards among Main Board Listed Companies of China" in the "Award Winners of 2011 Best Board of Directors among Listed Companies of China" organized by Moneyweek.

To actively fulfill social responsibilities

During the year, the Company continued to upgrade the QHSE management system, strengthened risk management, reinforced supervision and inspection, and promoted the use of job safety analysis tools to emphasize safety from the system level. The Company's operation safety remains stable with no occurrence of any environmental pollution accidents, and all indicators are satisfactory.

The Company continues to increase its efforts in energy conservation and emission reduction. Energy consumption per RMB10,000 in production, energy consumption per RMB10,000 in added value and water consumption per RMB10,000 in added value decreased to certain extent compared with last year, all of which exceeded the standards set by relevant government authorities. The philosophy of low carbon emission, environmental protection and harmonious development has become part of our corporate culture.

The Company deployed a total of 25 vessels in 2011 to participate in 16 marine rescues and saved 10 vessels in distress as well as 28 people's lives, receiving several commendations from relevant government authorities.

The Board's major concerns in 2012

2012 is a critical year for our deep-water operation. The Company will face the challenge of shifting from conventional drilling to comprehensive deep-water drilling. As our deep-water equipment commences operation, the Company will fully engross in the operation and management of deep-water exploration and development. The Board will monitor the progress of the Company's efficiency in deep-water operation together with safety and risk management. In addition, the Board will also keep track of the development of unconventional oil and gas business (such as coal bed methane and shale gas) to expedite the respective development. Furthermore, as the internationalization of the Company continues, we should attach greater importance to production safety, environmental protection, safety of overseas staff as well as the Company's asset preservation.

The Company understand the importance of technical innovation in oilfield services. While consolidating and strengthening its existing large equipment's management and operation, the Company will constantly nurture innovation in technology to achieve breakthrough and enhance value for clients, so as to attain sustained and efficient development.

Finally, I would like to express my gratitude to our shareholders and friends for their support, all members of the Board of Directors and Supervisors for their invaluable contributions, and I am especially thankful for the relentless dedication of our management and staff to the development of the Company. I strongly believe that the Company will be able to excel and create new history under our joint efforts.

Liu Jian
Chairman

20 March 2012

Drilling Operation

4. CHIEF EXECUTIVE OFFICER'S REPORT

Li Yong *Chief Executive Officer and President*

Dear shareholders,

In this year's Chief Executive Officer's Report, I would like to both illustrate the operation of the Company for 2011, and discuss the business environment of the Company in 2012.

2011 was a challenging year. There were uncertainties in the world economy: the political turmoil in the Middle East and North Africa, the slow growth in the developed economies and the slow down in the growth of emerging economies. The newly-built large equipment has continually been delivered, which has given rise to fierce competition in the oilfield services industry. The reorganization of the workload of the Company's major customers in offshore China affected certain of its operating volume; the oil spill incident at the Penglai 19-3 oilfield in Bohai Bay resulted in decline in operating volume; turbulence in Libya led to temporary closure of our operations there; and the upgrading and modification of the operating equipment in the Gulf of Mexico also lowered the Company's local operating volume. Facing such challenges, the Company took several responsive measures and, while exploring new opportunities to exploit new markets and avoid slide of results, which eventually produced stable major operational indications and basically met the expectation set by the Board to the Company's annual operation results.

In 2011, the Company's management continued to improve, and safe production was maintained; new equipment continually commenced operation; and the Company's technological research and development ("R&D") continued to make significant progress. With enhanced cost control capacity, the overall strength of the Company was further strengthened and the competitive strength in the market was further elevated.

I am proud of all these achievements, especially proud of the continued improvements we made in our ability to cope with such complex environment. I believe, with the enhancement in the Company's comprehensive capacity, the Company will be able to bring higher return to our shareholders. In the followings, I will report our operation during 2011 on behalf of the management, and will explain the development of the businesses of the Company:

Steady growth in the revenue of the Company

In 2011, while exposed to unfavourable situations, by consolidating domestic market and proactively developing international markets, the Company achieved steady growth and recorded a historical high of revenue of RMB18,426.1 million for the year based on HKFRS, representing an increase of 4.9% as compared with last year. The drilling services segment fully exerted its new capacity and, while coping with unfavourable situations, achieved revenue of RMB9,514.6 million, representing an increase of 2.0% as compared with last year; due to a decrease in domestic business, the revenue for the well services segment was RMB3,950.4 million, representing a decrease of 8.7% as compared with last year; the marine support and transportation services segment effectively integrated external resources by securing usage of self-owned vessels and achieved a revenue of RMB2,533.8 million, representing an increase of 8.0% as compared with last year; the geophysical and surveying services segment benefited from its new capacity which matched the domestic robust demand, and achieved a revenue of RMB2,427.3 million, representing an increase of 55.5% as compared with last year. Due to the under-utilization of certain capacity, the rise in subcontracting expenses, the increase in material price and employee compensation costs, the profit from operations was RMB4,982.8 million, which slightly slid.

Remarkable achievements in domestic and international markets

The Company's market exploitation work in 2011 was remarkable. In terms of international markets, the Company seized the opportunity of increasing demand for high-end jack-up drilling rigs in the market and gradually obtained a number of international drilling service rig contracts, by which the Company secured income growth for the second half of 2011, effectively eased the pressure of the drop in operation volume in offshore China and also laid a sound foundation for the Company's future growth in international business. Expanding its business in the Southern Asian and Mexican markets, the amount of the Company's newly-signed contracts for Indonesian market amounted to a new record of nearly US$300.0 million; driven by the quality services of its four module rigs, the Company's jack-up drilling rig, COSLConfidence, has entered into the market in Mexico for operations; COSLPioneer successfully commenced its operation in Norway and established the position of rig contractor to COSL Drilling Europe AS ("CDE"); in addition, the Company entered into new international markets of Iraq and Cambodia. In 2011, the Company realized record high revenue of RMB5.174 billion from international markets, which accounted for 28.1% of our total revenue, representing an increase of 20.0% as compared with last year. In the international business development in the past few years, the Company has established a favourable brand image by its quality services and continued efforts. With the enhancing capacity of oilfield services, the Company's competitiveness in the market has gradually strengthened and its customers became more diversified, which all fueled the rapid growth in its international business.

For the domestic market, the Company maintained its leading position by retaining a high utilization rate for large equipment and secured basic income. The most prominent spot in 2011 was that the Company satisfied the significant increase in demand for offshore China geophysical and surveying services and maintained 100% market share. Meanwhile, the Company has substantially commenced its entry into unconventional energy and actively explored the coalbed gas market. Following the projects of Sino Gas & Energy to provide them with relevant technology and services, the Company obtained service contracts from China CBM, Far East Energy and Asia Pacific Oil Company.

New equipment coming on stream and the operating capabilities continued to be enhanced

In 2011, a batch of large equipment commenced operation and contributed greatly to the Company's revenue. The semi-submersible drilling rig COSLPioneer commended operation in August, together with 200-feet jack-up drilling rigs, HYSY923 and HYSY924 joined in in the second half of the year, brought an increase to the operating days by 422; a 12-streamer geophysical vessel, HYSY720, commenced operation in May, which increased the total number of geographical streamers to 38 and operating capacity by 46%.

Large equipment newly established also included, among others, a semi-submersible drilling rig, COSLInnovator, a deep-water survey vessel, HYSY708, a deep water AHTS vessel, HYSY683, and a subsea cable team. A semi-submersible drilling rig, COSLPromoter, and a deep-water AHTS vessel, HYSY681, will also be delivered in 2012. The above large equipment will raise the Company's operation capacity in 2012. On top of that, the deep-water semi-submersible drilling rig, HYSY981, managed by the Company, will commence operation in the first quarter of 2012.

In addition, the Company initiated the construction of a drilling rig, COSLProspector, in the year, which is a high-end semi-submersible drilling rig and can drill up to 5,000-feet deep. This drilling rig is expected to be delivered by the end of 2014.

QHSE management continued to be improved and safety and environmental protection performances were excellent

In 2011, having been guided by the principle of "Safety first, prevention first; people-oriented and life caring; cherish nature, protect environment", the Company continued to strengthen the establishment and implementation of systems and focus on risk control and management; the Company continued to strengthen safety trainings, and improved the staff's safety awareness and skills, thus created a good atmosphere of safety culture. The safety situation was stable throughout the year with the OSHA index of 0.185.

The Company continued to emphasis environmental protection and establish itself as a "resource saving" and "environmental friendly" enterprise. It 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.

In February 2011, Libya has been in turmoil. The Company implemented the contingency measures and organised the evacuation of 77 staff in seven days with no injury or death. Based on such experience, the Company reviewed its contingency measures and made further improvements thereon.

For further details, please refer the section headed "Social Responsibility Report".

Technological R&D continued to press ahead and a number of projects made significant progress

During the past year, the Company further enhanced its technological innovation mechanism, improved its R&D organizational structure, with the completion of integration in five research institutes, namely, Drilling Research Institute, Geophysical Research Institute, Oilfield Technology Research Institute, Oilfield Chemistry Research Institute and Oilfield Production Research Institute to secure an organized long-term development in technology. A number of the Company's research projects made progress. Multiple hot fluid technology in the thick oil thermal recovery technology was extensively applied in Nanpu 35-2 oilfield and provided an efficient method for thick oil development in Bohai area; Cybernetic Oil-well Tracking Alignment System (COTAS) achieved certain milestones; the international high-end technology, The Enhanced Reservoir Characteristic Tester (ERCT), was successful on its South China Sea debut, and entered into a phase of full promotion; the self-developed Electron Magnetic Resonance Logs Tools

(EMRT) was successfully developed, making a breakthrough; the Multi-Functional Ultrasonic Imaging Logging instrument (MUIL) successfully completed its logging operation in Bohai oilfields for the first time. In addition, the self-developed cement slurries system for deep-water cementing succeeded in its on-site test, having the capability of deep-water cementing operation.

In 2011, the number of patent applications accepted reached 133, and 104 patents were granted during the year, including 17 invention patents. Leveraging on its excellent performance in technological R&D and industrialization, the Company was once again certified as a High-New Technical Enterprise by the Tianjin Municipal Government.

2012 Outlook

In 2012, the growth of the world economy will still remain low. IMF predicted that the annual average growth rate of the world economy in 2012 will be approximately 4.5% with a growth rate of 2.5% for developed economies and 6.5% for the emerging economies and developing countries. The China government expects that the gross domestic product will grow by 7.5%. However, the European debt crisis is unresolved, and there are still occurrences of political turbulence in regions. The external environment of the economic development in the future will become increasingly complex, unstable and uncertain.

According to the report of Barclays Capital, the expenditures in exploration and development projects by the world's oil and gas companies will amount to US$598.0 billion in 2012, representing an increase of 10% over 2011. China's offshore exploration and development will remain active, and it is expected that the capital expenditures of the Company's major customers in 2012 will reach US$9.3 – 11.0 billion, representing an increase of over 30% from 2011. The number of wells planned to be explored is 114, or 10.7% more than that in 2011.

In 2012, for domestic market, on top of the existing workload, the Company will grasp the demand for its new business to secure high utilization rate of its large equipment and maintain its leading position in the market of its segments; for international market, in addition to optimization of equipment, allocation of human resources and management system, the Company will accelerate development of its international business and actively seek profitable projects to expand its existing market; at the same time, it will proactively develop new market and new business to boost its international revenue. Deep water operation will centre around HYSY981 to enhance the Company's deep water drilling capability and services of logging and cementing to well prepare for the exploration and development of deep water in South China Sea. Furthermore, the Company will positively take part in China's unconventional energy business by increasing its deployment of equipment and technology and spread its coalbed methane service with a view to further development.

In the coming year, the Company will continue to strengthen its QHSE management, in particular the safety management in deep water operation. We will summarize and improve relevant management and safety systems; systematically study future investment direction of the Company's equipment and technology and map out the time thereof to ensure a sustainable growth; constantly improve infrastructure and supporting facilities for technological research and development to provide better physical foundation for the work; further optimise and press ahead with the Company's cost control and enhance management; we will continue to improve levels of risk management and internal control, so as to procure stable development of the Company.

Li Yong
Chief Executive Officer and President

20 March 2012

Drilling **Services**

2011 Drilling Services Revenue amounting to

RMB9,514.6 Million

Water depth can be reached up to

10,000 ft

Oil well drilling depth can be reached up to

30,000 ft

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 10,000 ft water depth and drilling depth of 30,000 ft.

5. MANAGEMENT DISCUSSION AND ANALYSIS

The financial data in the following discussion and analysis are extracted from the Group's audited financial statements prepared under Hong Kong Financial Reporting Standards ("HKFRSs").

INDUSTRY REVIEW

In 2011, the uncertainty in the world's economies and the political turmoil in the Middle East and North Africa led to instability and uncertainty in the global economy and slowdown in its recovery. However, in the industry of oil and gas, driven by economic recovery, investment in survey and development by oil companies world-wide totaled over US$500.0 billion, an increase of 12% compared with 2010. In the circumstances, demand for oilfield equipment and services rose and the companies in this industry maintained an overall optimistic trend. According to Spears, the income of global oilfield service market reached US$313.1 billion in 2011, increased by 18% compared with last year. According to ODS statistics, demand for drilling rigs increased compared with 2010, and the utilization rate of jack-up rigs reached 74.2% over 2011, increased by 1.6% compared with 2010, and that of deep-water drilling rigs reached 94.4%, increased by 0.9% compared with 2010. With expanding investment in offshore oil and gas exploration by oil and gas companies, geophysical and surveying services market expanded in 2011 and demand of geophysical equipment thereof surged.

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. The Group mainly provides services such as drilling, module rigs, land drilling rigs and drilling rigs management. At the end of 2011, the Group operated and managed a total of 33 drilling rigs (of which 27 are jack-up drilling rigs, and 6 are semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 8 land drilling rigs.

In 2011, competition was still intense in the drilling services market. COSL continued to solidify its position in the domestic drilling services market, and at the same time kept expanding its overseas markets. During the year, the Group mobilized 2 jack-up drilling rigs respectively to the Indonesian and Mexican markets and won the second contract renewal for the 4 module rigs operating at Mexico Bay, while successfully renewed a service contract with ConocoPhillips Skandinavia AS in relation to an offshore accommodation rig-COSLRigmar for a term of 12 months. 2 jack-up drilling rigs and a deep-water semi-submersible drilling rig, COSLPioneer, delivered at the end of October last year, commenced operation in the first quarter and third quarter of this year respectively. In addition, 2 jack-up drilling rigs and a deep-water semi-submersible drilling rig, COSLInnovator, were successfully delivered in May and October this year respectively, and the two jack-up drilling rigs commenced operation in the third quarter of this year. In the current year, the Group also started the construction of a deep-water semi-submersible drilling rig, COSLProspector, which can drill in water depths of up to 1,500 metres. Driven by the commencement of new operation equipment, the operating days of the Group's drilling rigs in 2011 was 9,870 days, representing an increase of 934 days compared with last year. During the years, the Group's drilling service operation achieved revenue of RMB9,514.6 million, representing an increase of 2.0% compared with RMB9,327.0 million of last year.

At the end of 2011, the Group had 13 drilling rigs operating in Bohai of China, 5 in South China Sea, 1 in East China Sea, 12 in overseas countries such as Indonesia, Australia and Norway etc.. In addition, there were 2 drilling rigs in pre-operation stage. 2 accommodation rigs were providing services to customers in the North Sea. 4 module rigs were working in Mexican waters, 5 land drilling rigs originally working in Libya suspended operation due to the civil war within that country, and 3 land drilling rigs were in preparation for overseas operation.

2011 operation details of the Group's jack-up and semi-submersible drilling rigs are as follows:

	2011	2010	Increase/ (Decrease)	Percentage change
Operating days (day)	9,870	8,936	934	10.5%
Jack-up drilling rigs	8,692	7,933	759	9.6%
Semi-submersible drilling rigs	1,178	1,003	175	17.4%
Available day utilization rate	96.5%	99.5%	down 3.0 bps	
Jack-up drilling rigs	96.0%	99.5%	down 3.5 bps	
Semi-submersible drilling rigs	100.0%	100.0%	–	
Calendar day utilization rate	93.7%	94.6%	down 0.9 bps	
Jack-up drilling rigs	93.4%	94.9%	down 1.5 bps	
Semi-submersible drilling rigs	95.5%	91.6%	up 3.9 bps	

The main reasons for the increase of 759 days in operating days of jack-up drilling rigs were as follows. Firstly, HYSY936 and HYSY937 which commenced operation last year fully operated and increased operating days by 73 days during the year. Secondly, HYSY921 and HYSY922 which were delivered at the end of last year formally began operation in March 2011 and increased operating days by 612 days. Thirdly, newly delivered HYSY923 and HYSY924 which commenced operation this year increased operating days by 297 days. In the meantime, 2 jack-up drilling rigs, COSLSeeker and COSLConfidence, operated 330 days less due to the Group operation rearrangement, but the operating days of other jack-up drilling rigs increased by 107 days due to the decrease in the number of days of repair and maintenance.

The operating days of semi-submersible drilling rigs increased by 175 days compared with last year mainly due to COSLPioneer which commenced operation this year operating 125 days, and the operating days of other semi-submersible drilling rigs increasing by 50 days due to the decrease in the number of days of repair and maintenance.

Affected by the above factors, the calendar day utilization rate of the Group's drilling rigs was 93.7 %, representing a decrease of 0.9 bps as compared with last year.

The 2 accommodation rigs continued to operate for 730 days in the North Sea in 2011, with both their available day utilization rate and calendar day utilization rate reaching 100.0%.

The 4 module rigs working in Mexican Bay were upgraded and modified during the year to provide better service to the clients, and operated for 1,064 days during the year with a calendar day utilization rate of 72.9 %. Among the 8 land drilling rigs, 2 were delivered at the end of the year and were in pre-operation preparation together with 1 original land drilling rig. 6 original land drilling rigs of the Group operated for a total of 444 days, representing a decrease of 1,683 days compared with last year. This was mainly due to the turbulence in Libya which led to the suspension of operation of 5 land drilling rigs of the Group since the end of February this year. Under this impact, the calendar day utilization rate of land drilling rigs decreased by 20.3%.

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.

Driven by the semi-submersible drilling rig, COSLPioneer, the average daily income of the drilling rigs of the Group for 2011 increased compared with last year, and the details are as follows:

Average daily income (ten thousand US$/day)	2011	2010	Increase/ (Decrease)	Percentage change
Jack-up drilling rigs	10.7	11.3	(0.6)	(5.3%)
of which: CDE	11.7	12.9	(1.2)	(9.3%)
Semi-submersible drilling rigs	26.1	19.4	6.7	34.5%
Accommodation rigs	21.5	22.1	(0.6)	(2.7%)
Group average	13.2	12.9	0.3	2.3%

Note: (1) Average daily income equals to the average day rate as set out in the Group's annual report for previous years.

(2) RMB/US$ exchange rate was 1 : 6.3009 on 31 December 2011 and 1 : 6.6227 on 31 December 2010, respectively.

(3) If effect of changes in exchange rate between US$ and RMB in 2011 be considered, the average day income of drilling rigs in 2011 decreased by 0.8% as compared with previous year.

Well Services Segment

The Group possesses over 30 years of experiences in offshore well services operation and over 20 years of experiences in onshore well services operation. Also, the Group is the main provider of China offshore well services together with the provision of onshore well services. The Group's 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 2011, the operation volume of the well services segment decreased due to market impact and the oil spill incident at the Penglai 19-3 oilfield, resulting in a revenue of RMB3,950.4 million, a decrease of RMB376.6 million or 8.7% compared with RMB4,327.0 million for last year.

Although the domestic market was exposed to huge pressure, the Group remained committed to consolidate its overseas markets. The Group successfully renewed the Papua New Guinea project and the 1-year cementing service contract for three sets of cementing equipment with Philippine Energy Development Corporation (EDC). Moreover, the Group also completed the first optimization of onshore oilfield production in East Java Island, Indonesia, which laid a foundation for the Group's expansion in the oilfield production optimization business in Indonesia. In the meantime, the Group proactively pressed ahead with the application of high-end cable logging equipment into the market, including self-developed ERCT stratum tester, EXDT cross-dipole array acoustic logger, nuclear magnetic resonance and well wall rotating corer. In addition, the Group also made progress in new energy field. Following successful exploring the logging services to coalbed methane projects of Sino Gas & Energy last year, the Group continually obtained projects from China CBM, Far East Energy and Asia Pacific Oil Company.

Focusing on enhancing the Group's science and technology research and development capabilities has always been a key part of the business of well service. The Group's self-developed well completion tools successfully passed the high-temperature and high-pressure tests. The self-developed cement slurry for deep-water cementing successfully passed the on-site deep-water test, symbolizing that the Group possessed the initial ability to carry out deep-water cementing. The Group has successfully implemented the first coiled tubing water-jet cutting operation in China, marking the first step in the new technology of coiled tubing operation. The self-developed Enhanced Reservoir Characteristic Tester (ERCT), appearing in the major national science and technology achievements exhibition of "eleventh five-year plan", was the first set of modular strata testing instrument within the country, which made China one of few countries which own this technology. In addition, the Group successfully developed COTAS rotation directional drilling system and the theoretical prototype for 3-D induction logger. Progress was also made in the research and development of the new generation of ELIS surface logging system.

Marine Support and Transportation Services Segment

The Group possesses and operates the largest and most comprehensive offshore utility transportation fleet in China. As of 31 December 2011, the Group owned an aggregate of 75 utility vessels of various types, 3 oil tankers and 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 at sea, and provide moving and positioning services 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.

As the number of vessels in the marine support and transportation services market increased, the Group's marine support and transportation services segment faced increasingly intense market competition. While guaranteeing safe operation, the Group has effectively integrated external resources and made full use of its competitive edge in management. On one hand, the Group consolidated its market share in China, maintaining a leading position in the industry in China and a high calendar day utilization rate of 94.6%. On the other hand, the Group sought opportunities to develop the deep-water field. As for new equipment, the Group purchased a high-powered utility vessel – HYSY 683 from Singapore at the end of the year. The addition of this vessel will enhance the competitiveness of the Group's marine support and transportation services.

The operation of the Group-owned utility vessels in 2011 was as follows:

Operating days (day)	2011	2010	Increase/ (Decrease)	Percentage change
Standby vessels	15,491	16,466	(975)	(5.9%)
AHTS vessels	5,682	6,225	(543)	(8.7%)
Platform supply vessels	1,764	1,733	31	1.8%
Multi-purpose vessels	1,352	1,239	113	9.1%
Workover support barges	1,361	1,106	255	23.1%
Total	25,650	26,769	(1,119)	(4.2%)

The operating days of Group self-owned vessels decreased by 1,119 days compared with last year, which was mainly due to the retirement and scrapping of 6 vessels in 2010, and there was 1 vessel scrapped this year, which resulted in the decrease of operating days by 1,136 days, while the 4 workover support barges increased operating days by 255 days. The operating days of other vessels decreased by a total of 238 days due to repair and maintenance.

Marine Support and **Transportation Services**

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

The total transportation volume of oil tankers and chemical carriers remained basically stable, of which, the transportation volume of oil tankers was 1,938 thousand tonnes, representing a decrease of 4.4% compared with 2,028 thousand tonnes of last year, and the transportation volume of chemical carriers was 1,858 thousand tonnes, representing an increase of 4.4% compared with 1,779 thousand tonnes of last year.

Through reasonable redeployment of external resources, the marine support and transportation services segment achieved a revenue of RMB2,533.8 million in 2011, increased by RMB187.8 million or 8.0% compared with RMB2,346.0 million of last year.

Geophysical and Surveying Segment

The Group is a major supplier of China offshore geophysical and surveying services. At the same time the Group also provides services in other offshore regions, including South and North America, the Middle East, Africa and Europe. The Group's geophysical and surveying services are divided into two main categories: geophysical and surveying services. At present, the Group owns 8 seismic vessels and 5 integrated marine surveying vessels.

In 2011, due to the commencement of operation of new equipment and increase in operation volume, the revenue of the geophysical and surveying services segment of the Group reached a historical high record of RMB2,427.3 million, with an increase of RMB866.3 million compared with RMB1,561.0 million of last year, representing an increase of 55.5%.

Geophysical services

In 2011, the domestic geophysical services market started to recover. Through reasonable arrangements of its resources, the Group deployed vessels such as HYSY719 and Nanhai502 to carry out seismic data collection in overseas at the beginning of the year when it was winter period and not suitable for operation in China. In the meantime, a significant breakthrough was made in the Myanmar market by obtaining a contract for 3D seismic data collection services at offshore Myanmar from PTT Public Company Limited. Driven by the good overall market condition and the successful delivery and operation commencement of China's first 12-streamer deep-water geophysical vessel, HYSY720, the Group's geophysical services operated at its full capacity.

The details of operation volume for the data collection and data processing businesses of the Group for 2011 are as follows:

Services	2011	2010	Increase/ (Decrease)	Percentage change
2D collection (km)	27,808	24,469	3,339	13.6%
2D processing (km)	22,132	14,846	7,286	49.1%
3D collection (km^2)	23,174	13,008	10,166	78.2%
of which: submarine cable (km^2)	719	405	314	77.5%
3D processing (km^2)	9,972	7,983	1,989	24.9%

Both the data collection and data processing businesses of the Group in 2011 recorded growth in varying degrees. The operation volume of 2D collection services increased by 3,339 km compared with last year, mainly because two 2D geophysical collection vessels, which underwent repair and maintenance at the beginning of last year, commenced operation at the beginning of this year and maintained full operation throughout the year, leading to an increase of 8,273 km in operation volume compared with last year. In addition, due to the business need, the Group surrendered an external vessel, which reduced the operation volume by 5,010 km. The operation volume of 3D collection services increased by 10,166 km^2 compared with last year, mainly because the 12-streamer geophysical vessel newly commenced operation, HYSY720, brought 6,840 km^2 of operation volume, and the operation volume of the Group's new submarine cable collection business added last year increased by 314 km^2 for the year. Through reasonable market operation, HYSY718 and HYSY719 seized the golden window for operations and increased their operation efficiency based on good working conditions, resulting in an increase in operation volume by 2,463 km^2. In respect of data processing services, with the recovery of the market, both 2D data processing and 3D data processing businesses recorded an increase in their respective operation volume.

Surveying Services

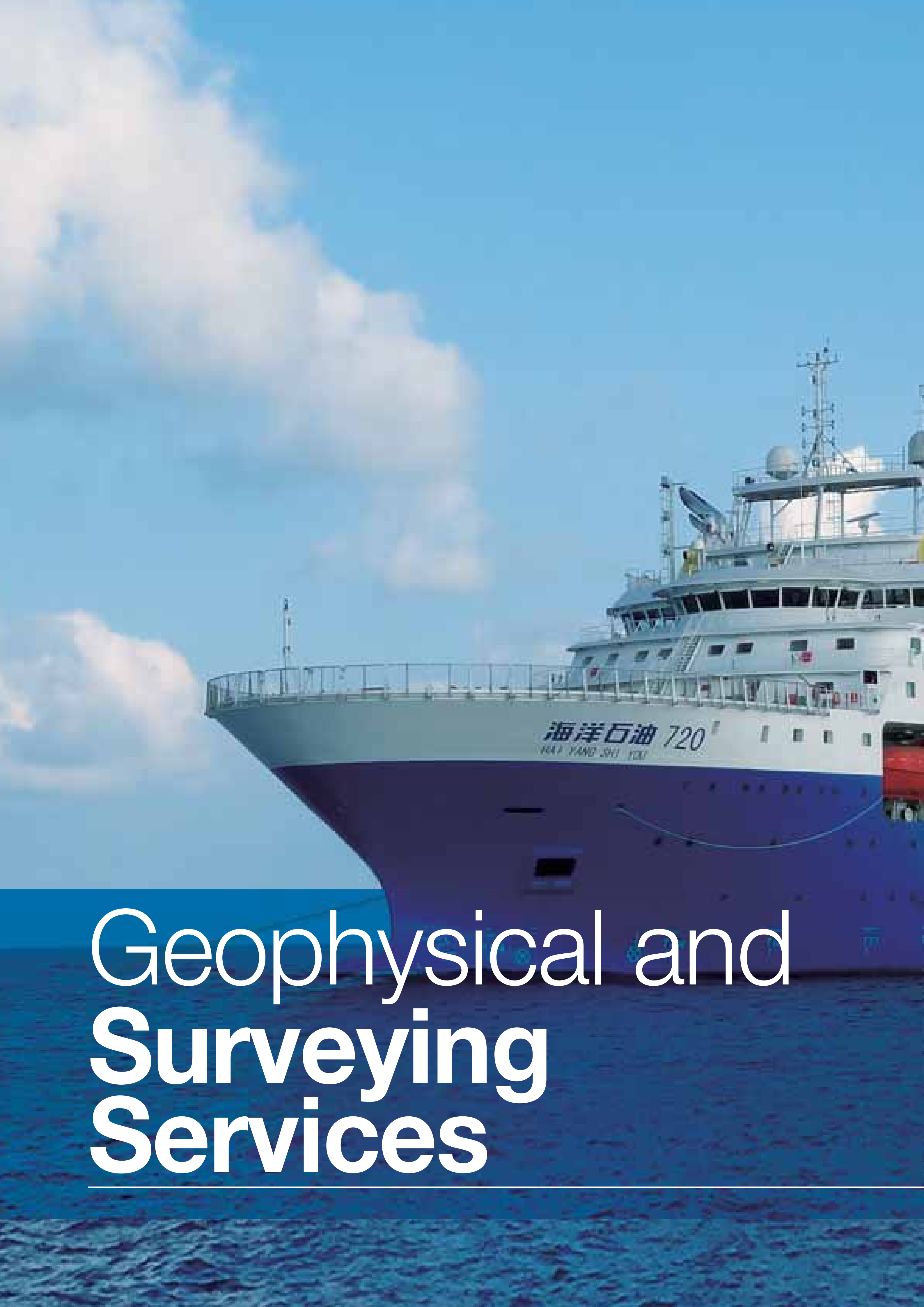
In 2011, the Group's deep-water survey vessel, HYSY708, was successfully delivered at the end of the year. The vessel is one of a series of large deep-water vessels that the Group invested and built for the exploration and development of deep-water oil and gas resources. The addition of HYSY708 marks a significant step for the Group to move towards deep-water survey, and will further enhance the Group's competitiveness in deep-water business.

In 2011, as a result of full operation, the surveying services of the Group recorded a revenue of RMB 423.6 million, representing an increase of 36.5% compared with RMB310.3 million in last year.

Overseas Business

In 2011, affected by an excess supply of large equipment, market competition for oilfield services remained intense. Facing the adverse market conditions, the Group adhered to implementing its internationalization strategy while consolidating its dominant position in offshore China, and achieved good development in markets overseas. In 2011, the Group's overseas revenue reached another historical high record of RMB5,173.5 million, accounting for 28.1% of the Group's total revenue in 2011, representing an increase of RMB861.4 million or 20.0% compared with RMB4,312.1 million of last year.

In 2011, as for the drilling services segment, the Group mobilized 2 jack-up drilling rigs respectively to the Indonesia and Mexico markets and won the second contract renewal for the 4 module rigs operating at Mexico Bay, while successfully renewed a service contract with ConocoPhillips Skandinavia AS in relation to an offshore accommodation rig, namely COSLRigmar, for a term of 12 months. A semi-submersible drilling rig, COSLPioneer, commenced operation in the North Sea in the second half of this year. The operation of this drilling rig marked a new phrase of the operation of semi-submersible drilling rig of COSL Drilling Europe AS, a wholly-owned subsidiary of the Group. A full-year contract for NH6 project in Australia achieved seamless links for the rig, ensuring its operation volume in 2012. During the year, the Group provided customer with turnkey services of drilling an exploratory well in Cambodia, which is the first overseas offshore well turnkey project of the Group. As for geophysical and surveying services segment, besides providing services to customers in Papua New Guinea and Indonesia, the Group achieved a significant breakthrough in the Myanmar market by obtaining a contract for 3D seismic data collection services at offshore Myanmar from PTT Public Company Limited. As for well services segment, the Group won the bid for services contract in Iraq, pursuant to which the Group would provide the customer with a number of professional technical services, including cementing, mud, logging, directional drilling, perforating, oilfield production optimization etc. In addition, the Group continued to execute the contract of logging project in the United Arab Emirates, and renewed the contract of hot well and cementing in Papua New Guinea.



Geophysical and **Surveying Services**

Being a major provider of geophysical and surveying services in offshore China, as well as an important participant in the global geophysical and surveying market, COSL currently own 8 seismic vessels and 5 integrated marine surveying vessels.

Significant Subsidiaries

COSL Norwegian AS ("CNA") is a significant subsidiary of the Group and is engaged in drilling services. COSL Drilling Europe AS ("CDE") is a major subsidiary of CNA. As of 31 December 2011, CNA had total assets of RMB32,334.6 million, shareholders' equity of RMB6,654.7 million; a revenue in 2011 of RMB3,352.0 million and the profit for the year of RMB299.8 million. Other basic information in relation to such subsidiary will be set out in Note 17 to the financial statement of this annual report.

FINANCIAL REVIEW

1. Analysis on Consolidated Income Statement

1.1 Revenue

In 2011, the Group's revenue for the year reached RMB18,426.1 million, representing an increase of RMB865.1 million or 4.9% compared with RMB17,561.0 million for last year. It was mainly due to operation of the new equipment, for example, 2 jack-up drilling rigs, a deep-water semi-submersible drilling rig, COSLPioneer, and a 12-streamer geophysical vessel, HYSY720, as well as the recovery in domestic geophysical and surveying services industry.

The following table presents revenue derived from each segment:

Unit: RMB million

Business segment	2011	2010	Increase/ (Decrease)	Percentage change
Drilling services	9,514.6	9,327.0	187.6	2.0%
Well services	3,950.4	4,327.0	(376.6)	(8.7%)
Marine support and transportation services	2,533.8	2,346.0	187.8	8.0%
Geophysical and surveying services	2,427.3	1,561.0	866.3	55.5%
Total	18,426.1	17,561.0	865.1	4.9%

1.2 Operating expenses

In 2011, operating expenses of the Group amounted to RMB13,556.1 million, representing an increase of RMB1,106.5 million or 8.9% compared with RMB12,449.6 million for last year.

The table below shows the breakdown of operating expenses for the Group in 2011 and 2010:

Unit: RMB million

	2011	2010	Increase/ (Decrease)	Percentage change
Depreciation of property, plant and equipment and amortisation of intangible assets	3,069.6	3,122.3	(52.7)	(1.7%)
Employee compensation costs	3,311.6	2,938.1	373.5	12.7%
Repair and maintenance costs	538.7	437.7	101.0	23.1%
Consumption of supplies, materials, fuel, services and others	3,447.9	3,277.0	170.9	5.2%
Subcontracting expenses	1,514.1	1,143.7	370.4	32.4%
Operating lease expenses	433.1	379.7	53.4	14.1%
Other operating expenses	1,009.2	936.8	72.4	7.7%
Other selling, general and administrative expenses	156.1	41.9	114.2	272.6%
Impairment of property, plant and equipment	75.8	172.4	(96.6)	(56.0%)
Total operating expenses	13,556.1	12,449.6	1,106.5	8.9%

Employee compensation costs increased by RMB373.5 million or 12.7%, which was mainly due to the rapid growth in overseas business resulting in the increase in foreign employees' salary costs, while other factors included the increase in the number of the Company's employees and the appropriate increase in their remuneration.

Repair and maintenance costs increased by RMB101.0 million or 23.1%, which was mainly due to the maintenance cost of a semi-submersible drilling rig newly put into operation in the course of its preparation and operation during the year.

Consumption of supplies, materials, fuel, services and others increased by RMB170.9 million or 5.2%, which was due to the increase in the consumption of materials as a result of the growth of operation volume of the Group's drilling services and geophysical and surveying services with the commencement of operation of the newly-built drilling rigs and geophysical vessels.

Subcontracting expenses increased by RMB370.4 million or 32.4%, which was mainly due to the increase in subcontracting volume as a result of the business expansion of the Group.

Other operating expenses increased by RMB72.4 million or 7.7%, which was mainly due to the fact that the Group reversed the over accrued compensation provisions of last year as a result of the resolved contingencies, resulting in a lower other operating expenditure for 2010. In the meantime, the provision for impairment of accounts receivable, other receivables and inventory decreased compared with last year.

Other selling, general and administrative expenses increased by RMB114.2 million or 272.6%, which was mainly due to the fact that with the settlement of litigation in 2010, the Group reversed the over accrued provision based on the final settlement, resulting in a lower selling, general and administrative expense for 2010.

Impairment of property, plant and equipment of the Group decreased by RMB96.6 million or 56.0%. This was primarily attributable to the fact that based on the market price of drilling package and vessel condition, the Group recognized an asset impairment provisions in aggregated of RMB172.4 million for the drilling package under construction and an oilfield utility vessel last year, while in this year, affected by the turbulence in Libya, the Group provided impairment provision of RMB71.2 million for Libya land drilling rigs, and impairment provision of RMB4.6 million for an oilfield utility vessel according to the vessel condition.

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

Unit: RMB million

Business segment	2011	2010	Increase/ (Decrease)	Percentage change
Drilling services	6,105.8	5,830.9	274.9	4.7%
Well services	3,541.3	3,560.4	(19.1)	(0.5%)
Marine support and transportation services	2,044.7	1,817.4	227.3	12.5%
Geophysical and surveying services	1,864.3	1,240.9	623.4	50.2%
Total	13,556.1	12,449.6	1,106.5	8.9%

1.3 Profit from operations

In 2011, the profit from operations of the Group amounted to RMB4,982.8 million, representing a decrease of RMB217.3 million or 4.2% compared with RMB5,200.1 million of last year. This was primary attributable to the increase in employee compensation costs, repair and maintenance costs, consumption of materials and subcontracting expenses in this year as a result of the operation of some new equipment and the needs of business development.

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

Unit: RMB million

Business segment	2011	2010	Increase/ (Decrease)	Percentage change
Drilling services	3,429.5	3,505.3	(75.8)	(2.2%)
Well services	448.7	813.9	(365.2)	(44.9%)
Marine support and transportation services	518.3	541.6	(23.3)	(4.3%)
Geophysical and surveying services	586.3	339.3	247.0	72.8%
Total	4,982.8	5,200.1	(217.3)	(4.2%)

1.4 Financial expenses, net

In 2011, the financial expenses of the Group was RMB345.4 million, representing a decrease of RMB164.3 million or 32.2% compared with RMB509.7 million of last year, which was mainly due to curtailment in the Group's debt size and debt optimising, which reduced the finance cost by RMB204.5 million. In addition, the interest income for the year decreased by RMB13.1 million as compared with last year, and the net exchange gains for the year decreased by RMB27.1 million as a result of fluctuations in foreign exchange rate.

1.5 Share of profits of jointly-controlled entities

In 2011, the Group's share of profits of jointly-controlled entities amounted to RMB174.3 million, representing an increase of RMB30.5 million or 21.2% compared with RMB143.8 million of last year. This was primarily attributable to the fact that a jointly-controlled entity, Eastern Marine Service Ltd., had incurred significant loss in 2010, but had returned a slight profit in 2011, which resulted in the increase of the Group's share of its net profit by RMB57.6 million compared with last year. The share of net profit of the rest jointly-controlled entities decreased by RMB27.1 million as compared with last year.

1.6 Profit before tax

The profit before tax attained by the Group was RMB4,811.6 million in 2011, representing a decrease of RMB22.6 million or 0.5% compared with RMB4,834.2 million of last year.

1.7 Income tax expense

The income tax expense in 2011 was RMB772.1 million, representing an increase of RMB65.9 million or 9.3% compared with RMB706.2 million in 2010, which is due to the increase in effective tax rate.

1.8 Profit for the year

In 2011, the profit of the Group for the year was RMB4,039.5 million, representing a decrease of RMB88.5 million or 2.1% compared with RMB4,128.0 million of last year.

1.9 Basic earnings per share

For 2011, the Group's basic earnings per share were approximately RMB89.86 cents, representing a decrease of approximately RMB1.98 cents or 2.2% compared with approximately RMB91.84 cents of last year.

1.10 Dividend

For 2011, the Board proposed a final dividend of RMB18 cents per share, totaling RMB809.2 million.

2. Analysis on Consolidated Statement of Financial Position

As of 31 December 2011, the total assets of the Group amounted to RMB64,851.1 million, representing an increase of RMB1,353.7 million or 2.1% compared with RMB63,497.4 million at the end of 2010. The total liabilities amounted to RMB36,391.9 million, representing a decrease of RMB1,515.6 million or 4.0% compared with RMB37,907.5 million at the end of 2010. The shareholders' equity amounted to RMB28,459.2 million, representing an increase of RMB2,869.3 million or 11.2% compared with RMB25,589.9 million at the end of 2010.

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

2.1 Other non-current assets

As of 31 December 2011, other non-current assets of the Group amounted to RMB53.3 million, representing an increase of RMB25.2 million or 89.7 % compared with RMB28.1 million at the beginning of the year. The increase was mainly due to the increase in the deferred mobilization cost incurred by drilling rigs.

2.2 Property, plant and equipment

As of 31 December 2011, the property, plant and equipment of the Group amounted to RMB46,285.3 million, representing a decrease of RMB85.8 million or 0.2% compared with RMB46,371.1 million at the beginning of the year. The decrease was mainly due to purchase of new equipment of RMB4,287.0 million; provision for depreciation of RMB3,017.5 million; retirement and disposal of assets decreased by RMB53.4 million; and provision for asset impairment and construction-in-progress transfered to intangible assets of RMB85.7 million in the year. In addition, property, plant and equipment held by the Group's overseas subsidiaries decreased by RMB1,216.2 million due to changes in exchange rate.

2.3 Prepayments, deposits and other receivables

As of 31 December 2011, the prepayments, deposits and other receivables of the Group amounted to RMB796.3 million, representing an increase of RMB407.5 million or 104.8% compared with RMB388.8 million at the beginning of the year. The increase was mainly due to the prepayments of progress payment of RMB397.5 million for the construction of deep-water semi-submersible drilling rig, COSLProspector.

2.4 Notes receivable

The Group's notes receivable mainly comprises of notes receivable due from CNOOC Limited. As of 31 December 2011, the notes receivable of the Group amounted to RMB1,219.4 million, representing an increase of RMB526.2 million or 75.9% compared with RMB693.2 million at the beginning of the year. The increase was mainly due to increase in revenue derived from operation for CNOOC Limited. Notes receivable amounting to RMB693.2 million at the beginning of the year has been received in cash in current year.

2.5 Accounts receivable

As of 31 December 2011, the Group's accounts receivable amounted to RMB3,980.0 million, increased by RMB519.2 million or 15.0% compared with RMB3,460.8 million at the beginning of the year, which was mainly due to expansion in the Group's revenue scale of existing clients and the increase in number of clients in domestic and overseas.

2.6 Pledged deposits

As of 31 December 2011, the pledged deposits of the Group amounted to RMB10.8 million, representing a decrease of RMB76.7 million or 87.7 % compared with RMB87.5 million at the beginning of the year. The decrease was due to the release of part of the pledged deposits which were due during the year.

2.7 Time deposits with original maturity over three months

As of 31 December 2011, time deposits with original maturity over three months of the Group amounted to RMB882.1 million, representing an increase of RMB482.1 million or 120.5% compared with RMB400.0 million at the beginning of the year. The increase was mainly due to a new time deposits with original maturity over three months amounting to US$140.0 million (equivalent to approximately RMB882.1 million), and time deposits with maturity over three months at the end of 2010 has become due and been released at the end of 2011.

2.8 Other current assets

As of 31 December 2011, other current assets of the Group amounted to RMB21.3 million, representing a decrease of RMB19.8 million or 48.2% compared with RMB41.1 million at the beginning of the year. The decrease was mainly due to the normal amortization of deferred mobilization cost as the drilling operation carried out.

2.9 Tax payable

As of 31 December 2011, the tax payable of the Group amounted to RMB61.6 million, representing a decrease of RMB62.4 million or 50.3% compared with RMB124.0 million at the beginning of the year, which was mainly due to increase in pre-paid domestic income tax for the first three quarters of the year.

2.10 Interest-bearing bank borrowings (current portion)

As of 31 December 2011, the current portion of interest-bearing bank borrowings of the Group amounted to RMB1,626.3 million, representing an increase of RMB975.6 million or 149.9% compared with RMB650.7 million at the beginning of the year. The increase was mainly due to the long-term borrowings amounting to approximately RMB1,626.3 million of the Group would due within one year, and were reclassified to this item. The borrowings amounting to RMB650.7 million at the beginning of the year were repaid during the year.

2.11 Current portion of long term bonds

As of 31 December 2011, the Group had no the current portion of long term bonds, while there was RMB573.7 million at the beginning of the year. It was mainly due to the redemption of the bond due amounting to RMB573.7 million by the Group during the year.

2.12 Interest-bearing bank borrowings

As of 31 December 2011, the interest-bearing bank borrowings of the Group amounted to RMB24,983.8 million, representing a decrease of RMB2,106.7 million or 7.8% compared with RMB27,090.5 million at the beginning of the year. The decrease was mainly due to new borrowings amounting to approximately RMB2,558.3 million, and repayment for borrowings amounting to approximately RMB2,041.0 million in advance. A long-term borrowing of RMB1,626.3 million will be due within one year and was re-classified as current portion of interest-bearing bank borrowings. Moreover, borrowings decreased by RMB997.7 million due to changes in exchange rate.

2.13 Other non-current liabilities

As of 31 December 2011, the Group had no other non-current liabilities, while there was RMB36.6 million at the beginning of the year. The balance at the beginning of the year was the share of negative interest of a joint-controlled entity, Atlantis Deepwater Orient Ltd., ("ADOL"), which was recognised as other non-current liabilities. As ADOL is going to be lignidated in the near future, the Group re-classified the share of its negative interest into other current liabilities in 2011.

2.14 Non-controlling interests

As of 31 December 2011, non-controlling interests of the Group amounted to RMB0.6 million, representing an increase of RMB0.3 million or 100.0% compared with RMB0.3 million at the beginning of the year. The increase was mainly due to the increase in the profit of PT.SAMUDAR TIMUR SANTOSA, a non-wholly owned subsidiary of the Group, which increased its equity attributable to the owners.

3. Analysis on Consolidated Statement of Cash Flows

As of 31 December 2011, the Group's cash and cash equivalents amounted to RMB5,646.2 million, representing a decrease of RMB201.0 million compared with RMB5,847.2 million at the beginning of 2011, which was mainly due to the net cash inflows from operating activities of RMB6,348.9 million, net cash outflows from investing activities of RMB4,654.0 million, net cash outflows from financing activities of RMB1,736.6 million and the negative impact of foreign exchange fluctuations of RMB159.3 million.

3.1 Cash flows from operating activities

During 2011, net cash inflows from operating activities of the Group reached to RMB6,348.9 million, of which RMB18,024.1 million was received from the sales of goods and rendering of services, while RMB6,264.1 million was paid for the purchase of goods and receipt of services, RMB3,266.5 million was paid to or for employees, and RMB1,392.8 million was used to pay for various taxes. Cash outflows related to other operating activities amounted to RMB751.8 million.

3.2 Cash flows from investing activities

During 2011, net cash outflows used in investing activities of the Group amounted to RMB4,654.0 million, of which RMB4,596.0 million was paid for the purchase of fixed assets, intangible assets and other long-term assets during the year, and RMB888.2 million was paid for obtaining other investments. In addition, cash received from investment recovery amounting to RMB482.8 million, and from investment income and interest income amounting to RMB178.1 million and RMB63.8 million, respectively. RMB19.4 million and RMB25.4 million were received from disposal of fixed assets and other long-term assets, and insurance compensation related to fixed assets, respectively. Cash received from other investing activities amounted to RMB60.7 million.

3.3 Cash flows from financing activities

During 2011, net cash outflows used in financing activities amounted to RMB1,736.6 million, of which RMB2,973.1 million was paid for repayment of bank borrowings and current portion of long term bonds, RMB805.3 million was paid for dividends, and RMB516.5 million was paid for interest, while RMB2,558.3 million was received from new bank borrowings during the year.

3.4 Cash and cash equivalents

In 2011, cash and cash equivalents decreased by RMB159.3 million due to the impact of foreign exchange fluctuations.

4. Capital expenditure

In 2011, the capital expenditure of the Group amounted to RMB4,297.3 million, representing a decrease of RMB1,179.2 million or 21.5% compared with RMB5,476.5 million of last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business Segment	2011	2010	Increase/ (Decrease)	Percentage change
Drilling services	2,605.0	3,328.1	(723.1)	(21.7%)
Well services	452.9	295.1	157.8	53.5%
Marine support and transportation services	292.5	1,016.1	(723.6)	(71.2%)
Geophysical and surveying services	946.9	837.2	109.7	13.1%
Total	4,297.3	5,476.5	(1,179.2)	(21.5%)

The capital expenditure of the drilling services segment was mainly used for the construction of 2 200-feet jack-up drilling rigs and 2 semi-submersible drilling rigs. The capital expenditure of the well services segment was mainly used for the construction and purchase of various well services equipment. The capital expenditure of the marine support and transportation services segment was mainly used for the construction of two deep-water AHTS vessels. The capital expenditure of the geophysical and surveying services segment was mainly used for the construction of one 12-streamer geophysical vessel and one deep-water surveying vessel.

5. Analysis on liquidity risk, interest rate risk and foreign exchange rate risk

Please see Note 40 to the financial statements of this annual report for related information.

6. Capital structure, capital resources and capital management policy

Please see Notes 29, 30 and 40 to the financial statements of this annual report for related information.

7. Charges on assets

As of 31 December 2011, the Group had no charges on assets.

8. Employees

As of 31 December 2011, the Group had 9,852 employees on service. Since November 2006, the Company has implemented share appreciation rights plan to 7 senior management members. The Company has basically formed a layout with marketization as its body and constructed a reasonable structure. Please see relevant parts in the sections of "Social Responsibility Report" and "Directors, Supervisors, Senior Management & Employees" of this annual report for more information on employees and human resources.

9. Contingent liabilities

Please see Note 37 to the financial statements of this annual report for related information.

6. CORPORATE GOVERNANCE

1. Corporate Governance Report 2011

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 regulations during the reporting period.

The Board is of the view that the corporate governance of the Company was further improved during 2011, which was reflected in several aspects as below:

1. We further improved our system of information disclosure and the management system for insider information. The previous edition of System for Information Disclosure and Management was developed shortly after the issuance of H shares of the Company in 2002, and mainly based on the then securities regulatory requirements of the Hong Kong capital market. In light of the new regulatory environment (domestic and foreign securities regulations) that the Company was facing following the issuance of A shares in 2008 and the new issues that the Company encountered in information disclosure over the years, including the management of the information disclosure for overseas subsidiaries and of the insider information, the previous systems should be amended for better management and guidance of the information disclosure of the Company. In April 2011, the Board reviewed and approved a new edition of Management System for Information Disclosure of the Company, which provides relatively clearly the content, duties, work interfaces and approval procedures for disclosure of information of the Company. One of the spotlights is the incorporation of the management of insider information and persons who have knowledge of insider information, and there is a chapter specifically relating to this in the system. In addition, according to the requirements of the Board, the Company expanded the scope of persons who have knowledge of insider information within the Company and further defined specific positions, and included the filing of persons who have knowledge of insider information in the daily work of the Company.

2. We strengthened the guidance of the internal control work of the Company. In the year of 2011, the Board was debriefed about opinions of different departments and external auditors regarding the implementation condition of Basic Standards for Enterprise Internal Control jointly issued by five ministries and commissions including the Ministry of Finance, and raised requests for the system building and the rectification of the deficiencies found out in the review of the internal control of the Company.

3. We strengthened the Board's supervision on risk management. In view of the increasingly complex business environment, in particular the Company has grown from an offshore oilfield services company in China to one with internationalized operations, the Board recognized that a sound risk management system is vital for the sustainable and healthy growth of the Company. As such, the Board included in the agenda of the first regular meeting during the year hearing and discussing the full annual risk management report, and raised to the management relevant control requirements or suggestions on the basis of systematic understanding of major potential risks of the Company and relevant solutions. For example, the Board requested the Company study risks relating to overseas operations, including taxation risks and unexpected events risks and put forward contingency plans.

6. CORPORATE GOVERNANCE (CONTINUED)

In 2011, the Company won several awards in corporate governance:

In "Award Winners of 2011 Best Board of Directors among Listed Companies of China" (2011中國上市公司最佳董事會評選結果) announced by 2011 Management Forum on Values of the Board of Directors among Listed Companies of China (2011中國上市公司董事會價值管理論壇) organized by Moneyweek (《理財週報》), the Company was awarded "2011 Top 10 Best Boards among State-owned Listed Companies of China" (2011中國央企控股上市公司最佳董事會10強) and "2011 Top 50 Best Boards among Main Board Listed Companies of China" (2011中國主板上市公司最佳董事會50強). The appraisal has been held for four consecutive years. Its Appraisal Committee entrusted China Hong Kong Directors Research Institute (中國香港董事會研究院) to conduct an objective analysis and appraisal of the values of the Board for listed companies from five perspectives, including return on capital, level of strategic management, board governance, social responsibilities and market capitalization management, with the data from 2,125 A share listed companies in China as its research sample by using VOD research system and utilizing 23 secondary indicators and 61 third-level quantitative indicators.

I. Director's Involvement in Securities Transactions

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2011, 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 currently 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 12 months ended 31 December 2011, 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 on the date of this report is as follows:

Chairman:	Liu Jian
Executive directors:	Li Yong and Li Feilong
Non-executive director:	Wu Mengfei
Independent non-executive directors:	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng

(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 2010 (for details, please search our website for Articles of Association of the Company or Annual Report 2010).

The duty and authority of the Board in the Articles of Association of the Company is consistent with those disclosed in the Corporate Governance Report 2010 (for details, please search our website for Articles of Association of the Company or Annual Report 2010).

(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 independent 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 2011, 5 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 2011.

(IV) Performance of Independent Directors

The Board currently has three independent 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 directors of listed companies. During the reporting period, the independent directors effectively performed their due diligent and attentive responsibilities as directors, and provided various professional advices to the Company, especially in the review of financial reports, the review of connected transactions, the evaluation of major acquisitions, the review and examination of medium and long term incentive plans for the management, among which, please see section 8 of this Corporate Governance Report for details of related reviews of financial reports and the internal control system. During the reporting period, independent directors also reviewed continuing connected transactions of the Company during the year, and confirmed that such transactions are being conducted in the ordinary course of business of the Company, fair and reasonable and within the limits approved by the shareholders' in general meetings. Please see Table I for details of Board meetings and professional committee meeting attendance of independent directors.

During the reporting period, independent directors of the Company did not have any objection to resolutions of the Board of the Company or any other item of the Company which has to be reported to shareholders.

(V) Particulars of General Meeting convened by the Board during the reporting period were set out in Chapter 7 "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 reporting period, 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 and Mr. Li Yong as the Chief Executive Officer.

IV. Terms of office of non-executive directors

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 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.

V. Training for Directors

In the year of 2011, through the written guidance of the Board Secretary, the Board studied Responsibility Confirmation Rule on the Illegal Acts of Information Disclosure and Provisions for the Establishment of Management Systems for the Registration of Persons Who Have Knowledge of Insider Information by Listed Companies, and understood the relevant regulations and obligations. In addition, one independent director participated in the 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 acts as Chairman.

2. The functions of this committee are to formulate the standard for assessing the performance of directors, supervisors and senior management and to conduct such assessment, formulate and review the remuneration policy and scheme for directors, supervisors, and the senior management. The committee studies and discusses the above matters and makes recommendations to the Board, and the Board reserves the final decision in respect of the above matters.

(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 2010; performance assessing indicators of share appreciation rights scheme for the senior management of the Company in 2011; the results of performance assessment for some departing members of the senior management submitted by the performance assessing team of the senior management. In addition, the committee made recommendations to the Board with respect to the advancement and improvement of medium and long term incentive mechanism of the Company.

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 Nomination Committee held no meeting.

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 auditing company; 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 Audit 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 2010, the first quarterly operating results of 2011, the interim operating results of 2011 and the third quarterly operating results of 2011 of the Company. During the review process, the members performed sufficient and necessary communication with the Company's auditors and the management of the Company, including the approval of annual external audit plan, 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" from the Company's auditors, reviewed the assessment report on effectiveness of internal control of the Company, including the testing of the effectiveness of Company's internal control, remediation results, and also the 2010 Internal Audit Report of the Company, and issued specific opinions regarding the improvements of internal control systems to the Board of Directors and management.

3. During the reporting period, the committee inspected and evaluated the deployment of accounting and finance staff of the Company, acknowledged the direction of the finance human resources planning of the Company and recommended that the Company establish a remuneration system that adapts to the internationalized development and promote the rationalization of the structure of finance staff.

4. During the reporting period, the committee assessed the risks relating to the overseas operations of the Company and made recommendations.

5. 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.

IX. The Remuneration of Auditors

In 2011, 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 RMB17.069 million for audit/review of the annual and interim financial statements in 2011. The non-audit fees of taxation, IT and advisory services, etc. which totaled RMB5.329 million were recognized in the income statement.

X. Responsibilities Undertaken

The Board of Directors acknowledges its responsibilities of preparing the financial statements of the Company and the auditors have also explained their reporting responsibilities in the financial reports; the Board of Directors undertakes the responsibilities for the effectiveness of internal control of the Company and its subsidiaries and has completed the relevant review and assessment during the reporting period, and concluded that there were no material weaknesses in the internal controls of the Company and its subsidiaries; the Board of Directors 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	22 March 2011	Guangdong	Liu Jian,Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
Second Meeting of Board of Directors	28 April 2011	Yunnan	Liu Jian,Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
Third Meeting of Board of Directors	23 August 2011	Guangdong	Liu Jian,Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
Fourth Meeting of Board of Directors	28 October 2011	Beijing	Liu Jian,Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
Fifth Meeting of Board of Directors	8 December 2011	Guangdong	Liu Jian,Wu Mengfei, Li Yong, Li Feilong, Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Liu Jian	Three supervisors attended as a nonvoting delegate
First Meeting of Audit Committee	21 March 2011	Guangdong	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Tsui Yiu Wa	One supervisor attended as a non-voting delegate
Second Meeting of Audit Committee	27 April 2011	Yunnan	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Tsui Yiu Wa	Two supervisors attended as a non-voting delegate
Third Meeting of Audit Committee	22 August 2011	Guangdong	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Tsui Yiu Wa	Two supervisors attended as a non-voting delegate
Fourth Meeting of Audit Committee	27 October 2011	Beijing	Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng	Tsui Yiu Wa	One supervisor attended as a non-voting delegate
First Meeting of Remuneration Committee	22 March 2011	Guangdong	Fong Wo, Felix, Tsui Yiu Wa, Chen Quansheng and Wu Mengfei	Fong Wo, Felix	
Second Meeting of Remuneration Committee	27 April 2011	Yunnan	Fong Wo, Felix, Tsui Yiu Wa, Chen Quansheng and Wu Mengfei	Fong Wo, Felix	
Third Meeting of Remuneration Committee	27 October 2011	Beijing	Fong Wo, Felix, Tsui Yiu Wa, Chen Quansheng and Wu Mengfei	Fong Wo, Felix	

6. CORPORATE GOVERNANCE (CONTINUED)

Table II:

Particulars of the Board resolutions

Meeting	Matters considered
First Meeting of Board of Directors 22 March 2011	2010 Annual Result, and etc
Second Meeting of Board of Directors 28 April 2011	1. 2011 First Quarterly Results (including hearing the review opinions of the Audit Committee towards Quarterly Financial Report) 2. Considering the proposal about Management System of Information Disclosure of the Company 3. Considering the proposal about the amendments to Provisions of Securities Transaction by Specified Person the Company 4. Considering the proposal projects about the connected transactions of placing deposits with a finance company 5. Considering the proposal about certain capital investments 6. Considering the proposal about the management performance assessment indicators of 2011
Third Meeting of Board of Directors 23 August 2011	1. 2011 Interim Results of the Company (including the opinions of the Audit Committee towards Interim Financial Report and the interim internal audit) 2. The proposal about the disclosure of 2011 Interim Results of the Company
Fourth Meeting of Board of Directors 28 October 2011	1. Considering the 2011 Third Quarterly Results (including the opinions of Audit Committee towards the Third Quarter Financial Report) 2. Considering the newly amended Finance System of the Company
Fifth Meeting of Board of Directors 8 December 2011	Considering the proposal concerning the 2012 annual budget of the Company and amount of banks facility of the Company for year 2012
Written Resolutions approved in 2011	[COSL BOD motion (2011) No.19] Approval of purchase of certain equipment (15 June) [COSL BOD motion (2011) No.20] Approval of a connected transaction (1 July) [COSL BOD motion (2011) No.24] Approval of increasing the annual limit of providing guarantee in favor of the overseas subsidiaries by the Company(17 October) [COSL BOD motion (2011) No.29] Approval of an equipment investment project (17 November)

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 framework, as well as a risk analysis and response mechanisms. In 2011, based on its existing 13 major internal control systems and in accordance with Basic Standards for Enterprise Internal Control and its implementation guidelines, the Company further improved its internal control system. It added to and amended the system at the corporate level, ensuring that the activities of the Company are based on rules and the validity and applicability of its internal control, so that its governance has become more standardized and its management more transparent.

Through the building-up and execution of internal control system, the Company enhanced internal control mechanism, strengthened its governance, further optimized its governing structure and risk management, which facilitated the healthy development of COSL.

4. THE BOARD OF DIRECTORS' SELF ASSESSMENT REPORT ON INTERNAL CONTROL

In accordance with Basic Standards for Enterprise Internal Control, its implementation guidelines and requirements of other relevant laws and regulations, the Company conducted self-assessment on the design and operational effectiveness of the internal control as of 31 December 2011.

During the reporting period, the Company established internal controls for businesses and matters within the scope of assessment, which have been operating effectively with no material deficiencies existed. The target of the Company for its internal control was met.

The Board of directors approved the Self Assessment Report of the Company on Internal Control on 20 March 2012. For details of the report, please refer to our website or the website of the Shanghai Stock Exchange.

5. AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The external auditor of the Company, Ernst & Young Hua Ming has audited the Group's internal control over financial reporting as of 31 December 2011, and has issued the auditors' report on the Group's internal control. For details of the report, please refer to our website or the website of the Shanghai Stock Exchange.

6. 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 a resolution pessed 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 for ten years 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 linked to 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 in year 3, 4, 5 and 6 from the approval date of the SAR Plan.

As at 31 December 2011, the remaining life of the SAR Plan was 4.9 years.

The total exercisable gains as a result of exercising the SAR shall not exceed 10% of the Company's net profit for the year. The settlement in cash from exercising share appreciation rights must be processed by deposit into the related dedicated accounts, with no less than 20% of such cash payments shall only be withdrawn after qualified upon expiry of employment term with the Company.

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%.

As at 31 December 2011, the first tranche of SAR has forfeited in 2009, the second tranche of SAR has been approved and exercised and the third tranche of SAR exercising proposal has not been submitted for approval. Exercise gains of the second tranche of SAR, the third tranche of SAR and the fourth tranche of SAR are measured at HK$1.82, HK$2.27 and HK$2.43 per share respectively. The weighted average closing price of the second tranche of SAR for the day preceding the exercise was HK$9.11 per share.

As of 31 December 2011, share appreciation rights granted to senior management of the Company were as follows:

		Share			
Title	**Name**	**At 1 January 2011**	**Exercised**	**Forfeited**	**At 31 December 2011**
Former Non-executive Director	Yuan Guangyu*	723,150	(241,050)	(482,100)	–
President and CEO	Li Yong	528,225	(176,075)	–	352,150
Former Executive Vice President and CFO	Zhong Hua*	528,225	(176,075)	(176,075)	176,075
Former Executive Vice President, CSO and Board Secretary	Chen Weidong*	528,225	(176,075)	(176,075)	176,075
Former Senior Vice President	Li Xunke*	492,675	(164,225)	(164,225)	164,225
Former Employee Supervisor	Tang Daizhi*	246,338	(164,225)	(82,113)	–
Vice President	Xu Xiongfei	456,825	(152,275)	–	304,550
		3,503,663	(1,250,000)	(1,080,588)	1,173,075

Note:: Yuan Guangyu, Zhong Hua, Chen Weidong, Li Xunke and Tang Daizhi resigned due to work arrangements. According to the terms of the SAR Plan, the above incentive targets will be entitled to their benefits based on the vesting ratio of their serving time during the vesting period and performance target.*

Pursuant to the Performance Management Measures for SAR Plan and the confirmation of the Board, the first exercise date for share appreciation rights granted pursuant to the approval of Shareholders' General Meeting on 22 November 2006 was 22 November 2008. Owing to the fact that the first exercise price was lower than the granted price, the first exercise rights did not generate any appreciation gains. On 29 March 2010, the proposal of second exercising of SAR Plan was reviewed and approved by the Board of the Company and meanwhile the proposal has been approved by the competent authority. None of the the Company and the incentive targets had any existence of statutory requirements and provisions of the plan which restricted the exercising, in addition to the pass of the results of performance assessment and expiry of the restriction period; the exercising conditions were fulfilled with the details as follows:

None of the followings has occurred in relation to the Company:

(1) the auditors of the Company having provided an adverse opinion or disclaimer opinion on the Company's financial statements for the latest financial year;

(2) the imposition of administrative penalties by CSRC during the past one year due to material non-compliance; and

(3) any other circumstance in the opinion CSRC.

6. CORPORATE GOVERNANCE (CONTINUED)

The incentive targets having satisfied the following conditions for exercising the rights:

1. None of the following has occurred in relation to the incentive target:
   (1) publicly censure or declaration as an ineligible candidate by a stock exchange in the latest three years;
   (2) imposition of administrative penalties by CSRC during the latest three years due to material non-compliance; and
   (3) occurrence of any circumstances under which the incentive target is prohibited from acting as a director and senior management personnel of the Company, as stipulated in the Company Law.

2. The results of performance assessment of the incentive targets to be reached
   Pursuant to the Performance Management Measures for the SAR Plan, the Remuneration Committee of the Board conducted a comprehensive assessment of the performance of incentive targets achieved in the period from 2006 to 2009. All of the incentive targets passed the assessment. During the reporting period, the Remuneration Committee of the Board conducted 2010 annual assessment of performance of incentive targets and again all of them passed the assessment. The above report of performance assessment for senior management of the Company was approved at shareholders' general meeting.

The arrangement for the second exercise of share appreciation rights during the year is as follows:

Name	Title	Exercised number of shares (shares in Ten Thousands)	Exercised gains (RMB)	Gains can be withdrawn after tax (RMB)
Li Yong	President and CEO	17.61	26.80	17.40
Xu Xiongfei	Vice President	15.23	23.18	15.23
Yuan Guangyu	Former Non-executive Director	24.10	36.69	29.17
Zhong Hua	Former Executive Vice President and CFO	17.61	26.80	17.40
Chen Weidong	Former Executive Vice President, CSO and Board Secretary	17.61	26.80	17.40
Li Xunke	Former Senior Vice President	16.42	25.00	16.32
Tang Daizhi	Former Employee Supervisor	16.42	7.29	6.10
	Total	125.00	172.56	119.02

Note:

1. *A total of 5,000,000 share appreciation rights were awarded, the number of exercising shares for this time is 1,250,000 shares, which is 25% of the total share appreciation rights. According to the results of performance assessement, the exercise ratio is 100%.*
2. *Exercising price. The exercising price shall not be lower than the closing price of the approval date or the average closing price of the prior 5 trading days. The exercise price is HK$4.09. The trading period for exercising the right of appreciation shares is after 30 days from the date of the annual report to December 31 of the year. The exercise price shall be according to the average price of the shares during the period.*
3. *The participants of this plan obtain gains resulted from the price of H Shares being higher than the price of shares on the approval date of the plan. The gains per share is calculated by the stepwise progression formula; that is, if the gains from exercising the share appreciation rights 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%; ④ HK$3.01 or above at 15%.

4. *In accordance with the provisions of State-owned Assets Supervision and Administration Commission of State Council (the "SASAC") and the SAR Plan Management, there should be a reasonable control on the gain level of the incentive targets. The maximum gain which the target can obtain from the SAR plan shall not exceed 40% of his remuneration level (inclusive of the gain from the SAR plan). In the event that the gain from the SAR plan excceeds the above proportion, share appreciation rights which have not been exercised shall not be exercised. As at the end of this exercise, the shares appreciation gain of all incentive targets has not exceeded 40% of their remuneration at the time of being approved.*
5. *The total amount paid in cash as a result of exercising the SAR has not exceeded 10% of the net profit of the Company of the year.*
6. *20% of Cash payments from exercising share appreciation rights deposited into the dedicated accounts of related grantees, which shall only be withdrawn after qualified upon expiry of employment term with the Company.*
7. *The exchange rate of HK$ to RMB is 0.83639 (Bank of China, May 2011)*
8. *Subject to the relevant regulations of the State, cash payments from exercising share appreciation rights shall be subject to individual income tax.*

Further details on the SAR plan are provided in Note 27 to the financial statements of this annual report.

7. SUMMARY OF GENERAL MEETINGS

1. ANNUAL GENERAL MEETING

The Company convened its annual general meeting for 2010 on 23 May 2011. Results announcement for the annual general meeting were published on the China Securities Journal, the Shanghai Securities News and the Securities Times on 24 May 2011 and in accordance with the requirements of the Listing Rules on the Company's and HKSE's websites.

The Annual General Meeting of 2010 was held on 23 May 2011 at the Room 504, CNOOC Plaza, No.25 Chaoyangmen North Avenue, Docheng District, Beijing. The present shareholders and proxies attended the meeting represented 3,144,895,693 shares which amounted to 69.96% 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 2010 were approved;

2) The profit distribution and allocation of dividends for 2010 was approved;

3) The Report of Directors for the year ended 31 December 2010 was approved;

4) The Supervisory Committee Report for the year ended 31 December 2010 was approved;

5) The re-appointment of Ernst & Young Hua Ming and Ernst & Young as the A Share and H Share auditors for 2011 respectively was approved and the Board was authorised to determine their remunerations;

6) The performance assessment reports of the SAR Plan for the senior management for 2010 was approved.

As special resolutions

1) To authorize the Board to issue H shares not more than 20% of the total issued H shares within the relevant period. This authorization shall be effective within 12 months from the date of approval by the Shareholders' General Meeting.

2) The resolution regarding the amendments to the Articles of Association of was approved; and

3) The resolution regarding to the extension of the validity period of the issue of A Shares and extension of the authorization of the relevant resolutions.

42,000 votes were against ordinary resolution 2 above (0.001% of total number of votes); 654,851 votes were against ordinary resolutions 6 above (0.021% 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, 542,195,973 votes were against special resolutions 1 (17.511% of the total number of votes), 212,000 votes were against special resolution 2 (0.007% of total number of votes), 2,272,000 votes were against special resolution 3 (0.072% of total number of votes). As the number of shares voted in favour of the special resolutions exceeded two-third of the number of voting shares, these special resolutions were approved.

2. PARTICULARS OF EXTRAORDINARY GENERAL MEETINGS

The Company convened the first Extraordinary General Meeting for 2011 on 8 March 2011. Results announcement for the extraordinary general meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 9 March 2011 and in accordance with the requirements of the Listing Rules on the Company's and HKSE's websites.

The first Extraordinary General Meeting in 2011 was held on 8 March 2011 at Conference Room 504, CNOOC Plaza, No.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The present shareholders and proxies totally represented 3,150,282,965 shares which amounted to 70.08% 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 poll was used in this meeting.

As special resolution

The resolution regarding the adjustment to the usage of the proceeds from the public offer of A shares was approved.

Regarding the special resolution, 1,704,000 votes were against (0.05% 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.

3. 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 2011 on 8 March 2011. Results announcement for the class meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 9 March 2011 and in accordance with the requirements of the Listing Rules on the Company's and HKSE's websites.

The Company convened the second Class Meeting of the A Share Shareholders for 2011 on 23 May 2011. Results announcement for the class meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 24 May 2011 and in accordance with the requirements of the Listing Rules on the Company's and HKSE's websites.

2. Class Meeting of the H Share Shareholders

The Company convened the first Class Meeting of the H Share Shareholders for 2011 on 8 March 2011. Results announcement for the class meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 9 March 2011 and in accordance with the requirements of the Listing Rules on the Company's and HKSE's websites.

The Company convened the second Class Meeting of the H Share Shareholders for 2011 on 23 May 2011. Results announcement for the class meeting was published on the China Securities Journal, the Shanghai Securities News, and the Securities Times on 24 May 2011.

7. SUMMARY OF GENERAL MEETING (CONTINUED)

(II) Details

1. *The first Class Meeting of the A Share Shareholders in 2011*

The first Class Meeting of the A Share Shareholders in 2011 was held on 8 March 2011 at Conference Room 504, CNOOC Plaza, No.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The class meeting was chaired by Mr. Li Feilong, the executive director of the Company, and an On-site poll was used in this meeting.

As special resolution

The resolution regarding the adjustment to the usage of the proceeds from the public offer of A shares was approved.

As 100% of shares voted for both the resolutions, the special resolution was approved.

2. *The second Class Meeting of the A Share Shareholders in 2011*

The second Class Meeting of the A Share Shareholders in 2011 was held on 23 May 2011 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 poll was used in this meeting:

As special resolution

The resolution regarding to the extension of the validity period of the issue of A Shares and extension of the authorization of the relevant resolution.

Regarding the special resolution, 31,700 votes were against (0.001% 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.

3. *The first Class Meeting of the H Share Shareholders in 2011*

The first Class Meeting of the H Share Shareholders in 2011 was held on 8 March 2011 at Conference Room 504, CNOOC Plaza, No.25 Chaoyangmen North Avenue, Dongcheng District, Beijing. The class meeting was chaired by Mr. Li Feilong, the executive director of the Company, and an On-site poll was used in this meeting.

As special resolution

The resolution regarding the adjustment to the usage of the proceeds from the public offer of A shares was approved.

Regarding the special resolution, 1,704,000 votes were against (0.25% 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.

4. *The second Class Meeting of the H Share Shareholders in 2011*

The second Class Meeting of the H Share Shareholders in 2011 was held on 23 May 2011 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 poll was used in this meeting.

As special resolution

The resolution regarding to the extension of the validity period of the issue of A Shares and extension of the authorization of the relevant resolutions.

Regarding the special resolution, 2,220,426 votes were against (0.309% 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.

8. SOCIAL RESPONSIBILITY REPORT

In 2011, the employees of China Oilfield Services Limited (the "Company") worked together to drive the continued development of the Company. We pushed forward the building up a resources saving and environmental friendly enterprise, insisted on the harmonious co-existence of company development and social progress and have actively supported and participated in charitable activities as well as actively performed its social responsibilities.

1 CORPORATE GOVERNANCE AND STAKEHOLDERS

The Company adhered to govern the enterprise and operate by laws to continuously verify and improve the effectiveness of the internal control system. We implemented risk evaluation throughout the whole process of prevention, assessment and improvement with success and pushed forward effectively the progress of our works. 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 2011, the internal audit of the Company centered around its main tasks, effectively pressed ahead with and completed 28 auditing projects. We regarded the project management, procurement management and cost management as the focus of each auditing project while integrating the relevant requirements of regulatory compliant operation into the auditing work.

In addition, auditors tracked regularly or irregularly the rectification of issues found out in the audit for the audited units through a number of means, and reported to the management of the Company on a quarterly basis. We also reported our internal auditing report to the Company's Audit Committee at the beginning and middle of the year, respectively.

1.2 Construction of internal control and overall risk management

The Company has been committed to building up an internal control framework, and has built up a complete internal control framework as well as risk analysis and response mechanisms. As at the end of 2011, 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. All these formed the management feature of COSL and were able to meet the needs of operation and management for the Company.

1) In view of the changes in operating environment, institutional setting and management duties, etc, the Company amended and improved the existing internal control systems in a timely manner. In 2011, 116 documents of internal control systems at company level were added or amended, so that the governance of the Company has become more standardized and the management has become more transparent.

2) Observing the general principles, all employees and all process principles and accountability principles of staff-in-charge and direct subordinates in risk management, 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 production and operation. 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.

3) In accordance with the requirement of Basic Standards for Enterprise Internal Control and its Implementation Guidelines jointly issued by five ministries and commissions, the Company made continuous improvements in compliance with the laws and regulations and based on its own feature while establishing internal control systems framework and implementing internal control systems.

4) In accordance with the requirements of the Basic Standards for Enterprise and the Implementation Guidelines, the Board of directors conducted a self-assessment on the internal control as of 31 December 2011 and prepared a Self Assessment Report on the Internal Control of China Oilfield Services Limited. The assessment indicated the operating effectiveness of internal controls of the Company and its subsidiaries as at 31 December 2011.

1.3 Incorruptible practice and anti-fraud

1) The Company continued to conduct anti-fraud education and fortified the staff's ethical value. In 2011, the Company stepped up its ideological education and conducted multi-level and all-round anti-fraud education activities. In 2011, the Company and its subordinated units conducted 16 incorruptible practice trainings with 8,453 person-time receiving such trainings.

2) The Company deepened supervision and inspection, achieving apparent results. In 2011, emphasis was put on two special operational efficiency supervision: one is special operational efficiency supervision on the budget of research projects and its implementation in 2010, which was completed and issued a report in this regard. It analyzed the issues found out, raised supervision proposals and made a special report to the management of the Company. The other is special operational efficiency supervision on small and medium-sized project. Apparent results were achieved through operational efficiency supervision.

3) The Company strived to be best on complaints handling and seriously investigated into and punish violations of laws and disciplines. The Company gave high importance to integrity reports handling work, set up reporting platforms, including telephone and internet and established management system of complaints handling to conscientiously validate the clues in the integrity reports and achieve "providing feedback and results to every report". In 2011, the Company received four integrity reports from the employee. No illegal case such as fraud occurred for the whole year.

1.4 Stakeholders

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	compliance with laws and regulations, improvement of internal management, conscious of tax payment, strengthened information communications and exchange
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 organisations	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 PRODUCTION AND ENVIRONMENTAL PROTECTION

For management of safety and environmental protection, the Company strengthened the establishment and implementation of the QHSE/SMS system in 2011. The Company enhanced training, paid close attention to risk management, 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 QHSE management for the year was achieved and the overall safety for production was steady throughout the year.

Achievement of QHSE management objectives in 2011 is as follows:

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	0.185
6	100% Coverage for staff health check over 96% and all frontline marine staff holding health certificate	Coverage for staff health check achieved 97%; all frontline marine staff holding health certificate

2.1 Safe Operation

The Company implemented a comprehensive system management, focused on strengthening the bases for safe production, implemented trainings, continued the work on thoroughly assessing the potential risk and establishing protective measures, established and improved contingency and rescue system and implemented safety in each process of the production, which further promoted the on-going improvements on our position of safety.

1) *Improvement of an effective mechanism of thoroughly assessing the potential risk and establishing protective measures*

In 2011, on the back of the categorized potential risks management, we implemented lean management, formulated targeted rectification schemes and achieved "five in place", including rectification measures, responsibilities, capital, duration and plans to gradually reduce unsafe work behaviours, unsafe status of objects and the unsafe environment factors, thus effectively containing the occurrence of substantial negative incidents.

2) *Transformation of modes of safety inspection and promotion of safety management*

In 2011, the Company conducted special safety inspections on well control and contingency, radioactive sources and explosives, oil tankers and chemical carriers, utility vessels and geophysical vessels, and laboratory. Follow-up management was implemented for the problems identified in the inspections, and was achieved to create a good safety working environment.

3) *Implementation of relevant regulatory requirements of the government and the responsibility of the enterprise*

In 2011, the Group conscientiously implemented relevant regulatory requirements of the government and the safe production responsibility of enterprise. Based on our actual conditions, we established and implemented systems of front-line work carried out by a leader with workers together step by step. The leaders of the Company played an exemplary role and carried out in-depth research at frontlines, inspected and worked together with workers for more than 300 times in a planned, purposeful and targeted manner to understand and gain first-hand front-line materials and solve problems encountered, achieving good results.

4) Change the method of system review to improve together

In 2011, in order to better promote the continued improvements on SMS/QHSE system, the Company improved its mode of system review, and made full use of the role of the reviewers from each division and adopted cross-review to achieve the purposes of communications, learning and improvement among divisions.

5) Enhancement of emergency management and response capabilities

In 2011, the Company sorted out our contingency plans in all aspects, formulated 20 comprehensive plans and 204 special plans, which covered the possible contingency situations during operations at home and abroad, onshore and offshore, and further enhanced our emergency management level.

We enhanced the construction of our contingency systems. In 2011, we upgraded and modified the software and hardware of our Contingency Command Center at Yanjiao headquarters, which effectively improved our contingency response capabilities.

6) Contingency Measures for Libya Crisis

Since 15 February 2011, Libya has been in turmoil. Given the increasingly tense situation, the Company implemented the contingency measures for Libya crisis on 21 February and organised the evacuation of 77 staff stationed in Libya, including 22 staff of our contractors while preserving our assets.

During the process of the contingency plan, our Libya contingency team adhered to the principle of "human based and safety first" with any instructions and actions based on the safety of our staff in Libya. We also designated personnel to maintain close contact with family members of our staff in Libya and inform them of the related development in a timely manner, to alleviate the concern of our staff in Libya and their family members.

Our 77 staff in Libya all evacuated and returned to China on 28 February 2011 after seven days and eight nights' concerted effort of our Libya contingency team and our staff in Libya.

The Company's Emergency drills

Safety return of the Company's employees from Lybia

2.2 Environmental protection

The ecological environment and the establishing of an "environmental friendly" enterprise were placed high priority by the Company. The Company paid attention to environmental protection and made efforts to establish itself as a "resource saving" and "environmental friendly" enterprise while ensuring safety in production and operation. 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 were managed within QHSE/SMS system, the relevant contingency plans for oil spill and pollution prevention were formulated, and emergency rehearsals for oil spill were carried out with records in accordance with the requirements of the regulatory authorities of the government.

2) Subsidiaries signed agreements with local qualified units to recycle and dispose of pollutants. Staff for offshore on-site operations are responsible for the collection of pollutants in workplace as well as the separation and collection of various pollutants, and had them sent back onshore for qualified units to dispose of; various pollutants produced in onshore units and in workplace were separated and collected and disposed of according to the requirements.

3) The statistics and analysis of the environmental factors in work were made against the key points of environmental protection work, to identify important environmental factors, against which control measures were formulated.

The Company's environmently work

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

5) We strengthened communication and idea exchange with government authorities. The pollutants discharged onshore were reported and registered according to the requirements of the local environmental protection authorities; the disposal of onshore pollutants and the units disposing of them were notified of the environmental protection authorities for their advice.

6) Corresponding environmental protection prevention measures were formulated for new projects according to the actual conditions, and relevant systems and the system of environmental effect assessment were strictly implemented to ensure the smooth proceeding of the projects.

7) Based on the characteristics of our industry, the Company researched and developed new drilling waste treatment technology to effectively reduce the emission of drilling wastes.

8) In 2011, there has been no environmental pollution incident incurred by the Company.

2.3 Green and low carbon

We carried out sustainable development concepts of "cleanliness, green, low carbon and circular economy", incorporating energy-saving and emission reduction in every process of the production and operation and managing, which laid a solid foundation for establishing the Company a "resource saving" and "environmental friendly" enterprise.

1) Building up an efficient special team for energy-saving and emission reduction.

2) Establishing control indicators which cover all key energy consumption areas and corresponding management systems and control measures.

3) Running the information management system and establishing warning mechanism for energy-saving and emission reduction.

4) Linking up energy-saving and emission reduction with the organization of operations, quality and safety and combining energy consumption control with time efficiency of operations, safety and quality management, according to different modes of operations and characteristics of energy consumption, we adopted targeted control measures, mainly including:

   - Application of slow steaming for vessels;
   - Achieve seamless connection for the entire operation process and heighten the overall operational time efficiency;
   - Optimise modes of operations to strive to lower the reactive power consumption during the operations.

5) Actively promoting the application of new technologies and equipment of energy-saving and emission reduction.

6) Implementing a comprehensive energy-saving review and assessment of fixed asset investments for control of sources of energy saving.

7) Improving the management of rewards and penalties for the performance evaluation of energy-saving and emission reduction to save energy through mechanism.

8) The Company's energy consumption per RMB10,000 in production, energy consumption per RMB10,000 in added value and water consumption per RMB10,000 in added value decreased to certain extent compared with last year, all of which exceeded the standards set by relevant government authorities.

3 EMPLOYEES AND THE 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 Employee rights protection

We strictly abided by the relevant laws and regulations of the PRC to protect the legitimate rights of employees and promote harmony between the Company and employees.

1) We provide medical insurance, pension, insurance for work-related injury, unemployment and maternity, 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.

2) 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.

3) We 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.

4) During 2011, the Company mobilized helicopters and vessels to emergent rescues and transmission of injured employees in 20 and 10 occasions respectively, which fully demonstrated the people-oriented philosophy of the Company.

3.2 Employee development

Employee 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 employees. We have set up a scale of job standards in management (M series), technology (T series) and works (W series) for different positions, which will allow staff to have targets to enhance their own capabilities and continue to increase their value.

2) Through the implementation of the performance plan, performance communication, 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 employees and provided a broad stage for the growth of our front-line staff. In 2011, we organized the professional skill (drilling workers) contest. The contest created a corporate culture atmosphere of "Learn your knowledge, Find your gaps, practice your skills, compare your skills".

3.3 Employee training and education

Centered around the development guidelines of the Company, our training and development work established a system of training objectives which is led by our five-year training planning and guided by our annual roll-over training, focuses on the work needs of our staff and serves the development strategy of the Company.

1) We formed an increasingly systematic mechanism for training of international talents. In addition, we added overseas social safety and cross-culture trainings in order to cope with the increasingly complex international safety situations and the requirements of the overseas operation for the Company.

2) Based on our actual conditions, we established a special organisation to organise, guide and assist in the technical assessments for the employees in the operational category, and formulated an effective working method through exploring, which enhanced the progress of our technical assessments work.

3) We carried out roll-over trainings by level and type according to a scale of job standards and requirements. The technique and skills of the staff in technical category were improved to meet the needs of their respective positions.

4) We optimised programmes of the "training class for strategic backup employees" to train them all-rounded talents of operation and management, reserve the middle management and enhance their own abilities to cope with the increasingly intense market competition in the future.

Training of the Company's employees overseas

5) We enhanced the fostering of front-line team leaders and basic management staff. Through selecting excellent team leaders, we organised the self-development of standard training courses on a collective basis for a company-wide promotion and application, so as to bring the excellent front-line management ideology to every front-line staff and improve the overall quality of our staff.

6) In 2011, Training for expenses of the Company amounted to over RMB4,000. Employees received managerial skill category trainings of 2,750 person-time, technical category trainings of 8,751 person-time and operational category trainings of 9,086 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 "Employees 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) Health screening and health records

We organized routine physical examination for onshore employees and health certificate examination for offshore employees in accordance with company regulation and classified employees in contact with dangerous factors of occupational diseases and organized occupational health checks for them. In 2011, total costs of health check amounted to RMB8.05 million. Our onshore staff health check rate reached 97%, and all frontline staff worked with qualified health certificates, which perfected the management system of health records.

The Company and its subsidiaries have established the "Occupational disease record" and an "Employees occupational health record" for employees in contact with dangerous factors of occupational diseases.

Managers for occupational safety in each unit have sorted out and filed the records and materials on the work of occupational safety management with basically complete information in records.

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.

3) Occupational safety training

We organized training programmes for the managers of occupational safety in Tianjin, Zhanjiang, Shenzhen and Xinjiang regions respectively, and a total of 141 managers of occupational safety (full time or part-time) participated in the training. Subsidiaries and divisions conducted 175 sessions of occupational safety education and training in various forms. A total of 184 employees participated in the induction occupational safety training, and 3,508 employees participated in on-the-job occupational safety training.

4) Equipping with preventive facilities against hazards of occupational diseases and individual protective gear

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 "Standards on equipping with working protective gear", and performed repair and maintenance on the preventive facilities within the required period.

5) Improvement of employees health

In order to improve the management of offshore medical services, in 2011, the Company signed a contract with each of the hospital for staff in Tianjin and Zhanjiang with respect to the offshore medical services which standardized the contents of medical services, work standards, rights and obligations for both parties and service fees, etc.

For the improvement of the health level of our staff, the Company signed a service agreement with General Hospital of CNOOC (海洋石油总医院) in relation to the operation of health management system, under which, General Hospital of CNOOC was entrusted to provide technical support services to ensure the effective operation of health management system. A timely update of the information on the organisations and personnel was performed in the management system of health records, and collection and input of the information for the staff health check during 2011 was completed.

We 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 employees for physical and mental relaxation between works, and conducted promotion and education of mental health knowledge through various channels and ways.

4 SOCIAL CONTRIBUTION AND CHARITY

We insist on the harmonious co-existence of company development and social progress. In 2011, while we achieved sustainable and healthy development, we strived to give back to society and stakeholders and actively participated in charity works and acted as a responsible corporate citizen. At The 3rd Annual Meeting of Social Responsibilities of Chinese Enterprises 2011, we were included in "Honor Roll in Companies Performing Social Responsibilities in China" for a third time, showing a good image of us as a responsible listed state-owned enterprise.

4.1 Economic Contribution

In 2011, the Group achieved operating revenue of RMB18,426.1 million for the year, representing an increase of RMB865.1 million or 4.9% from RMB17,561.0 million of last year, operating profit amounted to RMB4,982.8 million and net profit was RMB4,039.5 million.

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) In 2011, through a combination of on-site inspection and daily management, we tracked and provided guidance for the construction of the Hope Schools in Yunnan and Hainan provinces subsidized by us regularly through telephone, fax, electronic mail and monthly report, to ensure the quality and progress of the construction. So far, 7 Hope Schools in Yunnan subsidized by us were fully completed, four of the five Hope Schools in Hainan subsidized by us were completed and tenders invitation was completed for the fifth new Hope School in Qunying Town, Lingshui County which commenced construction on November 28 with expected completion by the end of April 2012.

The Company's building of primary school of hope

2) The Company increased its investment to purchase appropriate teaching facilities, improve conditions of working for teachers, accommodation for students and cultural and sports activities while constructing main teaching buildings, in an effort to build each Hope School into a quality project with complete facilities and comprehensive functions.

3) Primary schools of Project Hope have benefited more than 5,000 children.

4) The Company continued to establish scholarships at universities, such as China University of Petroleum and Jimei University to reward students with outstanding results and good conduct on the back of pushing ahead the construction of Hope Schools.

5) In 2011, we continued to provide support for the post-disaster reconstruction of Sichuan, and donated RMB15.0 million to the projects in Sichuan funded by us. Since 2008, the Company's donation totaled RMB60.816 million, which were mainly invested in building of hospital and schools in Deyang, Guangyuan and Luojiang, Sichuan.

A hospital the Company took part in building

6) The staff of the Company actively participated in other local donation programs for love, with donations amounting to RMB208,000.

4.3 Marine rescue

In 2011, 25 offshore utility vessels participated in 16 community rescues and successfully saved 10 vessels in distress and 28 people's lives.

Two vessels of the Company were nominated volunteer vessels for maritime search and rescue; Longkou Operations Office and Binhai 264 vessel were awarded Model Unit in the campaign fighting against disaster of frozen ice to guarantee shipping; the Company received compliment and a number of letter of thanks from authorities such as the Maritime Search and Rescue Center of Liaoning Province and the Maritime Search and Rescue Center of Zhoushan City.

The Company's participation in rescue at sea

5 OBJECTIVE AND PROSPECT

5.1 Medium-term objective

The Company's medium-term objective in developmental vision: To develop into an international oilfield service company with competitiveness to a certain extent in 2015.

5.2 Future prospect

We will continue to improve the SMS/QHSE management system and strengthen our review and implementation; focus on safety and strengthen the management of equipment and facilities; deepen the work on thoroughly assessing the potential risk 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 continue to participate in charity such as disaster relief, donation of funds and provision of scholarships and poverty relief to facilitate the harmonious development of the Company and the society. We will continue to improve our corporate governance and business management, so as to give back to the society and stakeholders by maximizing our value.

9. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

1. CONDITIONS OF DIRECTORS, SUPERVISORS AND 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 shareholding of the year	Number of shareholding at the end of the year	Reason of change	Total Remunerations received from the Company during reporting period (Yuan) *	Exercisable shares 10,000 shares)	Year end Valuue (Yuan)	Whether received in shareholders' company or other connected company
Liu Jian	Chairman, non executive director	Male	53	2009.6.3~2012.6.2	–	–	N/A	–	–	–	Yes
Li Yong	Executive director, CEO and president	Male	48	2009.6.3~2012.6.2	–	–	N/A	83,702	35.22	243,907	No
Li Feilong	Executive director, Executive vice president and CFO	Male	47	2010.12.22~2013.12.21	50,000H shares	50,000H shares	N/A	637,656	–	–	No
Wu Mengfei	Non executive director	Male	56	2010.5.28~2013.5.27	–	–	N/A	–	–	–	Yes
Tsui Yiu Wa	Independent non executive director	Male	62	2009.6.3~2012.6.2	–	–	N/A	400,000	–	–	No
Fong Wo, Felix	Independent non executive director	Male	61	2010.5.28~2013.5.27	–	–	N/A	400,000	–	–	No
Chen Quansheng	Independent non executive director	Male	61	2010.5.28~2013.5.27	–	–	N/A	400,000	–	–	No
An Xuefen	Chairman of Supervisory Committee	Female	57	2010.5.28~2013.5.27	–	–	N/A	–	–	–	Yes
Zi Shilong	Employee Supervisor	Male	40	2010.7.26~2013.7.25	–	–	N/A	488,051	–	–	No
Wang Zhile	Independent Supervisor	Male	63	2009.6.3~2012.6.2	–	–	N/A	80,000	–	–	No
Dong Weiliang	Executive Vice President & Chief Legal Officer	Male	54	2007.6~	–	–	N/A	681,637	–	–	No
Xu Xiongfei	Vice president and chairman of Labour Committee	Male	50	2007.6~	–	–	N/A	38,018	30.46	230,069	No
Yu Zhanhai	Vice president	Male	57	2007.8~	–	–	N/A	619,804	–	–	No
Cao Shujie	Vice president	Male	47	2010.3~	–	–	N/A	524,008	–	–	No
Yang Haijiang	Secretary of the board	Male	42	2010.4~	–	–	N/A	430,112	–	–	No
Total	/	/	/	/	50,000H shares	50,000H shares	/	4,782,988	65.68	473,976	/

* *Include share appreciation right accrued during the year; the remuneration of Li Yong and Xu Xiongfei excluding share appreciation right for the year were RMB744,354 and RMB590,239, respectively. The share appreciation rights accrued in 2011 represented a decrease in the remuneration by RMB660,652 and 552,221, respectively..*

** *Details are set out in Corporate Governance VI. – 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:

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 30 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 ap pointed 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.

9. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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. He is also a Sloan Fellow of such institute. Mr. Wu served as Deputy Manager of Financial Planning Department and General Manager of the Funds Planning Department of CNOOC from 1993 to September 1999. From September 1999 to June 2002, Mr. Wu was Chief Financial Officer and Senior Vice President of CNOOC Ltd. Mr. Wu was Executive Vice President and Chief Financial Officer of COSL between July 2002 and March 2006. From May 2004 to March 2006, he was an Executive Director of COSL. Mr. Wu is Chief Accountant of CNOOC and a Non-Executive Director of COSL from April 2006. Mr. Wu is Chairman of China Blue Chemical Ltd., Aegon-CNOOC Life Insurance Co., Ltd., CNOOC Insurance Ltd., CNOOC Investment Co., Ltd., CNOOC Finance Corporation Ltd. and Zhonghai Trust Co., Ltd.

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. From 2007 to November 2011, Mr. Li was 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.

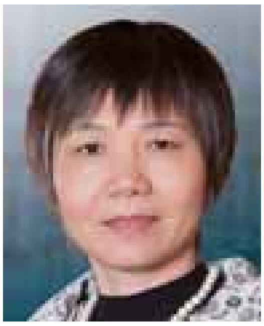
Mr. Tsui Yiu Wa China (Hong Kong) by nationality, male, born in 1949, an Independent Non-Executive Director of COSL. He has more than 33 years of experience in the securities market and financial management. Mr. Tsui graduated from the University of Tennessee with a Bachelor of Science degree and a master 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. At present, Mr. Tsui also serves as an independent non-executive director of number of listed companies in Hong Kong, Shanghai and NASDAQ, namely China Chengtong Development Group Ltd., COSCO International Holdings Ltd., China Power International Development Ltd., China Blue Chemical Limited, Melco PBL Entertainment (Macau) Limited, Pacific Online Limited, Summit Ascent Holdings 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 Mallesons. Mr. Fong gained a first class honours and department chairman honours engineering degree in Canada in 1974, and received a doctor 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), Evergreen International Holdings Limited (Stock Code: 00238) and China Investment Development Limited (formerly known as Temujin International Investments Limited) (Stock Code: 00204), and was a non-executive director of Cinda International Holdings Limited (Stock Code: 00111) between May 2000 and December 2008. (The above 5 companies are Listed on the Main Board of the Stock Exchange).

9. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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, a senior administrative officer. Ms. An graduated from the Tianjin Radio & TV University in Administrative 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. Since February 2010, Ms. An has been the Chairman of Supervisory Committee of Offshore Oil Engineering Co., Ltd.

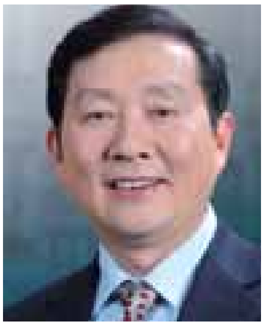
Mr. Wang Zhile Chinese, male, born in 1948, an Independent Supervisor of COSL, a master degree holder and a research fellow. From 1982 to 1992, Mr. Wang had taught at Renmin University of China as lecturer and associate professor consecutively for programmes such as German Modernisation, Swiss Modernisation, 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 and Contract Research Fellow of China Society of Economic Reform. 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 and Expert member of Principle 10 of United Nations Global Compact Organization. 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 18 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 Legal Advisor of COSL, Bachelor in Petroleum Geology of Geological Department. Mr. Dong has been Executive Vice President and Legal Advisor of COSL since September 2011, and Executive Vice President and Chief Technical Officer of COSL from June 2007 to September 2011. 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 30 years of working experience in the oil and natural gas industry.

Mr. Li Feilong

Please refer to Biographies of Directors.

9. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

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 Vice-Chairman of Labour Union 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 35 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 25 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 and Surveying Services Division of COSL from September 2002 to August 2007. Between January and September 2002, he served as General Manager of Geophysical and Surveying 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 33 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 Secretarial Office and Legal Affair Department of the Company, Manager in charge of Corporate Governance and Securities, 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 Ltd, etc. Company (Asia)	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 regulation 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
Liu Jian	Yes
Wu Mengfei	Yes
An Xuefen	Yes

IV. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the reporting period, there was no change in Directors, Supervisors and Senior Management.

V. COMPANY'S EMPLOYEES

As at the end of the reporting period, the Company had a total of 9,852 employees, of which 747 were foreign staff in overseas. There are no retired employees expenses that need to be borne by the Company.

The structure of the employees is as follows:

1. Professional compositions

Professional type	Number of employees
Management post	2,560
Technical post	5,038
Operational post	2,254

2. Educational level

Education	Number of employees
Master degree of above	440
Undergraduate	4,533
College	2,581
Secondary	556
Technical college	471
Senior secondary or below	1,271

10. REPORT OF THE DIRECTORS

The directors present the report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ended 31 December 2011.

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 and surveying 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 section of this annual report.

RESULTS AND DIVIDENDS

The Group's profit prepared under Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2011 and the statement of financial position of the Company and the Group at that date are set out in the financial statements of this annual report on pages 90 to 95.

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 dividends. This recommendation has been incorporated in the consolidated balance sheet as proposed cash dividends within the retained earnings 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 of this annual report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2011 are set out in Note 17 to the financial statements of this annual report.

GEARING RATIO

As at 31 December 2011, the gearing ratio of the Group is set out in Note 40 to the financial statements of this annual report.

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 employees. Besides, the Company also provided various benefits, including provisions of social insurance, to employees.

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, redeemed or sold any of its listing securities during this year.

SUMMARY OF FINANCIAL INFORMATION

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

Results

Unit: RMB'000

	2011	2010	2009	2008	2007
Revenue	18,426,133	17,560,985	17,878,654	12,142,944	9,007,987
Other revenues	112,710	88,633	95,099	48,671	38,611
	18,538,843	17,649,618	17,973,753	12,191,615	9,046,598
Depreciation of property, plant and equipment and amortisation of intangible assets	(3,069,595)	(3,122,338)	(2,865,166)	(1,563,534)	(1,042,081)
Employee compensation costs	(3,311,579)	(2,938,103)	(2,669,618)	(2,106,497)	(1,643,857)
Repair and maintenance costs	(538,646)	(437,722)	(609,441)	(420,257)	(317,546)
Consumption of supplies, materials, fuel, services and others	(3,447,908)	(3,277,048)	(3,610,001)	(2,720,083)	(2,003,698)
Subcontracting expenses	(1,514,062)	(1,143,711)	(884,384)	(542,226)	(357,191)
Operating lease expenses	(433,126)	(379,690)	(589,118)	(356,136)	(365,706)
Other operating expenses	(1,009,239)	(936,679)	(1,076,167)	(693,870)	(387,108)
Selling, general and administrative expenses	(156,118)	(41,860)	(381,870)	(158,523)	(102,003)
Impairment of property, plant and equipments	(75,796)	(172,401)	(819,889)	–	–
Total operating expenses	(13,556,069)	(12,449,552)	(13,505,654)	(8,561,126)	(6,219,190)
Profit from operations	4,982,774	5,200,066	4,468,099	3,630,489	2,827,408
Financial income/(expenses)					
Exchange gains/losses, net	60,521	87,584	(92,686)	(91,358)	(113,868)
Finance costs	(469,743)	(674,152)	(786,430)	(638,985)	(31,563)
Interest income	63,804	76,900	60,352	191,433	71,437
Financial income/(expenses), net	(345,418)	(509,668)	(818,764)	(538,910)	(73,994)
Share of profits of jointly-controlled entities	174,273	143,839	110,264	215,707	113,153
Profit before tax	4,811,629	4,834,237	3,759,599	3,307,286	2,866,567
Income tax expense	(772,094)	(706,239)	(624,282)	(205,045)	(628,983)
Profit for the year	4,039,535	4,127,998	3,135,317	3,102,241	2,237,584

Assets and liabilities

Unit: RMB'000

	31 December 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Total assets	64,851,142	63,497,392	60,776,518	56,200,901	23,088,985
Total liabilities	36,391,988	37,907,467	38,470,913	36,403,057	5,863,977

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 of this annual report.

DIVIDEND

The Company's dividend policy is: Dividend shall be determined by the Board of Directors of the Company according to overall financial condition of the Company, which includes but not limited to factors such as income and profits, capital requirements and surplus and plans for the Company. After satisfying the Company's normal operation and sustaining development, dividend to be distributed in any particular year shall not be less than 20% of the total net profit for such year and the definite dividend shall be proposed at a General Meeting for final approval.

The Group achieved a total net profit of RMB4,039,534,853 in 2011, of which RMB4,039,277,109 of net profit was attributable to equity holders of the parent, together with RMB11,525,749,582 of undistributed profit at the beginning of the year, and after deduction of RMB383,384,332 for provision of statutory reserve, and RMB809,157,600 cash dividend for 2010 distributed in June 2011 to all shareholders by the Group, the Group had an undistributed profit of RMB14,372,484,759 as at the end of 2011. Based on 4,495,320,000 shares, being the total number of shares of the Group in issue as at the end of 2011, 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 RMB13,563,327,159 to be distributed in following years. Such distribution is subject to the review and approval of the 2011 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	RMB 3,135,316,585	20
2010	RMB809,157,600	RMB 4,128,494,256	20

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable donations totaling RMB15,145,200.

MAJOR CUSTOMERS AND SUPPLIERS

In 2011, sales to the Group's five largest customers accounted for approximately 82% of the total sales for the year and sales to the largest customer included therein accounted for approximately 60%. Purchases from the Group's five largest suppliers accounted for approximately 21% of the total purchases for the year; and purchases from the Group's largest supplier accounted for approximately 8% ofthe total purchases for the year.

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

ASSETS MEASURED AT FAIR VALUE

The majority of the assets of the Group were valued at historical cost, except for available-for-sale investments 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 and the Group during the reporting period, please see Note 19 to the financial statements of this annual report.

OUTLOOK OF THE COMPANY

For details, please see the outlook of the Company set out in the Chief Executive Officer's Report.

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 RMB6,750 million, the remaining proceeds was nil.

Unit: RMB million

The total amount of funds raised	6,740	Amount of funds used during the year Accumulated amount of funds used		1 6,750
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 feet	1,448	No	1,224	Yes
Build 2 multi-function drilling platforms	699	No	666	Note 1
Build 2 drilling vessels with 300 feet and automatic rising arm	2,938	No	2,772	Yes
Build 18 oilfield operation vessels involving six types	1,969	No	1,745	Yes
Build 2 vessels with three functions in deep sea	1,528	No	1,294	Note 2
Rebuilt geophysical vessel with 8 streamers	530	No	517	Yes
Build geophysical vessel with 12 streamers	1,121	No	963	Note 3
Build geophysical vessel investing in deep sea	689	No	534	Note 2
Purchase VSP	16	No	16	Note 4
Purchase 2 sets of oil pile and nitrogen equipment	41	No	36	Yes
Purchase 3 sets of LWD equipment items	243	No	197	Note 4
Purchase equipment with nuclear magnetic resonance for inspecting well	27	No	26	Note 4
Purchase equipment with function of scanning pictures for inspecting well	32	No	24	Note 4
Total	11,281	——	10,014	——

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. Operation was not carried out throughout 2010. 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 2 vessels with three functions in deep sea and geophysical vessel investing in deep sea delayed mainly due to the delayed delivery of major components. The geophysical vessel investing in deep sea was delivered in December 2011.

Note 3 The geophysical vessel with 12 streamers was delivered on 22 April 2011.

Note 4 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.

ITEMS NOT INVESTED BY THE FUND RAISED

During the reporting period, there is no item invested by the fund raised from the A Shares issued by the Company.

CHARGE ON ASSETS

As at 31 December 2011, the Group had no charges against its assets.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had contingent liabilities as set out in Note 37 to the financial statements of this annual report.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company as at 31 December 2011 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 Chapter 9 "Directors, Supervisors, Senior Management and Employees" 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 2011 are set out in Note 7 to the financial statements of this annual report.

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

DIRECTORS' REMUNERATION

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

The remuneration committee reviewed the remuneration of Directors, Supervisors and Senior Management disclosed in the Annual Report, and in view of the remuneration committee, the disclosure reflected the real condition of remuneration of the above parties.

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.

SIGNIFICANT CONTRACTS

The Company has entered into several agreements with CNOOC Limited, a related company, and other companies within China Natural Offshore Oil Corporation (the "CNOOC") and its subsidiaries (the "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 38 of the Annual Report.

Save as disclosed, no significant contract in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which the 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 2011, 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 (shares)	Approximate percentage of the interests (H) in COSL (%)
Li Feilong	Beneficial Owner	50,000 (L)	0.003%

Note: "L" means long position

Save as disclosed above, as at 31 December 2011, none of the Directors, or supervisors 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 2011, other than the Directors or the chief executive of the Company as disclosed above, none of others has interests or short positions in the H Shares or underlying H Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO or were otherwise notified to the Company and HKSE:

Name of shareholder	Shares held	Number of shares interest (share)	Approximate percentageof the interests (H) in COSL (%)
JPMorgan Chase & Co.	Interest in controlled corporation	245,824,067(L) 28,000(S) 96,853,333(P)	16.02(L) 0.00(S) 6.31(P)
Commonwealth Bank of Australia	Interest in controlled corporation	157,518,000(L)	10.26(L)
Allianz SE	Interest in controlled corporation	107,737,000(L)	7.02(L)
Value Partners Group Limited	Interest in controlled corporation	82,318,000(L)	5.36(L)
Hang Seng Bank Trustee International Limited	Interest in controlled corporation	78,616,000(L)	5.12(L)
T. Rowe Price Associates Inc. and its Affiliates	Beneficial Owner	77,350,000(L)	5.04(L)
Cheah Cheng Hye	Beneficial Owner	77,082,000(L)	5.02(L)
To Hau Yin	Beneficial Owner	77,082,000(L)	5.02(L)

Notes:

(a) *"L" means long position.*

(b) *"S" means short position.*

(c) *"P" means lending pool.*

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

CONNECTED TRANSACTIONS

Under the Listing Rules, connected transactions of the Company must be fully disclosed and are subject to the independent shareholders' approval, if the transaction is over a certain amount.

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 (the "CNOOC Group") from 1 January 2011 to 31 December 2013. The resolution in respect of the continuing connected transactions in three years' period from 1 January 2011 to 31 December 2013 was approved by the independent shareholders of the Company at the extraordinary general meeting held on 22 December 2010.

10. REPORT OF THE DIRECTORS (CONTINUED)

For the year ended 31 December 2011, the Group had the following connected transactions:

	2011 RMB'000	2010 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	4,582,718	4,682,766
Provision of well services	3,124,430	3,276,252
Provision of marine support and transportation services	1,870,576	1,787,156
Provision of geophysical and surveying services	1,832,832	1,209,451
	11,410,556	10,955,625
b. The CNOOC Group (exclude CNOOC Limited)		
Provision of drilling services	152,569	150,957
Provision of well services	75,302	122,332
Provision of marine support and transportation services	271,288	186,132
Provision of geophysical and surveying services	140,126	151,080
	639,285	610,501
B. Included in operating expenses		
Services provided by the CNOOC Group		
Labour services	29,365	30,534
Materials, utilities and other ancillary services	717,180	450,530
Transportation services	15,793	1,310
Leasing of office, warehouse, and berths	94,551	40,379
Repair and maintenance services	4,503	8,982
Management services	41,438	66,605
	902,830	598,340
C. Included in interest income/expenses:		
CNOOC Finance Co., Ltd.		
Interest income	14,122	3,196
Interest expenses	1,448	60,157
D. Loans drawn down/repayment during the year		
CNOOC Finance Co., Ltd.		
Drawn down	–	500,000
Repayment	1,000,000	800,000
E. Deposits:		
Deposits placed with CNOOC Finance Co., Ltd. as at year end	1,073,852	1,259,245
F. Construction of 200 feet drilling rigs		
Offshore Oil Engineering Co., Ltd.	159,782	976,745

The independent shareholders of the Company have approved the connected transactions set out in (A) and (B) above on 22 December 2010. 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 28 April 2011. For item (F), independent shareholders have granted their approval to the Company in regarding to such connected transaction on 13 February 2009.

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

(1) the transactions were entered into between the Group and the connected persons 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 cap 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.

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 SUBSEQUENT TO THE REPORTING PERIOD

Any material subsequent events occured from 1 January 2012 to the date of approval of the financial statements are set out in Note 41 to the financial statements of this annual report.

AUDIT COMMITTEE

Before the field work of the auditors, the audit committee of the Group reviewed the annual audit plan submitted by the auditors, and approved the annual audit plan and work schedule formulated by the auditors and confirmed effective communications with the auditors before and after such field work and suggested related opinion with regard to related work.

The final results of the Group have been reviewed by the audit committee of the Board which consists of three independent non-executive directors. The committee has reviewed the accounting principles and practices adopted by the Company, and has also discussed auditing, internal control and financial reporting matters including the review of audited 2011 annual results with the management.

CODE ON CORPORATE GOVERNANCE PRACTICES AND MODEL CODE FOR SECURITIES TRANSACTIONS

For the year under review, compliance with the Code on Corporate Governance Practices by the Company is set out in the Section 6 "Corporate Governance" 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

The financial statements prepared in accordance with HKFRSs have been audited by Ernst & Young and the financial statements prepared in accordance with the Chinese Accounting Standards (the "CAS") have been audited by 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.

EXECUTION OF THE INSIDERS INFORMATION MANAGEMENT SYSTEM

In 2011, the Company revised relevant documents, including the "Information Disclosure Management System" and "Provisions for Trading of the Company's Securities by Covered Persons", in order to further regulate the insiders information management system and extend the scope of covered persons of the Company applies. In addition, despite of the registration management of insiders of disclosures on regular material matters and routine or statutory results, the Company continuously informed insiders by, mail or telephone, and designated persons and functions to keep records of access to documents by such insiders in the period. While managing insiders in the Company and the Group, the Company actively advanced registration management of insiders who report information to external parties.

No director or supervisor of the Company has traded the Company's securities in violation of rules in the reporting period. Furthermore, pursuant to requirements of Provisions for the Establishment of Management Systems for the Registration of Persons Who Have Knowledge of Insider Information by Listed Companies issued by China Securities Regulatory Commission, the Company conducted self-assessment on whether there have been share transaction during the reporting period, and the Board confirmed that there was no insider trading of the Company's securities in violation of rules in 2011.

MATERIAL ENVIRONMENTAL OR OTHER SOCIAL SAFETY ISSUES

During the reporting period, there has been no material environmental or other social safety issue in the Company.

ON BEHALF OF THE BOARD

Liu Jian
Chairman
20 March 2012

11. SUPERVISORY COMMITTEE REPORT

The Supervisory Committee of the Company for the year 2011 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 2011, 5 Supervisory Committee's meetings were convened. 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 issues of our daily production and operating activities, so as to further improve our supervision and inspection on compliance and risk control form procedures to content.

11. SUPERVISORY COMMITTEE REPORT (CONTINUED)

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 no change in the members of the Supervisory Committee. The Supervisory Committee shall be composed of Ms. An Xuefen (Chairman of Supervisory Committee), Mr. Zi Shilong (Empolyee Supervisor) and Mr. Wang Zhile (Independent Supervisor).

2. OPERATION OF THE SUPERVISORY COMMITTEE

During the reporting period, 5 Supervisory Committee's meetings were convened. Each Supervisory Committee's meeting was convened on the same date as each Board meeting and normally straight after the conclusion of the Board meeting which the supervisors also attended. In addition to the procedures for calling the Board meeting and meeting were reviewed during the Committee meetings. and its resolutions were reviewed during the Committee's meetings; recommendations on internal risk control of the Company and execution of the Insiders Information Management System were also made.

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.

The Supervisory Committee had given its professional audit advice in respect of the 2010 Annual Report, the 2011 Interim Report, the 1st quarterly report and the 3rd quarterly report for the year 2011 in compliance with the regulatory requirements of the issue of A shares during the reporting period.

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

During the reporting period, supervisor An Xuefen, Zi Shilong and Wang Zhile attended 5 regular Board meetings. Supervisor Wang Zhile attended the 2011 First Extraordinary General Meeting, 2011 First A Share Class Meeting and H Share Class Meeting on 8 March 2011. Supervisor An Xuefen attended the 2010 Annual General Meeting, 2011 Second A Share Class Meeting and H Share Class on 23 May, 2011.

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 behaving in such a way that would damage the interests of the Company and the shareholders.

(2) Financial situation of the Company

The Supervisors have supervised and examined the financial management system and financial situation of the Company by participating the Board meetings and the meetings of the Audit Committee under the Board of Directors and have reviewed relevant financial information of the Company during the examination process. After such examination, the Supervisory Committee is of the opinion that the Company is in strict compliance with the financial laws and regulations and the financial system. The financial management system of the Company is healthy and effective, the accounting methods are consistent while the financial statements are true and reliable. Ernst & Young and Ernst & Young Hua Ming have audited the financial statements of the Group for year 2011 prepared in accordance with HKFRSs and CAS and have issued unqualified opinions on the financial statements. The Supervisory Committee considers the financial statements to be objective and fairly reflects the financial position and the results of operation of the Group.

(3) 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.

(4) 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.

(5) 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 improved and optimized its internal control systems, through which ensured the reasonableness and effectiveness of the internal control systems and continuously promoted risk management and prompted the compliance in accordance with the lawful and steady operations. The Board, in compliance with the Basic Standards for Enterprise Internal Control, has conducted the assessment of the relevant internal control systems. The internal control systems were still valid and did not have any material weaknesses as at 31 December 2011 (base date). The Board is of the opinion that the conclusion is in line with the company practices.

The Supervisory Committee suggested that the Company and its relevant departments have to continuously optimized the establishment of the support for the system and strengthen the internal control, so as to ensure the regulated operation.

(6) The performance of responsibilities of Directors and Senior Management

The Supervisory Committee is of the view that the Board of Directors, both collectively and individually, have earnestly performed their duties with integrity and diligence, and each Director has earnestly understood the situation of the Company and thoroughly discussed the Company's affairs before making decisions. Facing up to the complex internal and external environment, the management has earnestly performed their duties in terms of reference and implemented the resolutions of the Board in a scientific way; thus successfully accomplished the objectives set by the Board.

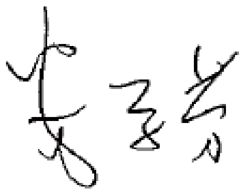
(7) Execution of the insiders information management system

The Company has established insiders information management system. During the reporting period, in accordance with the regulatory rules and requirements of corporate governance, the Company has amended the relevant provisions to optimize the registration system for specific persons, so as to strengthen the work of keeping confidentiality of insiders information. The Supervisory Committee is of the opinion that Company should further refine the insiders information management system and elevate the execution standard of the system.

(8) 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
Supervisory Committee



An Xuefen
Chairman of the Supervisory Committee
20 March 2012

(I) SIGNIFICANT LITIGATION OR ARBITRATION

There was no significant litigation or arbitration during the year.

(II) BANKRUPTCY OR REORGANIZATION

There was no bankruptcy or reorganization during the year.

(III) SHARE ISSUED BY OTHER LISTED COMPANIES AND FINANCIAL INSTITUTIONS HELD BY THE COMPANY

None of the share issued by other listed companies and financial Institutions held by the Company during the year.

(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

As of 31 December 2011, significant connected transactions of the Company are set out in connected transactions of the Report of the Directors.

The Company entered into a number of agreements with CNOOC upon restructuring of the Group for the purpose of listing on HKSE, 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 of the Group for the purpose of listing on HKSE, 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 the view of the directors of the Company, the above transactions with connected person were carried out in the normal course of business of the Company.

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

There were many related party 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 party 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 proved that these related party transactions were a dispensable part for the Company's development. The related party 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 party transactions were necessary and should continue in future.

Further details on related party transactions are given in Note 38 to the financial statements of this annual report.

12. SIGNIFICANT EVENTS (CONTINUED)

(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

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.	US$450,000	10 April 2010	10 April 2010	9 April 2013	Under joint and several liabilities	No	No	No	No	Yes	Jointly controlled entity
COSL	Head quarter	China Nanhai-Magcobar Mud Corporation Ltd.	US$4,800,000	10 May 2010	20 October 2010	9 May 2013 (pursuant to the contract, either of the parties can extend the term on an 1+1 year basis upon expiry)	Under joint and several liabilities	No	No	No	No	Yes	Jointly controlled entity

Total amount of guarantee occurred during the reporting period (excluding guarantee to controlled subsidiaries)	0
Total balance of guarantee as at the end of the reporting period (A) (excluding guarantee to controlled subsidiaries)	USD5.25 million

Guarantee provided by the Company to its controlled subsidiaries	
Total amount of guarantee occurred by the Company to its subsidiaries during the reporting period	0
Total balance of guarantee provided by the Company to its subsidiaries at the end of the reporting period (B)	0
Total guarantee provided by the Company (including guarantee to controlled subsidiaries)	
Total amount of guarantee (A+B)	USD5.25 million
Total amount of guarantee as a percentage of the Company's net assets (%)	0.1%
Including:	
Amount of guarantee provided to shareholders, the de facto controller and its related parties (C)	0
Debt guarantee directly or indirectly provided to parties with gearing ratio over 70% (D)	0
The excess of total amount of guarantee over 50% of the net assets (E)	0
Total amount of the above 3 guarantees (C+D+E)	0

3. Entrusted fund

The Company had no fund entrustment during the year.

4. Other significant contracts

The Company entered into a master agreement with CNOOC on 5 November 2010, making supplement for terms of certain connected transactions eff ective 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

During the reporting period or continuing to the reporting period, there is no commitments of the Company or shareholders with over 5%.

(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 A Share auditors of the Company and Ernst & Young as H Share 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

(a) In 2009 and 2010, certain subsidiaries of CDE received notifications from the Norwegian 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 letters and assessment report to the Norwegian tax authorities regarding the above notifications and requirements on 30 June 2010, 19 January 2011 and 7 June 2011, respectively. In the second half of 2011, the Group has continued communicating with the Norwegian tax authorities relating to the aforesaid tax contingencies, and the matter has not been concluded as at the approval date of the consolidated financial statements. 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 the consolidated financial statements.

(b) In 2010, the Company received an inspection notice from the 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 approval date of the consolidated financial statements, no assessment has been received from the 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 the consolidated financial statements.

13. INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

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 90 to 166, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the 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 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

20 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Note	**2011 RMB'000**	2010 RMB'000
REVENUE	*4*	**18,426,133**	17,560,985
Other revenues	*4*	**112,710**	88,633
		18,538,843	17,649,618
Depreciation of property, plant and equipment and amortisation of intangible assets	*5*	**(3,069,595)**	(3,122,338)
Employee compensation costs	*5*	**(3,311,579)**	(2,938,103)
Repair and maintenance costs	*5*	**(538,646)**	(437,722)
Consumption of supplies, materials, fuel, services and others		**(3,447,908)**	(3,277,048)
Subcontracting expenses		**(1,514,062)**	(1,143,711)
Operating lease expenses	*5*	**(433,126)**	(379,690)
Other operating expenses		**(1,009,239)**	(936,679)
Other selling, general and administrative expenses		**(156,118)**	(41,860)
Impairment of property, plant and equipment	*5*	**(75,796)**	(172,401)
Total operating expenses		**(13,556,069)**	(12,449,552)
PROFIT FROM OPERATIONS		**4,982,774**	5,200,066
Financial income/(expenses)			
Exchange gains, net		**60,521**	87,584
Finance costs	*6*	**(469,743)**	(674,152)
Interest income		**63,804**	76,900
Financial expenses, net		**(345,418)**	(509,668)
Share of profits of jointly-controlled entities	*18*	**174,273**	143,839
PROFIT BEFORE TAX	*5*	**4,811,629**	4,834,237
Income tax expense	*10*	**(772,094)**	(706,239)
PROFIT FOR THE YEAR		**4,039,535**	4,127,998
Attributable to:			
Owners of the parent	*11*	**4,039,277**	4,128,494
Non-controlling interests		**258**	(496)
		4,039,535	4,127,998
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*13*	**89.86 cents**	91.84 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 2011

	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR	**4,039,535**	4,127,998
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(361,148)**	(215,199)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(361,148)**	(215,199)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,678,387**	3,912,799
Attributable to:		
Owners of the parent	**3,678,146**	3,913,317
Non-controlling interests	**241**	(518)
	3,678,387	3,912,799

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Note	31 December 2011 RMB'000	31 December 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**46,285,323**	46,371,109
Goodwill	*15*	**4,245,207**	4,462,018
Other intangible assets	*16*	**371,656**	407,897
Investments in jointly-controlled entities	*18*	**444,767**	487,785
Available-for-sale investments	*19*	**–**	100
Defined benefit assets	*9*	**174**	6,265
Other non-current assets		**53,342**	28,120
Total non-current assets		**51,400,469**	51,763,294
CURRENT ASSETS			
Inventories	*20*	**894,553**	815,540
Prepayments, deposits and other receivables	*21*	**796,295**	388,791
Accounts receivable	*22*	**3,980,041**	3,460,752
Notes receivable	*23*	**1,219,384**	693,191
Other current assets	*24*	**21,310**	41,127
Pledged deposits	*25*	**10,805**	87,533
Time deposits with original maturity over three months	*25*	**882,126**	400,000
Cash and cash equivalents	*25*	**5,646,159**	5,847,164
Total current assets		**13,450,673**	11,734,098
CURRENT LIABILITIES			
Trade and other payables	*26*	**4,530,740**	4,435,823
Salary and bonus payables		**807,337**	781,375
Tax payable		**61,553**	124,028
Interest-bearing bank borrowings	*29*	**1,626,325**	650,721
Current portion of long term bonds	*30*	**–**	573,729
Other current liabilities	*24*	**79,197**	76,074
Total current liabilities		**7,105,152**	6,641,750
NET CURRENT ASSETS		**6,345,521**	5,092,348
TOTAL ASSETS LESS CURRENT LIABILITIES		**57,745,990**	56,855,642
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*28*	**1,817,000**	1,716,052
Interest-bearing bank borrowings	*29*	**24,983,768**	27,090,539
Long term bonds	*30*	**1,500,000**	1,500,000
Deferred revenue	*31*	**986,068**	922,523
Other non-current liabilities	*24*	**–**	36,603
Total non-current liabilities		**29,286,836**	31,265,717
Net assets		**28,459,154**	25,589,925
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*32*	**4,495,320**	4,495,320
Reserves	*33*	**23,154,087**	20,285,099
Proposed final dividend	*12*	**809,158**	809,158
		28,458,565	25,589,577
Non-controlling interests		**589**	348
Total equity		**28,459,154**	25,589,925

Li Yong	**Li Feilong**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to owners of the parent								
	Issued capital RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	4,495,320	8,074,565	1,335,640	21,666	7,749,069	629,345	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	–	–	–	(215,177)	4,128,494	–	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 and 1 January 2011	4,495,320	8,074,565*	1,687,453*	(193,511)*	10,716,592*	809,158	25,589,577	348	25,589,925
Profit for the year	**–**	**–**	**–**	**–**	**4,039,277**	**–**	**4,039,277**	**258**	**4,039,535**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(361,131)**	**–**	**–**	**(361,131)**	**(17)**	**(361,148)**
Total comprehensive income for the year	**–**	**–**	**–**	**(361,131)**	**4,039,277**	**–**	**3,678,146**	**241**	**3,678,387**
Final 2010 dividend declared	**–**	**–**	**–**	**–**	**–**	**(809,158)**	**(809,158)**	**–**	**(809,158)**
Proposed final 2011 dividend (note 12)	**–**	**–**	**–**	**–**	**(809,158)**	**809,158**	**–**	**–**	**–**
Transfer from retained profits	**–**	**–**	**383,384**	**–**	**(383,384)**	**–**	**–**	**–**	**–**
At 31 December 2011	**4,495,320**	**8,074,565***	**2,070,837***	**(554,642)***	**13,563,327***	**809,158**	**28,458,565**	**589**	**28,459,154**

* These reserve accounts comprise the consolidated reserves of approximately RMB23,154,087,000 (2010: RMB20,285,099,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Note	**2011 RMB'000**	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	*36*	**7,082,459**	8,598,254
Taxes paid:			
Mainland China corporate income tax paid		**(682,539)**	(662,649)
Overseas income taxes paid		**(51,081)**	(80,535)
Net cash flows from operating activities		**6,348,839**	7,855,070
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(4,595,994)**	(4,433,900)
Proceeds from disposal of items of property, plant and equipment		**19,368**	42,600
Insurance compensation received		**25,426**	27,357
Increase/(decrease) in net balances with jointly-controlled entities		**60,740**	(76,040)
(Increase)/decrease in time deposits with original maturity over three months		**(482,126)**	400,000
Decrease in pledged deposits		**76,728**	198,859
Interest received		**63,823**	72,226
Dividends received from jointly-controlled entities		**178,081**	194,671
Net cash flows used in investing activities		**(4,653,954)**	(3,574,227)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipt of government grants and subsidies		**–**	295,646
New bank loans		**2,558,310**	1,182,690
Receipt of the investment from non-controlling interests		**–**	866
Repayment of bank loans and current portion of long term bonds		**(2,973,089)**	(1,645,511)
Dividends paid		**(805,256)**	(630,258)
Loan arrangement fees paid		**–**	(12,014)
Interest paid		**(516,570)**	(769,045)
Net cash flows used in financing activities		**(1,736,605)**	(1,577,626)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(41,720)**	2,703,217
Cash and cash equivalents at beginning of year		**5,847,164**	3,214,603
Effect of foreign exchange rate changes, net		**(159,285)**	(70,656)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,646,159**	5,847,164
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	*25*	**6,539,090**	6,334,697
Less: Pledged deposits with original maturity less than three months	*25*	**(10,805)**	(87,533)
Non-pledged time deposits at banks with original maturity over three months when acquired	*25*	**(882,126)**	(400,000)
Cash and cash equivalents as stated in the consolidated statement of cash flows	*25*	**5,646,159**	5,847,164

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Note	31 December 2011 RMB'000	31 December 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**19,776,768**	20,380,010
Intangible assets	16	**294,153**	308,690
Investments in subsidiaries	17	**7,303,799**	6,852,413
Investments in jointly-controlled entities	18	**136,089**	134,981
Available-for-sale investments	19	**–**	100
Other long term receivables	17	**22,807,998**	21,291,981
Total non-current assets		**50,318,807**	48,968,175
CURRENT ASSETS			
Inventories	20	**611,713**	588,314
Prepayments, deposits and other receivables	21	**568,724**	623,232
Accounts receivable	22	**3,209,953**	3,633,313
Notes receivable	23	**1,219,384**	693,191
Pledged deposits	25	**10,805**	4,755
Time deposits with original maturity more than three months	25	**882,126**	400,000
Cash and cash equivalents	25	**4,650,084**	4,399,216
Total current assets		**11,152,789**	10,342,021
CURRENT LIABILITIES			
Trade and other payables	26	**3,176,968**	3,056,886
Salary and bonus payables		**749,246**	725,469
Tax payable		**1**	121,486
Interest-bearing bank borrowings	29	**1,626,325**	612,816
Total current liabilities		**5,552,540**	4,516,657
NET CURRENT ASSETS		**5,600,249**	5,825,364
TOTAL ASSETS LESS CURRENT LIABILITIES		**55,919,056**	54,793,539
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	**718,071**	458,036
Interest-bearing bank borrowings	29	**24,983,768**	27,090,539
Long term bonds	30	**1,500,000**	1,500,000
Deferred revenue	31	**202,089**	207,354
Total non-current liabilities		**27,403,928**	29,255,929
Net assets		**28,515,128**	25,537,610
EQUITY			
Issued capital	32	**4,495,320**	4,495,320
Reserves	33	**23,210,650**	20,233,132
Proposed final dividend	12	**809,158**	809,158
Total equity		**28,515,128**	25,537,610

Li Yong
Director

Li Feilong
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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, 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 and surveying 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 ("SOE") incorporated in the PRC.

2.1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of 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.

Total comprehensive income within a subsidiary is 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.

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 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2. Changes in accounting policy and disclosures (continued)

The principal effects of adopting these revised HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related party disclosures*

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 38 to the consolidated financial statements.

(b) Improvements to HKFRSs 2010

Improvements to HKFRSs 2010 issued in May 2010 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 financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations:* The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

2.3. 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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Financial Assets and Financial Liabilities*[5]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK (IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to 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. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the 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 2015.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12 and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

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 that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Jointly ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

2.4 Summary of significant accounting policies (continued)

Jointly ventures (continued)

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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.

When an investment in jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combination and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition 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 will be 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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

2.4 Summary of significant accounting policies (continued)

Business combination and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

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.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has a significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;

2.4 Summary of significant accounting policies (continued)

Related parties (continued)

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 depreciates them accordingly.

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 are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The estimated useful lives of intangible assets are as follows:

Trademark	10 years
Prepaid land lease payments	50 years
Management system	10 years
Software	3 to 5 years
Contract value	Contract period

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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net 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.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

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, in rare circumstances, 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. 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. This evaluation close net affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated 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 finance costs for loans and in other expenses for receivables.

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 them to maturity. Held-to-maturity investments 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 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 investments and debt 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 revaluation 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, when the cumulative gain or loss reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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.

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

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 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.

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.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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.

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent 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 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.

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

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.

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 a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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 end of the reporting period 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.

2.4 Summary of significant accounting policies (continued)

Construction contracts (continued)

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated 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:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and jointly-controlled entities, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and 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.

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

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 or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

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, 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 on the straight-line basis over the rental periods of such charters, as service is performed;

(d) reimbursables relating to purchases of supplies, equipment, personnel services and other services provided at the request of the Group's 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 for its senior officers. The purpose of the share appreciation rights 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. The fair value change is charged to the income statement over the period until the finalisation of exercise gain (note 27). The liability is measured at the end of each reporting period and the settlement date with changes in fair value recognised in the income statement.

Other employee benefits

Pension scheme

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.

2.4 Summary of significant accounting policies (continued)

Other employee benefits (continued)

Defined benefits 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.

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.

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

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 arising on settlement or translation of monetary items 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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss Is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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 exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income, relating to that particular foreign operation is recognised in the 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 an exchange 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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful life and impairment of property, plant and equipment

The estimated useful life of property, plant and equipment is based on the 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 accelerate the related depreciation or dispose of idle or obsolete property, plant and equipment. This requires management to use past experience in estimating the appropriate useful life.

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 management to make assumptions about the future cash flows and pre-tax discount rate and hence they are subject to uncertainty. In 2011, a provision for impairment of property, plant and equipment amounting to RMB75,796,000 (2010: RMB172,401,000) was recognised. Further details are given in note 14.

Provisions for doubtful debts and inventories obsolescence

The impairment of accounts receivable is determined by management based on available objective evidence, e.g., it becoming probable that a debtor will enter bankruptcy or is having significant financial difficulty. 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 reporting date, and hence the provision amount is subject to uncertainty. At 31 December 2011, impairment losses of approximately RMB313,161,000 (2010: RMB281,480,000) have been recognised for accounts receivable and losses of approximately RMB17,913,000 (2010: RMB17,393,000) have been recognised for inventories. Further details are given in note 22 and note 20, respectively.

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 to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was RMB4,245,207,000 (2010: RMB4,462,018,000). Further details are given in note 15.

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 2011, impairment losses of approximately RMB129,715,000 (2010: RMB136,340,000) have been recognised for available-for-sale investments. Further details are given in note 19.

2.5 Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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.

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 2011 were recognised (2010: Nil). Further details are contained in note 28 to the financial statements.

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 Company's continuing 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, and the sale 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 and surveying 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.

3. Operating segment information (continued)

Year ended 31 December 2011	Drilling services RMB'000	Well services RMB'000	Marine support and transportation services RMB'000	Geophysical and surveying services RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	9,514,660	3,950,350	2,533,772	2,427,351	18,426,133
Intersegment sales	1,958,421	940,246	399,796	376,685	3,675,148
	11,473,081	4,890,596	2,933,568	2,804,036	22,101,281
Reconciliation:					
Elimination of intersegment sales					(3,675,148)
Revenue					18,426,133
Segment results	3,431,367	590,280	517,602	617,798	5,157,047
Reconciliation:					
Exchange gains, net					60,521
Finance costs					(469,743)
Interest income					63,804
Profit before tax					4,811,629
Segment assets	70,388,183	3,735,359	4,911,878	3,988,722	83,024,142
Reconciliation:					
Elimination of intersegment assets					(24,536,312)
Unallocated assets					6,363,312
Total assets					64,851,142
Segment liabilities	28,461,966	1,625,337	888,450	869,678	31,845,431
Reconciliation:					
Elimination of intersegment liabilities					(24,536,312)
Unallocated liabilities					29,082,869
Total liabilities					36,391,988
Other segment information:					
Capital expenditure	2,605,033	452,893	292,502	946,898	4,297,326
Depreciation of property, plant and equipment and amortisation of intangible assets	1,941,785	540,122	304,814	282,874	3,069,595
Provision for impairment of accounts receivable	37,821	520	333	320	38,994
Provision for impairment of other receivables	(1,080)	(453)	(290)	(279)	(2,102)
Provision for impairment of inventories	267	112	72	69	520
Provision for impairment of property, plant and equipment	71,200	–	4,596	–	75,796
Share of profits of jointly-controlled entities	1,889	141,596	(728)	31,516	174,273
Investments in jointly-controlled entities*	(54,100)	322,795	22,554	99,418	390,667

* The investments in jointly-controlled entities included investments in Premium Drilling AS ("Premium Drilling") and Atlantis Deepwater Orient Ltd ("Atlantis Deepwater") which were classified as other current liabilities amounting to RMB54.1 million in total.

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 and surveying 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 losses, 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
Provision for Impairment of available-for-sale investment	18,291	–	–	–	18,291
Provision for impairment of 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*	(54,907)	320,659	86,111	81,015	432,878

* 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 RMB18.3 million and RMB36.6 million, respectively.

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 and surveying 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.

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 during the year were individually less than 10% of the Group's revenues (2010: Less than 10%), and approximately 71.9% (2010: 75.4%) of the Group's revenues were generated from customers in Mainland China.

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2011 and 2010.

Year ended 31 December 2011	Mainland China RMB'000	Others RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	**13,252,556**	**5,173,577**	**18,426,133**

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

A significant portion of the non-current assets is 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 information for non-current assets.

Information about a major customer

Details of revenue generated from a major customer, CNOOC Limited and its subsidiaries (the "CNOOC Limited Group"), including sales to a group of entities which is known to be under common control with CNOOC Limited, are provided in note 38.

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 2011 RMB'000	2010 RMB'000
Revenue:		
Rendering of services*	**18,238,631**	17,392,185
Gross rental income	**187,502**	168,800
Total revenue	**18,426,133**	17,560,985
Other revenues:		
Gain on disposal of equipment	**451**	8,227
Insurance claims received	**25,613**	30,378
Government grants	**81,609**	11,801
Others	**5,037**	38,227
Total other revenues	**112,710**	88,633

* Included in the amount recognised as revenue is deferred revenue of RMB145,439,000 (2010: RMB43,679,000) (note 31).

5. Profit before tax

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

	Note	Group 2011 RMB'000	2010 RMB'000
Auditors' remuneration:			
Audit		**17,069**	14,480
Non-audit		**5,329**	3,958
Employee compensation costs (including directors' remuneration):			
Wages, salaries and bonuses		**2,715,550**	2,485,019
Social security costs		**415,194**	293,716
Retirement benefits and pensions		**185,495**	157,678
Share appreciation rights		**(4,660)**	1,690
		3,311,579	2,938,103

5. Profit before tax (continued)

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

		Group	
	Note	**2011**	**2010**
		RMB'000	**RMB'000**
Depreciation of property, plant and equipment and amortisation of intangible assets	*14,16*	**3,069,595**	3,122,338
Loss on disposal of property, plant and equipment, net		**34,024**	25,643
Lease payments under operating leases in respect of land and buildings, berths and equipment		**433,126**	379,690
Impairment of property, plant and equipment	*14*	**75,796**	172,401
Impairment of accounts receivable, net	*22*	**38,994**	192,333
Impairment of other receivables, net	*21*	**(2,102)**	34,243
Impairment of inventories	*20*	**520**	629
Impairment of an available-for-sale investment	*19*	**–**	18,291
Repair and maintenance costs		**538,646**	437,722
Research and development costs, included in:		**334,120**	173,812
Depreciation of property, plant and equipment		**13,330**	11,890
Employee compensation costs		**35,399**	21,629
Consumption of supplies, materials, fuel, services and others		**277,438**	135,830
Other operating expenses		**7,953**	4,463

6. Finance costs

An analysis of finance costs is as follows:

	Group	
	2011	**2010**
	RMB'000	**RMB'000**
Interest on bank borrowings		
Wholly repayable within five years	**23,874**	186,480
Wholly repayable after five years	**446,933**	472,351
Interest on long term bonds	**71,417**	83,965
Total interests	**542,224**	742,796
Less: interest capitalised (note 14)	**(85,479)**	(91,856)
	456,745	650,940
Other finance costs:		
Others	**12,998**	23,212
	469,743	674,152

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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	
	2011 RMB'000	2010 RMB'000
Fees	**1,280**	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	**849**	968
Bonuses*	**878**	1,064
Share appreciation rights	**(661)**	231
Pension scheme contributions	**143**	163
	1,209	2,426
	2,489	3,706

* Certain directors and supervisors are entitled to bonus payments which are determined based on the duties and responsibilities of the directors and supervisors, as well as the results of the Group.

(a) **Independent non-executive directors and supervisors**

The fees paid/payable to independent non-executive directors and an independent supervisor during the year are as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Independent non-executive directors:		
Gordon C. K. Kwong (i)	**–**	200
Simon X. Jiang (i)	**–**	200
Tsui Yiu Wa (ii)	**400**	400
Fong Wo, Felix (iii)	**400**	200
Chen Quansheng (iii)	**400**	200
	1,200	1,200
Independent supervisor:		
Wang Zhile (ii)	**80**	80
	1,280	1,280

There were no other emoluments payable to the independent non-executive directors and the independent supervisors during the year (2010: Nil).

Notes:

(i) The term of office of Mr. Gordon C. K. Kwong and Mr. Simon X. Jiang 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. 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
2011					
Executive directors:					
Li Yong	**319**	**375**	**50**	**(661)**	**83**
Li Feilong (i)	**310**	**278**	**50**	**–**	**638**
	629	**653**	**100**	**(661)**	**721**
Non-executive directors:					
Liu Jian (ii)	**–**	**–**	**–**	**–**	**–**
Wu Mengfei	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**
Supervisors:					
An Xuefen (iv)	**–**	**–**	**–**	**–**	**–**
Zi Shilong (v)	**220**	**225**	**43**	**–**	**488**
	220	**225**	**43**	**–**	**488**
Total	**849**	**878**	**143**	**(661)**	**1,209**
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

In prior years, share appreciation rights were granted to certain executive directors in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements.

7. Directors' and supervisors' remuneration (continued)

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

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.

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 (2010: Nil), details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration of the five (2010: Five) non-director, non-supervisor, highest paid employees for the year are as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Basic salaries, allowances and benefits in kind	**10,063**	9,191
Bonuses	**8,685**	11,403
Pension scheme contributions	**265**	1,651
	19,013	22,245

The number of non-director, non-supervisor, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
HK$3,000,001 to HK$3,500,000	**2**	2
HK$3,500,001 to HK$5,500,000	**2**	1
HK$5,500,001 to HK$7,500,000	**–**	1
HK$7,500,001 to HK$9,500,000	**1**	1
	5	5

9. Pensions and defined benefit plan

All the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme, and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension at rates ranging from 19% to 22% of the employees' basic salaries. The related pension costs are expensed as incurred.

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 2011 (2010: Nil).

The expenses attributed to the PRC government-regulated pension scheme are as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Contributions to the PRC government–regulated pension scheme	**129,833**	115,704

At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2010: Nil).

The Group also has a defined benefit plan with a life insurance company to provide pension benefits for certain employees in Norway. The benefit expense charged to the consolidated income statement for the year was RMB25,642,000 (2010: RMB4,594,000).

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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 Corporate Income Tax Law of the PRC (the "CIT") effective from 1 January 2008 introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% in China. The Company's statutory tax rate is 25%.

On 30 October 2008, the Company was certified as an HNTE by the Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation (the "TSAT"), and the Tianjin Local Taxation Bureau, which was effective for three years commencing 1 January 2008. Further, the Company obtained the approval of tax deduction and exemption registration report from the 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 years 2009 and 2010. The Company has applied to renew its HNTE certificate for three years commencing from 1 January 2011, and was re-certified as an HNTE on 8 October 2011, which is effective for three years commencing 1 January 2011. Consequently, management considers that it is appropriate to use the preferential rate of 15% to provide the income tax provision of the Company for the year ended 31 December 2011 (2010: 15%).

Certain overseas subsidiaries of the Group with a permanent establishment status in the PRC are subject to deemed income tax calculated at 3.75% (2010: 3.75%) of service income generated from drilling activities in the PRC. The Group's drilling activities in Indonesia are mainly subject to corporate income tax of 25% (2010: 25%) based on its taxable profit generated. The Group's drilling activities in Australia are subject to income tax of 30% (2010: 30%) based on its taxable profit generated. The Group's drilling activities in Myanmar are subject to income tax of 3.5% (2010: 3.5%) 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 the income tax rate of 30% and the business flat tax of 17.5% (2010: 30% and 17.5%, respectively). The Group's activities in Norway are mainly subject to corporate income tax of 28% (2010: 28%). The Group's taxes pertaining to drilling activities in Libya and Saudi Arabia are borne by the customers unless otherwise provided in the drilling contracts. The Group's drilling activities in the United Kingdom are subject to income tax of 28% (2010: Not applicable). The Group's drilling activities in Dubai are not subject to any income tax. The Group's taxes pertaining to Iran are borne by the customers. The Group's drilling activities in Iraq are subject to income tax of 35% (2010: Not applicable). The Group's taxes pertaining to drilling activities in Papua New Guinea are borne by the customers.

An analysis of the Group's provision for tax is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**72,669**	75,703
Deferred	**(100,626)**	(124,524)
PRC corporate income taxes:		
Current	**540,016**	662,913
Deferred	**260,035**	92,147
Total tax charge for the year	**772,094**	706,239

10. Income tax (continued)

A reconciliation of the tax expense applicable to profit before tax at 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:

	2011 RMB'000	2011 %	2010 RMB'000	2010 %
Profit before tax	**4,811,629**		4,834,237	
Tax at the statutory tax rate of 25% (2010: 25%)	**1,202,907**	**25.0**	1,208,559	25.0
Tax reduction as an HNTE	**(369,141)**	**(7.7)**	(373,874)	(7.7)
Income not subject to tax	**(43,251)**	**(0.9)**	(32,856)	(0.7)
Expense not deductible for tax	**31,146**	**0.6**	91,934	1.9
Tax benefit for qualifying research and development expense	**(28,422)**	**(0.6)**	(16,741)	(0.3)
Effect of different tax rates for overseas subsidiaries	**(186,040)**	**(3.9)**	(313,222)	(6.5)
Unrecognised tax losses	**259,644**	**5.4**	51,538	1.1
Deductible translation adjustment*	**(125,017)**	**(2.6)**	(61,393)	(1.3)
Adjustments in respect of current tax of previous periods	**(21,218)**	**(0.4)**	58,172	1.2
Others	**51,486**	**1.1**	94,122	1.9
Total tax charge at the Group's effective rate	**772,094**	**16.0**	706,239	14.6

* Deductible translation adjustment mainly represents the tax effect of differences arising from foreign exchange effects to Norwegian Kroner ("NOK"), which is the basis for taxation for some group subsidiaries. The translation adjustment mainly relates to the difference between the profit before tax denominated in NOK and that determined on the accounting basis of such group companies in US dollars, the functional currency.

The share of tax attributable to jointly-controlled entities amounting to approximately RMB59,114,000 (2010: RMB66,586,000) 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 2011 includes a profit of approximately RMB3,814,365,000 (2010: RMB3,501,736,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. Dividends

	Group and Company	
	31 December 2011 RMB'000	**31 December 2010 RMB'000**
Proposed final dividend – RMB0.18 per ordinary share (2010: RMB0.18 per ordinary share)	**809,158**	809,158

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 in the PRC. Transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve can be used to offset previous years' losses, if any, and part of the statutory common reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the registered capital of the Company;

(iii) allocations to the discretionary common reserve if approved by the shareholders. The discretionary common reserve can be used to offset prior years' losses, if any, and can be capitalised as the Company's share capital.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the accounting principles generally accepted in the PRC and financial regulations in the PRC and (ii) the net profit determined in accordance with Hong Kong Financial Reporting Standards.

Pursuant to the State Administration of Taxation Circular Guoshuihan [2008] No. 897, the Company is required to withhold a 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders out of profit earned in 2008 and beyond. In respect of all shareholders whose names appear on the Company's register of members who are not individuals, which are considered as non-resident enterprise shareholders, the Company will distribute the dividend after deducting enterprise income tax of 10%.

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 RMB4,039,277,000 (2010: RMB4,128,494,000), and the weighted average number of ordinary shares of 4,495,320,000 (2010: 4,495,320,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2011 and 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. Property, plant and equipment

Group

31 December 2011	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 2010 and at 1 January 2011							
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
At 1 January 2011, 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
Additions	19,532	76,414	395,053	3,908	577	3,791,517	4,287,001
Depreciation provided during the year	(403,713)	(1,454,300)	(1,145,961)	(10,317)	(3,243)	–	(3,017,534)
Disposals/write-offs	(17,645)	(5,795)	(29,851)	(102)	–	–	(53,393)
Transfers from/(to) construction in progress ("CIP")	944,001	5,258,589	606,587	11,823	575	(6,821,575)	–
CIP transfers to intangible assets	–	–	–	–	–	(9,845)	(9,845)
Impairment	(4,596)	(71,200)	–	–	–	–	(75,796)
Exchange realignment	(78,285)	(639,375)	(10,634)	–	–	(487,925)	(1,216,219)
At 31 December 2011, net of accumulated depreciation and impairment	5,048,794	25,851,129	4,411,424	27,360	54,362	10,892,254	46,285,323
At 31 December 2011							
Cost	9,394,825	35,678,125	10,108,958	84,528	66,276	11,786,982	67,119,694
Accumulated depreciation and impairment	(4,346,031)	(9,826,996)	(5,697,534)	(57,168)	(11,914)	(894,728)	(20,834,371)
Net carrying amount	5,048,794	25,851,129	4,411,424	27,360	54,362	10,892,254	46,285,323

14. Property, plant and equipment (continued)

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) 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

As at 31 December 2011, the gross carrying amount of fully depreciated property, plant and equipment that is still in use was approximately RMB7,434,605,000 (2010: RMB7,084,831,000).

Included in the current year's additions was an amount of approximately RMB85,479,000 (2010: RMB91,856,000) in respect of interest capitalised in property, plant and equipment (note 6), with a capitalisation rate of 0.95% (2010: 0.88%).

Impairment of property, plant and equipment

An impairment loss of approximately RMB71,200,000 was recognised in 2011 to reduce the carrying amount of certain land drilling equipment in Libya, as a direct result of the civil unrest there. The impairment loss has been classified under the segment of "drilling services" in note 3 to the financial statements.

In addition, an impairment loss of approximately RMB4,596,000 was also recognised in 2011 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.

14. Property, plant and equipment (continued)

Company

31 December 2011	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 2010 and at 1 January 2011							
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
At 1 January 2011, 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
Additions	–	–	271,327	3,908	–	1,562,050	1,837,285
Depreciation provided during the year	(368,127)	(437,007)	(1,077,260)	(10,100)	(3,038)	–	(1,895,532)
CIP transfers to intangible assets	–	–	–	–	–	(9,845)	(9,845)
Disposals/write-offs	(431,495)	–	(32,455)	–	–	–	(463,950)
Transfers from/(to) CIP	944,001	1,207,454	556,720	11,823	–	(2,719,998)	–
Impairment	–	(71,200)	–	–	–	–	(71,200)
At 31 December 2011, net of accumulated depreciation and impairment	4,578,660	8,228,067	4,065,033	27,197	51,240	2,826,571	19,776,768
At 31 December 2011, net of accumulated depreciation and impairment							
Cost	8,776,697	14,596,076	9,528,607	83,152	61,888	2,826,571	35,872,991
Accumulated depreciation and impairment	(4,198,037)	(6,368,009)	(5,463,574)	(55,955)	(10,648)	–	(16,096,223)
Net carrying amount	4,578,660	8,228,067	4,065,033	27,197	51,240	2,826,571	19,776,768

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

* On 14 January 2012, HYSY682, a deep water Anchor Handling Tug Supply ("AHTS") vessel of the Company and the Group being constructed by a shipyard included in the construction in progress as at 31 December 2011 and 2010, was grounded at the wharf of the shipyard as a result of a leak of the vessel. The losses or damages caused by the above incident have not been determined yet. Further details are contained in note 41 to the financial statements.

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15. Goodwill

Goodwill was generated in the acquisition of COSL Drilling Europe AS in 2008.

Group	2011 RMB'000
Cost at 1 January 2011, net of accumulated impairment	**4,462,018**
Exchange realignment	**(216,811)**
Cost and net carrying value at 31 December 2011	**4,245,207**
Cost	**4,462,018**
Exchange realignment	**(216,811)**
Net carrying amount	**4,245,207**

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

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to a group of the drilling services cash-generating units, which is reportable in the "drilling services" segment as disclosed in note 3, for impairment testing.

The recoverable amount of the group of the drilling services cash-generating units 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% (2010: 9.5%).

Key assumptions were used in the value in use calculation of the group of the drilling services cash-generating units as of 31 December 2011 and 2010. The following describes the key assumptions 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 relevant unit.

The values assigned to the key assumptions which include the rig utilisation rate, day rate and projected expenses are consistent with external information sources and historical trends.

16. Other intangible assets

Group

31 December 2011	Trademark RMB'000	Prepaid land lease payments RMB'000	Management system & software RMB'000	Contract value RMB'000	Total RMB'000
Cost at 1 January 2011 net of accumulated amortisation	–	250,404	151,293	6,200	407,897
Additions	–	–	10,325	–	10,325
Transferred from CIP	411	–	9,434	–	9,845
Amortisation provided during the year	(3)	(5,234)	(41,641)	(5,183)	(52,061)
Exchange realignment	–	–	(4,175)	(175)	(4,350)
At 31 December 2011	**408**	**245,170**	**125,236**	**842**	**371,656**
At 31 December 2011:					
Cost	411	261,468	253,403	113,391	628,673
Accumulated amortisation	(3)	(16,298)	(128,167)	(112,549)	(257,017)
Net carrying amount	**408**	**245,170**	**125,236**	**842**	**371,656**

31 December 2010	Trademark RMB'000	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)
Disposal	–	(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

16. Other intangible assets (continued)

Company

31 December 2011	Trademark RMB'000	Prepaid land lease payments RMB'000	Software RMB'000	Total RMB'000
Cost at 1 January 2011, net of accumulated amortisation	–	250,404	58,286	308,690
Additions	–	–	8,465	8,465
Transferred from CIP	411	–	9,434	9,845
Amortisation provided during the year	(3)	(5,234)	(27,610)	(32,847)
At 31 December 2011	408	245,170	48,575	294,153
At 31 December 2011:				
Cost	411	261,468	135,122	397,001
Accumulated amortisation	(3)	(16,298)	(86,547)	(102,848)
Net carrying amount	408	245,170	48,575	294,153

31 December 2010	Trademark RMB'000	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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2011

17. Investments in subsidiaries

	Company 31 December 2011 RMB'000	31 December 2010 RMB'000
Unlisted shares, at cost	**7,303,799**	6,852,413

As at 31 December 2011, loans to subsidiaries included in other long term receivables of the Company of approximately RMB22,807,998,000 (2010: RMB21,291,981,000) are unsecured have a floating interest rate of LIBOR plus 300 points, and are repayable within two years.

As at 31 December 2011, the amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB1,189,566,000 (2010: RMB1,712,787,000) and RMB117,711,000 (2010: RMB71,367,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

Particulars of the principal subsidiaries are as follows:

Name of entity	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity 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$2,743,035,822	100	–	Investment holding
COSL Norwegian AS	Norway 23 June 2008	NOK1,541,328,656	–	100	Investment holding
COSL Drillings Europe As ("CDE")	Norway 21 January 2005	NOK1,494,415,487	–	100	Investment holding

17. Investments in subsidiaries (continued)

Name of entity	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Group: Direct	Percentage of equity attributable to the Group: Indirect	Principal activities
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
COSL Oil tech (Singapore) Ltd.	Singapore 31 January 2011	US$1	–	100	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 policies, and accordingly, the financial statements of PT STS have been incorporated into the Group's consolidated financial statements, and PT STS has been accounted for as a subsidiary. Therefore, non-controlling interests were recognised in the consolidated financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. Investments in jointly-controlled entities

	Group		Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Unlisted investments, at cost	–	–	**129,330**	129,330
Share of net assets	**499,063**	482,134	–	–
Due from jointly-controlled entities	**6,869**	5,761	**6,869**	5,761
Due to jointly-controlled entities	**(61,165)**	(110)	**(110)**	(110)
	444,767	487,785	**136,089**	134,981

The amounts due from and due to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

18. Investments in jointly-controlled entities (continued)

Particulars of the principal jointly-controlled entities are as follows:

Name	Nominal value of issued ordinary/ registered share 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") (a)	RMB 4,640,000	Shenzhen, PRC 25 October 1984	60	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 and surveying services
Eastern Marine Services Ltd. ("Eastern Marine") (a)	HK$ 1,000,000	Hong Kong 10 March 2006	51	51	Marine transportation services
PT Tritunggal Sinergi Company Ltd ("PTTS") (a)	US$ 700,000	Indonesia 30 December 2004	55	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 (b)	NOK 100,000	Norway 1 June 2005	50	50	Management of jack-up drilling rigs

18. Investments in jointly-controlled entities (continued)

(a) In the opinion of the directors, the Company does not have control over the financial and operating policies of Magcobar, PTTS and Eastern Marine, and accordingly, the financial statements of Magcobar, PTTS and Eastern Marine have not been incorporated into the Group's consolidated financial statements and these companies have not been accounted for 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 known as Premium Drilling, were set up by CDE 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 CDE.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	Group	
	31 December 2011 RMB'000	**31 December 2010 RMB'000**
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**475,441**	506,103
Non-current assets	**190,640**	219,456
Current liabilities	**(310,927)**	(394,455)
Non-current liabilities	**(29,268)**	(31,201)
Net assets*	**325,886**	299,903

	2011 RMB'000	**2010 RMB'000**
Share of the jointly-controlled entities' results:		
Revenue	**832,743**	916,474
Other revenues	**603**	898
Total expenses	**(599,959)**	(706,947)
Tax	**(59,114)**	(66,586)
Profit after tax	**174,273**	143,839

* The share of the jointly-controlled entities' net assets includes the share of net liabilities of Premium Drilling and Atlantis Deepwater as at 31 December 2011, amounting to approximately RMB89,269,000 (2010: RMB95,698,000) and RMB37,053,000 (2010: RMB36,651,000). The net liabilities of Premium Drilling are classified as other current liabilities in the consolidated statements of financial position as at 31 December 2011 and 2010, while the net liabilities of Atlantis Deepwater are classified as other current liabilities and other non-current liabilities in the consolidated statements of financial position as at 31 December 2011 and 2010, respectively, as further described in note 24 to the financial statements.

19. Available-for-sale investments

	Group and Company 2011 RMB'000	2010 RMB'000
Unlisted investment, at acquired cost*		
At 1 January	**100**	100
Disposals	**(100)**	–
At 31 December	**–**	100
Unlisted equity investment, at acquired cost**		
At 1 January, before provision for impairment	**136,340**	140,366
Exchange realignment for the year	**(6,625)**	(4,026)
At 31 December, before provision for impairment	**129,715**	136,340
Less: Provision for impairment	**(129,715)**	(136,340)
At 31 December, net carrying amount	**–**	–
Total net carrying amount at 31 December	**–**	100

* The unlisted equity investment is an investment in Atlantis Deepwater Technology Holding AS, which was disposed of in 2011.

** As at 31 December 2011 and 2010, the equity investment in an equity security, Petrojack ASA was an unlisted investment which had withdrawn its listing from the stock market since March 2010.Full provision against the equity investment in Petrojack ASA had been made.

20. Inventories

	Group		Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Gross inventories	**912,466**	832,933	**629,626**	605,707
Less: Provisions	**(17,913)**	(17,393)	**(17,913)**	(17,393)
	894,553	815,540	**611,713**	588,314

As at 31 December 2011 and 2010, the Group's and the Company's inventories consisted of materials and supplies.

21. Prepayments, deposits and other receivables

	Group		Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Prepayments	**472,012**	68,630	**40,653**	34,440
Deposits	**25,401**	22,354	**21,763**	1,596
Other receivables	**303,858**	304,885	**511,284**	594,274
	801,271	395,869	**573,700**	630,310
Less: Provision for impairment of other receivables	**(4,976)**	(7,078)	**(4,976)**	(7,078)
	796,295	388,791	**568,724**	623,232

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 CNOOC and its subsidiaries, excluding CNOOC Limited Group (the "CNOOC Group") and the CNOOC Limited Group as disclosed below, there was no significant concentration of credit risk of the Group's accounts receivable during the reporting period. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. All accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, based on the invoice date, is as follows:

	Group		Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Outstanding balances aged:				
Within one year	**4,182,218**	3,692,000	**3,328,721**	3,735,582
One to two years	**84,582**	21,100	**30,995**	20,931
Two to three years	**1,747**	21,209	**1,747**	7,780
Over three years	**24,655**	7,923	**1,206**	1,054
	4,293,202	3,742,232	**3,362,669**	3,765,347
Less: Provision for impairment of accounts receivable	**(313,161)**	(281,480)	**(152,716)**	(132,034)
	3,980,041	3,460,752	**3,209,953**	3,633,313

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

	Group	
	2011 RMB'000	2010 RMB'000
At 1 January	**281,480**	92,191
Impairment losses recognised (note 5)	**49,282**	196,443
Impairment losses reversed (note 5)	**(10,288)**	(4,110)
Exchange realignment	**(7,313)**	(3,044)
At 31 December	**313,161**	281,480

Included in the above provision for impairment of accounts receivable are a provision for individually impaired accounts receivable of RMB32,947,000 (2010: RMB176,654,000) with a carrying amount before provision of RMB909,857,000 (2010: RMB325,490,000) and a provision for accounts receivable collectively, which share similar credit risk characteristics, of RMB16,335,000 (2010: RMB19,789,000) with a carrying amount before provision of RMB48,545,000 (2010: RMB50,232,000).

As at 31 December 2011 and 2010, the Group did 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2011

23. Notes receivable

	Group and Company	
	31 December 2011 RMB'000	**31 December 2010 RMB'000**
Trade acceptances	**1,217,384**	691,574
Bank acceptances	**2,000**	1,617
	1,219,384	693,191

Notes receivable are non-interest bearing and have an average term of 30 days.

24. Other current assets/liabilities and other non-current liabilities

	Group	
	31 December 2011 RMB'000	**31 December 2010 RMB'000**
Current portion of deferred expenses*	**21,310**	41,127
Other current assets	**21,310**	41,127
Share of net liabilities of jointly-controlled entities (note 18)**	**(126,322)**	(95,698)
Due to a jointly-controlled entity	**(17,145)**	(18,391)
Due from jointly-controlled entities	**89,367**	95,785
	(54,100)	(18,304)
Current portion of deferred revenue	**(25,097)**	(57,770)
Other current liabilities	**(79,197)**	(76,074)
Share of net liabilities of a jointly-controlled entity**	–	(36,651)
Due from a jointly-controlled entity**	–	48
Other non-current liabilities	–	(36,603)

* Deferred expenses represent mobilisation costs incurred by the Group's jack-up and semi-submersible drilling rigs, which are amortised over the drilling contract periods. As at 31 December, 2011 and 2010, the current portion of deferred expenses has been included in other current assets while the non-current portion of deferred expenses has been included in non-current assets.

** The share of net liabilities of Premium Drilling and Atlantis Deepwater with amounts of RMB89,269,000 (2010: RMB95,698,000) and RMB37,053,000 (2010: RMB36,651,000), respectively, were recognised since the management of the Company is of the opinion that the Group has obligations to meet the liabilities of Premium Drilling and Atlantis Deepwater. The liquidation process has commenced for Premium Drilling and Atlantis Deepwater since 2009 and 2010 respectively. The share of net liabilities of Atlantis Deepwater previously recognised as other non-current liabilities and the amount due from the joint-controlled entity as at 31 December 2010 have been classified into other current liabilities by the Group as at 31 December 2011 since the liquidation process for Atlantis Deepwater will be finalised in 2012.

25. Cash and cash equivalents, pledged deposits and time deposits

	Group		Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Cash and balances with banks	**1,770,986**	3,375,452	**774,911**	1,844,726
Deposit with CNOOC Finance Corporation Ltd. ("CNOOC Finance")	**1,073,852**	1,259,245	**1,073,852**	1,259,245
Time deposits at banks	**3,694,252**	1,700,000	**3,694,252**	1,700,000
Cash and balances with banks and financial institutions	**6,539,090**	6,334,697	**5,543,015**	4,803,971
Less:				
Pledged deposits – current	**(10,805)**	(87,533)	**(10,805)**	(4,755)
Time deposit with original maturity over three months	**(882,126)**	(400,000)	**(882,126)**	(400,000)
Cash and cash equivalents	**5,646,159**	5,847,164	**4,650,084**	4,399,216

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 RMB 3,121,464,000 (2010: RMB3,555,179,000). 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 2011, 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 RMB882,126,000 (2010: RMB400,000,000).

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	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Outstanding balances aged:				
Within one year	**4,351,926**	4,173,676	**3,012,369**	2,802,147
One to two years	**79,990**	138,652	**65,775**	133,493
Two to three years	**34,673**	33,448	**34,673**	32,043
Over three years	**64,151**	90,047	**64,151**	89,203
	4,530,740	4,435,823	**3,176,968**	3,056,886

Trade and other payables are non-interest-bearing. Trade and other payables are normally settled on terms ranging from one month to two years.

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 (president), three executive vice presidents, and three other vice presidents. 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 share appreciation rights will be settled in cash. According to the SAR Plan, the exercise gain for excisable share appreciation rights will be determined by the difference between the average closing price of the shares on the HKSE as stated in the HKSE's quotation from the 30 days immediately preceding the date of its annual report to the last transaction date of that year, and the exercise price.

The SAR Plan further provides that if the exercise 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 percentages:

1) between HK$0.99 and HK$1.50, at 50%;
2) between HK$1.51 and HK$2.00, at 30%;
3) between HK$2.01 and HK$3.00, at 20%; and
4) HK$3.01 or above, at 15%.

The grant of the share appreciation rights was completed and became effective on 6 June 2007 when all the entitled senior officers agreed and signed individual performance contracts with the Company.

As of 31 December 2011, the first batch of share appreciation rights has been forfeited in 2009, the second batch has been approved and exercised in 2011 and the third batch has not been submitted for approval. The exercise gains of the second, the third and the fourth batch share appreciation rights were measured at HK$1.82, HK$2.27 and HK$2.43 per share, respectively. The weighted average closing price of the shares immediately before the date on which the second batch of share appreciation rights was exercised was HK$9.11 per share.

The fair value change is charged to the income statement over the period until the finalisation of the exercise gain. The liability is measured at the end of the reporting period including the settlement date with changes in fair value recognised in profit or loss. At 31 December 2011, the salary and bonus payable arising from the share appreciation rights was RMB1.4 million (2010: RMB7.7 million).

Details of movements in the share appreciation rights during the year are as follows:

	2011 Number of shares	**2010 Number of shares**
Outstanding at 1 January	**3,503,663**	5,000,000
Granted during the year	**–**	–
Exercised during the year	**(1,250,000)**	–
Forfeited during the year	**(1,080,588)**	(1,496,337)
Outstanding at 31 December	**1,173,075**	3,503,663
Exercisable at 31 December	**1,173,075**	2,335,775

28. Deferred tax liabilities

The movements of deferred tax liabilities during the year are as follows:

	Group 2011 RMB'000	Group 2010 RMB'000	Company 2011 RMB'000	Company 2010 RMB'000
Balance at beginning of the year	**1,716,052**	1,790,789	**458,036**	365,890
Charged to the income statement during the year *(note 10)*	**159,409**	(32,377)	**260,035**	92,146
Exchange realignment	**(58,461)**	(42,360)	**–**	–
Balance at end of the year	**1,817,000**	1,716,052	**718,071**	458,036

The principal components of the provision for deferred tax are as follows:

Group

	Balance at 1 January 2010 RMB'000	Recognised in income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2010 and 1 January 2011 RMB'000	Recognised in income statement RMB'000	Exchange realignment RMB'000	Balance at 31 December 2011 RMB'000
Deferred tax assets:							
Provision for staff bonus	(114,574)	(60,548)	35	(175,087)	**64,679**	**–**	**(110,408)**
Provision for impairment of assets	–	–	–	–	**(44,138)**	**–**	**(44,138)**
Amortisation of intangible assets	–	–	–	–	**(439)**	**–**	**(439)**
Accrued liabilities	(76,280)	72,636	3,644	–	**–**	**–**	**–**
Others	(45,470)	7,321	(493)	(38,642)	**26,775**	**385**	**(11,482)**
	(236,324)	19,409	3,186	(213,729)	**46,877**	**385**	**(166,467)**
Deferred tax liabilities:							
Accelerated depreciation of property, plant and equipment	766,960	150,543	(9,745)	907,758	**240,850**	**(13,645)**	**1,134,963**
Revaluation surplus on Reorganisation	58,145	(18,045)	–	40,100	**(34,085)**	**–**	**6,015**
Fair value adjustment arising from acquisition of a subsidiary	1,118,459	(103,930)	(33,225)	981,304	**(94,258)**	**(45,170)**	**841,876**
Others	83,549	(80,354)	(2,576)	619	**25**	**(31)**	**613**
	2,027,113	(51,786)	(45,546)	1,929,781	**112,532**	**(58,846)**	**1,983,467**
Net deferred tax liabilities	1,790,789	(32,377)	(42,360)	1,716,052	**159,409**	**(58,461)**	**1,817,000**

28. Deferred tax liabilities (continued)

The principal components of the provision for deferred tax are as follows (continued):

Company

	Balance at 1 January 2010 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2010 and 1 January 2011 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2011 RMB'000
Deferred tax assets:					
Provision for staff bonus	(114,279)	(60,808)	(175,087)	**64,679**	**(110,408)**
Provision for impairment of assets	–	–	–	**(44,138)**	**(44,138)**
Amortisation of intangible assets	–	–	–	**(439)**	**(439)**
Others	(427)	(33,145)	(33,572)	**32,482**	**(1,090)**
	(114,706)	(93,953)	(208,659)	**52,584**	**(156,075)**
Deferred tax liabilities:					
Accelerated depreciation of property, plant and equipment	406,754	219,841	626,595	**241,536**	**868,131**
Revaluation surplus on Reorganisation	58,145	(18,045)	40,100	**(34,085)**	**6,015**
Others	15,697	(15,697)	–	**–**	**–**
	480,596	186,099	666,695	**207,451**	**874,146**
Net deferred tax liabilities	365,890	92,146	458,036	**260,035**	**718,071**

At 31 December 2011, there was no significant unrecognised deferred tax liability (2010: 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.

At 31 December 2011, accumulated tax losses arising in subsidiaries of the Company incorporated in Norway of approximately RMB3,772,314,000 (2010: RMB3,197,898,000) were 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 in near future.

29. Interest-bearing bank borrowings

Group

Current:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Current portion of long term bank loans	**1,626,325**	650,721

Non-current:

	Contractual interest rate (%)	Year of maturity	31 December 2011 RMB'000	31 December 2010 RMB'000
Export-Import Bank of China – unsecured (a)	i	2013	–	344,000
Export-Import Bank of China – unsecured (b)	ii	2017	–	312,000
Export-Import Bank of China – unsecured (c)	LIBOR+170pts	2020	**4,710,921**	5,219,623
Export-Import Bank of China – unsecured (d)	iii	2015	–	450,000
Bank of China – unsecured (e)	LIBOR+138pts	2017	**13,077,912**	11,105,952
Bank of China – unsecured (f)	LIBOR+90pts	2017	**5,040,720**	5,298,160
Industrial and Commercial Bank of China – unsecured (f)	LIBOR+90pts	2017	**3,780,540**	3,973,620
Entrusted loan – unsecured (g)	iv	2012	–	1,000,000
Bank loan – secured (h)	3.20%	2011	–	37,905
			26,610,093	27,741,260
Less: Current portion of long term bank loans			**(1,626,325)**	(650,721)
			24,983,768	27,090,539

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 a commission of 0.15% of the entrusted loan.

29. Interest-bearing bank borrowings (continued)

Company

Current:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Current portion of long term bank loans	**1,626,325**	612,816

Non-current:

	Contractual interest rate (%)	Year of maturity	31 December 2011 RMB'000	31 December 2010 RMB'000
Export-Import Bank of China – unsecured (a)	i	2013	–	344,000
Export-Import Bank of China – unsecured (b)	ii	2017	–	312,000
Export-Import Bank of China – unsecured (c)	LIBOR+170pts	2020	**4,710,921**	5,219,623
Export-Import Bank of China – unsecured (d)	iii	2015	–	450,000
Bank of China – unsecured (e)	LIBOR+138pts	2017	**13,077,912**	11,105,952
Bank of China – unsecured (f)	LIBOR+90pts	2017	**5,040,720**	5,298,160
Industrial and Commercial Bank of China – unsecured (f)	LIBOR+90pts	2017	**3,780,540**	3,973,620
Entrusted loan – unsecured (g)	iv	2012	–	1,000,000
			26,610,093	27,703,355
Less: Current portion of long term bank loans			**(1,626,325)**	(612,816)
			24,983,768	27,090,539

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 a commission of 0.15% of the entrusted loan.

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29. Interest-bearing bank borrowings (continued)

(a) The Group borrowed a RMB denominated bank loan for the purpose of financing the construction of certain modular drilling rigs. The borrowing is 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. The Group repaid all the outstanding balances during the first half of the year.

(b) The Group borrowed a RMB400 million loan for the purpose of financing the construction of boats for the workover operation in Indonesia. The borrowing should be repaid from 19 November 2009 to 19 November 2017 by instalments as follows: RMB44 million on every 19 November from 2009 to 2016, RMB48 million on 19 November 2017. The Group repaid all the outstanding balances during the first half of the year.

(c) The Group borrowed a US$800 million loan for the purpose of funding the acquisition of a subsidiary. The repayment started on 2 September 2011, with instalments amounting to US$42.1 million bi-annually.

(d) The Group borrowed a RMB450 million loan with repayment started on 7 April 2011, and instalments amounting to RMB90 million annually. The Group repaid all the outstanding balances during the first half of the year.

(e) The Group borrowed US$1,680 million to replace CDE's loans and bond. The repayment will start on 14 May 2012 over 11 instalments, to be 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, which 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 RMB 1 billion, which will expire on 29 June 2012. The Group repaid the outstanding balance during the first half of the year.

(h) The loan was granted based on a subsidiary's extensive use of Norwegian suppliers in the construction of the jack-up drilling rig, COSLPower (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 pledged time deposits in the consolidated statement of financial position. The Group repaid the outstanding balance during the year, and the pledged time deposits were released in the current year.

	Group		Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Bank borrowings repayable:				
Within one year	**1,626,325**	650,721	**1,626,325**	612,816
In the second year	**1,545,176**	2,712,806	**1,545,176**	2,712,806
In the third to fifth years, inclusive	**14,741,082**	9,258,165	**14,741,082**	9,258,165
Beyond five years	**8,697,510**	15,119,568	**8,697,510**	15,119,568
	26,610,093	27,741,260	**26,610,093**	27,703,355

There were no assets pledged for any of the above bank borrowings as at 31 December 2011 (2010: RMB38 million).

30. Long term bonds

Group

	Year of maturity	31 December 2011 RMB'000	31 December 2010 RMB'000
Corporate bonds (a)	2022	**1,500,000**	1,500,000
Second security priority USD bonds (b)	2011	–	573,729
		1,500,000	2,073,729
Less: Current portion of long term bonds		–	(573,729)
		1,500,000	1,500,000

Company

	Year of maturity	31 December 2011 RMB'000	31 December 2010 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 Semi AS (formerly known as "Offrig Drilling ASA") issued the bonds in April 2006, with a book value of US$200 million and with a second security priority mortgage in the construction contracts relating to semi-submersible rigs. The company incurred debt issuance costs of US$4.5 million, which are capitalised and amortised as a component of interest expense over the term of the bonds. The bonds carry a fixed coupon rate of 9.75% and have a five year bullet maturity. In April 2011, the bonds matured and had been redeemed. The mortgage in the construction contracts relating to semi-submersible rigs was released accordingly.

31. Deferred revenue

	Group 2011 RMB'000	2010 RMB'000
Balance at beginning of the year	**922,523**	780,114
Additions	**319,321**	218,096
Credited to the consolidated income statement during the year	**(218,299)**	(53,492)
Exchange realignment	**(37,477)**	(22,195)
Balance at end of the year	**986,068**	922,523

	Company 2011 RMB'000	2010 RMB'000
Balance at beginning of the year	**207,354**	36,565
Additions	**67,585**	180,601
Credited to the income statement during the year	**(72,850)**	(9,812)
Balance at end of the year	**202,089**	207,354

31. Deferred revenue (continued)

Deferred revenue consists of the contract value generated in the process of the acquisition of CDE, the deferred mobilisation revenue and government grants. The deferred revenue generated from contract value and deferred mobilisation revenue are amortised according to the related drilling contract periods. The deferred revenue generated from government grants is recognised in the consolidated income statement according to the depreciation periods of the related assets and the periods in which the related costs incurred.

In 2011, government grants of RMB68,134,000 (2010: RMB180,602,000) were recognised as deferred revenue and will be recognised in the consolidated income statement according to the depreciation periods of the related assets and the periods in which the related costs incurred. Meanwhile, part of mobilisation revenue of RMB251,187,000 (2010: RMB37,494,000) was recognised as deferred revenue and will be credited to the consolidated income statement according to the related contracts periods.

In 2011, government grants of RMB72,860,000 (2010: RMB9,813,000) and mobilisation revenue of RMB110,946,000 (2010: RMB4,365,000) were credited to other revenue and revenue respectively. Also, included in the amount credited to the revenue during the year is RMB34,493,000 (2010: RMB39,314,000) arising from the amortisation of the contract value.

32. Issued capital

	Group and Company	
	31 December 2011 RMB'000	31 December 2010 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).

33. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current year are presented in the consolidated statement of changes in equity 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 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 from retained profits	*(i)*	–	351,813	(351,813)	–	–
At 31 December 2010		8,074,565	1,687,453	10,489,263	(18,149)	20,233,132
Balance at 1 January 2011		**8,074,565**	**1,687,453**	**10,489,263**	**(18,149)**	**20,233,132**
Total comprehensive income for the year		**–**	**–**	**3,814,365**	**(27,689)**	**3,786,676**
Proposed final 2011 dividend	*12*	**–**	**–**	**(809,158)**	**–**	**(809,158)**
Transfer from retained profits	*(i)*	**–**	**383,384**	**(383,384)**	**–**	**–**
At 31 December 2011		**8,074,565**	**2,070,837**	**13,111,086**	**(45,838)**	**23,210,650**

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 the PRC accounting principles to the statutory common reserve fund in 2010 and 2011.

As at 31 December 2011, in accordance with the PRC Company Law, an amount of approximately RMB8,075 million (2010: RMB8,075 million) standing to the credit of the Company's capital reserve account and an amount of approximately RMB2,071 million (2010: RMB1,687million) standing to the credit of the Company's statutory reserve funds, as determined under the PRC accounting principles and financial regulations in the PRC, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained profits of approximately RMB13,920 million (2010: RMB11,298 million) available for distribution as dividends. Save as the aforesaid, the Company did not have any reserves available for distribution to its shareholders at 31 December 2011.

The retained profits of the Company determined under the relevant PRC accounting principles and financial regulations in the PRC amounted to approximately RMB14,205 million as at 31 December 2011 (2010: RMB11,564 million).

34. 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 2011 and 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Within one year	**226,974**	120,962	**153,708**	113,337
In the second to fifth years, inclusive	**21,680**	127,276	**197**	104,103
After five years	**16,094**	23,850	**–**	–
	264,748	272,088	**153,905**	217,440

(b) Group as lessor

The Group has entered into a bareboat lease with a lease term of five years.

At 31 December 2011 and 2010, the Group had total future minimum lease receivables under a non-cancellable operating lease falling due as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Within one year	**161,835**	81,360

35. Capital commitments

In addition to the operating lease commitments detailed in note 34(a) above, the Group and the Company had the following capital commitments, principally for the construction and purchases of property, plant and equipment at the end of the reporting period:

	Group		Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Contracted, but not provided for	**3,700,568**	3,492,713	**2,603,474**	2,237,101
Authorised, but not contracted for	**7,312,720**	6,810,488	**7,312,720**	6,810,488
	11,013,288	10,303,201	**9,916,194**	9,047,589

At the end of the reporting period, the Group's and the Company's share of the jointly-controlled entities' own capital commitments were not significant.

36. Notes to the consolidated statement of cash flows

Reconciliation of profit before tax to cash generated from operations

	Note	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	5	**4,811,629**	4,834,237
Adjustments for:			
Finance costs	6	**456,745**	650,940
Interest income		**(63,804)**	(76,900)
Share of profits of jointly-controlled entities	18	**(174,273)**	(143,839)
Exchange gains, net		**(60,521)**	(87,584)
Loss on disposal of items of property, plant and equipment, net	5	**34,024**	25,643
Insurance compensation of property, plant and equipment		**(25,613)**	(27,357)
Depreciation of property, plant and equipment and amortisation of intangible assets	5	**3,069,595**	3,122,338
Impairment of available-for-sale investments	5	**–**	18,291
Impairment of accounts receivable and other receivables	5	**36,892**	226,576
Provision against inventories	5	**520**	629
Impairment of property, plant and equipment	5	**75,796**	172,401
		8,160,990	8,715,375
(Increase)/decrease in inventories		**(79,533)**	4,380
(Increase)/decrease in accounts receivable		**(550,970)**	95,506
(Increase) in notes receivable		**(526,193)**	(263,533)
(Increase) in prepayments, deposits and other receivables, net of receivables for property, plant and equipment		**(6,484)**	(44,176)
Increase/(decrease) in trade and other payables, net of payables for purchases of property, plant and equipment		**13,262**	(323,176)
Increase in salary and bonus payables		**7,842**	271,469
Increase in deferred revenue		**63,545**	142,409
Cash generated from operations		**7,082,459**	8,598,254

37. Contingency

(a) In 2009 and 2010, certain subsidiaries of CDE received notifications from the Norwegian 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 letters and assessment report to the Norwegian tax authorities regarding the above notifications and requirements on 30 June 2010, 19 January 2011 and 7 June 2011, respectively. In the second half of 2011, the Group has continued communicating with the Norwegian tax authorities relating to the aforesaid tax contingencies, and no conclusions have been made as at the approval date of the consolidated financial statements. 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 the consolidated 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 approval date of the consolidated financial statements, 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 the consolidated financial statements.

38. Related party transactions

As disclosed in note 1, the Company is a subsidiary of CNOOC, which is an SOE subject to the control of the State Council of the PRC Government. The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities and other SOEs.

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

The Group has extensive transactions and relationships with the members of CNOOC. The transactions were made on terms agreed among the parties.

In addition to the transactions and balances detailed elsewhere in these financial statements, the following is a summary of significant transactions carried out between the Group and (i) the CNOOC Limited Group; (ii) the CNOOC Group; and (iii) the Group's jointly-controlled entities.

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

	Group	
	2011	**2010**
	RMB'000	**RMB'000**
i CNOOC Limited Group		
–Provision of drilling services	**4,582,718**	4,682,766
–Provision of well services	**3,064,540**	3,242,708
–Provision of marine support and transportation services	**1,870,576**	1,787,156
–Provision of geophysical and surveying services	**1,832,832**	1,209,451
	11,350,666	10,922,081
ii CNOOC Group		
–Provision of drilling services	**152,569**	150,957
–Provision of well services	**60,691**	96,516
–Provision of marine support and transportation services	**271,288**	186,132
–Provision of geophysical and surveying services	**140,126**	151,080
	624,674	584,685
iii Jointly-controlled entities		
–Provision of drilling services	**2,329**	6,429
–Provision of well services	**18,091**	9,954
–Provision of marine support and transportation services	**–**	–
–Provision of geophysical and surveying services	**2,568**	3,516
	22,988	19,899

b. Included in operating expenses

	Group	
	2011	**2010**
	RMB'000	**RMB'000**
Services provided by CNOOC Group and the Group's jointly-controlled entities:		
–Labour services	**29,365**	30,487
–Materials, utilities and other ancillary services	**712,221**	522,375
–Transportation services	**15,793**	1,310
–Leasing of offices, warehouses and berths	**94,061**	39,932
–Repair and maintenance services	**4,503**	8,982
–Management services	**41,438**	66,605
	897,381	669,691

38. Related party transactions (continued)

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

c. *Included in interest income/expenses*

CNOOC Finance Co., Ltd. (a subsidiary of CNOOC)	Group 2011 RMB'000	2010 RMB'000
Interest income	**14,122**	3,196
Interest expenses	**1,448**	60,157

d. *Loans drawn down during the year*

	Group 2011 RMB'000	2010 RMB'000
CNOOC Finance Co., Ltd.	**–**	500,000

e. *Loan repayment during the year*

	Group 2011 RMB'000	2010 RMB'000
CNOOC Finance Co., Ltd.	**1,000,000**	800,000

f. *Construction progress billing*

	Group 2011 RMB'000	2010 RMB'000
Drilling rigs construction service provided by CNOOC Group	**159,782**	976,745

g. *Deposits*

	Group 31 December 2011 RMB'000	31 December 2010 RMB'000
Deposits placed with CNOOC Finance Co., Ltd. as at the end of the reporting period	**1,073,852**	1,259,245

Except for item a(iii) in note 38(A) above, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

38. Related party transactions (continued)

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

h. Commitments with related parties

i Operating lease commitments

The Group has the following significant operating lease commitments with related parties principally for properties and equipments, which haves been included in note 34:

	Group	
	31 December 2011 RMB'000	**31 December 2010 RMB'000**
Within one year	**87,646**	800
In the second to fifth years, inclusive	–	200
After five years	–	–
	87,646	1,000

ii Capital commitments

The Group has the following significant commitments with related parties principally for the construction and purchases of property, plant and equipment at the end of the reporting period, which have been included in note 35:

	Group	
	31 December 2011 RMB'000	**31 December 2010 RMB'000**
Contracted, but not provided for	–	33,083
Authorised, but not contracted for	–	515,472
	–	548,555

In addition, the Group has the following significant commitments with other SOEs in the PRC principally for the construction and purchases of property, plant and equipment, which are not included in the above:

	Group	
	31 December 2011 RMB'000	**31 December 2010 RMB'000**
Contracted, but not provided for	**1,039,187**	889,904
Authorised, but not contracted for	–	–
	1,039,187	889,904

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38. Related party transactions (continued)

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

i. Outstanding balances with related parties

Accounts receivable

Included in accounts receivable are amounts due from related parties which arose from the ordinary course of business and are repayable on similar credit terms to those offered to independent third party customers.

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Due from the ultimate holding company	**11,598**	26
Due from CNOOC Limited Group	**1,998,198**	1,751,148
Due from other CNOOC Group companies	**66,228**	205,630
Due from jointly-controlled entities	**139,898**	154,509
	2,215,922	2,111,313
Less: Provision for impairment of accounts receivable	**(120,034)**	(120,034)
	2,095,888	1,991,279

Prepayments, deposits and other receivables

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Due from the ultimate holding company	**–**	1,315
Due from CNOOC Limited Group	**5,213**	29,885
Due from other CNOOC Group companies	**9,598**	8,310
	14,811	39,510
Less: Provision for impairment of other receivables	**(500)**	(500)
	14,311	39,010

Included in investments in joint ventures

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Due from joint ventures	**6,869**	5,761
Due to joint ventures	**61,165**	110

38. Related party transactions (continued)

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

i. Outstanding balances with related parties (continued)

Notes receivable

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Due from CNOOC Limited Group	**1,217,384**	691,574

Included in trade and other payables

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Due to the ultimate holding company	**3,248**	3,248
Due to CNOOC Limited Group	**14,451**	907
Due to other CNOOC Group companies	**587,903**	662,523
Due to jointly-controlled entities	**22,029**	23,771
	627,631	690,449

Included in other current liabilities

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Due from joint-controlled entities	**120,583**	128,595
Less: Provision for impairment of due from joint-controlled entities	**(31,216)**	(32,810)
	89,367	95,785
Due to a joint-controlled entity	**17,145**	18,391

Included in other non-current liabilities

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Due from a jointly-controlled entity	**–**	48

38. Related party transactions (continued)

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

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

The Company and the above related parties are within the CNOOC Group and are under common control by the same ultimate holding company.

The balances with related parties at 31 December 2011 included in prepayments, deposits and other receivables, investments in jointly-controlled entities, trade and other payables, and other current liabilities 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 the CNOOC Group which govern the employee benefit arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the leasing of properties and various other commercial arrangements. During the year, all pension scheme payments relating to the Supplementary Pension Benefits of approximately RMB0.6 million (2010: RMB14.8 million) were borne by CNOOC (note 9).

Prior to the Reorganisation, the Group occupied certain properties owned by CNOOC at nil consideration. The Company entered into various property lease agreements in September 2002 with the CNOOC Group to lease the aforesaid properties together with other properties for a term of one year. These leases have been renewed annually.

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

j. *Transactions with other SOEs in the PRC*

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services of vessels and drilling rigs, purchases of goods, services or property, plant and equipment and making deposits and borrowings with state-owned banks in the PRC, other than the CNOOC Group, in the normal course of business at terms comparable to those with other non-SOEs. The sales of goods and rendering of services to these SOEs are individually not significant. The individually significant construction services provided by the SOE vendor is from a subsidiary controlled by an SOE, namely China International Marine Containers (Group) Co., Ltd. ("CIMC"), in relation to the construction of the Group's semi-submersible rigs. For the year ended 31 December 2011, the Group has recorded in the additions to its property, plant and equipment for the purchases of construction services of three semi-submersible rigs, with an aggregate amount of RMB996 million (2010: RMB1,047 million). On 1 December 2011, the Group entered into a construction contract with the subsidiary of CIMC for the construction of the fourth semi-submersible rig amounting to RMB1,039 million (2010: RMB890 million), which was included in the commitments in item h in note 38(A) above.

38. Related party transactions (continued)

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

j. *Transactions with other SOEs in the PRC (continued)*

In addition, the Group has certain of its cash and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2011, as summarised below:

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Cash and cash equivalents	**1,377,524**	2,191,819
Time deposits with financial institutions	**1,016,018**	500,000
	2,393,542	2,691,819
Long-term bank loans (note 29)	**24,983,768**	26,090,539
Current portion of long-term bank loans (note 29)	**1,626,325**	612,816
	26,610,093	26,703,355

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

(B) Compensation of key management personnel of the Group

	31 December 2011 RMB'000	31 December 2010 RMB'000
Short-term employee benefits	**4,336**	4,564
Post-employment benefits	**379**	375
Share appreciation rights	**(1,213)**	1,108
Total compensation paid to key management personnel	**3,502**	6,047

Further details of directors' emoluments are included in note 7 to the financial statements.

39. Financial instruments

(a) Financial instruments by category

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

Financial assets

	Group					
	31 December 2011			31 December 2010		
	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
Due from jointly-controlled entities *(note 18)*	**6,869**	**–**	**6,869**	5,761	–	5,761
Available-for-sale investments *(note 19)*	**–**	**–**	**–**	–	100	100
Financial assets included in deposits and other receivables *(note 21)*	**324,283**	**–**	**324,283**	320,161	–	320,161
Accounts receivable *(note 22)*	**3,980,041**	**–**	**3,980,041**	3,460,752	–	3,460,752
Notes receivable *(note 23)*	**1,219,384**	**–**	**1,219,384**	693,191	–	693,191
Pledged deposits *(note 25)*	**10,805**	**–**	**10,805**	87,533	–	87,533
Time deposits with original maturity over three months *(note 25)*	**882,126**	**–**	**882,126**	400,000	–	400,000
Cash and cash equivalents *(note 25)*	**5,646,159**	**–**	**5,646,159**	5,847,164	–	5,847,164
Total	**12,069,667**	**–**	**12,069,667**	10,814,562	100	10,814,662

Financial liabilities

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	**4,355,176**	4,435,823
Due to a joint-controlled entity *(note 24)*	**17,145**	18,391
Interest-bearing bank borrowings-current portion *(note 29)*	**1,626,325**	650,721
Long term bonds-current portion *(note 30)*	**–**	573,729
Subtotal	**5,998,646**	5,678,664
Non-current		
Due to jointly-controlled entities *(note 18)*	**61,165**	110
Interest-bearing bank borrowings *(note 29)*	**24,983,768**	27,090,539
Long term bonds *(note 30)*	**1,500,000**	1,500,000
Subtotal	**26,544,933**	28,590,649
Total	**32,543,579**	34,269,313

39. Financial instruments (continued)

(a) Financial instruments by category (continued)

The carrying amounts of each of the categories of financial instruments of the Company as the end of the reporting period are as follows:

Financial assets

	Company					
	31 December 2011			31 December 2010		
	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
Due from jointly-controlled entities *(note 18)*	6,869	–	6,869	5,761	–	5,761
Available-for-sale investments *(note 19)*	–	–	–	–	100	100
Financial assets included in deposits and other receivables *(note 21)*	528,071	–	528,071	588,792	–	588,792
Accounts receivable *(note 22)*	3,209,953	–	3,209,953	3,633,313	–	3,633,313
Notes receivable *(note 23)*	1,219,384	–	1,219,384	693,191	–	693,191
Pledged deposits *(note 25)*	10,805	–	10,805	4,755	–	4,755
Time deposits with original maturity over three months *(note 25)*	882,126	–	882,126	400,000	–	400,000
Cash and cash equivalents *(note 25)*	4,650,084	–	4,650,084	4,399,216	–	4,399,216
Total	10,507,292	–	10,507,292	9,725,028	100	9,725,128

Financial liabilities

	Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	3,043,699	3,056,886
Interest-bearing bank borrowings-current portion *(note 29)*	1,626,325	612,816
Subtotal	4,670,024	3,669,702
Non-current		
Due to jointly-controlled entities *(note 18)*	110	110
Interest-bearing bank borrowings *(note 29)*	24,983,768	27,090,539
Long term bonds *(note 30)*	1,500,000	1,500,000
Subtotal	26,483,878	28,590,649
Total	31,153,902	32,260,351

39. Financial instruments (continued)

(b) Fair value and fair value hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

	Group			
	Carrying amounts		Fair values	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Financial assets				
Due from jointly-controlled entities *(note 18)*	**6,869**	5,761	**6,869**	5,761
Available-for-sale investments *(note 19)*	**–**	100	**–**	100
Financial assets included in deposits and other receivables *(note 21)*	**324,283**	320,161	**324,283**	320,161
Accounts receivable *(note 22)*	**3,980,041**	3,460,752	**3,980,041**	3,460,752
Notes receivable *(note 23)*	**1,219,384**	693,191	**1,219,384**	693,191
Pledged deposits *(note 25)*	**10,805**	87,533	**10,805**	87,533
Time deposits with original maturity over three months *(note 25)*	**882,126**	400,000	**882,126**	400,000
Cash and cash equivalents *(note 25)*	**5,646,159**	5,847,164	**5,646,159**	5,847,164
Total	**12,069,667**	10,814,662	**12,069,667**	10,814,662
Financial liabilities				
Current				
Financial liabilities included in trade and other payables	**4,355,176**	4,435,823	**4,355,176**	4,435,823
Due to a joint-controlled entity *(note 24)*	**17,145**	18,391	**17,145**	18,391
Interest-bearing bank and other borrowings-current portion *(note 29)*	**1,626,325**	650,721	**1,626,325**	650,721
Long term bonds-current portion *(note 30)*	**–**	573,729	**–**	573,729
Subtotal	**5,998,646**	5,678,664	**5,998,646**	5,678,664
Non-current				
Due to jointly-controlled entities *(note 18)*	**61,165**	110	**61,165**	110
Interest-bearing bank and other borrowings *(note 29)*	**24,983,768**	27,090,539	**24,983,768**	27,090,539
Long term bonds *(note 30)*	**1,500,000**	1,500,000	**1,415,159**	1,411,482
Subtotal	**26,544,933**	28,590,649	**26,460,092**	28,502,131
Total	**32,543,579**	34,269,313	**32,458,738**	34,180,795

39. Financial instruments (continued)

(b) Fair value and fair value hierarchy (continued)

	Company			
	Carrying amounts		Fair values	
	31 December 2011 RMB'000	31 December 2010 RMB'000	31 December 2011 RMB'000	31 December 2010 RMB'000
Financial assets				
Due from jointly-controlled entities *(note 18)*	**6,869**	5,761	**6,869**	5,761
Available-for-sale investments *(note 19)*	**–**	100	**–**	100
Financial assets included in deposits and other receivables *(note 21)*	**528,071**	588,792	**528,071**	588,792
Accounts receivable *(note 22)*	**3,209,953**	3,633,313	**3,209,953**	3,633,313
Notes receivable *(note 23)*	**1,219,384**	693,191	**1,219,384**	693,191
Pledged deposits *(note 25)*	**10,805**	4,755	**10,805**	4,755
Time deposits with original maturity over three months *(note 25)*	**882,126**	400,000	**882,126**	400,000
Cash and cash equivalents *(note 25)*	**4,650,084**	4,399,216	**4,650,084**	4,399,216
Total	**10,507,292**	9,725,128	**10,507,292**	9,725,128
Financial liabilities				
Current				
Financial liabilities included in trade and other payables	**3,043,699**	3,056,886	**3,043,699**	3,056,886
Interest-bearing bank and other borrowings-current portion *(note 29)*	**1,626,325**	612,816	**1,626,325**	612,816
Subtotal	**4,670,024**	3,669,702	**4,670,024**	3,669,702
Non-current				
Due to jointly-controlled entities *(note 18)*	**110**	110	**110**	110
Interest-bearing bank borrowings *(note 29)*	**24,983,768**	27,090,539	**24,983,768**	27,090,539
Long term bonds *(note 30)*	**1,500,000**	1,500,000	**1,415,159**	1,411,482
Subtotal	**26,483,878**	28,590,649	**26,399,037**	28,502,131
Total	**31,153,902**	32,260,351	**31,069,061**	32,171,833

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:

The fair values of cash and cash equivalents, pledged deposits, time deposits with original maturity over three months, accounts receivable, notes receivable, trade and other payables, the current portion of interest-bearing bank borrowings and 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 rates approximated to the carrying amount as at 31 December 2011.

The fair values of long term bonds are based on quoted market prices.

39. Financial instruments (continued)

(b) Fair value and fair value hierarchy (continued)

Fair value hierarchy

The Group and the Company use the following hierarchy for determining and disclosing the fair values 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 for which any inputs which have a significant effect on the recorded fair value are not based on observable market data

Assets measured at fair value:

The Group and the Company

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments-unlisted	–	–	–	–

As at 31 December 2010

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments-unlisted	–	–	100	100

The movements in fair value measurements in Level 3 during the year are as follows:

	2011 RMB'000	2010 RMB'000
Available-for-sale investments-unlisted		
At 1 January	**100**	100
Disposals	**(100)**	–
At 31 December	–	100

During the year, 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 (2010: Nil).

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2011 and 2010.

40. 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 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 and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board 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. The 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.

Management has assessed the Group's exposure to foreign currency risk (due to changes in the fair values of monetary assets and liabilities) by using a sensitivity analysis on the change in the foreign exchange rates of the US dollars, from which the Group's foreign currency risk has arisen as at 31 December 2011 and 2010. Based on management's assessment at 31 December 2011, a change in depreciation of US dollars by 5% would lead to an increase in the Group's net profit by 1.00% (2010: An increase by 3.87%) and a decrease in equity by 1.14% (2010: A decrease by 0.72%). Conversely, a change in appreciation of US dollars by 5% would lead to a decrease in the Group's net profit by 1.00% (2010: A decrease by 3.87%) and an increase in equity by 1.14% (2010: An increase by 0.72%). The foreign currency exchange rate sensitivity in net profit in 2011 compared with 2010 is attributable to a decrease in foreign currency denominated debts.

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. At 31 December 2011, most of the Group's interest-bearing bank borrowings bore interest at floating rates.

Based on management's assessment, at 31 December 2011, 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 RMB113 million (2010: RMB118 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 RMB113 million (2010: RMB118 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 analysed by customer/counterparty, by geographical region and by industry sector.

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

40. Financial risk management objectives and policies (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations. In addition, bank facilities have been put in place for contingency purposes.

The Group's objective is to maintain a balance between continuity of funding and flexibility through long term bonds and interest-bearing loans. 7% of the Group's debts would mature in less than one year as at 31 December 2011 (2010: 4%) based on the carrying value of interest-bearing bank and other borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contracted undiscounted payments, is as follows:

Group

	31 December 2011					
	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	–	**2,131,111**	**2,017,864**	**15,853,289**	**8,939,378**	**28,941,642**
Long term bonds	–	**67,200**	**67,200**	**201,600**	**1,903,200**	**2,239,200**
Financial liabilities included in trade and other payables	–	**4,355,176**	–	–	–	**4,355,176**
	–	**6,553,487**	**2,085,064**	**16,054,889**	**10,842,578**	**35,536,018**

Group

	31 December 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
Financial liabilities included in 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

40. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

	31 December 2011					
	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	**–**	**2,131,111**	**2,017,864**	**15,853,289**	**8,939,378**	**28,941,642**
Long term bonds	**–**	**67,200**	**67,200**	**201,600**	**1,903,200**	**2,239,200**
Financial liabilities included in trade and other payables	**–**	**3,043,699**	**–**	**–**	**–**	**3,043,699**
	–	**5,242,010**	**2,085,064**	**16,054,889**	**10,842,578**	**34,224,541**

Company

	31 December 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
Financial liabilities included in 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

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 2011 and 2010.

40. Financial risk management objectives and policies (continued)

Capital management (continued)

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 periods were as follows:

	Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Interest-bearing bank borrowings *(note 29)*	**26,610,093**	27,741,260
Trade and other payables *(note 26)*	**4,530,740**	4,435,823
Long term bonds *(note 30)*	**1,500,000**	2,073,729
Less: Cash and cash equivalents and time deposit with original maturity over three months *(note 25)*	**(6,528,285)**	(6,247,164)
Net debt	**26,112,548**	28,003,648
Equity attributable to equity holders of the parent	**28,458,565**	25,589,577
Non-controlling interests	**589**	348
Total capital	**28,459,154**	25,589,925
Capital and net debt	**54,571,702**	53,593,573
Gearing ratio	**48%**	52%

41. Events subsequent to the reporting period

On 14 January 2012, HYSY682, a deep water AHTS vessel of the Company being constructed by Wuchang Shipbuilding Industry Company Ltd. (the "Shipyard") at a contract cost of approximately RMB740 million, was grounded at Nantong Wharf of the Shipyard as a result of a leak of the vessel (the "Incident").

The Company has taken full insurance on HYSY682 and the claim procedures relating to the Incident have been initiated by the Company in accordance with the insurance contract. In addition, the Shipyard should be responsible for keeping the vessel safe and be liable for the relevant losses or damages prior to its delivery in accordance with the construction contract signed by the Company and the Shipyard. At 31 December 2011, the construction cost of HYSY682 recognised in the property, plant and equipment account was approximately RMB642 million. As at the approval date of the consolidated financial statements, the losses or damages caused by the Incident and the relevant reclaimable amount have not been determined yet.

42. Comparative amounts

As further explained in note 2.2 to the financial statements, due to the adoption of revised HKFRSs during the current year, the presentation of certain items in the financial statements have been revised or added to comply with the new requirements.

43. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 20 March 2012.

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

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3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin

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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China Insurance Building, 166 East Lujiazui Road, Shanghai

Place where this annual report is available
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2 Chaoyangmen Inner Street
Dong Cheng District, Beijing

Place of Listing of Shares, Stock Name and Stock Code
Place of Listing of H Share
Hong Kong Exchanges and Clearing Limited
Stock Code of H Share: 2883

Place of Listing of A Share
Shanghai Stock Exchange
Stock Name of A Share: COSL
Stock Code of A Share: 601808

Business license registration number of corporate legal person:
1000001003612

Tax Registration Number
12011871092921X

Corporate Business Number
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International: Ernst & Young
Address: 22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

15. 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 signed by certified public accountants.**

3. **Original copy of auditors' report (Hong Kong) signed by certified public accountants.**

4. **Original copy of all documents of the Company and Announcements disclosed on the newspaper designated by CSRC during the reporting period.**

China Oilfield Services Limited

Liu Jian
Chairman
20 March 2012

16. GLOSSARY

Term	Definition
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 Off shore 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	Crudeoil, including condensate and natural gas liquids
Day rate	Fixed daily fee charged with respect to the services provided by a drilling rig or off shore support vessel
Directional drillinga	Intentional drilling of 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 jackup rigs. Instead, the working deck sits atop giant pontoons and hollow columns. These afloat above the water when the rig moves. At the drill site, the crew pumps seawater into the pontoons and columns to partially submerge the rig, hence the name semisubmersible. With much of its bulk below the water's surface, the semi-submersible becomes a stable platform for drilling, moving only slightly with wind and currents. Like jack-ups, most semi-submersibles are towed to the drill site. Because of their exceptional stability, "semis" are well suited for drilling in rough waters. Semisubmersibles can drill in water as deep as 10,000 feet Drillships are specially built seagoing vessels that also drill in water as deep as 10,000 feet 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 off shore 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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