CHINA OILFIELD SERVICES LIMITED

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

# SHAPING THE FUTURE

ANNUAL REPORT 2016

# Company Profile

## INTRODUCTION

China Oilfield Services Limited (the "Company", the "Group" or "COSL"), listed on Hong Kong Stock Exchange (HK stock code: 2883) and Shanghai Stock Exchange (Shanghai stock code: 601808), is one of the leading integrated oilfield services providers in the world. Its services cover each phase of offshore oil and gas exploration, development and production.

## OUR PERFORMANCE

In 2016, COSL provided clients with single, bundled, integrated and general contracting business services in each phase of exploration, development and production of oil and gas through business in four main segments (drilling services, well services, marine support services and geophysical and surveying services). Furthermore, the Company's performance in some broaden operating aspects such as society and environment has also fulfilled its expectation (details please refer to Financial Statements and Sustainability Report).

## STRATEGIC TARGET

COSL aims at becoming an international first-class oilfield services provider. To achieve this, the Company insists on working in a sustainable operating model, targets on balancing the development of economic, society and environment endeavors to provide our clients with safe, high quality, effective and eco-friendly services, striving for a win-win benefit with our shareholders, clients, staff and business partners.

## CORPORATE GOVERNANCE

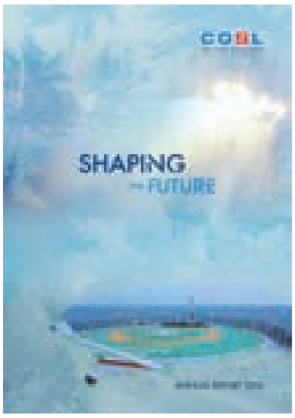
Corporate governance of COSL includes not only those set out in the Corporate Governance Code of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Company Law of PRC and the Articles of Association of the Company, but also stricter and self-established standards.

## PROSPECT

The Company has steady market share in the offshore China market and actively expands the overseas markets in the regions including Northern Europe, Middle East, Southeast Asia, the Far East, America, Australia and Africa, which provides a sturdy platform for continuous business development.

Oilfield service industry has made us facing challenges and risks varies from place to place, including uncertain political and legal environment as well as the risks coming from deepwater and overseas operation. COSL has rich experiences in oilfield technology services. With a better understanding on China offshore market, and strict risk management policy, we believe that we will seize the opportunities and overcome the challenges.

# Content




Designers:
Zhang Qing, Lin Yeqing,
Yu Wenqin
– Well Tech Division

Designer:
Yao Manman
– Geophysical Division

# Business Overview

COSL not only provides services of single operation for the customers, but also offers integrated project management services.

## DOMESTIC

The Company maintains the leading position in China offshore oilfield services market and provides services in drilling, well-tech, marine support, and geophysical and surveying. Revenue from Mainland China in 2016 amounted to RMB10.27 billion, representing 68.1% of the total revenue.

## INTERNATIONAL

In 2016, two operation regions in the Far East and Africa were added to the international business of the Company on the basis of the traditional international operation markets. Revenue from the international market in 2016 amounted to RMB4.82 billion, representing 31.9% of the total revenue.

**Southeast Asia region** includes Indonesia, India and Malaysia etc.
Businesses involve geophysical services, drilling, logging, directional drilling, cementing, drilling & completion fluids, well completion, work-over services, stimulation, marine support services and product sales.

**Middle East region** includes Iraq, United Arab Emirates, Oman and Saudi Arabia.
Businesses involve drilling, logging, directional drilling, cementing, drilling & completion fluids, well completion, work-over services, stimulation and geophysical services.

**America region** includes Mexico and Canada etc.
Businesses involve drilling, marine support and logging services.

**Europe regions** includes Norway and UK etc.
Businesses involve drilling services and accommodation rigs.

**Australia/Africa region** includes Australia, New Zealand and Gabon etc.
Businesses involve drilling services and geophysical services.

**The Far East region:**
Businesses involve geophysical services, drilling services, marine support services and logging services.

# 2016 Performances

Total revenue for the year: **RMB15,085.5 million**

Profit from operations: **RMB -11,367.7 million**

Profit for the year: **RMB -11,459.5 million**

Basic earnings per share: **RMB -2.40 /share**

Total assets: **RMB80,544.1 million**

Shareholders' equity: **RMB35,296.4 million**

# Financial Highlights

Unit: RMB million

| | 2016 | 2015 | Change % |
|---|---|---|---|
| Revenue | | | |
| Domestic revenue | 10,266.8 | 15,474.4 | (33.7) |
| International revenue | 4,818.7 | 7,699.8 | (37.4) |
| Total | 15,085.5 | 23,174.2 | (34.9) |
| Operating expenses | (26,606.5) | (21,785.2) | 22.1 |
| (Loss)/profit from operations | (11,367.7) | 1,631.5 | (796.8) |
| (Loss)/profit before tax | (11,807.4) | 1,396.4 | (945.6) |
| Income tax credit/(expense) | 347.9 | (287.6) | (221.0) |
| (Loss)/profit for the year | (11,459.5) | 1,108.7 | (1,133.6) |
| Basic (loss)/earnings per share (RMB/share) | (2.40) | 0.23 | (1,143.5) |
| Net assets per share (RMB/share) | 7.4 | 9.8 | (24.5) |
| Ratio | | | |
| Return on equity (%) | (27.9) | 2.4 | |
| Return on asset (%) | (13.2) | 1.2 | |
| Gearing ratio (%) | 50.9 | 39.5 | |
| Price/Earnings ratio | (2.7) | 24.3 | |
| Dividend yield (%) | 0.8 | 1.2 | |
| Dividend payout ratio (%) | (2.1) | 30.2 | |

*Notes:*

1. *Return on equity = Net profit for the year/(shareholders' equity in the beginning of the period+ shareholders' equity at the end of the period)/2*
2. *Return on asset = Net profit for the year/Average total assets*
3. *Gearing ratio = Net debt at the end of the period/(total capital at the end of the period + net debt at the end of the period)*
4. *Price/Earnings ratio = Closing share price of H shares on the last trading day of the year/Earnings per share*
5. *Dividend yield = Dividends per share/Closing share price of H shares on the last trading day of the year*
6. *Dividend payout ratio = Dividends/Earnings attributable to ordinary equity holders of the Company during the year*

## FIVE-YEAR FINANCIAL POSITION REVIEW

Unit: RMB million

| **Major financial data and indicators** | 2016 | 2015 | Change over the same period last year (%) | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Revenue | 15,085.5 | 23,174.2 | (34.9) | 32,993.2 | 27,363.8 | 22,104.7 |
| (Loss)/profit from operations | (11,367.7) | 1,631.5 | (796.8) | 8,425.9 | 7,648.3 | 5,618.6 |
| (Loss)/profit for the year | (11,459.5) | 1,108.7 | (1,133.6) | 7,520.2 | 6,726.4 | 4,569.8 |
| Basic (loss)/earnings per share (RMB/share) | (2.40) | 0.23 | (1,143.5) | 1.57 | 1.49 | 1.01 |
| | As at the end of 2016 | As at the end of 2015 | Change over the end of the same period last year (%) | As at the end of 2014 | As at the end of 2013 | As at the end of 2012 |
| Shareholders' equity | 35,296.4 | 46,828.7 | (24.6) | 47,322.1 | 37,259.8 | 32,204.9 |
| Total assets | 80,544.1 | 93,525.1 | (13.9) | 86,874.3 | 79,262.3 | 74,648.5 |

# Chairman's Statement

"In 2017, the Company will deepen the principle of a united community and actively practice the core value of creating win-win situations with shareholders, clients, employees and business partners so as to strengthen its unity and strive to survive under the challenging industrial environment. The Board also believes that the development of the Company will enter into a new stage with its extensive experience in the industry and comparable strategic advantages."

**Lv Bo**
*Chairman*

Dear shareholders and friends,

In 2016, the international oil price and the oil and gas sector in which the Company is engaged in were under substantial pressure. The Board of Directors (the "Board") and management timely adjusted the path of development stages, expanded the overseas market and accelerated technical transformation. Through cost reduction and efficiency enhancement and bolstering our capability for internationalization, we strengthened the core competitiveness of the Company in both the domestic and overseas markets, secured and increased the market shares of the Company in the core China offshore market. In the following sections, I will present our achievements in 2016 and list out the major concerns of the Board in 2017.

## 1. DETERMINATION OF STRATEGIC DIRECTION AND TARGETS OF THE COMPANY FOR THE MEDIUM TO LONG TERM

In 2016, after careful studies of the industry situation and market demand, the Company determined the path for the development stages of the next five years: to accelerate the pace of overseas and technical development and promote the international construction capability and seriation and industrialization of the technical products of the Company. To assure the stable development of the Company in the long term, during the reporting period, the Company determined a target of "dual 50%" for the medium to long term: to achieve a revenue contribution of 50% by each of the technology sector and large-scale equipment sector; to achieve a revenue contribution of 50% by each of the domestic market and the overseas markets.

The technology sector of the Company focuses on market demand. With self-developed technology and innovation guided by our strategic direction, the comprehensive strengths of the Company in the domestic and overseas markets can be further strengthened. During the year, the principal business segments of the Company were introduced to the Far East region for the first time and operation has commenced. The results of operation were highly recognized by our customers.

## 2. CORPORATE GOVERNANCE AND RISK MANAGEMENT OF BOARD OF DIRECTORS

All directors of the Board perform their duties rigorously and diligently based on the situation of the Company so as to ensure that major decisions of the Company are collectively discussed and made so as to maintain the sustainable and healthy development of various businesses of the Company. In 2016, the Board continued to improve corporate governance and optimize the risk assessment mechanism so as to effectively control substantial risks and practically safeguard the interests of the shareholders and the investors. During the year, the Board considered and amended the "Terms of Reference of the Audit Committee under the Board of Directors" and improved the management system of the Company. At the same time, the Board required the Company to optimize the finance structure and mitigate financial risks. Regarding internal audit, the Board required the Company to continue to improve the internal control system for proactive and effective risk prevention. The effective management of the Company's risks by the Board and the practical fulfilment of the expectations of the Company towards the Board were crucial factors for maintaining sound and healthy fundamentals of the Company during the hard times in the industry in 2016.

In 2016, due to change of work, Mr. Liu Jian resigned from his position as Chairman of the Company, Mr. Li Yong resigned from his position as executive director of the Company and Mr. Cheng Chi resigned from his position as non-executive director of the Company, and Mr. Fong Wo, Felix retired from his position as independent non-executive director of the Company upon expiry of his term of office. On behalf of the Company, I express my sincere gratitude and appreciation for their contribution to the healthy development of the Company in the medium to long term during their term of directorship. Mr. Qi Meisheng, Mr. Xie Weizhi, Mr. Wong Kwai Huen, Albert and I consecutively joined the Board and Mr. Li Feilong was re-elected as director. Mr. Qi has extensive experience in the oil and gas industry. Mr. Xie has extensive experience in finance and management, and Mr. Wong is an expert of compliance in operation with extensive experience in legal practice and relevant professional background. The Board welcome them to join us. Together with my fellow directors, I will conscientiously, diligently and responsibly ensure the healthy development of the Company.

## 3. SUSTAINABLE DEVELOPMENT AND ACTIVE PARTICIPATION IN CHARITABLE ACTIVITIES

The Company insists on the strategy of sustainable development as always and complies with the 10 Principles of the United Nation's Global Compact and relevant requirements of regulatory authorities. The Company always emphasizes on the investment in energy saving and environmental protection, optimizes QHSE management system, strictly controls the energy consumption per unit of output value and reduces emission volume of carbon dioxide so as to ensure the stable performance of security situation and environmental protection. The Company cares about its staff and also concerns about social relief work by actively participating in community activities including donation, charity and environmental protection in the course of overseas market expansion. In 2016, The Company was included as a constituent stock in the Hang Seng (China A) Corporate Sustainability Benchmark Index for the fifth consecutive year and became a constituent stock in the Hang Seng Corporate Sustainability Benchmark Index for the third year, a recognition of the Company's sustainable development strategy by the capital market.

## 4. THE BOARD'S MAJOR CONCERN IN 2017

In 2017, the international crude oil price is expected to recover, the Board and management of the Company will closely monitor the market situation and implement reasonable adjustment and control to actively respond to the market. 1. Maintaining its position in the domestic market with expansion of the overseas market. Leveraging on the strategic advantages of the Company, we will focus on the path of strategic development, accelerate the cultivation of the overseas market and increase the output value contribution of the overseas market. 2. Innovation of self-owned technologies. We will pay attention to the breakthrough of core technologies, increase the output value contribution of the technology sector, accelerate the R&D achievements transformation and promote the seriation and industrialization of technical products. 3. Further enhancement of risk management. We will research and proactively study the situation and make appropriate response to strengthen the risk identification and control capability of the Company under the background of low oil price within the industry. 4. Concern of cash flow management. We will increase the utilization rate of funds and adjust the structures of equipment sector and technology sector with appropriate investment so as to control the maximum amount of resources of the Company and assure the stable business development of the Company in the long term.

The oil and gas industry will remain complicated and full of uncertainties in 2017 and the following years, which require COSL to reform and innovate without delay. The Company will deepen the principle of a united community and actively practice the core value of creating win-win situations with shareholders, clients, employees and business partners so as to strengthen its unity and strive to survive under the challenging industrial environment. The Board also believes that the development of the Company will enter into a new stage with its extensive experience in the industry and comparable strategic advantages. At last, on behalf of the Board, I would like to express my gratitude to all of our staff for their relentless dedication to the development of the Company, and the shareholders and friends for their support and encouragement.

**Lv Bo**
Chairman

21 March 2017

# Chief Executive Officer's Report

**Qi Meisheng**
*Chief Executive Officer and President of COSL*

Dear shareholders,

In 2016, the global economic growth slowed down and the international crude oil price fluctuated at the lower end after bottoming out at the beginning of the year, and the oilfield services industry suffered severely. During the reporting period, with concerted efforts of the Board, management and staff of the Company to actively respond to the market and continued our innovation and reform by upholding the development principle of "specialize to become strong", breakthroughs were made in the two markets of operation and capital and recognition of the Company's brand among the international market was further enhanced, so as to pave way for the development of the Company in the coming years.

## STABLE PERFORMANCE OF SECURITY SITUATION AND ENVIRONMENTAL PROTECTION AND CONTINUOUS ENHANCEMENT OF QHSE MANAGEMENT

In 2016, the Company had thoroughly observed the requirements of relevant laws and regulations of the state, improved the system of responsibilities in relation to safe production, deepened and undertook the main responsibilities as an enterprise and continuously enhanced the Company's QHSE management. We continued to strengthen the bench marking of existing QHSE management with its peers in the international market, adjusted the positioning of the management function of QHSE system, established and implemented special escalation plans so as to ensure the QHSE management of the Company was in line with the actual operating conditions. During the period, with the stable performance of the Company's security situation, the risk management of safety and environmental protection was under control and energy saving and emission reduction were orderly commenced. The occurrence rate of OSHA recordable incident was 0.1.

## COORDINATION AND COVERAGE OF MARKET PLANS AND CONTINUOUS OPTIMIZATION OF SERVICE MODELS

In the domestic market, the Company continued to consolidate its distinctive leading position in China offshore oilfield services market. For instance, leveraging on the strengths and achievements of integrated oilfield services, the Company was awarded a series of contracts including drilling, marine support, logging, cementing and fluids by Shell and was recognized by our clients for the safe and high quality operation and excellent equipment management during the service term. The integrated service project in Panyu, with operation covering four principal business segments including drilling, well services, geophysical services and marine support, has been successfully completed, which shows the international first-class service level of the Company.

To accelerate the pace of development overseas, the Company set a target for the medium to long term market development, which we should achieve a revenue contribution of 50% from the domestic market and another half from the overseas markets. During the period, the Company was awarded long term operation contracts of two rigs for a term of two to three years and procured the drilling service contract in the Middle East which allowed us to enter the directional drilling services market for the first time. For Southeast Asia region, the Company was procured a drilling contract and won the bid of an integrated technical services project in the Indonesian market. In the Americas, the Company won the bid for the bundling contract of offshore rigs and marine support business and laid a solid foundation for the Company to achieve the target of integration in the Mexico Gulf. With the first introduction of the Company's business segments including geophysical services, drilling services, well services and marine support services to the Far East region, the Company was able to cope with the new requirements of new customers and the challenges of equipment and staff, and was highly recognized by the customers for its outstanding operation.

At the same time, to match with the scale of market expansion of the Company and to satisfy the different customer demands in different regions, the Company implemented various measures to optimize the marketing management mechanism in 2016: to focus on the promotion of "household" and "differentiated" integrated services and coordinate the development of new customers and retention of existing customers; to establish in full effort a marketing force comprising staff with a clear understanding of strategic planning and technologies of each segment, and familiar with laws and regulations of finance and taxation and service capabilities.

## MULTIPLE BREAKTHROUGHS IN TECHNOLOGICAL RESEARCH AND DEVELOPMENT AND STRIVING FOR EXCELLENCE IN EQUIPMENT MANAGEMENT

In 2016, the technological research of the Company was directed by customers' needs and market changes so as to continuously promote the industrialization and seriation of technical products. Through research and verification of integrated technical proposals, we satisfied the urgent needs of the customers for mature oilfield reservoir reform, collection enhancement and exploitation and development costs reduction. Self-developed LWD and RSS for 12-1/4 in hole and 8-1/2 in hole have been commercialized. We self-developed 4 technical systems for deep-water drilling & completion fluids and 5 series of cementing technologies, developed 30 types of core products and steadily enhanced the site operation capacity in high temperature, high pressure and ultra-deep water. Self-developed Drilog® LWD and Welleader® RSS achieved success in operation in the domestic market, signifying COSL's enhancement in operating the high-spec equipment and tools.

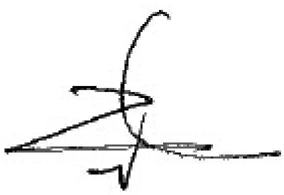
The Company continued to enhance the management of key equipment and strengthen the management model for abnormal situation and troubleshooting process of equipment. As at the end of 2016, the Company's equipment availability at 99.39% was the result of its effective management. For equipment construction, we strengthened the process management and each of the key indicators fulfilled the design requirements with an obvious enhancement of operation and accommodation support capacity, which were highly regarded by the sea crew and customers. A number of vessels passed the inspection with their "zero deficiency" equipment inspection and an outstanding record of zero downtime in operation.

## LEVERAGING ON LOW INTEREST RATE FOR DEBT STRUCTURE OPTIMIZATION AND PROMOTION OF COST REDUCTION AND CONTINUOUS EFFICIENCY ENHANCEMENT

In 2016, the Company seized the opportunity of low interest rate of RMB and completed the issuance of RMB10 billion corporate bonds, and obtained a low cost revolving loan of US$350 million at the same time (completed withdrawal of US$100 million at the end of 2016). The purposes of replenishing the cash flows of the Company and securing low cost funds for the long term were achieved, the currency structure and term structure of the Company's debts were improved and the cash flows repayment with interests thereon were further smoothered for principal. The Company also ensured the safety of cash flows through refined fund management in various aspects. In addition, we continued to firmly promote the strategy of "cost reduction and efficiency enhancement". By various measures including enhancement of utilization rate of resources and reform of internal management, the cost reduction of operation and management was achieved in the year.

## OUTLOOK FOR 2017

In 2017, the Company will adhere to the development target and actively respond to market challenges. The essence of our strategic development will be "being strong" with the promotion of international development and seriation and industrialization of technical products so as to continuously enhance the core competitiveness and international operation capacity of the Company. I am confident to the medium to long term development of the Company.

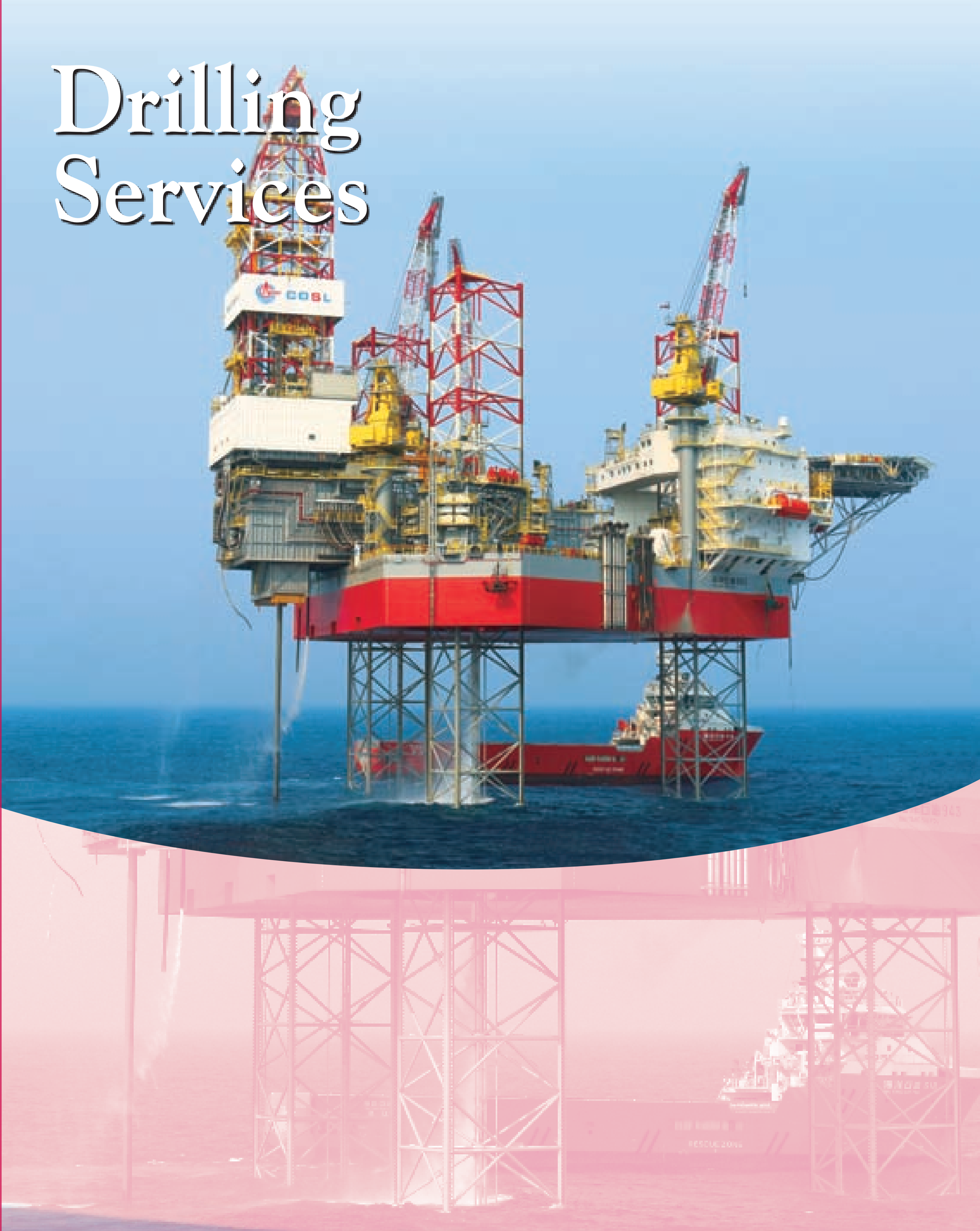


**Qi Meisheng**
*Chief Executive Officer and President of COSL*

21 March 2017

# Management Discussion and Analysis

## Drilling Services



## 2016 INDUSTRY REVIEW

The international oil price fluctuated and climbed up slowly after falling below US$30 per barrel in the first quarter of 2016. During the period, the global companies relating to the oil and gas industry were continuously faced with challenges in the business environment.

A number of counter measures were adopted by the industry for the stagnated market conditions. In addition to the regular measures of cost reduction, mergers and acquisitions within the well services segment continued. However, the competition overview of the industry had no substantial changes. According to the data of Spears, an institution for the industry information, the size of the global offshore drilling market dropped 28% to US$39.6 billion in 2016 as compared to 2015. The top ten drilling contractors took up 54.3% of the global market share. The size of the geophysical prospecting market shrunk to US$7.27 billion in 2016, with a year-on-year decrease of 35%. The top ten geophysical prospecting service providers occupied 83.3% of the global geophysical prospecting market share.

### Drilling Services Segment

***COSL is the major supplier of China offshore drilling services and an important participant in international drilling services. the Group mainly provides services such as drilling, module rigs, land drilling rigs and drilling rigs management. At the end of 2016, the Group operated and managed a total of 44 drilling rigs (of which 33 are jack-up drilling rigs, and 11 are semi-submersible drilling rigs), 2 accommodation rigs and 5 module rigs.***

In 2016, revenue from drilling services amounted to RMB6,498.5 million, representing a decrease of 46.0% as compared with RMB12,039.5 million of 2015.

Under such challenging situation, the Group continued its market expansion, strengthened its marketing efforts in overseas markets, strongly encouraged quality improvement and efficiency enhancement for accelerating the stable development of the international business. With the procurement of two years long term contracts, "COSLSuperior" and "COSLCraft" won the bid in Middle East region; "Nanhai 8" and "Nanhai 9" operated in the Far East region; Group gained the binding contract of offshore rigs and marine support business in America region worthy tens of millions dollars, which made the marine support business of the Group to be introduced to the Gulf of Mexico so as to extend the service industry chain of the Group.

By the end of 2016, we had 18 drilling rigs operating in the China Sea, 5 rigs operating overseas such as in Norway (North Sea), Mexico and Indonesia, 17 were standby and 4 were being maintained in the shipyard.

In 2016, our drilling rigs operated for 8,370 days, representing a decrease of 2,806 days as compared with 2015. The calendar day utilization rate of the rigs reached 51.8%, 18.9 percentage points down compared to last year.

Operation details of jack-up and semi-submersible drilling rigs of the Group in 2016 are as follows:

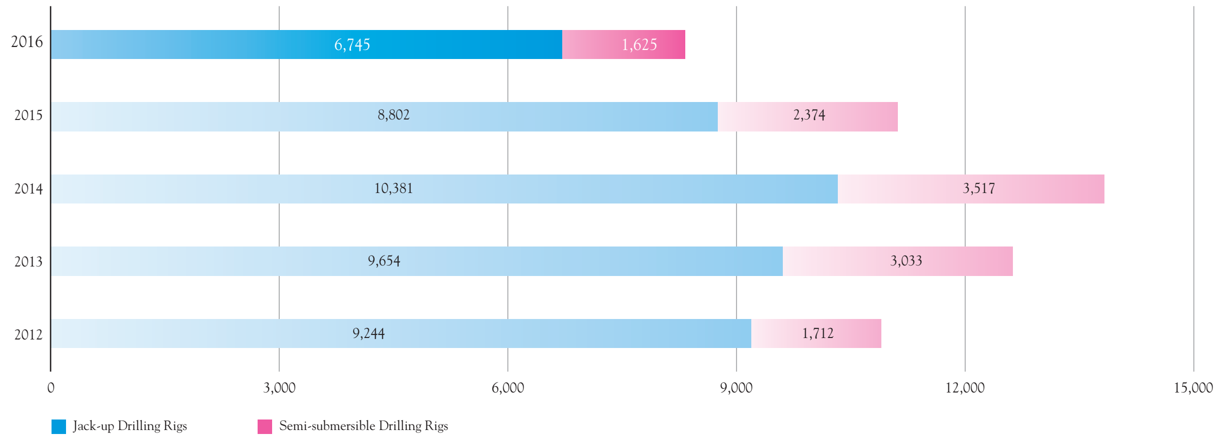
| | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| **Operating days (day)** | 8,370 | 11,176 | (2,806) | (25.1%) |
| Jack-up drilling rigs | 6,745 | 8,802 | (2,057) | (23.4%) |
| Semi-submersible drilling rigs | 1,625 | 2,374 | (749) | (31.6%) |
| **Available day utilization rate** | 55.5% | 72.8% | Down 17.3 percentage points | |
| Jack-up drilling rigs | 58.2% | 75.9% | Down 17.7 percentage points | |
| Semi-submersible drilling rigs | 46.4% | 63.1% | Down 16.7 percentage points | |
| **Calendar day utilization rate** | 51.8% | 70.7% | Down 18.9 percentage points | |
| Jack-up drilling rigs | 55.6% | 73.7% | Down 18.1 percentage points | |
| Semi-submersible drilling rigs | 40.4% | 61.5% | Down 21.1 percentage points | |

As at 31 December 2016, our jack-up drilling rigs operated for 6,745 days, representing a decrease of 2,057 days as compared with 2015. Main causes of decreasing are as follows: ① increasing in standby days during the period as affected by the industry environment; ② decreasing in operation volume due to the surrender of drilling rigs. Semi-submersible drilling rigs operated for 1,625 days, representing a decrease of 749 days as compared with 2015. Main causes of decreasing are as follows: ① increasing in standby days during the period as affected by the industry environment; ② decreasing in operation volume due to the termination of operation of "COSLInnovator" in 2016.

Two accommodation rigs operated in the North Sea for 405 days, representing a decrease of 205 days compared with the same period last year. Utilization rate of the calendar day decreased by 28.3 percentage points to 55.3%, due to increased maintenance and standby days.

Five module rigs operated in the Gulf of Mexico for 618 days, representing a decrease of 876 days over the same period last year. Utilization rate of the calendar day decreased by 48.1 percentage points to 33.8% due to increased standby days.

## Number of Operating Days for Drilling Rigs in Recent Years (Day)




In 2016, the average day income of the drilling rigs of the Group decreased slightly compared with the same period of 2015 due to the decrease in service price, details as follows:

| Average day income (ten thousand US$/day) | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Jack-up drilling rigs | 6.8 | 9.4 | (2.6) | (27.7%) |
| Semi-submersible drilling rigs | 18.5 | 29.6 | (11.1) | (37.5%) |
| Drilling rigs sub-total | 9.4 | 13.6 | (4.2) | (30.9%) |
| Accommodation rigs | 6.8 | 21.4 | (14.6) | (68.2%) |
| Group average | 9.2 | 14.0 | (4.8) | (34.3%) |

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

*(2) USD/RMB exchange rate was 1: 6.9370 on 30 December 2016 and 1: 6.4936 on 31 December 2015, respectively.*

# Well Services

## Well Services Segment

***The Group is the main provider of China offshore well services together with the provision of onshore well services. Through the continuous input in technology research and development, advanced technological facilities and an excellent management team, the Group provides comprehensive professional well services, including but not limited to logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, stimulation etc.***

In 2016, revenue from the well service segment decreased by 19.5% from RMB6,913.2 million of the same period of 2015 to RMB5,568.4 million.

In 2016, the Group insisted on steadily promoting the research and development of technologies. For drilling and logging, we enhanced the operational capacity through self-developed technologies and equipment. With the commercialization of self-developed RSS and LWD, its application and promotion within the country could be increased. In Bohai, fracturing effect evaluation has been completed with good performance in its first operation by self-developed 3D acoustic logging tool. Such technology is important for identifying subtle reservoir, which enables us to expand the market of high-end wireline logging services of the Company. For drilling & completion fluids and cementing, we developed 30 core products so as to steadily enhance the onsite operational capacity of high temperature, high pressure and ultra-deep water operation. For well completion tools, we developed, designed and produced about more than 100 key tools to further improve the tools series.

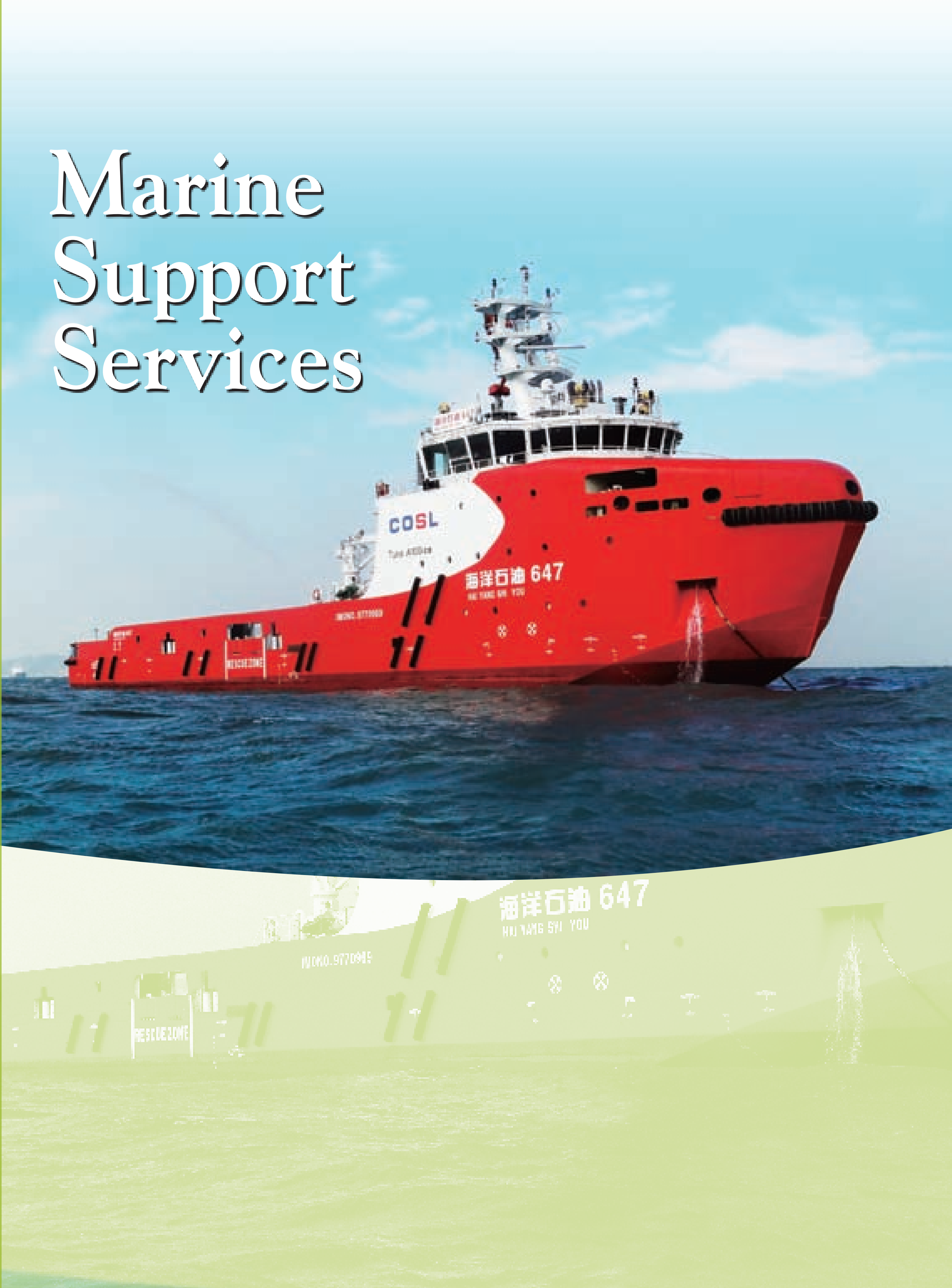
Well services made various achievements in the international market in 2016 while enhancing the research and development ability of technologies. In Southeast Asia region, we consecutively procured operation contracts of drilling and completion fluid from various clients and contracts including cementing and stimulation services from Pertamina. We also entered into an integrated technical services contract. In Middle East region, we were awarded directional drilling services contracts and successfully entered to the high-end directional drilling market in Middle East. We were also awarded the work-over and stimulation services contract of Missan Oilfields in Iraq. In Far East region, the trial operation of the most advanced EFDT in China which is self-developed by the Company was completed, and the RSS and LWD tools of the Company will then be put into operation in same region.

## Marine Support Services Segment

***The Group owns and operates the largest offshore operation fleet with the most comprehensive functions in China offshore. It operates and manages over 130 vessels including AHTS vessels, platform supply vessels and oilfield standby vessels. The Group can provide comprehensive support and services, including anchor handling for different water level, towing of drilling rigs/engineering barges, offshore transportation, standby, fire fighting, rescue, oil spill assisting, for offshore oil and gas exploration, development, construction and oil/gas field production, which can fulfill different needs of clients.***

In 2016, the resources allocation of the marine support services business was adjusted so as to enhance the service efficiency of self-owned vessels and actively expand the international market at the same time. The new vessel, "HYSY685" gains a great feedback of operation in Far East region, which establishes a good foundation for expanding market. In 2016, revenue of marine support services business fell by 27.9% to RMB1,948.5 million from RMB2,703.4 million in 2015. Due to the influence of the market, the chartered vessels operated 7,809 days in total in 2016, decreased by 5,480 days compared to last year, generating revenue of RMB421.8 million, down by RMB516.7 million from the last year.

# Marine Support Services



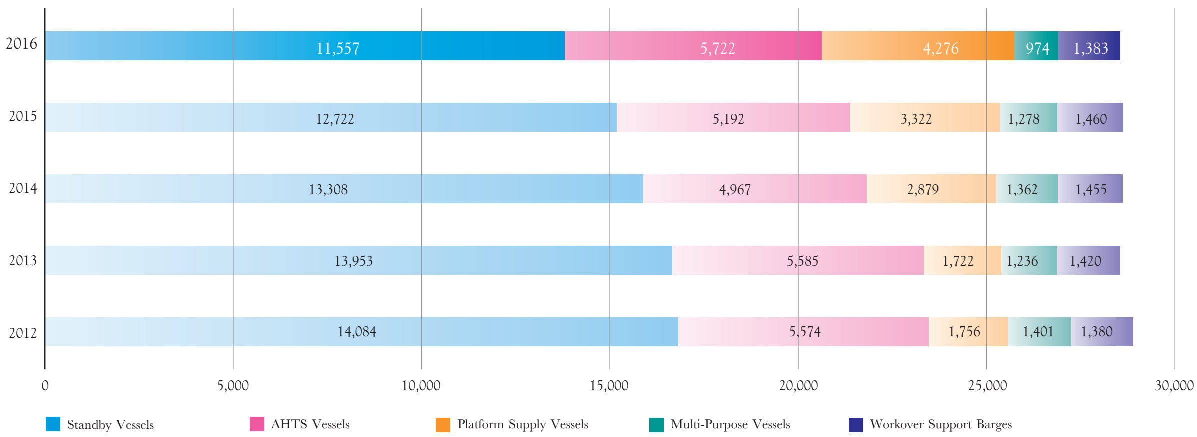
The calendar day utilization rate of self-owned utility vessels was 78.7% in 2016, representing a decrease of 8.5 percentage points as compared with last year.

Self-owned utility vessels of the Group operated 23,912 days in 2016, representing a decrease of 62 days as compared with last year. Details are as follows:

| Operating days (day) | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Standby vessels | 11,557 | 12,722 | (1,165) | (9.2%) |
| AHTS vessels | 5,722 | 5,192 | 530 | 10.2% |
| Platform supply vessels | 4,276 | 3,322 | 954 | 28.7% |
| Multi-purpose vessels | 974 | 1,278 | (304) | (23.8%) |
| Workover support barges | 1,383 | 1,460 | (77) | (5.3%) |
| Total | 23,912 | 23,974 | (62) | (0.3%) |

In 2016, the total transportation volume of oil tankers of the Group amounted to 1,388,000 tonnes, representing a decrease of 19.5% from 1,725,000 tonnes over the same period of 2015.

## Number of Operatings Days for Self-Owned Utility Vessels in Recent Years (Day)




### Geophysical and Surveying Services Segment

***The Group is a major supplier for China offshore geophysical and surveying services and a solid competitor and a provider of effective and high quality service in the global geophysical and surveying market. At the end of 2016, the Group owns 6 towing streamer seismic vessels, 1 professional source vessel, 1 undersea cable team and 4 integrated marine surveying vessels, 2 underwater engineering vessels and 2 support vessels for operation in deep water. Services for clients include but not limited to providing integrated services of wide azimuth, broadband, high density and multi-component seismic acquisition, processing and interpretation by undersea cable, and also integrated offshore surveying services, offshore pipeline inspection and underwater light structure installation services.***

# Geophysical and Surveying Services

In 2016, revenue of geophysical and surveying services segment dropped to RMB1,070.1 million, representing a decrease by 29.5% compared with RMB1,518.1 million for the same period of 2015, of which, the surveying services recorded revenue of RMB181.2 million, representing a decrease of 38.4% as compared with RMB294.1 million over the same period of 2015.

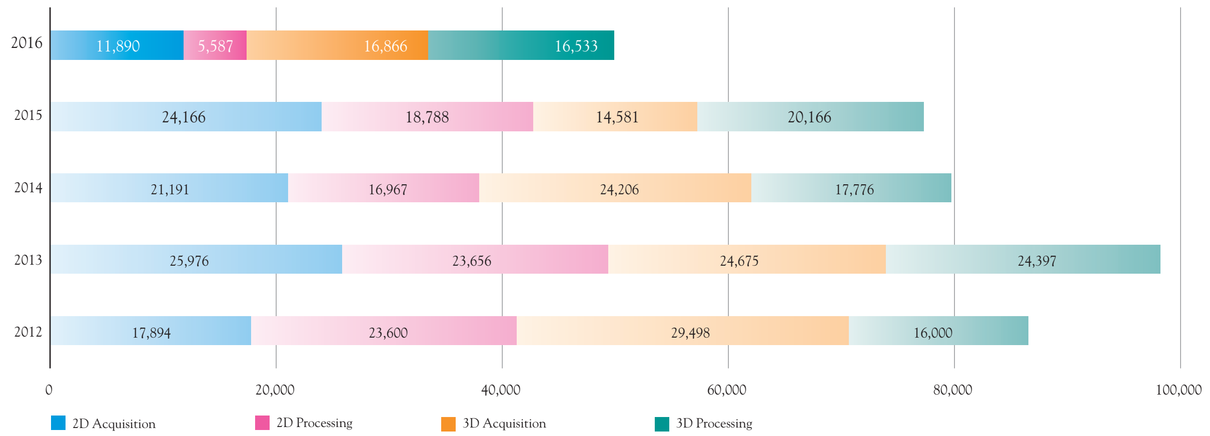
In 2016, geophysical and surveying services segment had remarkable achievements in the expansion of the international market. "HYSY720" completed two 3D seismic acquisition contracts in Barents Sea successfully. Its safe, high quality and efficient operation performance and data quality gained the recognition of customers. In addition, the Group achieved positive results in five regions including Middle East, the Far East and Africa: "HYSY751" and "HYSY770" conducted operation in Middle East region; "HYSY718" conducted operation in the Far East region; vessels including "HYSY771" and "HYSY720" conducted operation in Africa region.

In 2016, as affected by the industry environment, the operation volume of other business segments decreased except for the increase in the operation volume of 3D acquisition of the Group.

The details of operation volume are as follows:

| Businesses | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| 2D acquisition (km) | 11,890 | 24,166 | (12,276) | (50.8%) |
| 2D processing (km) | 5,587 | 18,788 | (13,201) | (70.3%) |
| 3D acquisition (km$^2$) | 16,866 | 14,581 | 2,285 | 15.7% |
| of which: submarine cable (km$^2$) | 700 | 300 | 400 | 133.3% |
| 3D processing (km$^2$) | 16,533 | 20,166 | (3,633) | (18.0%) |

## The Operating Volume of Geophysical Service Fleet in Recent Years (KM/KM$^2$)




## Major Subsidiary

COSL Norwegian AS ("CNA") is a major subsidiary engaged in drilling operations of the Group. COSL Holding AS is a major subsidiary of CNA, which merged into CNA in 2016. By 31 December 2016, the total assets of CNA amounted to RMB18,390.5 million and equity amounted to RMB516.7 million. Affected by the changes of the external market, revenue of CNA in 2016 amounted to RMB1,904.1 million, representing a decrease of RMB1,810.0 million or 48.7% as compared with RMB3,714.1 million in the same period in 2015.The net profit amounted to RMB –5,491.5 million while a net profit of RMB –2,387.7 million was recorded in the same period in 2015, which was mainly affected by market environment.

## FINANCIAL REVIEW

### 1. Analysis on Consolidated Statement of Profit or Loss

#### 1.1 Revenue

For the year 2016, revenue of the Group amounted to RMB15,085.5 million, representing a decrease of RMB8,088.7 million or 34.9% as compared with last year. The detailed analysis is set out below:

***Analysis by business segment***

Unit: RMB million

| Business segments | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Drilling services | 6,498.5 | 12,039.5 | (5,541.0) | (46.0%) |
| Well services | 5,568.4 | 6,913.2 | (1,344.8) | (19.5%) |
| Marine support services | 1,948.5 | 2,703.4 | (754.9) | (27.9%) |
| Geophysical and surveying services | 1,070.1 | 1,518.1 | (448.0) | (29.5%) |
| Total | 15,085.5 | 23,174.2 | (8,088.7) | (34.9%) |

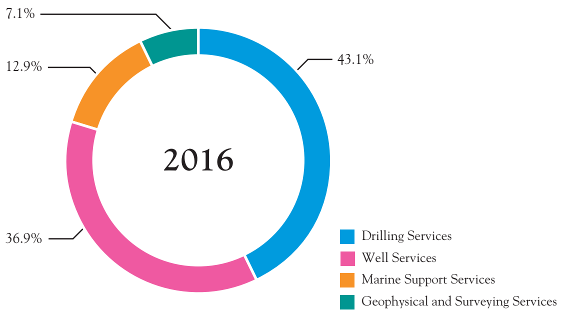
- Revenue generated from drilling services decreased by 46.0% over the same period last year. The main reasons include: ① Operation days of drilling rigs decreased by 2,806 days as compared with the same period last year. ② Service price of drilling rigs dropped.

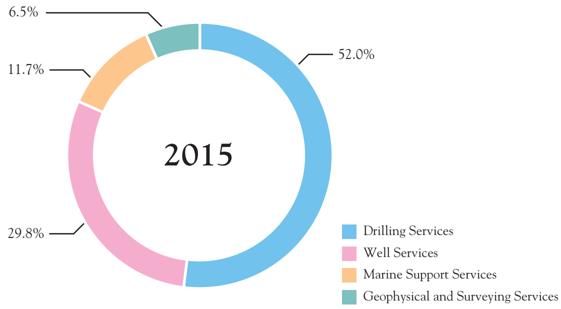
- Revenue of well services decreased by 19.5% over the same period last year, which was mainly due to the decrease in service price and operation volume.

- Revenue from marine support services decreased by 27.9% as compared with the same period last year, which was mainly due to the operation days decreased by 5,542 days and the decrease in service price at the same time.

- Revenue from geophysical and surveying services decreased by 29.5% as compared with the same period last year, which was mainly due to the decrease in operation volume and price of most of the operation lines.

## Revenue Analysis – By Business



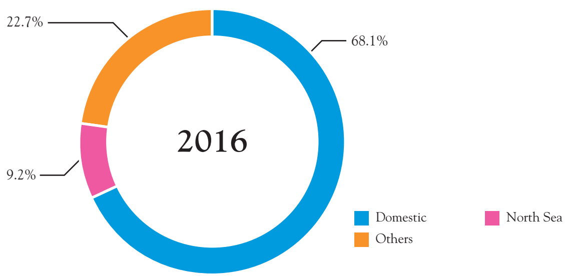

***Analysis by operation area***

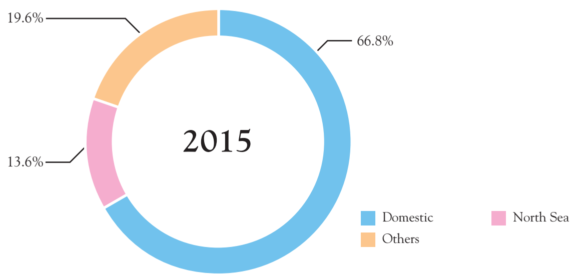
Unit: RMB million

| Region | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Domestic | 10,266.8 | 15,474.4 | (5,207.6) | (33.7%) |
| International | 4,818.7 | 7,699.8 | (2,881.1) | (37.4%) |
| Of which: | | | | |
| North Sea | 1,389.2 | 3,162.0 | (1,772.8) | (56.1%) |
| Other | 3,429.5 | 4,537.8 | (1,108.3) | (24.4%) |
| Total | 15,085.5 | 23,174.2 | (8,088.7) | (34.9%) |

In terms of operation area, the Group's main source of revenue was from offshore China, accounting for 68.1% of the Group's total income. In 2016, the Group's international business recorded revenue of RMB4,818.7 million (compared with RMB7,699.8 million over the same period of 2015), accounting for 31.9% of the Group's revenue for the year, representing a decrease of 1.3 percentage points. Among which, North Sea recorded an annual revenue of RMB1,389.2 million, representing 9.2% of the Group's revenue for the year.

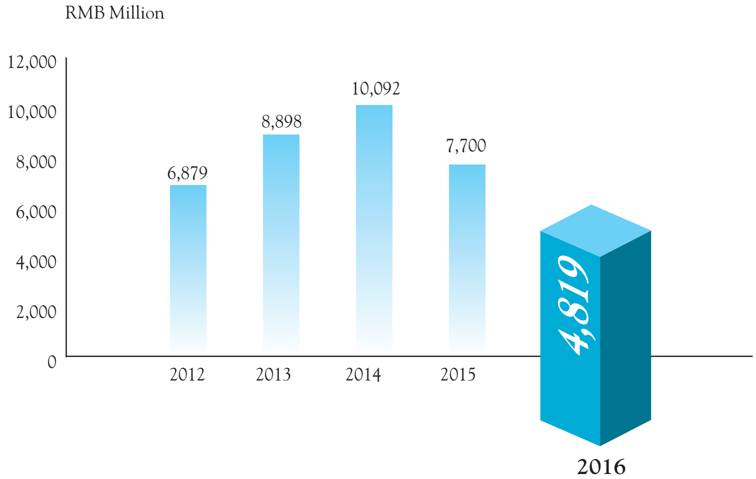
## Operation Area



**The latest five years' revenue from international business**

## Revenue from International Business




### 1.2 Operating expenses

For the year 2016, operating expenses of the Group amounted to RMB26,606.5 million, representing an increase of RMB4,821.3 million, increased by 22.1% compared with RMB21,785.2 million for the same period of 2015. Excluding the impairment loss of each type of assets and goodwill provided respectively in 2016 and 2015, the operating expenses of the Group amounted to RMB18,333.7 million, representing a decrease of RMB1,679.1 million as compared with RMB20,012.8 million for the same period of 2015.

The table below shows the operating expenses for the Group in 2016 and 2015:

Unit: RMB million

| | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Depreciation of property, plant and equipment and amortization of intangible assets | 4,520.1 | 4,213.4 | 306.7 | 7.3% |
| Employee compensation costs | 3,890.1 | 3,792.5 | 97.6 | 2.6% |
| Repair and maintenance costs | 500.1 | 799.3 | (299.2) | (37.4%) |
| Consumption of supplies, materials, fuel, services and others | 4,116.4 | 4,569.3 | (452.9) | (9.9%) |
| Subcontracting expenses | 2,364.6 | 3,474.8 | (1,110.2) | (32.0%) |
| Operating lease expenses | 1,206.1 | 1,547.6 | (341.5) | (22.1%) |
| Other operating expenses | 2,865.3 | 2,185.0 | 680.3 | 31.1% |
| Impairment of goodwill | 3,455.4 | 923.2 | 2,532.2 | 274.3% |
| Impairment of property, plant and equipment | 3,688.4 | 280.1 | 3,408.3 | 1,216.8% |
| Total operating expenses | 26,606.5 | 21,785.2 | 4,821.3 | 22.1% |

Increasing of equipment led to an increase in depreciation of property, plant and equipment and amortization of intangible assets of RMB306.7 million.

Due to a decrease in operation volume, detailed management of the Group and cost control from the source, repair and maintenance cost, subcontracting expenses and operating lease expenses decreased more significantly in 2016.

Other operating expenses increased by RMB680.3 million as compared with the same period in 2015, which was mainly due to the provision for impairment of accounts receivable increased by RMB582.1 million during the year.

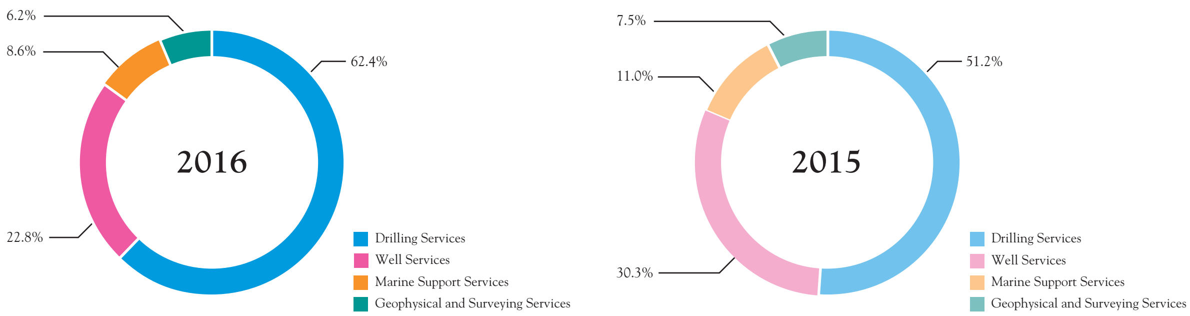
Concerned of the downturn of global oilfield services market, provision of RMB3,455.4 million was made for impairment of goodwill for the year, representing an increase of RMB2,532.2 million as compared with the same period of last year. The provision for impairment of property, plant and equipment was RMB3,688.4 million, representing an increase of RMB3,408.3 million as compared with the same period last year.

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

Unit: RMB million

| Business segments | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Drilling services | 16,602.0 | 11,153.7 | 5,448.3 | 48.8% |
| Well services | 6,062.4 | 6,602.7 | (540.3) | (8.2%) |
| Marine support services | 2,285.7 | 2,393.5 | (107.8) | (4.5%) |
| Geophysical and surveying services | 1,656.4 | 1,635.3 | 21.1 | 1.3% |
| Total | 26,606.5 | 21,785.2 | 4,821.3 | 22.1% |

## Analysis of Operating Expenses – By Business




### 1.3 Profit from operations

For the year 2016, the Group's profit from operations amounted to RMB –11,367.7 million, representing a decrease of RMB12,999.2 million or 796.8% as compared with profit from operations of RMB1,631.5 million for the same period of 2015. Excluding the impairment loss of each type of assets and goodwill provided respectively in 2016 and 2015, the profit from operations of the Group amounted to RMB –3,095.0 million, representing a decrease of RMB6,499.0 million as compared with RMB3,404.0 million for the same period of 2015.

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

Unit: RMB million

| Business segments | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Drilling services | (10,076.1) | 972.6 | (11,048.7) | (1,136.0%) |
| Well services | (422.1) | 393.6 | (815.7) | (207.2%) |
| Marine support services | (327.4) | 317.3 | (644.7) | (203.2%) |
| Geophysical and surveying services | (542.1) | (52.0) | (490.1) | 942.5% |
| Total | (11,367.7) | 1,631.5 | (12,999.2) | (796.8%) |

## 1.4 Financial expenses, net

Unit: RMB million

| | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Exchange gain, net | (268.7) | (87.7) | (181.0) | 206.4% |
| Finance costs | 1,047.6 | 700.3 | 347.3 | 49.6% |
| Interest income | (130.5) | (105.3) | (25.2) | 23.9% |
| Financial expenses, net | 648.4 | 507.3 | 141.1 | 27.8% |

The increase in financial expenses for the year was mainly attributable to the increase in interest expenses due to issuance of RMB10 billion long term notes. The exchange gains increased by RMB181.0 million as affected by the change of exchange rates.

## 1.5 Investment income

For the year 2016, the Group's investment income amounted to RMB191.9 million, representing an increase of RMB89.6 million or 87.6% as compared with RMB102.3 million over the same period of 2015, which was mainly attributable to the increase in investment income from the Group's corporate wealth management products, liquidity funds and treasury bond related investments.

## 1.6 Share of profits of joint ventures, net of tax

For the year 2016, the Group's share of profits of joint ventures amounted to RMB16.8 million, representing a decrease of RMB152.9 million or 90.1% as compared with RMB169.7 million of 2015. This was mainly attributable to the decrease in gains of joint ventures as affected by the market situation.

## 1.7 Profit before tax

The profit before tax attained by the Group was RMB –11,807.4 million in 2016, representing a decrease of RMB13,203.8 million or 945.6% as compared with the profit before tax of RMB1,396.4 million for the same period of 2015. Excluding the impairment loss of each type of assets and goodwill provided respectively in 2016 and 2015, the profit before tax of the Group amounted to RMB –3,534.6 million, representing a decrease of RMB6,703.4 million as compared with RMB3,168.8 million for the same period of 2015.

## 1.8 Income tax

The income tax credit of the Group in 2016 was RMB347.9 million, representing a decrease of RMB635.5 million or 221.0%, as compared with the income tax expense of RMB287.6 million for the same period of 2015, which was mainly due to the decreasing of profit before tax and the increase of deferred tax benefit caused by the recognition of deferred tax assets in respect of the deductible loss for the year.

## 1.9 Profit for the year

For the year 2016, profit of the Group was RMB –11,459.5 million, representing a decrease of RMB12,568.2 million or 1,133.6% as compared with the profit for the year of RMB1,108.7 million for the same period of 2015.

## 1.10 Basic earnings per share

For the year 2016, the Group's basic earnings per share were approximately RMB –2.40, representing a decrease of approximately RMB2.63 or 1,143.5% as compared with the basic earnings per share of approximately RMB0.23 for the same period of 2015.

## 1.11 Dividend

For the year 2016, the Board of the Company proposed a final dividend of RMB0.05 per share (tax inclusive), totaling RMB238.6 million. If approved by the general meeting, the final dividends are expected to be paid on or before 30 June 2017.

## 2. Analysis on Consolidated Statement of Financial Position

As of 31 December 2016, the total assets of the Group amounted to RMB80,544.1 million, representing a decrease of RMB12,981.0 million or 13.9% as compared with RMB93,525.1 million at the end of 2015. The total liabilities amounted to RMB45,247.7 million, representing a decrease of RMB1,448.7 million or 3.1% as compared with RMB46,696.4 million at the end of 2015. Total equity amounted to RMB35,296.4 million, representing a decrease of RMB11,532.3 million or 24.6% as compared with RMB46,828.7 million by the end of 2015.

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

Unit: RMB million

| Items | | 2016 | 2015 | Change | Percentage change | Reasons |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| 1 | Property, plant and equipment | 57,457.2 | 60,388.0 | (2,930.8) | (4.9%) | It was mainly attributable to the provision of RMB3,688.4 million for impairment of fixed assets during the year. |
| 2 | Goodwill | 0.0 | 3,394.5 | (3,394.5) | (100.0%) | Given the continuously weak global oilfield service industry and further deteriorated market conditions, provision was made for impairment of goodwill. |
| 3 | Other non-current assets | 439.1 | 1,150.4 | (711.3) | (61.8%) | It was mainly attributable to the prepayments for the construction of drilling rigs, marine vessels and geophysical vessels transferred to property, plant and equipment. |
| 4 | Deferred tax assets | 68.5 | 39.7 | 28.8 | 72.5% | The increase in the deductible temporary differences caused by the losses of overseas subsidiaries. |
| 5 | Other current assets | 7,216.1 | 4,212.0 | 3,004.1 | 71.3% | It was mainly attributable to the increase in the amount of the corporate wealth management products and treasury bond related investments. |
| 6 | Time deposits with maturity of over three months | 0.0 | 200.0 | (200.0) | (100.0%) | The time deposits held by the Group at the end of 2015 with maturity of over three months were due during the current year. |
| 7 | Cash and cash equivalents | 6,071.1 | 12,574.0 | (6,502.9) | (51.7%) | The proceeds of the issuance of the corporate bonds of RMB10 billion and repayment of the debts, interest and dividend of RMB15,574.5 million by the Group. |
| **Liabilities** | | | | | | |
| 1 | Interest-bearing bank borrowings (current) | 5,296.5 | 11,451.5 | (6,155.0) | (53.7%) | Repayment of borrowings. |
| 2 | Loans from a related party | 693.7 | 0.0 | 693.7 | 100.0% | A new borrowing of US$100.0 million during the year. |
| 3 | Interest-bearing bank borrowings (non-current) | 2,057.2 | 9,482.6 | (7,425.4) | (78.3%) | It was mainly attributable to loan repayment and the long-term borrowing to be re-classified and due within one year. |
| 4 | Long term bonds | 25,279.7 | 14,390.8 | 10,888.9 | 75.7% | RMB10 billion corporate bonds were newly issued in this year. |
| 5 | Employee benefit liabilities | 8.8 | 66.4 | (57.6) | (86.7%) | The liabilities of defined benefit plan for pension of the subsidiary in Norway decreased. |
| 6 | Deferred tax liabilities | 234.5 | 627.3 | (392.8) | (62.6%) | The Company's recognition of deferred tax assets of deductible loss and provision for onerous contracts led to the decrease of deferred tax liabilities, which was presented on a net basis. |

## 3. Analysis of consolidated statement of cash flows

At the beginning of 2016, the Group held cash and cash equivalents of RMB12,574.0 million, in 2016, the net cash inflows from operating activities amounted to RMB2,740.6 million; net cash outflows from investing activities amounted to RMB4,678.4 million; net cash outflows from financing activities amounted to RMB4,921.5 million and the impact of foreign exchange fluctuations resulted in an increase in cash of RMB356.4 million. By 31 December 2016, the Group's cash and cash equivalents amounted to RMB6,071.1 million.

### 3.1 Cash flows from operating activities

For the year ended 31 December 2016, net cash inflows from operating activities of the Group amounted to RMB2,740.6 million, representing a decrease of 58.2% as compared with the same period of 2015. This was mainly attributed to a decrease in revenue as affected by the market.

### 3.2 Cash flows from investing activities

For the year ended 31 December 2016, net cash outflows generated from investing activities of the Group amounted to RMB4,678.4 million, representing an increase of RMB1,362.2 million or 41.1% as compared with the same period in 2015, which was mainly attributable to the decrease of RMB3,052.4 million in the cash outflows of the acquisition of property, plant and equipment and other intangible assets as compared with the same period of 2015, the increase of RMB4,052.4 million in the net outflows of acquisition and disposal of available-for-sale investments (mainly included liquidity funds, corporate wealth management products and treasury bond related investments acquired by the Group) as compared with the net inflow at the same period of 2015, the decrease of RMB908.0 million in the net inflows of deposit and withdrawal of time deposits with maturity of over three months, and the total decrease of cash outflows of RMB545.8 million in other investment activities.

### 3.3 Cash flows from financing activities

For the year ended 31 December 2016, net cash outflows from financing activities of the Group amounted to RMB4,921.5 million, representing an increase of outflows of RMB8,353.3 million as compared with the inflows of the same period of 2015. This was mainly attributable to the increase of cash of RMB3,917.5 million received from issuance of bonds as compared with the same period of 2015, the decrease of cash of RMB3,449.8 million received from procurement of loans from banks and related parties as compared with the same period of 2015, the increase of cash of RMB10,478.9 million paid for repayment of loans as compared with the same period of 2015 and the total decrease of cash outflows of RMB1,657.9 million in other fund raising activities.

**3.4** The effect of foreign exchange fluctuations on cash during the year was an increase in cash of RMB356.4 million.

## 4. Capital expenditure

In 2016, the capital expenditure of the Group amounted to RMB3,488.8 million, representing a decrease of RMB4,377.7 million or 55.6% as compared with the same period last year

The capital expenditure of each business segment is as follows:

Unit: RMB million

| Business segments | 2016 | 2015 | Change | Percentage change |
|---|---|---|---|---|
| Drilling services | 2,167.8 | 3,973.6 | (1,805.8) | (45.4%) |
| Well services | 298.4 | 705.1 | (406.7) | (57.7%) |
| Marine support services | 771.9 | 1,543.8 | (771.9) | (50.0%) |
| Geophysical and surveying services | 250.7 | 1,644.0 | (1,393.3) | (84.8%) |
| Total | 3,488.8 | 7,866.5 | (4,377.7) | (55.6%) |

The capital expenditure of the drilling services segment was mainly used for the construction of 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 services segment was mainly used for the construction of utility vessels. The capital expenditure of the geophysical and surveying services segment was mainly used for the construction of geophysical vessel and integrated surveying vessels.

### 5. Charge on assets

As of 31 December 2016, the Group had no large-scale charges against its assets.

### 6. Employee

As of 31 December 2016, the Group had 14,927 employees on service. The Company has basically formed an employment structure in term of marketization and put in place a reasonable remuneration structure.

## 2017 BUSINESS OUTLOOK

According to the estimated data of IHS, an institution for international information services, it is estimated that the investment in upstream exploration and development around the world decreased by 26.8% in 2016 as compared with the same period of last year, with an increase of 8.4% to US$399 billion in 2017; the offshore exploration and development expenditure decreased by 26.1% in 2016 as compared with the same period of last year, with a continuous drop of 4.9% in 2017 and resuming growth of 6.9% to US$124 billion in 2018.

In general, the oilfield services industry will still face with greater operating pressure in spite of the halting downward trend of capital expenditure of global oil and gas companies and the increasingly active tendering activities in oilfield services in 2017.

# Recognition & Awards

# Corporate Governance Report

As a domestic and overseas listing company, the Company has reviewed the compliance with the Corporate Governance Code (hereafter referred to as the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (hereafter referred to as the "Listing Rules") and the regulatory documents on listed companies issued by China Securities Regulatory Commission. Upon the review, the Board is of the view that the corporate governance of the Company has generally met the requirements set out in the Code and the regulations during the reporting period. During the 12 months ended 31 December 2016, the Company has strictly complied with principles and code provisions as set out in the Corporate Governance Code in Appendix 14 of the Listing Rules.

The Board is of the view that the improvement in corporate governance in 2016 was mainly reflected in the following aspects:

1. The Company has strengthened risk assessment and reviewed the risk appetite and risk tolerable range of various aspects so as to improve the risk matrix, optimize the Risk Criteria and update the risk database for further enhancement of risk assessment mechanism and risk warning system. Counter measures were established based on the analysis of risk development trend so as to effectively control material and important risks. The responsibility of the Board and the management in respect of risk management have been specified by implementing relevant system.

2. Continuous optimizing the risk-oriented internal control system based on changes of internal and external environment. By revising the Internal Supervision Management System, the approval authority of the system would be further defined. By revising the Development Planning and Investment Management System, the strategies and planning works of the Company would be optimized. By revising the Equipment Management System, the globalized management factors for equipment would be established. And job duties would be more clearly defined by revising the Terms of Reference of the Audit Committee under the Board of Directors based on the regulatory rules.

3. The internal audit focuses on the core works of the Company by using a risk-oriented approach, with a principle of combining comprehensive coverage and key points emphasis, and verifies the soundness of the established internal control system and effectiveness of its implementation, so as to effectively prevent risks and ensure the Company to operate in compliance with laws.

4. By internal control assessment and internal audit, the deficiencies on internal control and management could be timely recognized and addressed so as to improve the internal control system and accelerate and safeguard the business development of the company.

5. Optimizing audit resources allocation and adjusting the arrangement of internal audit. Strengthening internal and external communication according to the materiality and supervision principles. Enhancing the audit efficiency by reasonable allocating audit resources.

6. Improving information disclosure and investor relation. According to the industry environment and actual operation situation, the Company timely publish risk alerts to investors in the first quarter report, interim report, third quarter report and the announcement which was published in the fourth quarter, expressing the sincerity to be accountable to investors and the idea of offering maximum protection to small and medium investors.

In 2016, the stock of the Company continued to be included in the Hang Seng (China A) Corporate Sustainability Benchmark Index (30 A share listed companies), and to be included again in the Hang Seng Corporate Sustainability Benchmark Index (92 Hong Kong listed companies). During the year, the Company was awarded two leading awards of "Best Board of Directors among Chinese Listed Companies" and "Best New Media Operation among Chinese Listed Companies" in the seventh session of "Pegasus Award – Selection from Investors' Relation of Chinese Listed Companies". All of the above showed the recognition of its corporate governance standards by the capital markets.

## I. DIRECTOR'S INVOLVEMENT IN SECURITIES TRANSACTIONS

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2016, the provisions of the Model Code for Securities Transaction by Directors of Listed Issuers ("the Model Code") set out in Appendix 10 to the Listing Rules were observed. The Company currently has adopted a code of conduct for securities transactions by directors that is stricter than the provisions set out in the Model Code. 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 2016, they complied with the "Management Rules with regard to the Holding of and Changes in Company Shares by Directors, Supervisors and Senior Management of Listed Companies" regulated by the China Security Regulatory Commission.

## II. PERFORMANCE OF THE BOARD OF DIRECTORS

### 1. Composition of the Board of Directors

The composition of the Board of Directors during 2016 and on the date of this report is as follows:

| | |
|---|---|
| Chairman: | Lv Bo (appointed at the 2016 seventh meeting of the Board held on 16 December 2016), Liu Jian (resigned at the 2016 seventh meeting of the Board held on 16 December 2016) |
| Executive directors: | Qi Meisheng (appointed at the 2016 first EGM held on 22 July 2016), Li Yong (resigned at the 2016 first EGM held on 22 July 2016), Dong Weiliang (appointed at the 2016 first EGM held on 22 July 2016), Li Feilong (re-elected at the 2016 second EGM held on 15 December 2016) |
| Non-executive directors: | Lv Bo (appointed at the 2016 second EGM held on 15 December 2016), Xie Weizhi (appointed at the 2016 first EGM held on 22 July 2016), Cheng Chi (resigned at the 2016 first EGM held on 22 July 2016) |
| Independent non-executive directors: | Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert (appointed at the 2015 AGM held on 31 May 2016), Fong Wo, Felix (resigned at the 2015 AGM held on 31 May 2016) |

### 2. The Roles of the Board of Directors and the Management

The Articles of Association of the Company clearly define the duties and functions of the Board of Directors and the Management. The division of functions is consistent with those disclosed in the Corporate Governance Report 2015 (for details, please search our website for Articles of Association of the Company or Annual Report 2015).

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 2015 (for details, please search our website for Articles of Association of the Company or Annual Report 2015).

Besides, the Company has a specified system to divide responsibilities between the Board and the management towards making investment decisions: all equity investment shall be approved by the Board (approval from shareholders is required if such investment exceeds a certain amount); other capital investment which is less than RMB100 million may be approved by the management.

## 3. Board Meetings

The Board of Directors convened seven on-site meetings during the year. Please see Table I of this Report for details of meeting attendance of directors. For other items not within the scope of the regular Board meeting's agenda and require approval from the Board, the Chairman may serve to the members of the Board the proposed resolutions in written form in accordance with the related requirements of the Articles of Association, and the items will become valid resolutions upon signing by the directors which meets the quorum as stated in the Articles of Association. To create more opportunities for the independent non-executive directors to express their views and make recommendation in respect of the Company's affairs, the Chairman hold several meetings with independent non-executive directors in the absence of executive directors every year so as to listen to the advice of independent directors in respect of the corporate governance and management (this practice has adopted the Code provision A.2.7). In the year of 2016, 3 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 2016.

## 4. Performance of Independent Non-executive Directors

The Board currently has three independent non-executive directors, all of them have rich professional experience in the fields of accounting, law and finance, and are very familiar with the operation of board of directors and duties of independent non-executive directors of listed companies. During the reporting period, the independent non-executive directors 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 management of risk, among which, please see section VII of this Corporate Governance Report for details of related reviews of financial reports and the internal control system, as well as sections V and VI of this report for other relevant work. In 2016, the independent non-executive directors also reviewed the resolution on the continuing connected transactions of the Company for 2017-2019 and the continuing connected transactions of the Company transactions and expressed their opinion. During the reporting period, Mr. Fong Chung, Mark did not attend the 2015 AGM of the Company due to his engagement in other businesses, and two independent non-executive directors were present at the 2015 AGM of the Company. Please see Table I for details of Board meetings and professional committee meeting attendance of independent directors.

During the reporting period, independent non-executive directors of the Company did not have any objection to resolutions of the Board for the year or any other items (other than resolutions of the Board) of the Company.

### 5. Policy on Diversification of Board Composition

The Board of Directors held discussion with regard to the diversification policy of Board Composition, and considered it could play a positive role for the Company in achieving sustainable development. The Board considered that the Company should have different perspective at the time of selecting directors (including but not confined to factors of professional background, age, gender, location and race, etc.), so as to achieve and maintain a policy of diversification among the directors. The Board will endeavour to implement the policy of diversification. The Nomination Committee will be responsible for monitoring the implementation of this policy and making recommendations to the Board on assessing the implementation process at an appropriate time. The Company carried out the nomination and election of directors in 2016 (Mr. Lv Bo joined the Board of Directors to succeed Mr. Liu Jian, Mr. Qi Meisheng joined the Board of Directors to succeed Mr. Li Yong, Mr. Dong Weiliang joined the Board of Directors, Mr. Xie Weizhi joined the Board of Directors to succeed Mr. Cheng Chi, Mr. Wong Kwai Huen, Albert joined the Board of Directors to succeed Mr. Fong Wo, Felix), and the nomination committee considered that when the Company handled the director nomination process, the policy of diversification of Directors was adequately considered.

### 6. Directors and General Meetings

Particulars of General Meeting convened by the Board and the particulars of the participation of directors during the reporting period were set out in section VIII "Summary of General Meetings" of this annual report. In the opinion of the Board, the Company complied with all requirements of resolution of the General Meeting during the reporting period. The board reviewed implementation condition of General Meeting by the Company, and considered there was no problem occurred in the implementation of resolution of General Meeting.

### 7. Other Matters

During the reporting period, the number and qualifications of independent non-executive directors of the Company were in compliance with Rule 3.10 (1) and (2) and Rule 3.10 (A) of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the independence of the current independent non-executive directors of the Company is in compliance with the requirement set out in the Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

## 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, Mr. Lv Bo as Chairman and Mr. Qi Meisheng as the Chief Executive Officer.

## IV. TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

The term of office of Lv Bo is three years since the 2016 second EGM held on 15 December 2016. The term of office of Xie Weizhi is three years since the 2016 first EGM held on 22 July 2016. The terms of office of Law Hong Ping, Lawrence is from 23 May 2014 to the time when the AGM is convened in 2017. The term of office of Fong Chung, Mark is three years since the AGM held on 2 June 2015. The term of office of Wong Kwai Huen, Albert is three years since the AGM held on 31 May 2016.

## V. DIRECTORS' REMUNERATION

### 1. The Composition and Functions of the Remuneration and Appraisal Committee

(1) The Remuneration and Appraisal Committee of the Company consists of four members, all of them are non-executive directors, namely Wong Kwai Huen, Albert (to succeed Fong Wo, Felix on 31 May 2016), Xie Weizhi (to succeed Cheng Chi on 22 July 2016), Law Hong Ping, Lawrence and Fong Chung, Mark. Three of them are independent non-executive directors. Wong Kwai Huen, Albert acts as Chairman.

(2) The functions of this committee are to formulate the standard for assessing the performance of directors, supervisors and senior management and to conduct such assessment, formulate and review the remuneration policy and scheme for directors, supervisors, and the senior management. The committee studies and discusses the above matters and makes recommendations to the Board, and the Board reserves the final decision in respect of the above matters (please refer to documents of relevant Terms of Reference under the section Corporate Governance on the Company's website).

### 2. The work of the Remuneration and Appraisal Committee during the year

During the reporting period, the committee held one meeting (please see Table I for meeting summaries) to review the performance and remuneration of the management of the Company for the year 2015 and the Key Performance Indicators for the management of the Company in 2016.

## VI. NOMINATION OF DIRECTORS

### 1. The Composition and Functions of the Nomination Committee

(1) The Nomination Committee of the Company consists of three members, namely Law Hong Ping, Lawrence, Qi Meisheng (to succeed Li Yong on 22 July 2016) and Wong Kwai Huen, Albert (to succeed Fong Wo, Felix on 31 May 2016), and Law Hong Ping, Lawrence acts as Chairman.

(2) Major functions of the committee are to select and recommend candidates for directors and senior management of the Company and to recommend the standards and procedures for selecting such candidates (please refer to documents of relevant Terms of Reference under the section Corporate Governance on the Company's website).

### 2. The work of the Nomination Committee during the year

During the period under review, the Nomination Committee held 5 meetings, for details of the meeting please see Table I, during which the nomination of directors was discussed, the independence of the independent non-executive directors was recognized and the amendment of the number of members of the Board was proposed.

## VII. THE AUDIT COMMITTEE

### 1. The Composition and Functions of the Audit Committee

(1) The Audit Committee consists of three members, namely Fong Chung, Mark, Law Hong Ping, Lawrence and Wong Kwai Huen, Albert (to succeed Fong Wo, Felix on 31 May 2016). All of them are independent non-executive directors, and Fong Chung, Mark acts as Chairman.

(2) The functions of this committee are to review the accounting policy, financial position and financial reporting procedures of the Company; to review the internal control structure; to recommend and engage external auditing firm; and to be primarily responsible for the communication, supervision and review of the internal and external audits of the Company (please refer to documents of relevant Rules of Procedure under the section Corporate Governance on the Company's website).

### 2. The work of the Audit Committee during the year

During the reporting period, the Audit Committee held 4 meetings, for details of the meetings please see Table I for meeting summaries. The major work of the Audit Committee for the year is as follows:

(1) Reviewed the financial reports of the annual operating results of 2015, the first quarterly operating results of 2016, the interim operating results of 2016 and the third quarterly operating results of 2016 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 and discussed the internal audit, internal control and risk management work of the Company. During the reporting period, the committee adopted the internal audit status report, and thought that The Company shall combine the quantification and qualification standards in its internal control and risk assessment standards, and strengthen its identification of overseas political risks at the same time. We would conduct further supplement of quantification analysis on the optimized the Risk Criteria, improve risk database, updates standard database and conduct sampling assessment on sectoral and regional risks.

(3) During the reporting period, the committee discussed the deployment of finance staff of the Company and affirmed the team development and finance works of the team.

(4) Reviewed the connected transactions of the Company. Adopted the internal report on 2015 connected transactions, enquired about the progress of the related connected transactions and the arrangement of projects, approved unanimously the report on 2015 connected transactions of the Company.

(5) Regarding the appointment of the auditors, the Committee unanimously approved the recommendations on appointing Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2016.

## VIII. TRAINING FOR DIRECTORS

The trainings of Directors during the year 2016 were as follows: In April, the Directors of the Company conducted onsite investigation and research on COSLProspector in Yantai; in June, Wong Kwai Huen, Albert, Director, attended the training of newly appointed director at the headquarter of the Company; in August, Law Hong Ping, Lawrence, Director, attended training of independent director of listed companies organised by Shanghai Stock Exchange in Shanghai; in August, the Company arranged all directors to attend related trainings on regulatory rules in Shenzhen; in September, Li Feilong, Director, attended further training of Chief Financial Officer organised by Shanghai Stock Exchange in Changsha.

## IX. BOARD SECRETARY

Wang Baojun, the Board Secretary (and the Company Secretary) was appointed by the Board in August 2015, biography of whom was set out in the section "Directors, Supervisors, Senior Management and Employees" in the 2016 Annual Report. The Board Secretary of the Company reports to the Chairman and Chief Executive Officer and makes recommendation to the Board in respect of corporate governance. For the year 2016, Mr. Wang Baojun has confirmed that he has taken not less than 15-hour relevant and professional training.

## X. PROTECTION ON THE SHAREHOLDERS' INTERESTS

In respect of the protection on the shareholders' interests, shareholders of the Company may obtain relevant information in accordance with the requirements under the Articles of Association, including the personal information of the directors, supervisors and senior management of the Company, share capital of the Company, record of general meetings, Board resolutions, resolutions of Supervisor Committee and financial reports at the Company's website. The Company provides its contacts in regular reports and on the Company's website to facilitate smooth communication with shareholders of the Company. Also, the Company makes a clear explanation for the procedures of calling an EGM or a class meeting by shareholders in the Articles of Association at Company's website.

## XI. THE REMUNERATION OF AUDITORS

The Company re-appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2016, and to authorize the Board to fix their remuneration. The fees for the audit and non-audit work provided to the Company during the reporting period were as follows:

Auditing – The audit fees totaled RMB14,200,000 for audit/review of the annual and interim financial statements in 2016 and internal control. Non-auditing – The charges for agreed-upon procedures totaled RMB600,000.

## XII. RESPONSIBILITIES UNDERTAKEN

The Board of Directors acknowledges its responsibilities of preparing the account of the Company and the auditors have also explained their reporting responsibilities in the financial reports; the Board of Directors undertakes the responsibilities for the effectiveness of internal control of the Company and its subsidiaries and has completed the relevant review and assessment during the reporting period, and concluded that there were no material weaknesses in the internal controls of the Company and its subsidiaries; the Board of Directors confirms that, unless otherwise stated in this 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 | 29 March 2016 | Shanghai | Liu Jian, Li Yong, Li Feilong, Fong Wo, Felix, Law Hong Ping, Lawrence, Fong Chung, Mark, Cheng Chi | Liu Jian | Three supervisors attended as non-voting delegates |
| Second Meeting of Board of Directors | 28 April 2016 | Yantai | Liu Jian, Li Yong, Li Feilong, Fong Wo, Felix, Law Hong Ping, Lawrence, Fong Chung, Mark, Cheng Chi | Liu Jian | Three supervisors attended as non-voting delegates |
| Third Meeting of Board of Directors | 15 June 2016 | Yanjiao | Liu Jian, Li Yong, Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Cheng Chi, Wong Kwai Huen, Albert | Liu Jian | Three supervisors attended as non-voting delegates |
| Fourth Meeting of Board of Directors | 22 July 2016 | Beijing | Liu Jian, Li Yong, Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Cheng Chi, Wong Kwai Huen, Albert | Liu Jian | Three supervisors attended as non-voting delegates |
| Fifth Meeting of Board of Directors | 29 August 2016 | Shenzhen | Liu Jian, Qi Meisheng, Dong Weiliang, Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert, Xie Weizhi | Liu Jian | Three supervisors attended as non-voting delegates |
| Sixth Meeting of Board of Directors | 28 October 2016 | Shenzhen | Liu Jian, Qi Meisheng, Dong Weiliang, Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert, Xie Weizhi | Liu Jian | Three supervisors attended as non-voting delegates |
| Seventh Meeting of Board of Directors | 16 December 2016 | Shenzhen | Liu Jian, Lv Bo, Qi Meisheng, Dong Weiliang, Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert, Xie Weizhi | Liu Jian | Three supervisors attended as non-voting delegates |
| First Meeting of Audit Committee | 28 March 2016 | Shanghai | Fong Chung, Mark, Fong Wo, Felix, Law Hong Ping, Lawrence | Fong Chung, Mark | Two supervisors attended as non-voting delegates |
| Second Meeting of Audit Committee | 22 April 2016 | Conference call | Fong Chung, Mark, Fong Wo, Felix, Law Hong Ping, Lawrence | Fong Chung, Mark | One supervisor attended as non-voting delegate |
| Third Meeting of Audit Committee | 28 August 2016 | Shenzhen | Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert | Fong Chung, Mark | One supervisor attended as non-voting delegate |
| Fourth Meeting of Audit Committee | 27 October 2016 | Shenzhen | Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert | Fong Chung, Mark | One supervisor attended as non-voting delegate |
| First Meeting of Remuneration and Appraisal Committee | 28 March 2016 | Shanghai | Fong Wo, Felix, Law Hong Ping, Lawrence, Fong Chung, Mark, Cheng Chi | Fong Wo, Felix | |
| First Meeting of Nomination Committee | 28 March 2016 | Shanghai | Law Hong Ping, Lawrence, Fong Wo, Felix, Li Yong | Law Hong Ping, Lawrence | |
| Second Meeting of Nomination Committee | 28 April 2016 | Yantai | Law Hong Ping, Lawrence, Fong Wo, Felix, Li Yong | Law Hong Ping, Lawrence | |
| Third Meeting of Nomination Committee | 15 June 2016 | Yanjiao | Law Hong Ping, Lawrence, Li Yong, Wong Kwai Huen, Albert | Law Hong Ping, Lawrence | |
| Fourth Meeting of Nomination Committee | 27 October 2016 | Shenzhen | Law Hong Ping, Lawrence, Qi Meisheng, Wong Kwai Huen, Albert | Law Hong Ping, Lawrence | |
| Fifth Meeting of Nomination Committee | 16 December 2016 | Shenzhen | Law Hong Ping, Lawrence, Qi Meisheng, Wong Kwai Huen, Albert | Law Hong Ping, Lawrence | |

**Table II: Particulars of the Board resolutions**

| Meeting | Matters considered |
|---|---|
| First Meeting of Board of Directors (29 March 2016) | 1. Approving the audited 2015 Financial Report of the Company<br>2. Proposal to re-appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company at the general meeting, and authorize the Board of Directors to approve their remunerations<br>3. Approving the resolution of the dividend distribution plan for the year 2015<br>4. Proposal for the Directors' Report and Corporate Governance Report of the Company for the year 2015<br>5. Approving the Sustainability Report 2015<br>6. Proposal for 2015 Assessment Report on Internal Control<br>7. Approving the resolution of disclosure of results for the year 2015<br>8. Proposal to authorize the Board to further issue of 20% H shares under the mandate of general meeting, the number of H shares shall not exceed 20 of the issued H shares of the Company<br>9. Approving the proposal for the repurchase of 10% A shares and 10% H shares under the mandate<br>10. Proposal for issue of RMB corporate bonds<br>11. Proposal for provide guarantee for company which the Company belongs<br>12. Approving the Management Performance Assessment<br>13. Approving Mr. Ng Sing Yip as candidate for independent non-executive director<br>14. Proposal of revision of the Articles of Association<br>15. Proposal for convening Annual General Meeting and Class Meeting |
| Second Meeting of Board of Directors (28 April 2016) | 1. Approving 2016 First Quarterly Report, and authorized the Secretary to the Board to disclose according to regulation<br>2. Approving the proposal for nomination of Mr. Wong Kwai Huen, Albert as candidate for independent non-executive director |
| Third Meeting of Board of Directors (15 June 2016) | 1. Proposal for provide guarantee for company which the Company belongs<br>2. Proposal for the change and appointment of the CEO and President of the Company<br>3. Proposal for the change of director of the Company and recommended candidates<br>4. Proposal of revision of the Articles of Association<br>5. Proposal for convening 2016 First EGM |
| Fourth Meeting of Board of Directors (22 July 2016) | 1. Proposal for provision for impairment of assets |
| Fifth Meeting of Board of Directors (29 August 2016) | 1. 2016 Interim Report of the Company<br>2. Proposal for the disclosure of 2016 Interim Results of the Company<br>3. Approving the Board of Directors to authorize relevant departments and personnel to implement foreign currency exchange of US dollar debt |

| Meeting | Matters considered |
|---|---|
| Sixth Meeting of Board of Directors (28 October 2016) | 1. Approving 2016 Third Quarterly Report, and authorized the Secretary to the Board to disclose according to regulation<br>2. Proposal for daily connected transaction of the Company for the year 2017 to 2019<br>3. Proposal for revision of Related Transaction Decision System<br>4. Proposal for revision of Working Rules of the Audit Committee of the Board of Directors<br>5. Nominate Mr. Lv Bo as candidate for non-executive director of the Company<br>6. Nominate Mr. Li Feilong as candidate for executive director of the Company<br>7. Proposal for convening EGM |
| Seventh Meeting of Board of Directors (16 December 2016) | 1. Proposal for the Company to use forward foreign exchange for settlement of US dollar debt in 2017<br>2. Proposal for revision of Articles of Association due to the change of registered address of the Company<br>3. Proposal for election of Mr. Lv Bo as Chairman of the Company |
| Written Resolutions approved in 2016 | 1. proposal for cancel director nomination (14 April)<br>2. Approving COSL DRILLING SAUDI LTD. be added into the credit guarantee list (30 November) |

# Summary of General Meetings

| Session and No. of Meeting | Date | Name of Proposals | Resolutions | Designated websites on which resolutions were published |
|---|---|---|---|---|
| AGM 2015 | 31 May 2016 | **As ordinary resolutions:**<br>1. The audited financial statements and the auditor's report for the year ended 31 December 2015 were approved;<br>2. The profit distribution and declaration of dividends for the year ended 31 December 2015 was approved;<br>3. The Report of Directors for the year ended 31 December 2015 was approved;<br>4. The Supervisory Committee Report for the year ended 31 December 2015 was approved;<br>5. The appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors for 2016 respectively was approved and the Board was authorised to determine their remunerations;<br>6. The resolution of the provision of guarantees for subsidiaries was approved;<br>7. The resolution of the election of Mr. Wong Kwai Huen, Albert as an independent non-executive director of the Company was approved.<br>**As special resolutions:**<br>1. The resolution of granting the Board a mandate to issue further H shares representing up to 20% of the aggregate amount of the H shares in issue during the relevant period was approved;<br>2. The resolution of granting the repurchase rights on 10% A shares and 10% H shares to the Board was approved;<br>3. The resolution of the amendment of the Articles of Association was approved. | The convene of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 10 shareholders in attendance either in person or by proxy at the AGM, representing 3,006,972,454 shares or 63.02% of the voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. Chairman Mr. Liu Jian, Executive director Mr. Li Yong, Independent non-executive director Mr. Fong Chung, Mark and independent supervisor Mr. Cheng Xinsheng could not attend the meeting due to other business and the board of directors elected Mr. Li Feilong, the Executive Director of the Company, to act as the Chairman of the meeting while all other directors and supervisors of the Company attended the general meeting. | www.sse.com.cn<br>www.hkex.com.hk |
| 2016 First A Share Class Meeting | 31 May 2016 | **As special resolution:**<br>1. The resolution of granting the repurchase rights on 10% A shares and 10% H shares to the Board was approved. | The convene of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 9 shareholders in attendance either in person or by proxy at the meeting, representing 2,411,977,577 shares or 81.47% of the A voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. Chairman Mr. Liu Jian, Executive director Mr. Li Yong, Independent non-executive director Mr. Fong Chung, Mark and independent supervisor Mr. Cheng Xinsheng could not attend the meeting due to other business and the board of directors elected Mr. Li Feilong, the Executive Director of the Company, to act as the Chairman of the meeting while all other directors and supervisors of the Company attended the First A Share Class Meeting. | www.sse.com.cn<br>www.hkex.com.hk |

| Session and No. of Meeting | Date | Name of Proposals | Resolutions | Designated websites on which resolutions were published |
|---|---|---|---|---|
| 2016 First H Share Class Meeting | 31 May 2016 | **As special resolution:**<br>1. The resolution of granting the repurchase rights on 10% A shares and 10% H shares to the Board was approved. | The convene of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 1 shareholders in attendance either in person or by proxy at the meeting, representing 592,958,702 shares or 32.74% of the H voting shares. The aforesaid resolutions were approved by way of on-site voting by poll. Chairman Mr. Liu Jian, Executive director Mr. Li Yong, Independent non-executive director Mr. Fong Chung, Mark and independent supervisor Mr. Cheng Xinsheng could not attend the meeting due to other business and the board of directors elected Mr. Li Feilong, the Executive Director of the Company, to act as the Chairman of the meeting while all other directors and supervisors of the Company attended the First H Share Class Meeting. | www.sse.com.cn<br>www.hkex.com.hk |
| 2016 First EGM | 22 July 2016 | **As ordinary resolutions:**<br>1. The resolution of provision of guarantees for subsidiaries was approved;<br>2. The resolution of the election of Mr. Qi Meisheng as an executive director of the Company was approved.<br>3. The resolution of the election of Mr. Dong Weiliang as an executive director of the Company was approved.<br>4. The resolution of the election of Mr. Xie Weizhi as a non-executive director of the Company was approved.<br>**As special resolution:**<br>1. The resolution of the amendment of the Articles of Association was approved. | The convene of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 10 shareholders in attendance either in person or by proxy at the general meeting, representing 2,970,898,331 shares or 62.26% of the voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. Executive director Mr. Li Yong, Non-executive director Mr. Cheng Chi, Independent non-executive directors Mr. Law Hong Ping, Lawrence, Mr. Fong Chung, Mark, Mr. Wong Kwai Huen, Albert, Employee Supervisor Mr. Li Zhi and independent supervisor Mr. Cheng Xinsheng could not attend the meeting due to other business while all other directors and supervisor of the Company attended the 2016 First EGM. | www.sse.com.cn<br>www.hkex.com.hk |
| 2016 Second EGM | 15 December 2016 | **As ordinary resolutions:**<br>1. The resolution of the continuing connected transactions of the Company for the years 2017 to 2019 was approved;<br>2. The resolution of amendment of the Decision-making System for Connected Transactions was approved.<br>3. The resolution of the election of Mr. Lv Bo as a non-executive director of the Company was approved.<br>4. The resolution of the election of Mr. Li Feilong as an executive director of the Company was approved. | The convene of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 11 shareholders in attendance either in person or by proxy at the general meeting, representing 3,045,699,265 shares or 63.83% of the voting shares. The aforesaid resolutions were approved by way of onsite and online voting by poll. Independent non-executive directors Mr. Fong Chung, Mark, Mr. Wong Kwai Huen, Albert, Chairman of Supervisory Committee Mr. Wei Junchao and Employee Supervisor Mr. Li Zhi could not attend the meeting due to other business while all other directors and supervisor of the Company attended the 2016 Second EGM. | www.sse.com.cn<br>www.hkex.com.hk |

# Sustainability Report 2016

## About This Report

This report is the eleventh annual report on sustainable development released by China Oilfield Services Limited (hereinafter referred to as "COSL", "the Company" or "we") and discloses the performance of COSL in terms of economy, environment and society, etc. for the period of 1 January 2016 to 31 December 2016. Part of the content and data go beyond the above time frame.


### ◎Statement by the Board of Directors

CNOOC is a member of the UN Global Compact, and COSL as a holding company of CNOOC will comply with the ten principles initiated by the UN Global Compact. The Board of Directors will promote and facilitate the Company to fulfill its responsibilities, including the disclosure obligations of related information.

### ◎References and Guarantee of Reliability

References for the preparation of this report include "Sustainability Reporting Guidelines (G4.0)" issued by GRI, the UN Global Compact's Ten Principles, "Environmental, Social and Governance Reporting Guide" within Listing Rules of Hong Kong Stock Exchange, "Guidelines of Environmental Information Disclosure for Listed Corporations" issued by Shanghai Stock Exchange and "Guide for Preparation of Social Responsibility Report of China (CASS-CSR3.0)" from Chinese Academy of Social Sciences.

The Company warrants that the report does not contain any false representation, misleading statement or material omission.

### ◎Source of Information and Description

All information used in the report is obtained from the Company's official documents and statistical reports. Unless otherwise stated, all financial information in the report is stated in RMB.

### ◎Preparation Process

This report aims to be objective, standardized, true and transparent in information as ensured by analysis of domestic and international business standards for sustainable development, comparison of sustainability reports among enterprises and after review and approval of the Management and the Board of Directors.

### ◎Report Improvement

The Report of 2016 presents the fulfillment of sustainable development by the Company with five major issues, namely "Risk Management", "HSE Management", "Enhancement of Capacity for Sustainable Development", "Staff Development" and "Social Contribution". In the preparation of this report, we had considered all opinions and suggestions extensively and the concerns of the stakeholders were responded actively.

### ◎Languages

This report is released in Chinese and English and the Chinese version shall prevail in case of any discrepancy.

### ◎Access to the Report

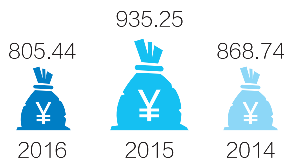
This report is available in printed and electronic versions. For electronic version, please visit the Company's official website (http://www.cosl.com.cn).

For the information on the corporate governance system, measures and results of COSL, please refer to "COSL 2016 Annual Report – Corporate Governance Report".

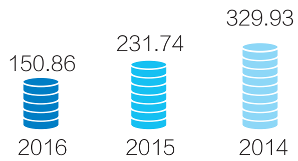
# Key Performance Table


## Market Performance

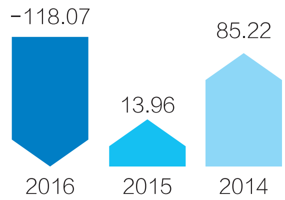
Total assets
Unit: RMB100 million




Operating revenue
Unit: RMB100 million



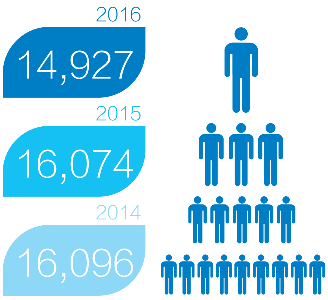

Profit before tax
Unit: RMB100 million



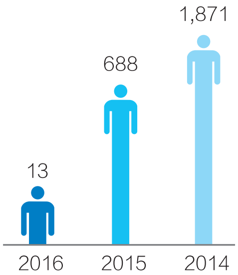

| Market performance | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Shareholders' equity | RMB100 million | 352.96 | 468.29 | 473.22 |
| Revenue from international operation | RMB100 million | 48.19 | 77.00 | 100.92 |
| Percentage of revenue from international operation to total revenue | % | 32 | 33 | 30 |
| Total taxation | RMB100 million | 13.06 | 21.84 | 29.71 |
| Number of new patents | Item | 134 | 182 | 142 |

## Social Performance

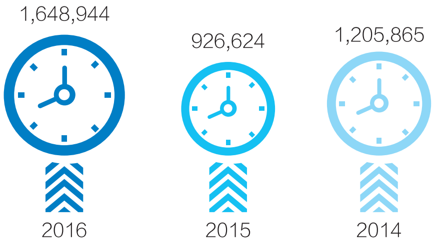
Total number of employees
Unit: Person




Number of new employees
as at the end of report
Unit: Person



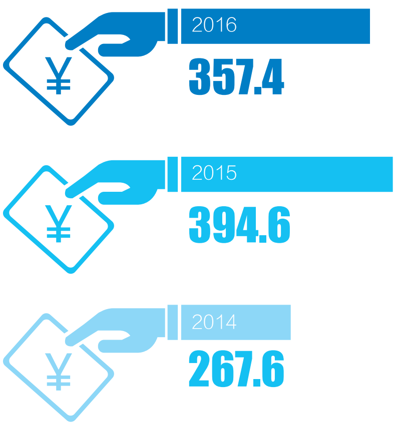

Total time of employees' training
Unit: Hours




| Social performance | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Percentage of female employees | % | 8.0 | 8.5 | 8.6 |
| Social insurance coverage | % | 100 | 100 | 100 |
| Percentage of labor contract signed | % | 100 | 100 | 100 |
| Staff turnover rate | % | 2.9 | 1.9 | 1.7 |
| Total donation & employee relief fund | RMB10,000 | 257.1 | 118.9 | 138.2 |
| Number of maritime rescue and salvage | Times | 22 | 19 | 23 |
| Number of employees participating in volunteering activities | Person-times | 2,425 | 2,321 | 1,298 |

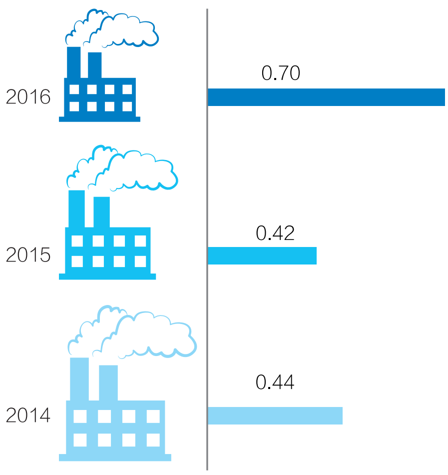
## Environmental Performance

Investment in energy conversion
and emission reduction
Unit: RMB10,000

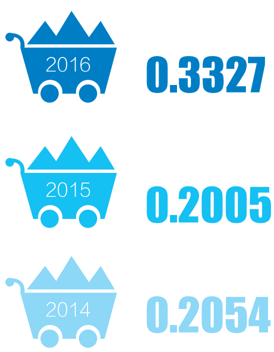



Note: The investment in energy saving and emission reduction exclude the increase in the investment of construction of large-scale equipment by the Company for optimization of energy saving and emission reduction.

Emission of carbon dioxide for an output
value of RMB ten thousand
Unit: Tonnes/RMB10,000




Energy consumption for an output
value of RMB ten thousand
Unit: Standard coal
(Tonnes)/RMB10,000




Standard coal is also known as coal equivalent, which has a uniform standard of thermal value. China requires a thermal value of 1 kg standard coal to be 7,000 kilocalories. Different types and amount of energy, in accordance with their different thermal value, are transferred to 7,000 kilocalories per every thousand gram calories of standard coal.

# About COSL

COSL is one of the leading integrated oilfield services providers in the offshore market of the world. The company is listed on Hong Kong Stock Exchange and Shanghai Stock Exchange, with more than 50 years experience in offshore oil and gas exploration, development and production, and its business includes four core segments which are drilling services, well services, marine support services and geophysical and surveying services. COSL not only provides services of single operation for the customers, but also offers IPM services with its best offshore oilfield service devices in Asia-Pacific. COSL's business has expanded to six major regions which are Southeast Asia, Middle East, Americas, Europe, Africa and the Far East and its activities are conducted in more than 30 countries and regions around the world.

## Corporate Culture

| | |
|---|---|
| Corporate spirit | **Always do better** |
| Performance guideline | **Do everything diligently** |
| Core values | **Realize win-win with shareholders, customers, employees and partners** |
| Code of conduct | **Integrity, dedication, cooperation, and self-discipline** |


## Partial Honours and Awards for the year 2016

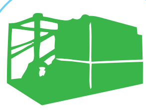

1. Granted "National May 1st Labor Award"
   **——All-China Federation of Trade Union**
2. "HYSY 981" Rig awarded the "2nd China Quality Award"
   **——AQSIQ**
3. "Hang Seng Corporate Sustainability Benchmark Index" and "Hang Seng (China A) Corporate Sustainability Benchmark Index" constituent stock
   **——Hang Seng Indexes Company Limited**
4. "China Top 500 Innovative A Share Companies" and "2016 Zijin Innovation Award"
   **——Chinese Securities Journal**
5. "The Best Board of Directors" and "the Best Operation of New media"
   **——Securities Times**
6. Top 50 Proactive Board of Supervisors of Listed Companies
   **——CAPCO, Shanghai Stock Exchange and Shenzhen Stock Exchange**
7. The annual report of the company won the "Platinum Award" of Spotlight Awards in 2015
   **——LACP**

## Business Coverage


## Business Scope

### Drilling services

- Offshore Drilling
- Land Drilling
- Drilling Rig Management
- Module Drilling Rig



### Well services

- Logging
- Drilling & Completion Fluids
- Directional Drilling
- Cementing
- Well Completion
- Workover
- Oilfield Production Optimization

### Marine support services

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

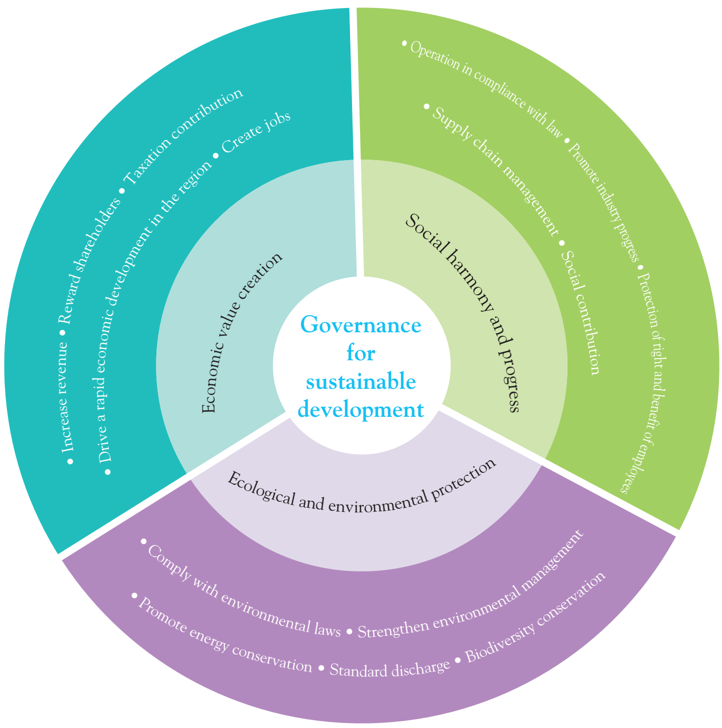
### Geophysical and surveying services

- Offshore Seismic Acquisition Services
- Offshore Geo-surveying Services
- Seismic Data Processing & Interpretation
- Underwater Engineering Services

# Sustainable Development Governance

The Company continues to optimize governance for sustainable development, and puts forward the philosophy of "always do better" into the enterprise development strategy and daily operations. The Company appoints a specific department to prepare and publish sustainability reports and carry out sustainable development training and exchanges. All the departments and business units participate to promote systematic and standardized management of sustainable development combining its functions and responsibilities, so as to achieve the combination of governance for sustainable development and business management.

In 2016, the Company organized special trainings for relevant departments on theoretical and practical knowledge of sustainable development including basic concepts, domestic and international standards, trends, practices and cases studies, which improved the work ability of related personnel and thus more effectively promoted the implementation of sustainable development work of the Company.



# Sustainable Development Communication

COSL carries out in-depth study of issues concerned by stakeholders, highly regards the communication with interested parties (Stakeholders) and seeks to understand the demand of interested parties and translate such demand into action plan of the Company. The Company strengthens its capacity building and spreads its philosophy and implementation of social responsibility to interested parties through different channels to fulfill the parties' reasonable expectation to the largest extent.

### Regulatory authorities and government

**Concerns**
- Implementing macroeconomic policy
- Operation in compliance with law
- Being subject to taxation

**Responses and measures**
- Promoting laws and regulations
- Being subject to taxation
- Accepting supervision and evaluation
- Visiting and reporting

### Employees

**Concerns**
- Protection of rights
- Career development
- Health and safety
- Employee participation
- Employee care

**Responses and measures**
- Equal employment policies
- Optimization of pay and benefits
- Four levels of employee training
- Respecting employee diversity
- Occupational health and safety management
- Employee representatives meetings
- Carrying out cultural and recreational activities among employees
- Employee care

### Shareholders

**Concerns**
- Improving corporate governance
- Value creation
- Guarding against operational risks
- Information disclosure

**Responses and measures**
- Regular reports
- General meetings
- Daily communication
- Publishing annual reports and sustainability reports

### Customers

**Concerns**
- Provision of safe, high quality and efficient services
- Security of customer information
- Improvement of customer satisfaction

**Responses and measures**
- Development of quality management system
- Continuous innovation
- Providing professional solutions
- Visits and communications
- Protect customers' information
- Improve working standard comprehensively

### Suppliers and contractors

**Concerns**
- Compliance with business ethics and laws and regulations
- Establish long-term partnerships
- Mutual benefit and win-win development

**Responses and measures**
- Business discussions and technology exchange
- Negotiation of contracts and daily exchange
- Electronic management platform


**Financial institutions**

Concerns
- Operating conditions
- Operational risks
- Corporate governance

Responses and measures
- Special sessions
- Information disclosure

**Media**

Concerns
- Fulfillment of sustainable development
- Corporate performance
- Major events, activities and initiatives

Responses and measures
- Information disclosure
- Multi-channel propagation

**Charity and non-governmental organizations**

Concerns
- Maintaining close contact and information sharing
- Participating in social activities

Responses and measures
- Actively participating in social welfare
- Information disclosure

**Community and public**

Concerns
- Improving communication and exchange
- Carrying out social contribution activities
- Supporting public welfare

Responses and measures
- Philanthropy
- Marine salvage
- Promoting employment
- Supporting education
- Community care
- Voluntary service

**Environment**

Concerns
- Compliance with environmental laws and regulations
- Environmental protection
- Conserve energy and reduce emission

Responses and measures
- Establishment of environment management system
- Conduct environmental training and awareness
- Clean production
- Conservation of biological diversity
- Practicing environmental charity

# 01

# Risk Management

Operation in Compliance with Law

Internal Control and Risk Management

Anti-fraud Initiatives

# (1) Operation in Compliance with Law

**Comply with All Laws.** The Company complies with labor and social security laws and regulations; respects and protects the rights of employees; complies with competition laws and regulations and promotes fair competition; complies with environmental protection laws and regulations, improves environmental management and is committed to clean production and energy saving, contributing to environmental protection and ecological civilization construction.

**Strengthen the Law Compliance System.** The Company, based on governance in compliance with law, strengthened the law compliance system, revised systems timely such as the Management Measures for Investment Project in Long-term Equity and continued to improve the scientific features, relevance and timeliness of the management system of legal affairs. Meanwhile, the Company further improved the legal risk prevention system with legal affairs control system as the core, covering the whole process of "Prevention in advance, control in process and ex-post remedy". In 2016, the Company comprehensively achieved for 100% legal review rate of regulations and systems, economic contracts and material decisions, and generally eradicated the occurrence of non-compliance.

**Promote Professional Legal Teams.** The Company has employed general legal officers to perform their duties and attend the meetings of the management and the board of the Company. All legal officers of the Company have obtained professional qualifications and enabled the Company to build up a professional legal team and comprehensively improved the capability of governance in compliance with law. Meanwhile, the Company actively organized various law compliance trainings to increase the employees' awareness of law compliance.

# (2) Internal Control and Risk Management

## Optimization of the Internal Control System

**Continue to Optimize the Internal Control System.** In the context of drastic changes in the operating situation, the Company takes compliance, streamlined structure and adapting to business development needs as its prerequisites, improves the internal control system by rectifying the problems and deficiencies found in internal audit and internal control assessment with risk control as direction and continuously optimizes the internal control systems for key areas including strategic, finance, market, equipment and procurement. In the meantime, the Company further improved the mechanism for system establishment, standardized the system management, adjusted the system interface, optimized the authority and process of system management, etc.

**Intensify Internal Control Assessment.** Complying with the Internal Control Check and Assessment Management Measures, COSL determined the scope of internal control assessment based on issues such as material risk areas and audit findings and conducted assessment on the effectiveness of the internal control system of the Company, of which the Company has found disadvantages of the internal control system and timely corrected the deficiency, so as to enhance the integrity and reasonability.

**Enhance Systematic Training.** In accordance with the principle of combining theory with practice, the Company has organized various forms of promotional trainings on the internal control system. At the same time, COSL promotes the exchange of management experience among units of each level, which can effectively enhance the capabilities of internal control management.

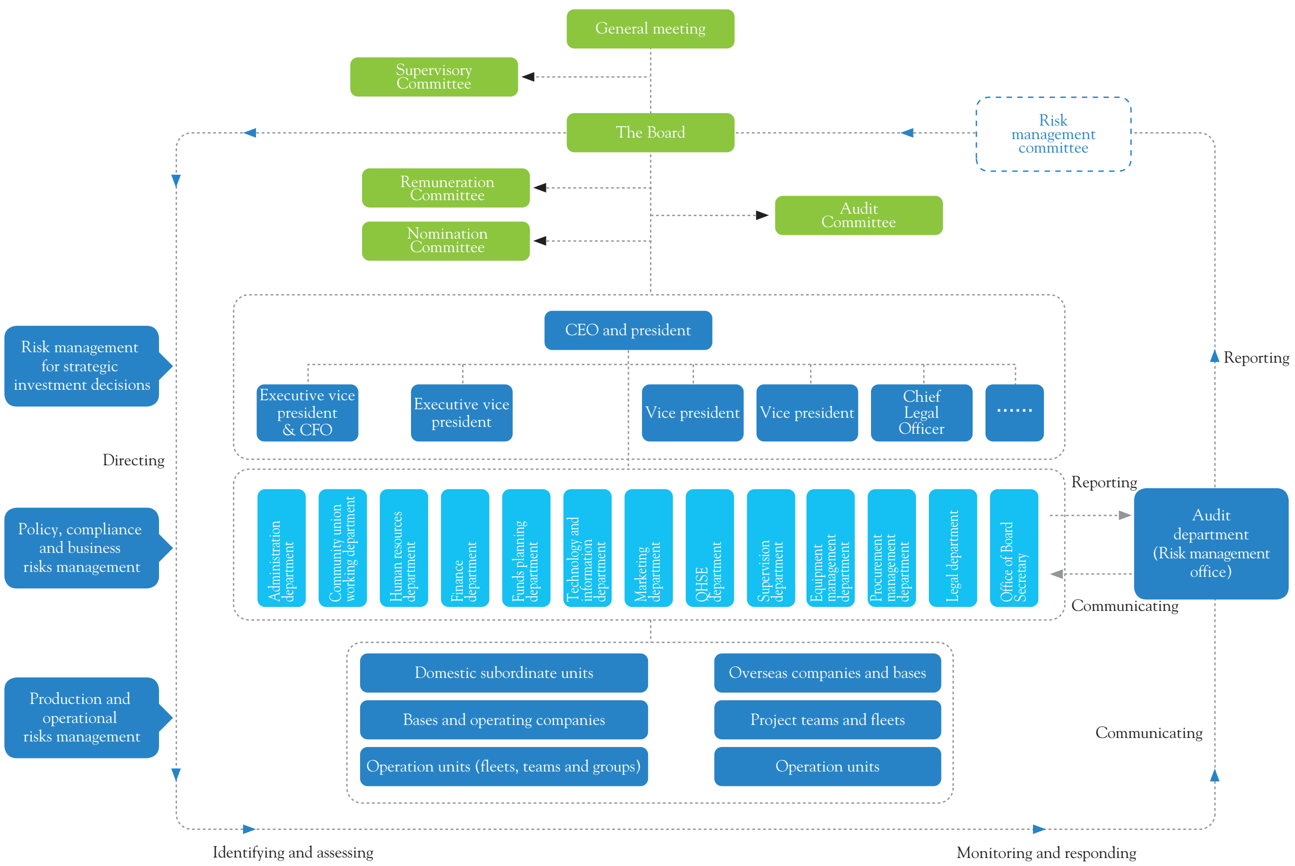
## Improve Risk Management

**Improve Risk Assessment Management.** Under the effective management and control of the Risk Management Committee, the Company established a sound risk management institution, adopted a management model which combined vertical hierarchy and horizontal coordination and achieved an all-staff, all-rounded and whole-process contained risk management. The risk assessment has been conducted on two dimensions including possibility of risks and degree of influence with risk identification, analysis, evaluation and warning by matrix analysis approach. Through the two dimensional analysis, COSL would identify the risk levels and ensure the risk tolerance and warning. COSL adopted a joint management system with the combination of preventive, handling and remedial measures to risk incidents and used and shared information resources at each stage of management. Meanwhile, to adapt to changes in the external environment and internal management needs, the Company further improved the Risk Criteria to make it more in line with the actual situation and promote the effective commencement of risk management.

**Promote the Normalization of Risk Management.** In accordance with the Rules of Comprehensive Risk Management, the Company continued to promote the organic function of risk management with internal control and business, continued to promote normalized risk management in depth, linked the risk assessment to the whole management process, formulated corresponding measures and solutions, focused on the situation of overseas risk management, seriously studied the potential risks, established precautionary and contingency measures and prepared prevention against risk warning.

**Conduct Risk Management Training.** the Company regularly organized targeted and diversified risk management trainings. Through quarterly reports on risks, experts' explanation and staff's experience sharing and case studies on advanced risk management were presented so as to arouse the employees' awareness on risk management and risk prevention and increase their abilities on identification of, evaluation of and response to risk.

Risk Management Organization Chart



Performance of internal control and risk management trainings (2014-2016)

| Index | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Number of internal control management training | times | 156 | 125 | 23 |
| Number of participants in internal control management training | person-times | 2,257 | 1,774 | 698 |
| Number of risk management training | times | 46 | 43 | 40 |
| Number of participants in risk management training | person-times | 1,635 | 1,522 | 1,366 |

# (3) Anti-fraud Initiatives

**Prevent Commercial Corruption and Bribery.** With internal and external audits and discipline inspection and supervision as direction, the Company continued to revise and improve internal supervision management systems such as the Code of Conduct for Auditors of the Company, Implementation Rules of Audit for Related Transaction and the Authority Manual, strictly implemented the Certain Provisions on Prohibiting Commercial Bribery in commercial activities, carried out a comprehensive bribery file query in tendering process, strictly reviewed the suppliers' qualification and the tender management of overseas institutions, strengthened the supervision, which effectively prevented and controlled the occurrence of corruption, bribery, insider trading and other violations of law. In 2016, the Company did not find any evidence of corruption, fraud, money laundering, etc.

**Provide Platform for Whistleblowing and Reporting.** The Company disclosed the telephone numbers and email address at the home page of our website for staff whistleblowing, which effectively mobilized forces of employees' monitoring. Clues are received according to Management Measures of Appeal, Reporting and Complaints and will be handled according to relevant systems.

**Carry out Intensified Anti-fraud Education.** The Company regards the anti-corruption and anti-fraud trainings as important parts of the supervision work. The Company has set up the "anti-fraud line" in its intranet and regularly updates the case studies of anti-fraud education. Also, the Company organized 467 anti-corruption and anti-fraud sessions in different scales and modes in both domestic and overseas organizations, and the participants of the training sessions reached 17,272 person-times.

Performance of anti-fraud trainings (2014-2016)

| Index | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Number of anti-fraud trainings | times | 467 | 462 | 166 |
| Number of participants in anti-fraud trainings | person-times | 17,272 | 16,217 | 12,209 |

# 02

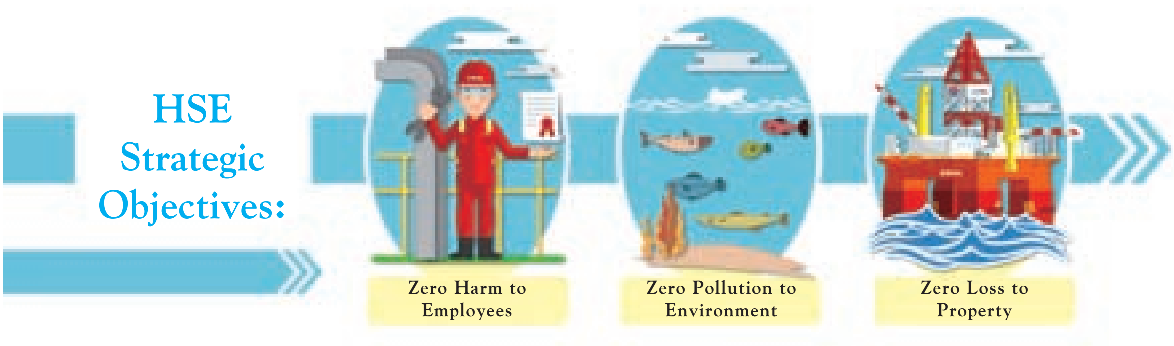
# HSE Management

Safe Production

Occupational Health

Environmental Protection

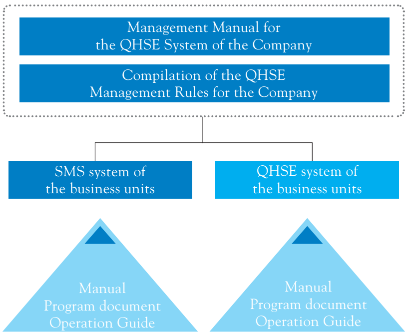
# (1) Safe Production


## To achieve our goal of zero accidents, we promise:

- Through the measurement, assessment, reporting and benchmarking of management performance, constantly improve the management systems of quality, health, safety and environmental protection and continuously enhance the management level;
- The managements actively participate in the management of quality, health, safety and environmental protection;
- Provide safety trainings to all of our staff and constantly enhance their safety awareness;
- Employees shall have the right to stop operation if danger exists;
- Focus on environmental protection and clean production;
- Continue to improve emergency management and minimize the losses arising from incidents;
- Cultivate the safety culture, share and deliver our safety values;
- Require our contractors to manage quality, health, safety and environmental protection in accordance with this Policy.


QHSE management organization




QHSE system structure

## Optimize QHSE Management System

The Company continued to pay attention to the safety management and strengthened the safe management system. The Company complied with ISO9001 (quality management standard), ISO14001 (environmental management standard), OHSAS18001 (occupation and health safety management standard) and ISM CODE (international vessel safety and anti-pollution rules) and followed the industry standards and practices both within and outside the country. We fully and effectively implemented the SMS/QHSE systems and continued to improve such systems.

In 2016, on the basis of improving relevant systems and the SMS/QHSE system, the Company comprehensively referred to international laws and regulations, the QHSE-related laws and regulations of the countries where the systems research and operate, as well as the policies, ideas and good practices of international clients, and analyzed the differences between the QHSE internal control system of the Company with that of the international rivals. The Company also conducted comprehensive review and optimization for its 50 original quality, health, safety and environmental protection systems, and formulated revision and supplementary plans for the QHSE internal control system. The Company newly developed and revised 27 QHSE internal control systems throughout the year, and established sound QHSE systems in overseas organizations to gradually adapt to the needs of international operating environment. At the same time, the Company conducted step-wise refinement of QHSE responsibility documentations and set the stage that safety should be the concern of production management and also business management, and all staff should participate in safety management.

## Enhance Safe Production Management

By earnestly implementing the policy of "Safety First, Prevention Foremost, and Comprehensive Control", the Company actively constructs safety management of the teams and groups, launches standardization activities for safe production and fully enhances the working standard, formulates safety manner rules, strengthens safety and risk management, enhances the safe production check, improves safety education and training so as to lays a solid foundation for safety management and become an intrinsically safe enterprise.

Performance of safe production (2014-2016)

| Index | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Number of production safety accidents | Case | 25 | 28 | 30 |
| Number of recordable injury incidents | Case | 23 | 15 | 18 |
| OSHA ratio | % | 0.10 | 0.07 | 0.08 |
| Accumulated lost working days ratio | % | 3.83 | 2.63 | 0.71 |
| Number of death of employees | Person | 2 | 0 | 1 |
| Number of death of contractors | Person | 0 | 0 | 1 |

Note: OSHA ratio = recordable incidents×200000/total working hours

Accumulated lost working days ratio = lost working days×200000/total working hours

## ◎ Adjust the QHSE Management Functions

In the past, the business focuses and development direction of the Company were domestic market-focused. But in 2016, the Company started to attach equal importance to both domestic and international markets, and gradually invested more resources in the international market. To adapt to the international market environment and make sure that the QHSE management matches with the strategic adjustment in the development direction of the Company, the Company initiated enhancement work such as the internationalization of QHSE management and industry specialization. At the same time, the Company adjusted the QHSE management functions, compiled and implemented the Responsibilities and Authority of the QHSE Management System of COSL covering 26 QHSE management elements in order to define the position of units at all levels and clarify their responsibilities.

## ◎ Strengthen Safety and Risk Management

The Company continued to strengthen safety and risk management control and implement safety and risk controls at specific time slots. It implemented safe production risk announcement system, carried dynamic management on risks and encouraged all employees to take part in.

◎ **Annual Risk Control.** At the beginning of the year, the Company organized and developed risk identification and evaluation and figured out the annual unacceptable risks and key control points of safe production of the Company.

◎ **Monthly Risk Control.** Through holding monthly safety risk analysis meeting, the basic units combined the production and operation plan, analyzed the operation risks in the coming month to formulate corresponding control measures.

◎ **Daily Risk Control.** Through applying the job safety analysis (JSA), the operation unit identified the potential risks in operation and established control measures, as well as enforcing all employees to participate.

### Case: Safety Management with a Caring Attitude

The Shell Group held a campaign for safety-themed day on 12 April 2016, which was also the tenth Safety Day of the Shell Group. As the largest and the best partner of Shell in China, COSL held and organized the campaign for the second consecutive year in China. The theme of the year was “Achieving Goal Zero, Because We Care”.

During the campaign, both parties signed the cooperation agreement for the “Joint Safety Improvement Program” and the “Joint Business Improvement Program”. In addition, by watching the safety-themed day videos, sharing cases of accident, joining team activities, making personal safety commitments, etc., both parties actively advocated and promoted the importance of work safety on the basis of caring for colleagues and strengthening communication, as well as shaped the campaign for safety-themed day into a platform for idea exchange and experience sharing between the staff of Shell and the Company. Both parties achieved significant enhancement in the safety and timeline of projects, lowered the operating cost while achieved the excellent result of “GOAL ZERO”.

Li Yong, the then CEO and President of the Company, promised the following regarding the Goal Zero at the campaign for safety-themed day: in the safety management work, strictness is a kind of attitude, care is also a kind of attitude. Comparing the two, care is more enthusiastic. Care shows more connotations, its behavior is more humane and its effect is more sustainable. Let’s learn from Shell and improve our safety management work with a more scientific concept.

## ◎ Enhance the Safe Production Check

The Company enhanced the safe production check system and launched various comprehensive and special checks. In 2016, the Company focused on the introduction of ways of inspection, such as the self-check and self-audit by all units, supervision and inspection of branches and random checks of the Company system so as to bring the self-management functions of all units, the supervision and inspection functions of branches as well as the guidance and inspection functions of the Company into full play. With the risk management work carried out by the three levels, actual problems can be found and risks can be eliminated.

In the meantime, the Company actively responded to the Notice in relation to the Launch of Safety Production Check in order to Enhance Safety Production at the End of the Year and the Beginning of the Year issued by the Office of Safe Production Commission under the State Council and the Notice in relation to the Launch of Safety Production Check issued by the SASAC, established the annual safe production check plan and project and conducted safety check and guidance on the self-audit and operation check in Zhanjiang and Tianjin. After checking the safety risks control of various basic units of the Company, no significant safety risk was found and all general issues found were modified.

## ◎ Improve Safety Education and Training

The Company continued to promote all staff safety trainings to enhance employee safety awareness and create excellent safety culture. In 2016, the affiliates of the Company organized 26,489 various safety trainings with a total participation of 382,478 person-times.

Emergency drills

**16,361** times

Participants

**323,421** person-times

## Strengthen Emergency Management

The Company paid much attention to the emergency management and continued to optimize the emergency management system and completed the establishment of comprehensive plans and special plans; the Company also established an emergency expert group and gave full play to the role of experts in various fields so as to respond better to emergency situations that may occur. In 2016, the Company carried out 16,361 ship-shore joint exercises and on-site exercises covering rigs, ships and shore with a total participation of 323,421 person-times.

# (2) Occupational Health

## Health Management

The Company attaches great importance to occupational health, established and continuously improved management systems such as the "Occupational Health Management Approach". In 2016, the Company comprehensively implemented the combination of health education and health promotion and formulated the health improvement plan, occupational health management plan and employees hearing protection plan for all staff. Every basic unit complied with the plans and developed a series of occupational health management.

The Company strictly provided the employees with body checks which are classified into three categories: the first category is the health certificate examination for offshore and outside working employees, with a health certificate holding rate of 100% in 2016; the second is the occupational health check for employees in contact with dangerous factors of occupational diseases, with a completion rate of occupational health check of 99.9% in 2016; the third is the routine physical examination for onshore employees, with covering rate of physical examination of 99% in 2016. There was no newly added case of occupational disease in the year.

The Company set up infirmaries in and assigned general practitioners to the rigs, vessels and field operation bases where more than 25 employees work on; provided medicines and blood pressure monitors in the vessels where no medical practitioners were assigned to and part-time health workers were assigned to those vessels to manage and record the distribution of medicines and to monitor the health conditions of staff; provided first-aid kits that were supervised by specific persons in designated location of all operation bases.

At the same time, the Company constantly improves the working condition for employees with reference to the relevant laws, regulations and standards, to provide staff with a safer and more comfortable work environment.

Statistics of occupational health management (2014-2016)

| Index | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Coverage of all staff health check and health records | % | 99.81 | 99.07 | 98.96 |
| Number of persons attending occupational health checks | Person | 5,138 | 5,482 | 5,509 |
| Completion rate of occupational health checks | % | 99.88 | 99.91 | 99.89 |
| Proportion of completion in inspection of occupational hazard factors | % | 96.3 | 98.5 | 100 |

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

Results of health examination of employees exposed to occupational hazard factors (2016)

| Health examination types | Actual examination person-time (Unit: person-time) | Completion rate of examination (Unit: %) |
|---|---|---|
| Pre-employment occupational health examination | 242 | 100 |
| On-the-job occupational health examination | 4,690 | 100 |
| Post-employment occupational health examination | 299 | 100 |

### Case: Publicity Campaign for Health-themed Day

Caring for the health of employees, the Company launches various publicity campaigns for common chronic diseases themed days with the theme of "Caring for Health, Cherish Life". The Company uploads the health publicity materials, posters and videos gathered onto the health blogs of the Company website, and organized all units to carry out the publicity work for the preventive measures of chronic diseases by various publicity media in order to promote a healthy lifestyle and thus prevent the occurrence of chronic diseases.

| Launch Period | Publicity Campaign for Themed Day |
|---|---|
| First quarter | National Ear Care Day and International Ear Care Day, World Tuberculosis Day |
| Second quarter | World Health Day, National Patriotic Health Month, World Day for Safety and Health at Work, World Obesity Day, Day for Iodine Deficiency Disease, World No Tobacco Day |
| Third quarter | World Hepatitis Day, Healthy Lifestyle Day |
| Fourth quarter | National Teeth Care Day, World Osteoporosis Day, National hypertension Day, World Diabetes Day, World COPD Day |

## Health Training

The Company thoroughly carried out the publicizing and implementation of occupational disease prevention laws, regulations and rules, guided employees to understand the occupational hazards existed in the jobs, promoted employees to grasp the knowledge of prevention and control of occupational diseases and effectively enhanced the awareness of self-protection. Meanwhile, the Company recruited experts to hold seminars on health and first aid, promoted health and civilized lifestyle and working module through posting health promotion posters, issuing electronic health magazines and writing health blogs on the Company website. All units of the Company carried out 978 recordable occupational health education and trainings in total in 2016, the number of participants was 5274 and the training completion rate was 100%.

Occupational health education and training (2016)

| Type of training | Actual number of participants (Unit: person) | Training completion rate (Unit: %) |
|---|---|---|
| Pre-employment occupational health education and training | 242 | 100 |
| On-the-job occupational health education and training | 4,693 | 100 |
| Training for main responsible persons and occupational health managers | 339 | 100 |
| Special occupational health training for staff in positions prone to serious occupational diseases | 962 | 100 |

Note: Number of persons attending pre-employment and on-the-job occupational health education and training is the number of persons in contact with occupational hazard factors

## Mental Health

Due to the special nature of the business, employees working offshore and outside for a long time may face with great pressure of work. We not only care about the physical health of employees but also care about their mental health, and we often actively help employees relieve stress and emotions. In 2016, the Company held counselling service activities of various types such as mental health seminars, counselling and trainings for all units.

# (3) Environmental Protection

## Environmental Protection Management

### ◎ Environmental System Building

In 2016, combing with actual situations, the Company revised the environmental protection systems such as the Environmental Management Approach, the Lightning Protection Management and Implementation Rules, the Environmental Factors Evaluation, Management and Implementation Rules and the New and Reformed Environmental Protection Project Management and Implementation Rules, reorganized the content of management systems and optimized the hierarchy of management systems. In the meantime, it formulated the Environmental Protection Management and Implementation Rules to further standardize the pollution prevention management in the course of production and operating activities with the aims to protect the ecological environment and resources and prevent or reduce the impact on the environment caused by production and operating activities. All units carry out annual review and update of the environmental protection system regularly. Through internal, external and managerial review of the systems, problems of the environmental protection management system can be discovered and rectified constantly, and environmental management work can be strengthened to continuously enhance the level of environmental management.

### ◎ Environmental Impact Assessment

In the course of production and operating activities, the Company carries out environmental impact assessment in strict compliance with requirements of the Law of the PRC on Environmental Impact Assessment and the Administrative Regulations on Environmental Protection for Construction Projects. It analyses, predicts and evaluates the environmental impact that it may possibly cause, and formulates strategies and measures to prevent or alleviate adverse environmental impact. The Company continues to track the effectiveness of the measures in order to avoid or alleviate the impact caused to the environment. Since the Company attaches importance to environmental impact assessment, its operation and construction projects do not bring adverse impact to the environment.

## ◎ Environmental Protection Training

The Company included environmental protection training in its system training, launched promotional trainings for employees in different positions, comprehensively aroused the staff's awareness on laws of environmental protection. Combining the production and operation characteristics, each working base focused on trainings of the latest requirements of laws and regulations, garbage sorting, usage of anti-pollution facilities and usage of oil leakage emergency equipment, which further enhanced the environmental protection awareness and skills of onsite employees.

| Time | Location | Content of training | Audience | Number of trainees |
|---|---|---|---|---|
| 2016 • 11 | Tianjin Industrial Park | Simultaneous management system of project construction and environmental protection | Front-line unit HSE managers, environmental management personnel | 24 |
| 2016 • 12 | Yanjiao main venue and other venues of branches of the Company (video training) | Introduction to environment and environmental protection, newly revised relevant regulations such as the Law on Environmental Impact Assessment, management of hazardous chemicals, the internal control system of environmental protection and hazardous chemicals, etc. | Front-line unit environmental management personnel | 337 |

## Case: Environmental Escort at Offshore Drilling

The Company developed the "Study on the Technology and Techniques for the Treatment of Drilling Waste" technological research project in 2007 and set up the Environmental Protection System (EPS) team in March 2009, which is fully responsible for the research and operation of the treatment of drilling waste. After years of efforts, an economical and simple recycling system has been developed to achieve zero emission in first class sea area. The technology has been applied for 7 patents, 5 of which are granted with the approval. With the enhancement of technical level, the EPS business of the Company also expanded from fixed control services, controlled emissions of drilling cuttings, recycling of drilling cuttings to Dynamic Drilling Hydraulic Equipment services (DKD Services), drilling fluid cooler services, etc.

Over the past seven years, the EPS business has recycled 50,000 square of drilling waste in total and dealt with nearly 8,000 cubic meters of oily drilling cuttings. Its business scope also expanded from the Weizhou waters in the beginning to all waters in the South China Sea and waters in the East China Sea. Bringing economic benefits to the Company and social benefits, the EPS business also strives to be the environmental escort at offshore drilling and safeguard our clear ocean and blue sky.


## Clean Production

The Company adheres to the sustainable development philosophy of "Green, Clean, Low-carbon and Recycling Economy" and implements the concept of green and low carbon into every step in its production and operation. The Company pursues clean production and invested RMB25.9688 million for environmental protection in total in 2016.

### ◎ Energy Saving and Emission Reduction

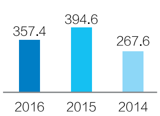
COSL complies with various energy conservation regulations and requirements of the countries and regions where it is located, developed an internal control system of energy management, developed and implemented the "Energy Saving Management Rules". It manages the energy conservation work through its internal control system with regular revision, inspection and review.

All vessels of the Company have obtained the Air Pollution Prevention Certificate issued by the China Classification Society (CCS). All diesel engines installed on newly built vessels and rigs have obtained the International Air Pollution Prevention Certificate for diesel engines. Qualified fuel is installed on vessels and rigs to reduce the emission of nitrogen oxide and sulphur oxides. In addition, advanced energy-saving equipment is installed, and good craft and technology are made use of to actively explore the effective ways to tackle climate change and reduce greenhouse gas emission. Meanwhile, for the sewage produced in the course of production and operation, the Company uses a variety of measures to recycle and reuse the sewage in order to reduce sewage emission, save resources and protect the environment.

In addition, the Company actively promoted green office and green operation, which included strictly controlling the consumption of office supplies, in order to bring the advantages of office automation into full play. The Company widely popularized video conferences to reduce costs of attending conferences in person. Also, the Company enforced water and electricity saving and advocated the good habit of energy saving. The Company managed the use of official vehicles so as to reduce the costs of business trips.

In 2016, the Company invested RMB3.574 million in energy saving and emission reduction. The total energy consumption of the Company was 340,052 tonnes of standard coal; we achieved energy saving amounting to 5,614.6 tonnes of standard coal, energy consumption of RMB10,000 worth production was 0.3327 tonnes of standard coal.

Investment for energy saving and emission reduction (2014-2016)
Unit: RMB10,000



# Sustainability Report 2016 (Continued)

Classified statistics of energy and water consumption (2014-2016)

| Index | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Electricity | 10,000 kWh | 1,604.20 | 1,594.20 | 1,546.00 |
| Diesel fuel | Tonnes | 229,176.89* | 226,744.88 | 254,362.47 |
| Natural gas | Cubic meters | 259,051.00 | 244,648.00 | 263,826.00 |
| Oil fuel | Tonnes | 1,132.14 | 1,494.99 | 4,182.00 |
| Petroleum | Tonnes | 520.94 | 519.51 | 688.37 |
| Engine oil | Tonnes | 946.02 | 882.76 | 1,582.77 |
| Water | Tonnes | 905,344.27 | 978,742.11 | 1,127,592.50 |

Note: The change in energy consumption caused by the increase in highly difficult operation, long distance operation and the suspension of operation of equipment, such as the increase in the operation of long distance towing and the offshore operation of seismic vessels.

Case:

## Energy-saving Inventions

Due to operation needs, the lighting of drilling rigs is normally on. Also, to ensure adequate lighting for the operation area at night, high power lights are always chosen, which cause high consumption of electricity and fuel in the long run. BO HAI 10 rig devised and made an energy-saving and emission reduction control system according to its own needs. The system uses PCL, temperature sensors and light sensors to carry out intelligent control over fans and outdoor lighting (according to temperature and lighting). This technology allows each rig to reduce annual $CO_2$ emission by 283 tonnes, save 10.4 tonnes of fuel and save around RMB750,000.

## New Equipment Helps to Save Energy

The horizontal diffusion of a 12-streamer seismic vessel mainly relies on the resistance to water of the large-scale diffusers on the two sides. In 2016, Hai Yang Shi You 721, a 12-streamer seismic vessel of the Company replaced the original BARO48 diffuser with the MODE53 diffuser. By experiment, in the course of operation of a 12-streamer seismic vessel, the horizontal diffusion width performed by the MODE53 diffuser is 30-40 meters larger than that performed by the original BARO48 diffuser, which increased the operational efficiency by 9.1%. As there are 6 months of operation annually, 600 square of fuel can be saved each year, which is equivalent to approximately 706 tonnes of standard coal.

## Brand New Oil-saving Operation Mode

From 11 to 25 April, in the course of operation when Hai Yang Shi You 681 anchored, retrieved the anchor chain and delivered the anchor head for the drilling rig COSL PROSPECTOR, Hai Yang Shi You 681 adopted a brand new oil-saving operation mode: segment control for the operation process, tailor-made power mode; at the same time, under the safety prerequisite, shut down the main engine, use the single auxiliary engine to generate electricity in order to perform the operation of anchoring and retrieving the anchor chain such that the operating time of the main engine can be reduced as much as possible. Within a short operation period of 14 days, 306.3 tonnes of fuel was saved, which proves the strong functions and energy-saving and environmental protection capabilities of Hai Yang Shi You 681 under multiple modes.


## ◎ Prevent Oil Leakage

For possible oil leakage which may occur in the course of production and operation, the Company has developed a third-party recognized management system, established operational procedures in conjunction with actual situations and taken effective measures to prevent oil leakage. Systems such as the Operational Management Procedures for Fuel Refilling at Drilling Rigs, the Regulations on the Use of Oil-based Mud and the Transfer of Oil-based Mud/Based Oil/Brine are formulated for the drilling rigs of the Company. All vessels have obtained the International Oil Pollution Prevention Certificate issued by the China Classification Society (CCS). Also, the Guide on Pollution Prevention Management of Vessels, the Guide on Loading and Unloading Operation and Management of Oil Tankers and the Guide on Offshore Oil Export Operation of Oil Tankers are formulated.

Prior to the loading and unloading operation of oil tankers, inspection is carried out according to the procedures to ensure the safety facilities are normal and reliable, and the facilities for collecting oil spill are prepared in the operation area. During the operation, there is non-stop patrol and inspection performed by the staff on duty. They keep communicating smoothly with the terminal/rig. Once they found anything unusual, the operation would be stopped to make sure that there would not be any oil spill.

According to the possible sources of oil spill, sea environment and resource status, the Company has established a sound oil spill contingency plan. Each working base is equipped with oil spill contingency supplies such as oil remover, oil fence and oil spill contingency bucket. For the emergent situation involving pollution caused by oil spill, on-site contingency solutions and on-board oil pollution contingency plans shall be drafted and reported to related national departments for record. When oil spill occurs during the individual operation of a vessel, all working bases shall immediately initiate emergent treatment according to the contingency plan. When oil spill occurs during the provision of drilling and well work-over services as an operator, all operation units shall follow the unified command of the operator and work closely to carry out emergent treatment actively. Meanwhile, the Company carries out annual oil spill contingency drill every year so as to continuously improve the onsite response and treatment capabilities towards emergency.

The Company has also purchased oil pollution liability insurance for every rig and vessel, which would make cash compensation for potential oil leakage accidents. Through the strict implementation of various management systems and measures, the Company did not experience any oil leakage accident during the year.

Oil spill trays for oil storage


Slop tanks for collecting waste oil

## ◎ Qualified Discharge

The Company strictly complies with "Effluent Limitations for Pollutants from Offshore Petroleum Exploration and Production" (GB4914-2008) and "Effluent Standard for Pollutants from Ship" (GB3552-83) and other emission standards of the countries where we operate our business and requirements of international conventions so as to ensure that industrial waste-water and domestic sewage were discharged according to the standards. For pollutants which do not meet the emission requirements, the Company delivers them from the working base to qualified third parties who have signed the recycling agreement with the Company for recycling and treatment.

All drilling rigs are equipped with several environmental protection facilities such as water and oil separators and sewage treatment plants. The Company maintains the equipment and facilities according to the PMS/AMOS maintenance system to ensure them to work in normal operation. The Company conducts a monthly inspection of sewage and oily water and follows up the inspection results to the discharge standards. Furthermore, all rigs are equipped with various recycling devices for the purpose of preventing from oil spill and environment pollution, so as to achieve zero emission.

The Company also values the protection of groundwater resources by constantly investing and actively carrying out technological research and development and innovation so as to apply new technology and new techniques into on-site operations and hence reduce the pollution of groundwater during the oil exploration and development process. For fracturing operations, the Company has designed the liquid nitrogen gas lift way to discharge the fracking fluid back to the ground more thoroughly and thus reduce groundwater pollution caused by the fracking fluid. For the drilling fluid used in drilling operations, the Company adopts a technology which adds leak-proof materials into the drilling fluid in order to prevent groundwater pollution caused by the leakage of fluid into stratigraphic fissures.

Statistics of discharged volume of the Company in China's waters (2014-2016)

| Index | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Qualified discharge of oil polluted water | Cubic meters | 795.86 | 910.14 | 743.23 |
| Discharge of crushed domestic waste | Tonnes | 215.94 | 290.66 | 221.99 |
| Qualified discharge of drilling slurry | Tonnes | 35,246.70* | 27,605.51 | 13,655.28 |
| Carbon dioxide | Tonnes | 716,874.00 | 710,452.86 | 805,261.81 |
| Emission of carbon dioxide for an output value of ten thousand | Tonnes/ RMB10,000 | 0.70 | 0.42 | 0.44 |

Note: In 2016, there were changes in the well numbers in which the Company used different drilling fluid systems during operations and this led to the increase in the use of drilling fluid which are permitted to discharge by the state.

## Conservation of Biodiversity

The Company always abides by animal protection laws around the world, values the conservation of biodiversity, carefully analyzes the possible impact of various aspects of work on marine organisms and takes preventive measures to reduce the impact actively. The waste generated from offshore operations achieved qualified discharge. In the meantime, the discharge of harmful waste into the sea is avoided. The Company has established a pollutant recycling system and it recycles, arranges classified storage of the pollutants which are banned from emission according to relevant requirements and delivers them to land for centralized treatment. The Company researches and develops the use of green and low carbon environmentally-friendly products, and uses green offshore products which contain low sulfur. For geophysical operations, the Company has formulated the Soft Start Instructions to eliminate or lower the negative impacts on biodiversity and ecosystem in order to create a healthy and green living environment for marine organisms.

### Case: I am a marine mammal observer

In 2016, I came to the North Pole for operation for the first time with the Hai Yang Shi You 720 fleet. Below the cold sea water here lie the rich oil and gas resources. Yet, the ecological environment is so fragile that protection for the ecological environment is particularly important. In this operation, I have an important role to play – the Marine Mammal Observer (MMO). The work of a MMO is to delay or close the use of air gun in areas with potential dangers in accordance with the environmental regulations related to seismic exploration so as to protect marine mammals from harm.

Before and during the exploration operation, marine mammal observers observe the marine mammals surrounding the vessels by equipment such as telescope, camera and distance measuring device. Before carrying out operation, the fleet shots the air guns one by one starting from the lowest volume in order to alert marine mammals to stay away from the area. Once the observers discovered any mammals entering the dangerous area, the exploration operation would stop immediately to protect the safety of marine animals to the greatest extent. In addition, staff of the fleet treat the seagulls resting on the vessel as friends, which creates a beautiful landscape in the North Pole.

Protection for the marine environment and animals is not just a simple slogan, it requires us to firmly fulfill our responsibilities and obligations during actual operations. As a marine animal observer, I am proud of my responsibilities.

# 03

# Enhance Capacity for Sustainable Development

Improve Quality Management

Improve Quality of Services

Strengthen Scientific and Technological Innovation

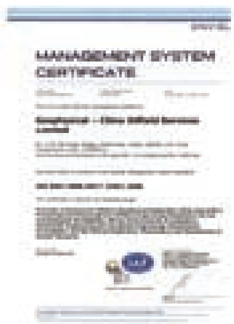
Supply Chain Management

# (1) Improve Quality Management

By adhering to the management policy of "Supremacy of Credibility, Equipment in Good Condition and Quality Assurance", the Company continues to improve its quality management to provide customers with quality products and services, thereby satisfying their reasonable demands as well as satisfaction.

**To improve quality management organization.** The Company and each direct subsidiary has established sound corresponding quality management organizational network to unify the management and supervision of product and service quality management.

**To improve quality management systems.** Quality management systems are set up with relevant procedures and operations supplemented and improved. Through the efforts of evaluation by supervisors, internal/external audit of systems, management appraisal and compliance evaluation, the appropriateness, effectiveness and operability of the systems have been secured.





Certificates of Quality Management System obtained by the Company

**To commence quality training.** Each unit of the Company launches a variety of quality trainings specifically about quality management systems, basics of quality management, QC teams in practice, case study of quality incidents, quality control and quality assurance, skill contests and skill exchanges to help staff understand the importance of quality operation, services and products and thus produce ever improving quality management and the overall skills of teams. In 2016, the Company conducted 600 quality training sessions with 10,676 participants.

**To conduct special quality checks.** Special quality management checks are conducted which mainly relate to quality systems, asset integrity & sustaining and customer satisfaction. Corresponding corrections and preventive measures have been implemented for issues identified in such checks.

## Case: "Hai Yang Shi You 981 rig" was awarded the Second National Quality Award

On 29 March, the Selection Committee of the National Quality Award held the award ceremony in the Great Hall of the People. "Hai Yang Shi You 981 rig", which is operated and managed by the Company, was awarded the Second National Quality Award. Since the operation of "Hai Yang Shi You 981", the Company, through continuous attempts, has progressively developed a comprehensive management system on the basis of quality management, which covers the whole process from production to operation. The management team, focusing on high quality standards, has become a benchmark for the quality of China offshore oil industry.

National Quality Award, selected every two years, is the highest official honor for quality in China, which has been known as "Oscars" in quality assessment industry. Among 10 winners of the Second National Quality Award, "Hai Yang Shi You 981" is the only winner in the basic first tier group. The selection committee is of a view that "Hai Yang Shi You 981" incorporates advanced management concept linking with onsite operation and practice, coupled with regulated and effective management, which is highly practicable. By virtue of COSL's core development concept, becoming more professional and enhancing commitment ability, the management standard of the platform keeps improving.

### Case: Named as "Quality Benchmark" in national oil and chemistry industry for our management experience

The Company thoroughly demonstrates advanced management of quality control by conjoining "Personal, Materials, Equipment" with "project-project link management style, one-stop list management, operation process QC management, 'Internet+' and real-time quality monitoring system, standardized process management, risk prevention management and generally improved working standard".

# (2) Improve Quality of Services

## Provision of Professional Services

We strive to enhance service capabilities and build the brand of COSL and dedicate to provide customers with more efficient services of high quality. Because of its professional services and good operational performance, a number of projects of the Company are highly valued and recognized by customers despite the fierce market competition.

In December 2016, the Company was awarded "Top Ten Suppliers" at the adjudication and selection of "2016 Top Ten Supply Chain Management Corporation" organized by China Petroleum and Chemical Industry Federation.

### Case: Excellent Performance in Saudi Arabia Red Sea Operation

In May 2016, Hai Yang Shi You 751, a new seismic source vessel for geophysical acquisition operation, set out to provide 9-month exploration service for Saudi Aramco in Red Sea, which is not only the first overseas operation of the vessel, but also represents the Company's first operation in Red Sea.

Following its debut, Hai Yang Shi You 751 has been operating with high safety and quality standards and achieved outstanding results of shooting passing through floating ball, switching between singular or plural sources to share the workload of other operation vessels, a new record of daily production amount and 0.6% of blown-out shot rate (significantly lower than 5% required by counterparty).

As of December, Hai Yang Shi You 751 operated for 147 days and safely sailed for 7919.19 km. Average daily shots amounted to 2063 and total effective shots were 303287, both of which were higher than annual total shoots fired by domestic submarine cable source vessels in same category. Our work has been highly recognized by counterparty.

Firing shots by Haiyang Shiyou 751

## Case: Shell YGH IPM Service Project


In February 2016, COSL signed YGH Project Services Contract with SHELL

In 2016, COSL provided IPM services for Shell YGH Ledong 11-1-1 well for the first time, which covers drilling, marine support, cementing, drilling fluids, LWD and wireline logging services. Ledong 11-1-1 well is located in the eastern block of Yinggehai, which is the hottest and deepest well in the block, requiring formidably high drilling technique.

In June, Shell named 10 COSL staff as “Dragon Pioneer” to recognize them for being the model in “Dragon Journey”, as well as their efforts in promoting HSE culture. Also, Shell named Hai Yang Shi You 943 rig as the first “Dragon Team”.

In September, Hai Yang Shi You 943 rig was rated at the first (Safety) among 31 rig service contractors in KPI appraisal for global contractors held by Royal Dutch Shell plc for the second quarter of 2016.

On 16 November, Shell’s award ceremony of global outstanding contractors 2016 was held in Houston, in which COSL won “Wells Emerging Partner Award” for the year 2016. Shell granted awards to 8 most outstanding contractors in its global upstream business field. At the ceremony, Shell spoke highly of COSL’s safe, high-efficiency and high-quality IPM service performance in HTHP projects in Yinggehai and looked forward the long-term cooperation in the future.

Yinggehai IPM project has laid a foundation for the successful and extensive cooperation for the parties.

The Company won the only “Wells Emerging Partner Award” for the year 2016 from Shell.

Successful completion of drilling by Hai Yang Shi You 943 rig

# Sustainability Report 2016 (Continued)

Commercial counsellor visited COSL's booth


COSL's exhibition booth in Abu Dhabi Petroleum Exhibition

## Improve Communication with Customers

Through the combination of invitation and going global, the Company improves communication with IOCs, NOCs and government authorities and actively participates in influential international oil conferences to relate itself to the technological frontiers in the industry and effectively facilitate the development of overseas markets. It also pays visits to its customers, invites customers to come and conducts customer satisfaction surveys so as to proactive grasp their demands and deepen mutual understanding to lay the foundation for broader and deeper cooperation in the future. The customers' satisfaction reached over 98% in 2016.

The Company's CEO and fellows visited client company and communicated with each other for cooperation in geophysical projects in 2017


Clients visited our geophysical division

## Case: Improving customer experience and marketing capability

In December 2016, COSL held the second International Market Annual Conference, in which more than 50 domestic and foreign customers and business partners were invited to the headquarters of the Company to assess the Company's international marketing capacity of 14 marketing teams in terms of professionalism, promotion efficiency, image and reputation, and presentation materials. The annual conference received accolades from customers and business partners and they considered that it was an excellent platform to communicate and share with each other. On one hand, they knew more about COSL's new equipment, technology and advantages in IPM services; and grew in confidence in creating a win-win situation amid the difficult and challenging environment.

The purpose of the International Market Annual Conference is to demonstrate the Company's strength, maintain customers' confidence, improve communication between the Company and customers, allow the customers to have a full picture about COSL's technology and services and listen to customers' valuable opinion in order to make considerable improvement. Meanwhile, building an international communication platform creates an opportunity for customers to communicate with other participants around the world, which helps the Company continuously improve its brand image as a global integrated oilfield services provider.

HAND IN HAND 2016 AIM HIGH 2017

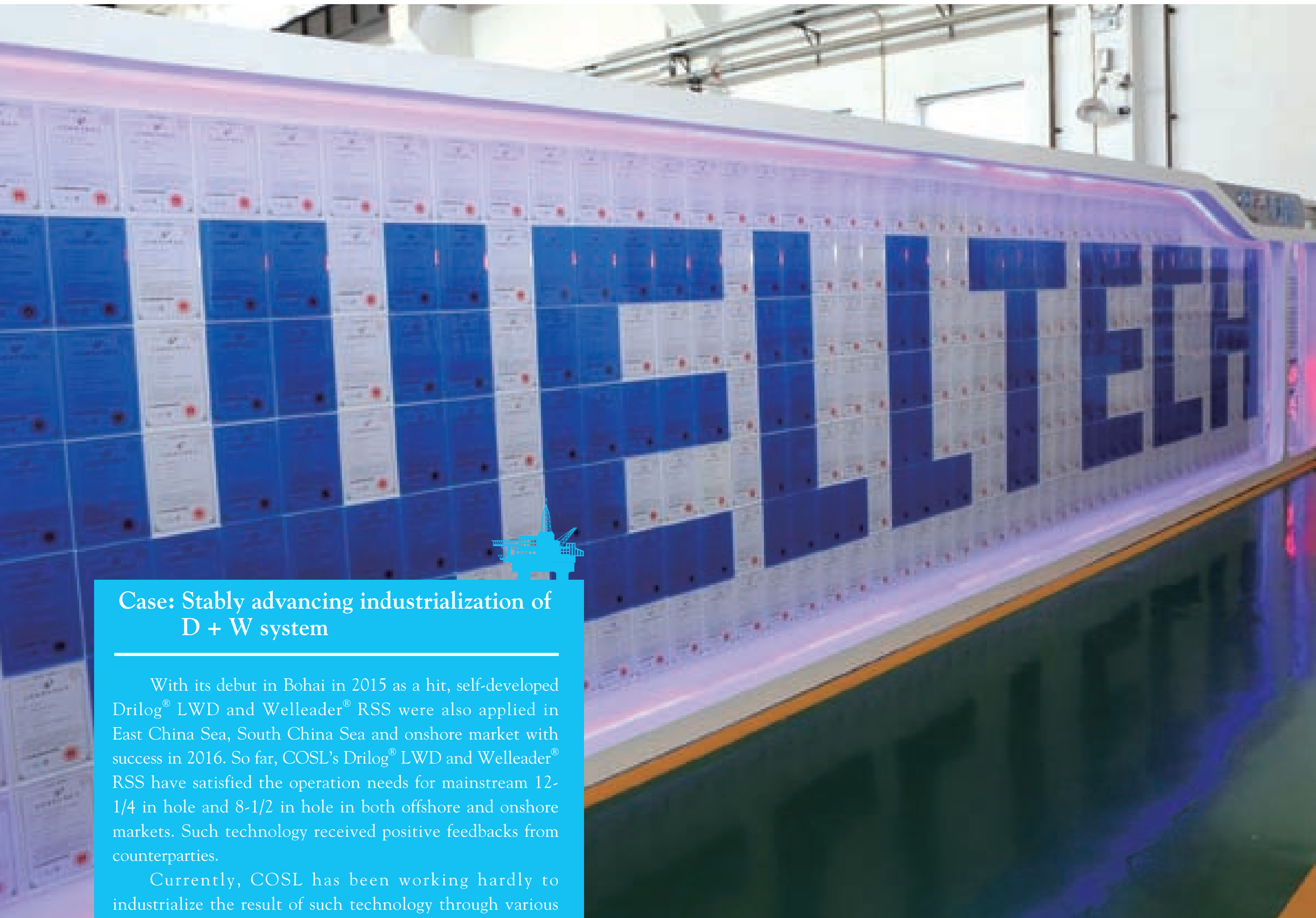
# (3) Strengthen Scientific and Technological Innovation

The Company adheres to customer demand-oriented and established technological innovation system with the close connection between R&D institutes of the Company and production and research to meet the demand of customers for technical services and improve customer satisfaction. In 2016, the Company invested RMB570 million in technology in total and obtained 134 patents, including 60 invention patents and 74 practical new design patents. With the accumulation of technological skills and continuous innovation, the Company has made a number of outstanding achievements and patents. The results in R&D has greatly enhanced the production with eminent results.

Key performance of technological innovation of the Company (2014-2016)

| Indiactor | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| R&D investment | RMB 10,000 | 56,710* | 88,198 | 108,984 |
| New patents | Items | 134 | 182 | 142 |

* Note: The R&D investment of the Company in 2016 included CNOOC funds of RMB40,490,000 and national funds of RMB16,110,000.



## Case: Stably advancing industrialization of D + W system

With its debut in Bohai in 2015 as a hit, self-developed Drilog® LWD and Welleader® RSS were also applied in East China Sea, South China Sea and onshore market with success in 2016. So far, COSL's Drilog® LWD and Welleader® RSS have satisfied the operation needs for mainstream 12-1/4 in hole and 8-1/2 in hole in both offshore and onshore markets. Such technology received positive feedbacks from counterparties.

Currently, COSL has been working hardly to industrialize the result of such technology through various ways and measures with an aim to apply it around the world as soon as possible.

The wall of patents in COSL's science park

## Case: Successful application of integrated technology of horizontal broadband seismic acquisition and processing

After two-year R&D, COSL has successfully developed technology for broadband seismic acquisition and processing by horizontal cable, which is different from the varying cable widely used in international market, and such technology provides users with high quality broadband seismic information of horizontal cable, which mitigates the risk of interpretation of seismic data and reservoir anticipation while reduces the difficulty in data acquisition in rural area and extends the operation area of broadband seismic technology. In 2016, by virtue of such technology, we won the tender of the project in Gabon, West Africa, which is the largest single foreign 3D seismic collection project in China's marine oilfield exploration history ever. Also, the Company applied such technology for the first time for regular data processing in Bohai operation zone, which achieved a satisfactory result.

## Case: HT-FLOW, high temperature drilling fluid, helps to win BD project in Indonesia

The Company successfully developed HT-FLOW, a series of high temperature drilling fluid, which can used for operation under the environment of high temperature, high density and high degree of acid gases, and help overcome the technical problem of coexistence of high density and reservoir preservation. It can act as a "lock" as well as a "key", representing the Company's solid step forward in 3H-technology.

Given the excellent performance of such series of product, the Company won the tender of BD project in Indonesia, also named as "World Drill Bermuda". Five wells have been using such technology with production value of RMB17 million. Such technology successfully served domestic market for once and international customers for three times (previously in Persian Gulf and North Sea).

## Case: Fracturing and packaging sand control technology, the missing link of domestic marine oilfield service technology

In December, the Company successfully applied fracturing and packaging sand control technology in J49 well at Penglai 19-9 oilfield, overwhelming the dominant position of foreign companies who provides fracturing packing services in Penglai oilfield. Such technology makes up the Company's deficiency in missing domestic fracturing and packaging sand control technology.

Fracturing and packaging technology is a new type of sand control technique completely different from ordinary sand control method. It optimizes the economic benefits by materializing sand control and increasing production volume. Widely applied in foreign marine oilfield, such technology is still at initial stage in China and monopolized by foreign companies. After years of research, the Company has finally developed its own fracturing and packaging technology and hydraulic fracturing system. The success of this operation demonstrates the feasibility of the Company's fracturing and packaging technology. Currently, the Company is on the way advancing the series and industrialization of sand control and upper well completion equipment.

# (4) Supply Chain Management


The Company has constantly optimized its supply chain management by establishing supplier approval, use, assessment and exit management mechanism and by stringent and rigorous selection of suppliers which not only stresses on product quality, service standards, business ethics and corporate reputation but also on performance of social responsibility.

Strengthening the layout of the global supply chain. According to the organizational structure and operation futures and under the guidance of international development strategy, the Company used internationally advanced management experience as reference to optimize management framework for overseas procurement, focus on the overall planning of global supply chain, set up procurement center in foreign market and make plan for overseas core business areas by establishing procurement center in Singapore, Houston, Middle East and Norway, which provided resources and support to the expansion of the Company's international business. Pursuant to the Company's development strategy and layout, procurement integration between Singapore CDPL and OILTECH was completed in 2016. According to the research result by Houston procurement center, there will be a proposal for its establishment so as to orderly commence operation.

Enhancing supplier evaluation. The Company has strictly implemented its"Supplier Management Rules" and"Rules on Supplier Certification and Hierarchical Management", to improve supplier evaluation and dynamic maintenance. Also, certain major suppliers have been rated and categorized, which has helped advance the selection of "core" and "premium" supplier, optimized supplier resources structure, and shared suppliers' information, including resources, rating and authorization, across the Company.

In the initial approval, eligibility evaluation and appraisals of suppliers, the Company has enhanced the qualification review by extending initial approval and evaluation indicators to include social responsibilities, which covers corporate reputation, business ethics, development prospects, tax status, bank credit rating, HSE system certification, skills and techniques. Besides, the Company concerns whether the supplier complies with laws and regulations relating to child labor, salary and working hours, and takes account of integrity, compliant operation, attention to health, safety and environmental protection, relevant certifications and performance under such certifications. It also takes criminal records of bribery as an important indicator in its evaluation so that those with such records are disqualified and restricted in their participation in tender and bidding activities.

Creating a fair tendering environment. The Company establishes a regulated and effective tendering platform. Through open tender and electronic tender, suppliers/contractors are provided with "open, fair and transparent" opportunity to participate. Also, we keep on optimizing the supplier information feed-back mechanism. The Company strengthens the training for the management staff of the suppliers so that each of the suppliers could promptly and obtain precise tendering information and updates.

**Supplier Approval:**

Considering our business need, the Company conducts new supplier approval covering various aspects including the basic information, financial condition, quality assurance system, industry performance, undesirable record and industry qualification and etc., thus importing quality supplier resources.

**Use of Supplier:**

The Company conducts Classification and Grading Management of suppliers and selects the best suppliers according to the principle of unified platform, regulating the use and dynamic management, taking into account the quality, technology, price, integrity and willingness to cooperate.

**Supplier Assessment:**

The Company organizes the annual supplier review to ensure the overall quality of suppliers. The review mainly focuses on their performance of contracts, the effectiveness of registration documents, norms and standards they follow, quality system certification, certificates of health, safety and environmental protection and etc. The suppliers which are identified as unqualified by review will be warned and required for rectification.

**Suppliers Exit:**

The Company conducts dynamic management of approved suppliers and removes suppliers with no business dealings for two years and above annually and regularly removes suppliers beyond the temporary use period, with serious violations, assessed as unqualified and with no business needs.

Number of suppliers by regions (2014-2016)

| Year | Total number of suppliers | Overseas | Domestic | Major regions | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Tianjin | Beijing | Guangdong | Shanghai | Other cities |
| 2016 | 2,461 | 261 | 2,200 | 518 | 404 | 382 | 151 | 745 |
| 2015 | 2,241 | 220 | 2,021 | 459 | 387 | 348 | 136 | 691 |
| 2014 | 1,944 | 169 | 1,775 | 395 | 275 | 287 | 105 | 713 |

Note: The figures of the suppliers are the figures on 31 December 2016

# 04

# Staff Development

Protection of Employee Rights

Promote Career Development

Localization and Diversification of Employees

Employees Care

# (1) Protection of Employee Rights

## Employment Policies

The Company strictly abides by "People's Republic of China Labour Law", "People's Republic of China Labour Contract Law" and all relevant laws, rules and regulations of the business related countries and follows the principles of "Legal, Equality, and Voluntary, Consensus, Honest and Trustworthy" to sign labour contract with employees. We actively build systems for temporary staff and the management of their remuneration to ensure their rights and benefits. We treat all employees with different nationality, race, gender, religion and cultural background fairly and equally, child labour in all regions is prohibited and all forms of forced and compulsory labour are sanctioned. We also implement the national "Special Labour Protection Regulations for Female Workers" and protect various rights and welfare of women during the period of pregnancy, childbirth, and breast-feeding, and strictly prohibit reducing their wages, dismissal or termination of employment during such period to ensure they do not suffer from discrimination. Meanwhile, the Company strictly complies with relevant requirements under paid leave system to protect staff's entitlement to paid leave.

## Remuneration and Welfare

The Company strictly complies with domestic and local laws and policies on employee compensation and competitive remuneration system and performance appraisal system are established. It pays the basic social insurance and housing fund for employees, implements enterprise annuity system, supplementary medical insurance system, and provides personal accident insurance and corporate supplementary pension insurance and a number of welfares including health check, paid vacation, helping and assisting those with difficulties or major diseases and etc., taking efforts to address the worries of employees and provide reliable and multi-layered protection for them.

Statistics of employees (2014-2016)

| Indicator | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Number of employees | Person | 14,927 | 16,074 | 16,096 |
| Number of PRC employees | Person | 13,979 | 14,962 | 14,810 |
| Number of foreign employees | Person | 948 | 1,112 | 1,286 |
| Number of new employees during the reporting period | Person | 13 | 688 | 1,871 |
| Percentage of female employees | % | 8.0 | 8.5 | 8.6 |
| Social insurance coverage | % | 100.0 | 100.0 | 100.0 |
| Rate of signing labour contract | % | 100.0 | 100.0 | 100.0 |

## Employee Involvement

The Company places high importance on employee involvement. Through establishing the labour unions, it can facilitate negotiation and communication with employees and protect their benefits and rights by participation in making decision regarding our corporate development. Meanwhile, the Company fully explained the details of policies and valued employees' opinions to response to their reasonable appeals as far as possible.

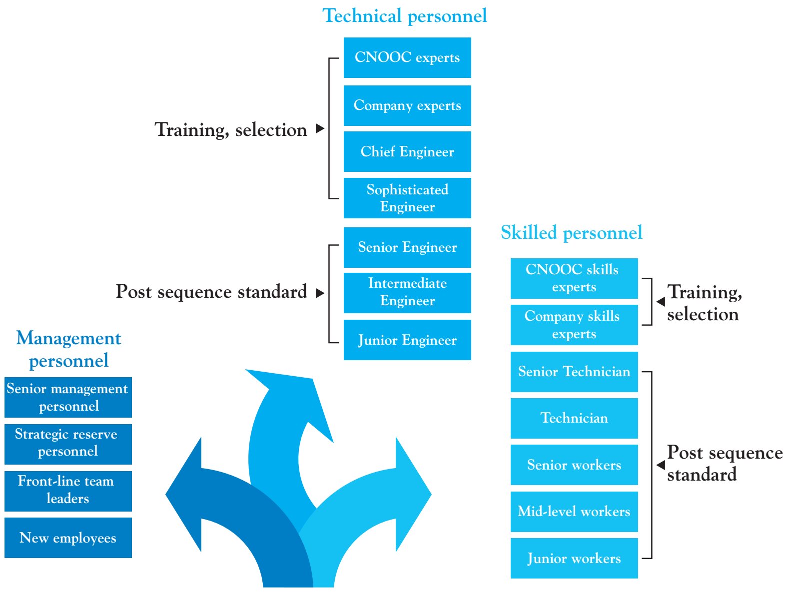
### Case: Employee Representative Meeting – Effective Guarantee of Democratic Management and Supervising Powers

In July 2016, the Company held its second meeting of the first session of labour union and the third meeting of the first session of employee representative committee, at which the employee representative committee lawfully exercised its power and implemented conscientiously the proposal system. 22 proposals were collected and files were opened for 10 and follow-up work is in progress. At the meeting, members of the first session of labour union, additional members for special committee and additional employee representative in labour dispute accommodation commission were elected. At present, all of the 12 subsidiary entities of the Company have formulated procedures for their employee representative meetings.

# (2) Promote Career Development

## Career Development Paths

The Company has established proper career development paths for management personnel, technical personnel, skilled personnel and international talents and continues to improve its talent promotion mechanism. In 2016, the Company continuously enhanced the talent pool system by focusing on the training and career path for reserve cadres, especially young officer.




Career development paths for employees of the Company

## Case: COSL's flowers

**Wang Xingzun, Deputy Head and chief engineer of Research Institution of Production Optimization.**

As a technician, I love to study fracturing technology, continuously making breakthrough in fracturing and acidizing technology for the Company. Meanwhile, I am named as the Model Worker in Tianjin by virtue of my own efforts and achievement. I am so proud to work together with other male workers, and make the offshore platform better with unique wisdom of being a woman.

**Huang Yajie, Officer of the Oilfield Chemical Drilling and Completion Fluids Laboratory**

Dealing with slurry liquid every day is considered as a job for male workers. However, I work as well as they do because I passionately love working in laboratory. From an ordinary chemist, I grew to be the officer of the laboratory and led my team to test 3220 batches of drilling and completion fluids additives and completed 295 breaking-through experiments in the laboratory, fully supporting the drilling work of nearly 600 wells in Bohai, East China Sea and overseas regions.

**Sun Yali, staff in Tianjin branch**

As a worker of labour union, I handle the work for 15 base-level labour unions in Tianjin segment. There are more than 10,000 employees in the labour unions. Plentiful and excellent team-building activities have been held for our staff, including track and field games, badminton competition, group wedding ceremony for the youth in Tianjin segment, funny sports gala, etc. Through these activities, I hope that all staff would treat our Company as their home.

**Wang Ying, back office worker in drilling rig**

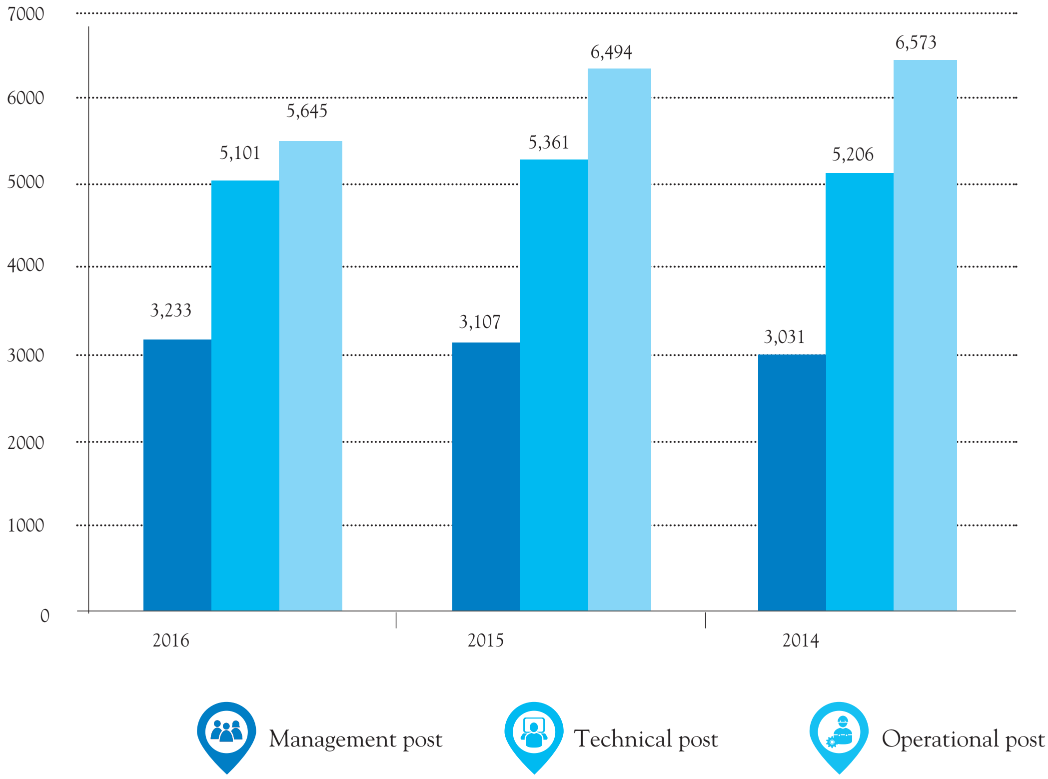
As an back office worker in drilling rig, I handle ordinary and daily service in drilling rig. I have seen the quiet sea before hurricane and enjoyed the starry sky on silent night. But what touches me most are stories I heard from frontline staff. In 2016, I participated in China Marine Economy Expo and share my working and living experience on the sea to each visitor.

Percentage of female workers in operation and management positions

**23.8%**

Sustainability Report 2016 (Continued)

Statistics of PRC employees classified by positions (2014-2016) (Unit: person)




| Statistics of PRC employees classified by the academic qualification (2014-2016) (Unit: person) | | | |
|---|---|---|---|
| Academic qualification | 2016 | 2015 | 2014 |
| PHD | 36 | 40 | 37 |
| Master | 627 | 679 | 634 |
| Bachelor | 6,245 | 6,629 | 6,328 |
| Below bachelor degree level | 7,071 | 7,614 | 7,811 |

PHD

36

| Statistics of PRC employees classified by ages (2014-2016) (Unit: person) | | | |
|---|---|---|---|
| Age | 2016 | 2015 | 2014 |
| 30 or under | 4,572 | 6,146 | 6,649 |
| 31-40 | 5,584 | 4,915 | 4,271 |
| 41-50 | 2,371 | 2,433 | 2,433 |
| Over 51 | 1,452 | 1,468 | 1,457 |

30 or under

4,572

# Career Development Training

## Total person-times of participants

Management personnel

**13,365**

Professional and technical personnel

**43,781**

Operating skill personnel

**19,898**

The Company continues to increase investment in staff training and provide platforms for employees' development. We also carry out vocational training in various forms and contents based on staff requirements so as to continuously improve the talents training mechanism, encourage employees to learn and improve their skills and promote employees to grow with our business.

### 01 New Employee Training

- Corporate Strategy
- Corporate culture
- Management philosophy
- Professionalism

### 02 Technical and Skills Personnel Training

- Theoretical training
- Consolidating practice
- Field practice
- Application and improvement

### 03 Management Personnel Training

- Front-line team training
- Strategic reserve personnel
- Senior management personnel

### 04 International Talents Training

- Overseas talents (master) training
- Corporate training
- Exchange and mixed mechanism

Personnel training methods

Communication training for management staff

Worker in Nanhai 9 drilling rig was granted with certification for an international training session


## (3) Localization and Diversification of Employees

With the continuous development of the overseas business, the Company actively promotes the localization and diversification of staff, adheres to equality, freedom, antidiscrimination employment policy and promotes employees with different cultural backgrounds to respect each other's religion, customs and personal hobbies and etc., and enhance mutual understanding. It puts in place a domestic and foreign rotation mechanism to facilitate interactions among domestic and overseas entities, subsidiaries, executives and backbone staff from a macro perspective, which not only secures talents for its development but also opens channels to select and nurture members of the executives. By the end of December 2016, the number of our foreign employees was 1,734, and the localization rate reached 55%.

## Case: The story of Juang, a downhole equipment engineer

I am Juang Gahalta, COSL's downhole equipment engineer working for the supporting division under oilfield chemistry division in Indonesia branch. I served COSL for one and a half year through social recruiting after my graduation from university.

During my internship period, I worked with the senior officers in maintenance and repair division to dismantle and assemble the equipment. After technical training, I have acquired skills to maintain and operate such equipment.

In my first journey on the sea, I learnt from on-site practical experience which can never get on land. After frequently using downhole equipment, I am getting more and more familiar with handling complex situation. Once I was running a 9-5/8" retrievable packer. The setting was completed after a test at 1500-feet shallow layer and hanging load data showed that the setting was acceptable. However, after injecting the equivalent volume of water to the casing annulus pump, the annulus did not returned. At that time, leader of the well team thought that the rubber of our packer did not seal up. As I was familiar with the functionality of the packer product, I refuted his view and worked with the team leader to identify the cause for leakage and found that it would be likely due to the fracture in casing pipe. Thus, the team leader pulled out 2 pipes, restarted the setting and injected water to the casing annulus. After a 5-minute hydrostatic test at 500psi, there were no leakage and the setting of packer was completed successfully. Facts proved that I was right. Success belongs to the persevering, which helped me to win the trust and respect of the team leader and supervisor.

"Do everything diligently" is our code of practice, which is also my motto. With endless efforts, I has become a qualified downhole equipment engineer.

## Chinese and Mexican employees work together like a family

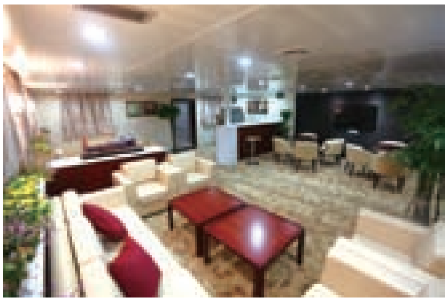

Statistics of Local Employees in Overseas Offices (2014-2016)

| Indicator | Unit | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Number of local employees recruited by the Company | Person | 948 | 1,112 | 1,286 |
| Percentage of local employees | % | 55 | 62.6 | 57 |

# (4) Employees Care

## Work & Life Balance

The Company values the Labour Union management, enhances the system establishment of labour union and introduces “Management Measures for Income and Expenses of Labour Union”, which further sets guidance for the work of labour union. For many years, the Company has organized speech contest, reading classes and reports and promoted employees to show themselves and express their passion through basketball, volleyball, badminton, swimming and football games and competitions so as to ensure employees’ work & life balance and increase their job satisfaction and life happiness.



Break area on vessel

Canteen on rig

New office in Tianjin Industrial Park

Colorful life offshore

## Case: "Ship·Home" Culture

Under the downturn in oil price, the Company takes care of staff's mental health and fully realizes that whether we can overcome the period of "low oil price" depends on the efforts of our staff. Therefore, family support is essential. Each division has been working hard to raise staff morale by taking care of their family, facilitating family harmony. All divisions with ownership of vessels, including geophysical division, drilling division, shipping division and production optimization division, organized activity named "Home on the Sea" to develop our brand culture, "Ship·Home".

Geophysical division held a "Happy Family Sports Game" on the eve of International Children's Day (June 1st), which provided a valuable opportunity for staff working on the sea to intact with their children who have little time to stay with each other.

Shipping division and drilling division held "Sea Workers' Wives Visiting Day" and "Family Gathering Day". The activities organized staff's family members to visit the vessels and allowed them to have on-site experience of their family members' working environment as well as first tier vessel culture, which deepens the understanding between the company, staff and their family members.

Furthermore, given the fact that staff who works on sea, overseas or is on business trip could in no way take care of their family, well tech division and oilfield chemicals division has set up an "emergency service hotline for the staff and their family members", easing our staff's worry. Labour unions of geophysical division, oilfield chemicals division and shipping division set up QQ group, "Home of Sea Workers' Wives", WeChat official account, "Sound of Oil Chemistry" and WeChat group, "Backyard of the Sea Workers", which provides a communication channel for the staff and their family members, encouraging their sense of belonging.

Happy Family Sports Game

## Staff caring

The Company adheres to the idea of "people-oriented, staff caring", practically implements Project Care and Love and publishes "Poverty-Alleviation and Difficulty-Relief Management Practices of China Oilfield Services Limited" to formulate, normalize and precisely implement the poverty-alleviation and difficulty-relief work. In 2016, the Company released special relief fund for poverty-alleviation and difficulty-relief of RMB1,008,000 in total: commenced special relief activity, "Caring Staff with Poverty-stricken Family", visited 78 employees in grave difficulty and gave them consolation money of RMB432,000, 8 of whom received relief fund of RMB76,000. The Company released subsidy of RMB420,000 to 32 employees, or to his family member, who suffers from serious illness and relief fund of RMB80,000 to 2 employees' family members who died in accident.

In 2016, there were numerous serious flooding around the country and certain employees' family suffered from great property loss. In August, the Company's labour union released relief fund of RMB106,000 to 96 employees and their family members who suffered from the disaster. During the festival holidays, labour union organization visited 8719 employees staying on frontline, employees working overseas or at hospital, with consolation money given amounting to RMB2,230,000.

# 05

# Social Contribution

Management of Welfare Donations

Harmonious Construction

Volunteer Work

# (1) Management of Welfare Donations

Our Welfare and Charity Committee (hereinafter referred to as "the Committee") was established according to the Company's Articles of Association and we developed the "Articles of Association of The Welfare and Charity Committee of COSL" for the guidance of implementation of charity donation programs related to national disaster relief, poverty alleviation, education support and etc.

The Committee is composed of senior management members of the Company and an office is set up for the Committee. The Committee is responsible for implementing charity projects authorized, delegated and approved by the Board, the coordination of all kinds of charity work of the Company as well as management and use of charity funds. The Committee's office is for the promotion of various charitable activities. In 2016, charity donation made by COSL amounted to RMB1.456 million.

# (2) Harmonious Construction

## Targeted Poverty Alleviation

Targeted poverty alleviation in selected areas is a major strategy implemented by the Central Committee and the State Council for accelerating the progress in poverty relief and creating a well-off society, and it is the main component of the China's poverty reduction campaign. Leishan County in Guizhou Province is one of the target counties selected by the Poverty Alleviation Office of the State Council. The Company assisted the Poverty Alleviation Office of the State Council in launching the programme and it donated RMB1.40 million in total to Leishan County, Guizhou Province in 2016.

## Marine Salvage

Over the years, the Company has taken full advantages of its resources in actively participating in social marine salvage, under safe circumstances. In 2016, the Company dispatched 24 vessels, took part in 22 marine salvages and rescued 17 vessels and 33 persons in distress. The Company has been praised, for many times, by local governments, maritime authorities and the people we rescued. On 21 January 2017, the Company was awarded the honorary title of "Advanced Rescue Unit of the Society Force", for its active participation in marine salvage and its successful operation in saving both ships and men during last year, at the 2016 Work Conclusion Conference and Award Convention held by the Sanya Maritime Search and Rescue Center of Hainan Province.

## Supporting Education

Donating money for education is always one of the important ways for us to perform social responsibility. We established the Hope Primary Schools Incentive Fund in 2012 to reward teachers and students of Hope Primary Schools who have given great contribution and achieved outstanding performance in every year. Since the establishment of COSL Hope Primary Schools, the Company has always maintained close contract with schools to ensure the effectiveness of its support. During the period around the Teacher's Day in 2016, incentive funds were awarded to the outstanding teachers and students from 11 Hope Primary Schools in Yunnan and Hainan. In December, Danlu Hope Primary School in Lingshui County, Hainan Province passed the provincial standardized assessment of schools with a score of 918, and hence sent a letter to us for thank our support and contribution to its educational development. In the meantime, the Company gave donation money to Sanhe Sixth Primary School, Sanhe Eighth Secondary School and Sanhe Second Secondary School for supporting local education.

### Case: Visiting to Five COSL Hope Primary Schools in Hainan

During the period from 24 May to 25 May 2016 before the International Children's Day, the Company paid visits to five COSL Hope Primary Schools in Hainan. The Company gave books and sports equipment as gifts, which costed RMB15,992.8, to the children. The presents given by the management and staff of COSL showed all their love and caring to those children.

### Case: Pack Your Care for Tibet

The Tanggu team of the oilfield chemicals division launched the campaign of "Pack Your Care for Tibet" for two consecuive years. Currently, the fifth delivery of "love package" for 2016 has been completed. Cumulatively, since the commencement of the campaign, the team has donated over 2000 pieces of old clothes, 200 sets of books and 800 excecise books, and in return, the team received warm wishes from Tibet, making such campaign a humanizing care instead of a performance of social responsibility only.

## Care for the Community

The Company places high importance on caring in the community while promoting its own business development. We encourage our employees to offer help to their neighbors who are in difficulties and support post-disaster reconstruction work, so as to build up harmonious relationship in our community.

### Case: Caring for autistic children

On 22 April before the Youth Day, the geophysical division organized a youth team to visit to an autism rehabilitation center. Our youth team gave food and daily necessity to the children with autism and spent a whole day there playing happily with them, giving them love and caring. In addition, the Company promoted the slogan of "With our love, they are never alone along their growth" through WeChat to arouse public's awareness on caring for the autistic children.

## Case: Gift for Ardi

"Ardi, this one is for you." Liu Menghui, a staff in Indonesia said while giving her present, "Xinhua Dictionary", to Ardi.

At Eid al-Fitr, our staff in Indonesia, actively joined the donation campaign held by Aisiyah, a local foundation in Indonesia, for giving caring and greeting from China to the children living in poor regions there.

The donation campaign held by Aisiyah aims at raising funds for the living of 60 orphans, children from needy families and their teachers. Our staff arrived earlier at the venue with the donation money raised and the gifts prepared themselves, waiting for the kids. At the beginning, both our staff and the kids were shy about interacting with each other. As they started playing with each other like friends, the campaign was full of laughs instead at the end. The kids were crazy about the new books and funny toys they received, especially Ardi.

The gift from Liu Menghui was a bit special, which was a "Xinhua Dictionary" that kids cannot buy in Indonesia. Yet, to Liu, it is the best gift ever with meanings. She then asked her family in China to send a new Xinhua Dictionary to Indonesia. She hoped Ardi can learn more about the Chinese culture and language with this dictionary and become a little ambassador for promoting cultures of China and Indonesia in the future.

## Case: Build Green Island

As an active response to the initiative of isla verde (Green Island), a local non-governmental environmental protection organization in Carmen, Mexico, the Mexico-based office of the Company participated in the Mexico's public welfare and environmental protection activity "Build Green Island". This activity aims to call on local enterprises and residents to donate old newspaper, books and magazines to green groups which will then donate available books to the schools in poor areas and help them establish a library, striving for protecting the environment and building a resource-conserving community.

The environmental protection organization has paid tribute to COSL for its active participation, as the first foreign company, in such local public welfare activity and appreciated much our great contribution to and our role to be a model of local environmental protection. Safety and environmental protection are always the bedrock of COSL's development. COSL is willing to work together with the local government and non-governmental public welfare organizations to protect the local environment, support the local education and build a green, environmentally-friendly and safe Carmen Island together with local citizens.

# (3) Volunteer Work

The Company established "Blue Power" team consisting of young volunteers which practiced our volunteer spirit of "Dedication, Friendship, Mutual aid and Progress", aiming at giving our caring to the society and consolidating our spirit. Young volunteer associations were set up in various areas to carry out volunteer and charity activities such as money donation, blood donation, riverbank cleanup and repair of public facilities. In 2016, the Company organized 52 activities for the young volunteers with some 2,400 participations.

## Case: "Blue Power" Campaign

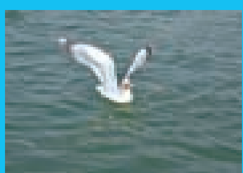
On 3 June, the geophysical division launched a series of activities with the theme of "Care for Our Ocean and Keep Our Ocean Blue". Over 40 volunteers and the Bund Park held a promotion campaign of and collected signatures for supporting marine conservation. While cleaning the Dongjiang Habour beach, the volunteers promoted the idea of ocean protection to the tourists for arousing their awareness on the ocean, so as to gather strengths and hopes for saving our ocean.


## Case: "Blue Power" Supporting Marathon

On 16 April 2016, our "Blue Power" volunteers in Xinjiang wearing green vests assisted in the half marathon held around the Swan Lake in Korla City.

## Case: A Small Step for Swans Care, A Big Step for the Ecosystem

On 17 February, the Xinjiang branch of our Company organized a youth micro-public-welfare project of "Blue Power", with a theme of "A Small Step for Swans Care, A Big Step for the Ecosystem".




# PROSPECT

**Facilitate Sustainable Development.** The Company shall continue to improve its corporate governance, achieve legal compliance, enhance the level of international management, enhance management on QHSE and ensure the safe and steady operation of the Company. It will also continue to implement its technological innovation strategies, enhance the transferability of self-innovations and achievements to increase its competitiveness of its core business.

**Develop Overseas Markets.** We will intensify the awareness of common destiny with our customers and, in hard times, reduce their costs and improve efficiency, to overcome the difficulties with them. We will leverage on the "One Belt One Road" strategy of China to develop and expand our overseas markets. We will improve the integrated turnkey business and take the advantages of "Low cost, Good service and High efficiency" of the Company to enhance the Company's influence and brand reputation.

**Enhance Service Quality.** The Company will continue to provide professional services for customers all over the world, innovate in our services, comprehensively improve our working standard, highly promote our integrated turnkey business, reduce customers' costs, enhance service quality and meet or even customers' expectation.

**Boost the Construction of Environment-friendly Enterprise.** The Company will strictly comply with the requirements of "Environmental Protection Law" and increase promotion and training of laws and regulations. It will also continue to promote clean production, procure our low carbon operation so as to contribute to the establishment of an ecological culture.

**Serve the Harmonious Society.** The Company will place more focus on its people-oriented philosophy and encourage career development of our staff, improve our relationship with our staff, facilitate common development of the Company and our staff, strive for developing a responsible supply chain, make progress in strategic cooperation for mutual benefits, and increase our effort in promoting public welfare business so as to make contribution to our society.

# Directors, Supervisors, Senior Management and Employees

## 1. CHANGE IN SHAREHOLDING AND REMUNERATIONS OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Unit: Shares

| Name | Position(Note) | Sex | Age | Commencement date of term | Expiry date of term | Number of shareholding at the beginning of the year | Number of shareholding at the end of the year | Change of shareholding during the year | Reason of change | Total remuneration before tax received from the Company during the reporting period (RMB10,000) | Whether received remuneration from the connected party of the Company |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Lv Bo | Chairman<br>non-executive director | Male | 54 | 2016-12-16<br>2016-12-15 | 2019-12-14<br>2019-12-14 | | | | | | Yes |
| Liu Jian | Original Chairman, non-executive director | Male | 58 | 2009-6-3 | 2016-12-16 | | | | | | Yes |
| Qi Meisheng | Executive director<br>CEO and president | Male | 48 | 2016-7-22<br>2016-6-15 | 2019-7-21 | | | | | 55.60 | No |
| Li Yong | Original executive director<br>Original CEO and president | Male | 53 | 2006-5-25<br>2009-4 | 2016-7-22<br>2016-6-15 | | | | | 52.91 | No |
| Dong Weiliang | Executive director<br>Original executive vice president and CIO | Male | 59 | 2016-7-22<br>2007-6 | 2019-7-21<br>2016-6 | | | | | 78.39 | No |
| Li Feilong | Executive director, Executive vice president and CFO | Male | 52 | 2010-12-22 | 2019-12-14 | 60,000 | 60,000 | 0 | Nil | 68.48 | No |
| Xie Weizhi | Non-executive director | Male | 52 | 2016-7-22 | 2019-7-21 | | | | | | Yes |
| Cheng Chi | Original non-executive director | Male | 56 | 2015-12-29 | 2016-7-22 | | | | | | Yes |
| Law Hong Ping, Lawrence | Independent non-executive director | Male | 62 | 2014-5-23 | 2017-5-22 | | | | | 40.00 | No |
| Fong Chung, Mark | Independent non-executive director | Male | 65 | 2015-6-2 | 2018-6-1 | | | | | 40.00 | No |
| Wong Kwai Huen, Albert | Independent non-executive director | Male | 65 | 2016-5-31 | 2019-5-30 | | | | | 20.00 | No |
| Fong Wo, Felix | Original independent non-executive director | Male | 66 | 2010-5-28 | 2016-5-31 | | | | | 20.00 | No |
| Wei Junchao | Chairman of Supervisory Committee | Male | 58 | 2015-12-29 | 2018-12-28 | | | | | | Yes |
| Li Zhi | Employee Supervisor | Male | 52 | 2013-5-16 | 2019-5-15 | | | | | 61.81 | No |
| Cheng Xinsheng | Independent Supervisor | Male | 53 | 2015-6-2 | 2018-6-1 | | | | | 8.00 | No |
| Cao Shujie | Executive vice president<br>Original vice president | Male | 52 | 2017-1<br>2010-3 | 2017-1 | | | | | 60.62 | No |
| Wang Baojun | Secretary of the Board | Male | 40 | 2015-8 | 2017-3-21 | | | | | 58.32 | No |
| Yu Feng | Vice president | Male | 52 | 2017-1 | | | | | | 67.20 | No |
| Yu Guimin | Vice president | Male | 47 | 2017-1 | | | | | | 65.27 | No |
| Total | / | / | / | / | / | 60,000 | 60,000 | 0 | / | 696.60 | / |

*Other explanation: Mr. Yu Feng and Mr. Yu Guimin were appointed as the vice presidents of the company in January 2017. The total remuneration before tax of Mr. Yu Feng and Mr. Yu Guimin obtained during the reporting period was the remuneration before the vice presidents of the company.*

## BOARD OF DIRECTORS:

### Lv Bo

Mr. Lv Bo, Chinese, born in 1962, Chairman and a Non-Executive Director of COSL. He graduated from China University of Mining and Technology with a Bachelor of Science degree in Management, and later obtained an MBA degree from China Europe International Business School. He is a senior economist. Since 1985, he served in the Ministry of Coal Industry, the Ministry of Energy, and the Organization Department of the Communist Party of China Central Committee. He served in a number of positions including a Vice-Director-level official in the Personnel and Labor Department of the Ministry of Energy, Vice Director and Director of Economic and Technology Cadre Bureau of the Organization Department of the Communist Party of China Central Committee, and Director of the Fourth and Fifth Cadre Bureaus of the Organization Department of the Communist Party of China Central Committee. He joined China National Offshore Oil Corporation ("CNOOC") in 2002 as the Director of the Human Resources Department of CNOOC. In November 2006, he served as Assistant President of CNOOC. In April 2010, he served as Vice President of CNOOC. Since December 2012, he has also served as the Chairman of the Board of CNOOC Energy Technology and Services Limited, a subsidiary of CNOOC. Since January 2014, he served as a Non-executive Director of CNOOC Limited. In November 2016, he served as the Chairman of the Board of Offshore Oil Engineering Co., Ltd. In December 2016, he served as the Chairman of the Board of COSL.

### Qi Meisheng

Mr. Qi Meisheng, Chinese, born in 1968, an Executive Director, Chief Executive Officer and the President of COSL. He graduated from China University of Petroleum (East China) with bachelor degree of drilling engineering and was granted EMBA of CEIBS in 2013. Since July 2016, Mr. Qi served as an Executive Director, Chief Executive Officer and President of China Oilfield Services Limited. From June 2016 to July 2016, he served as CEO and President of COSL. He served as Vice President of COSL from December 2013 to June 2016. From June 2010 to December 2013, he served as GM of COSL Drilling. From May 2009 to June 2010, he served as Vice GM of COSL Drilling and CEO of CDE. From September 2008 to May 2009, he served as Vice GM of COSL Drilling and Director Assistant of CDE. From July 2006 to September 2008, he served as Vice GM of COSL Drilling. From March 2006 to July 2006, he served as Assistant of GM in COSL Drilling. From December 2004 to March 2006, he served as Safety Director of COSL Drilling. From January 2002 to December 2004, he served as Rig Manager of NH6. From August 2000 to January 2002, he served as Rig Manager of NH2. He served variety positions such as Roustabout, Floorman, Derrickman, Assistant Driller, Driller, Toolpusher and Senior Toolpusher in Nanhai West Oil Company and China Offshore Oil Southern Drilling Company from July 1991 to August 2000.

### Dong Weiliang

Mr. Dong Weiliang, Chinese, born in 1957, Executive Director of COSL, Bachelor in Petroleum Geology of Geological Department. Mr. Dong has been an Executive Director of COSL since July 2016. He served as Executive Vice President and CIO of COSL from August 2013 to June 2016. He has been Executive Vice President and Legal Advisor of COSL from September 2011 to August 2013, 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 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. 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 engineer and Group Leader in Research Institute from 1982 to 1993.

## Li Feilong

Mr. Li Feilong, Chinese, 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 audit manager and audit department chief 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 Finance 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 Finance management of CNOOC Ltd. and has been Controller since 2004. He has also been the director of CNOOC Southeast Asia Ltd., a subsidiary of CNOOC Limited 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. He served as a member of the International Financial Reporting Standards Interpretations Committee by the Trustees of International Financial Reporting Standards Foundation from 2010 to June 2016. Mr. Li holds qualifications of FIPA and FFA. 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.

## Xie Weizhi

Mr. Xie Weizhi, Chinese, born in 1964, a Non–Executive Director of COSL. He graduated from Xiamen University Finance Department with a Bachelor degree majoring in Finance in 1986. He received his MBA degree from Guanghua School of Management, Peking University in 2001 and received the qualification as senior accountant in 1998. Mr. Xie served as staff, Accounting Department Vice Chief and Chief, and Vice Manager of CNOOC Nanhai West Corporation Finance Department from August 1986 to October 1996. He served as Vice Manager and Manager of CNOOC Finance Department and General Manager of CNOOC Funds Department from October 1996 to January 2002. He served as General Manager of CNOOC Finance Limited from January 2002 to February 2011. He served as General Manager Assistant of Aluminium Corporation of China from February 2011 to February 2013. He served as Executive Director, Chairman of the Board and the Supervisory Committee of Chinalco Finance Company Limited from February 2011 to May 2016. He served as Director and President of Chinalco Overseas Holdings Limited from July 2011 to March 2013. He also served as Executive Director, President and Non-executive Director of Chinalco Mining Corporation International (a company listed on The Stock Exchange of Hong Kong Limited, with stock code 3668) from October 2011 to February 2014. He served as Vice President and CFO of Aluminum Corporation of China Limited (a company listed on The Stock Exchange of Hong Kong Limited, NYSE and SSE, with stock codes 2600, ACH and 601600 respectively) from February 2013 to November 2015. Mr. Xie was the President of Chalco Hong Kong Limited from March 2014 to September 2015 and the General Manager Assistant of Aluminium Corporation of China from November 2015 to February 2016. He served as a Director of Chalco Iron Ore Holdings Limited from November 2015 to May 2016 and Chief Auditor and Audit Department Director of Aluminium Corporation of China from February 2016 to May 2016. Since June 2016, Mr. Xie has been serving as General Manager of the Finance and Assets Department of CNOOC. He has also been serving as Non-executive Director of Offshore Oil Engineering Co., Ltd. In July 2016, Mr. Xie was appointed as a Non-executive Director of the Company.

## Law Hong Ping, Lawrence

Mr. Law Hong Ping, Lawrence, China (Hong Kong) by nationality, born in 1954, graduate of Queen Mary College of the University of London with a Master's degree in Econometrics, Independent Non-Executive Director of COSL, he has over 30 years of management experience in banking and property leasing. Mr. Law is the founder and chairman of Vincera Consulting Limited. Mr. Law started his career as a planner in China Light and Power Co. Ltd. (now CLP Power Hong Kong Limited) and was involved in tariff and long term planning on electricity power in Hong Kong. He then worked for 23 years with HSBC and held various management positions covering a spectrum of activities of the bank. Mr. Law's last position with HSBC was Head of Banking Services, being the business and products head for key banking products. Mr. Law subsequently joined Bank of China (Hong Kong) Limited as General Manager for Retail Banking and as an Associate Director of Sino Land Company Limited in charge of leasing. Mr. Law was an external supervisor of Ping An Bank between 2010 and early 2014. Mr. Law graduated from the Middlesex Polytechnic University with a Bachelor's degree in Social Science, major in Economics, and obtained a Master's degree in Econometrics from Queen Mary College of the University of London in 1980. He is also the honorary treasurer and financial adviser of the Hong Kong Girl Guides Association.

## Fong Chung, Mark

Mr. Fong Chung, Mark, China (Hong Kong) by nationality, born in 1951, an Independent Non-Executive Director of COSL. He was the former President of the Hong Kong Institute of Certified Public Accountants. Mr. Fong has over 40 years of experience in the accounting profession and is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants. He has been the Chairman of the Audit Committee of the Hong Kong Institute of Certified Public Accountants since February 2016 and the council member of the Institute of Chartered Accountants in England and Wales since June 2016. Mr. Fong is currently an independent non-executive director of Sinopec Kantons Holdings Limited, New China Life Insurance Co., Ltd. and Macau Legend Development Limited, all are companies listed on The Stock Exchange of Hong Kong Limited, and is also a non-executive director of Worldsec Limited, a company listed on London Stock Exchange.

## Wong Kwai Huen, Albert

Mr. Wong Kwai Huen, Albert, China (Hong Kong) by nationality, born in 1951, BBS, JP., an Independent Non-Executive Director of COSL. Mr. Wong holds a bachelor of arts degree from The Chinese University of Hong Kong and a bachelor of laws degree from the University of London. He is a practicing solicitor in Hong Kong and the United Kingdom and, a China-Appointed Attesting Officer. Mr. Wong is also qualified to practise law in Australia and Singapore. Mr. Wong is currently the Independent Non-Executive Director of China International Marine Containers (Group) Co., Ltd., PICC Asset Management Co., Ltd., Vinda International Holdings Limited and Hua Hong Semiconductor Limited. He had been the managing partner of the China region for 15 years in two international law firms. Prior to that he worked for the Lands Department, Department of Justice and Legislative Council of the Hong Kong SAR Government for 10 years in total. Mr. Wong was appointed as committee member of the Hong Kong International Airport Authority, Hospital Authority and the Competition Committee in 2011, 2012 and 2014 respectively. He was the former chairman of Hong Kong International Arbitration Centre, and is a fellow member of the Chartered Institute of Arbitrators in the United Kingdom and Hong Kong Institute of Arbitrators. He is presently one of the deputy chairman of Hong Kong Inland Revenue Board of Review, chairman of Hong Kong Copyright Tribunal, the Director of The Hong Kong Mortgage Corporation Limited, former president and council member of the Law Society of Hong Kong and The Hong Kong Institute of Director. Mr. Wong holds the posts of honorary lecturer, external examiner and professor in the University of Hong Kong, The Chinese University of Hong Kong, City University of Hong Kong and Hong Kong Shue Yan University.

## BOARD OF SUPERVISORS:

### Wei Junchao

Mr. Wei Junchao, Chinese, born in 1958, Chairman of Supervisory Committee of COSL. He graduated from Program of Economics and Management at CNPC Managers Training Institute in 1989. He worked in the oil production company under the CNOOC Bohai Corporation from November 1975 to July 1989; worked successively in the Party Committee Office, Youth League Committee, Administration Office and Labour Union serving as Chief of Secretary Section of Party Committee Office, Secretary of Youth League Committee, Director of Administration Office and Chairman of Labour Union of the Bohai Oil Company from July 1989 to October 2004; as Office Director of CNOOC from October 2004 to December 2013; and as Chairman of the Supervisory Committee of CNOOC since December 2013. Mr. Wei is the Chairman of the Supervisory Committee of Offshore Oil Engineering Co., Ltd since April 2014 and is the Chairman of the Supervisory Committee of COSL since December 2015.

### Li Zhi

Mr. Li Zhi, Chinese, born in 1964, Employee Supervisor of COSL. He received a Bachelor's degree in petroleum geology from the Chengdu Institute of Geology in 1987 and obtained an EMBA degree from China Europe International Business School in 2014. From July 1987 to March 1993, he served as the mud logging engineer of Bohai Petroleum Geological Services Company Limited. From April 1993 to April 1995, he served as mud logging captain of China France Bohai Geoservices Co., Ltd. From May 1995 to May 1996, he served as the research and development engineer of HR Technology Development Company of CNOOC Technology Services Company. From June 1996 to December 2001, he served as the safety and quality control manager of China France Bohai Geoservices Co., Ltd. From January 2002 to January 2006, he served as the manager of the human resource department of China France Bohai Geoservices Co., Ltd. From February 2006 to November 2007, he served as the training manager of the human resource department of COSL. From December 2007 to July 2009, he served as the training and development manager of the human resource department of COSL. From August 2009 to January 2010, he served as the vice president of COSL Drilling Pan-Pacific Ltd. in Singapore. From February 2010 to July 2012, he served as the general manager of the audit and supervision department of COSL. From August 2012 to July 2015, he has served as the general manager of the human resources department of COSL and the dean of the CNOOC COSL Engineering and Technology Institute. Since May 2013, he has served as an Employee Supervisor of COSL and was re-elected in May 2016.

### Cheng Xinsheng

Mr. Cheng Xinsheng, Chinese, born in 1963, an Independent Supervisor of COSL. Mr. Cheng obtained his Bachelor degree and Master degree from the School of Economics of Nankai University and Doctoral degree from Tianjin University of Finance and Economics in Management, and he holds the independent director qualification of China. Mr. Cheng was a lecturer and an associate professor of the Accounting Department of Nankai University in March 1993, and passed the PRC Certified Public Accountants examination in 1994 and is a member of The Chinese Institute of Certified Public Accountants. He promoted to the Head of the Audit Teaching and Research Offices of the Accounting Department of Nankai University from September 1995 to August 2001. He engaged in the research on corporate governance when he was stationing in the post-doctoral business administration offices of Nankai University from September 2001. Since September 2002, Mr. Cheng has been acting as the Head of Corporate Governance Evaluation Study Offices of the Research Institute of China Corporate Governance of Nankai University. Since December 2005, Mr. Cheng has been acting as a professor and a doctoral supervisor of Nankai University. Mr. Cheng was an Independent non-executive director of Offshore Oil Engineering Co, Ltd., a company listed on the Shanghai Stock Exchange. Mr. Cheng is an Independent Supervisor of COSL since June 2015.

## SENIOR MANAGEMENT:

### Qi Meisheng

Mr. Qi Meisheng, please refer to the Section of Board of Directors.

### Li Feilong

Mr. Li Feilong, please refer to the Section of Board of Directors.

### Cao Shujie

Mr. Cao Shujie, Chinese, born in 1964, Executive 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 has been Executive Vice President of COSL since January 2017. He was appointed as Vice President of COSL from March 2010 to December 2016. 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, vice Rig manager and Rig manager in Bohai Oil Drilling Corporation and China Offshore Oil Northern Drilling Company during the period from July 1987 to November 2001.

## Yu Feng

Mr. Yu Feng, Chinese, born in 1964, Vice President of COSL. He graduated from East China Petroleum Institute in 1987 with a bachelor degree in mining geophysics and obtained his MBA from Tsinghua University in 2003. Mr. Yu served as an assistant engineer of the electronic computing centre in Shengli Oilfield from July 1987 to January 1990 and an assistant engineer of Logging Company of CNOOC from January 1990 to May 1991. He served as an engineer of Xinjiang branch of Logging Company of CNOOC from May 1991 to August 1992. He also served as a sales engineer of Xinjiang branch of Logging Company of CNOOC from August 1992 to May 1994 and a marketing engineer of Zhanjiang branch of Logging Company of CNOOC from May 1994 to August 1995. He was a deputy manager of the marketing development department of Logging Company of CNOOC from August 1995 to August 1996 and a manager of the marketing development department of Logging Company of CNOOC from August 1996 to December 2000. Mr. Yu served as a financial planning assistant of the finance and accounting department of Logging Company of CNOOC from December 2000 to December 2001 and a general manager of the marketing department of China Oilfield Services Limited from December 2001 to September 2002. He also served as a vice general manager of the Well Tech Division of China Oilfield Services Limited from September 2002 to March 2006 and a general manager of the Well Tech Division of China Oilfield Services Limited from March 2006 to January 2016. From January 2016 to December 2016, he served as a marketing director of China Oilfield Services Limited. Since January 2017, he has been a Vice President of China Oilfield Services Limited.

## Yu Guimin

Mr. Yu Guimin, Chinese, born in 1969, Vice President of COSL. He graduated from Southwest Petroleum Institute in 1992 with a bachelor degree in Mining Machinery and obtained a PhD in Mechanical Design and Theory from Southwest Petroleum University in 2009. Mr. Yu was an intern of Downhole Operating Company of CNOOC Technology Services Company from July 1992 to June 1993. He served as an operation engineer of Downhole Operating Company of CNOOC Technology Services Company from June 1993 to December 1998. He also served as a manager of Downhole Operating Company of CNOOC Technology Services Company in Tanggu base from December 1998 to April 2001 and a manager of Workover Company of CNOOC Technology Services Company from April 2001 to October 2001. He was a deputy general manager of Workover Services Division of China Oilfield Services Limited from October 2001 to September 2002 and a chief engineer of COSL Drilling of China Oilfield Services Limited from September 2002 to November 2005. Mr. Yu served as a deputy general manager of the Production Optimization Division of China Oilfield Services Limited from November 2005 to September 2009 and a general manager of the Procurement department of China Oilfield Services Limited from September 2009 to May 2012. He served as an executive deputy general manager of the Production Optimization Division of China Oilfield Services Limited from May 2012 to July 2012 and a general manager of the Production Optimization Division of China Oilfield Services Limited since July 2012. He has been the Vice President of China Oilfield Services Limited since January 2017.

## Wang Baojun

Mr. Wang Baojun, Chinese, born in 1976, the board secretary and the General Counsel of COSL. He graduated from the School of Law of the Renmin University of China in 2004 and obtained a Ph.D. of Law degree. He obtained a LL.M. degree from the European Academy of Legal Theory, a LL.M. degree from the Katholieke Universiteit Brussels and a DEA degree from the Facultés Universitaires Saint-Louis in 2007. He graduated from the School of Law of the Renmin University of China in 2001 and obtained a Master of Law degree. He graduated from the College of Economics and Business Administration of the North China University of Technology in 1998 and obtained a LL.B. in Law degree. He has obtained the qualification of Professional Attorney in the PRC since 1999, Certified Public Accountant (CPA) in the PRC since 2005, Qualification of Practicing Securities since 2008 and In-house Legal Counsel since 2012. He has also obtained the Qualification of Board Secretary of Listed Company issued by Shanghai Stock Exchange since 2015. From 2001 to 2004, Mr. Wang served as the legal counsel of the Legal Department of China Chamber of Commerce of Metals Minerals and Chemicals Importers and Exporters. From 2005 to 2007, he served as a professional attorney in Beijing DeHeng Law Office and Beijing HanDing United Lawyers, respectively; from August 2007 to June 2009, he served as a Legal Counsel of the Legal Department of COSL; from July 2009 to October 2011, he served as the Manager of Merger, Acquisition & Overseas Affairs of the Legal Department of COSL; from November 2011, he was the General Manager of the Legal Department; Since May 2015, he has served as the General Counsel of the Company and the General Manager of the Legal Department of COSL; on 28 August 2015, Mr. Wang was appointed as the board secretary, the General Counsel and the General Manager of the Legal Department of the Company. He has been the General Counsel and the board secretary of COSL since September 2016.

## 2. SHARE OPTION INCENTIVES FOR DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT DURING THE REPORTING PERIOD

☐ Applicable √ Not applicable

## 3. WORK POSITIONS OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

### (1) Work Positions in the Shareholding Company

√ Applicable ☐ Not applicable

| Name | Name of shareholder company | Position held | Starting date of term of office | Expiry date of term of office |
|---|---|---|---|---|
| Liu Jian | CNOOC | President | August 2015 | Until now |
| Lv Bo | CNOOC | Vice President | April 2010 | Until now |
| Cheng Chi | CNOOC | Chief economist | June 2016 | Until now |
| Xie Weizhi | CNOOC | General manager of financial assets department | June 2016 | Until now |

### (2) Work Positions in Other Units

√ Applicable ☐ Not applicable

| Name | Name of company | Position held | Starting date of term of office | Expiry date of term of office |
|---|---|---|---|---|
| Fong Wo, Felix | King & Wood Mallesons | Lawyer Consultant | 2006 | Until now |
| Law Hong Ping, Lawrence | Vincera Consulting Limited | Chairman of the Board | 2012 | Until now |
| Fong Chung, Mark | Grant Thornton Hong Kong Limited | Honorary advisor | 2014 | Until now |
| Wong Kwai Huen, Albert | Fried, Frank, Harris, Shriver & Jacobson LLP | Principal of Hong Kong branch | 2015 | Until now |

## 4. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

√ Applicable ☐ Not applicable

| | |
|---|---|
| Decision-making procedures of remuneration of Directors, Supervisors and Senior Management | Remuneration of Directors and Supervisors are subject to shareholders' approval at the general meetings. Remuneration of senior management shall be determined by the Board. |
| Reference for determining remunerations of Directors, Supervisors and Senior Management | Depends mainly on the duties and responsibilities of Directors, Supervisors and Senior Management and the results of the Company. |
| Actual remuneration payable to Directors, Supervisors and Senior Management | RMB5,641,300 |
| Total actual remuneration of Directors, Supervisors and Senior Management at the end of the reporting period | RMB5,641,300 |

## 5. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 1. Change of Directors

(1) AGM 2015 of the Company was held on 31 May 2016, at which Mr. Wong Kwai Huen, Albert was elected as an independent non-executive director of the Company (Mr. Fong Wo, Felix has retired as an independent non-executive director of the Company) for a term of 3 years with effect from the date when the resolutions were approved at the general meeting.

(2) 2016 First EGM of the Company was held on 22 July 2016, at which Mr. Qi Meisheng was elected as an executive director of the Company (Mr. Li Yong has retired as an executive director of the Company), Mr. Dong Weiliang was elected as an executive director of the Company, Mr. Xie Weizhi was elected as a non-executive director of the Company (Mr. Cheng Chi has retired as a non-executive director of the Company), for a term of 3 years with effect from the date when the resolution was approved at the general meeting.

(3) 2016 Second EGM of the Company was held on 15 December 2016, at which Mr. Lv Bo was elected as a non-executive director of the Company, Mr. Li Feilong was re-elected as an executive director of the Company, for a term of 3 years with effect from the date when the resolution was approved at the general meeting.

(4) Seventh Meeting of Board of Directors of the Company of 2016 was held on 16 December 2016, at which Mr. Lv Bo was elected as Chairman of the Company (Mr. Liu Jian has retired as Chairman and non-executive director of the Company), for a term with effect from the time when the resolutions were approved by the Board of Directors.

### 2. Change of Supervisors

The Company held a meeting of the employees representatives on 5 May 2016, at which Mr. Li Zhi was re-elected as the employee supervisor of the supervisory committee of the Company with a term commencing from 16 May 2016 to 15 May 2019.

### 3. Change of Senior Management

(1) The Third Meeting of the Board of Directors of the Company of 2016 was held on 15 June 2016, at which Mr. Qi Meisheng was appointed as the CEO and president of the Company (Mr. Li Yong has retired as CEO and president of the Company), for a term with effect from the date when the resolutions were approved by the Board of Directors.

(2) In June 2016, Mr. Dong Weiliang has retired as the executive vice president of the Company due to the change of work.

(3) On 10 January 2017, Mr. Cao Shujie was appointed as executive vice president, Mr. Yu Feng and Mr. Yu Guimin were appointed as vice presidents of the Company.

## 6. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

### (1) Employees

| | |
|---|---|
| Number of in-service employees of the Company | 13,979 |
| Number of in-service employees of the major subsidiaries | 948 |
| Total number of in-service employees | 14,927 |
| The number of retired employees whose expenses are borne by the Company and its major subsidiaries | 1 |

**Composition of professions**

| *Type of profession* | *Number of employees in the profession (Headcount)* |
|---|---|
| Operation Management | 3,284 |
| Technical Expertise | 5,714 |
| Skills Operating | 5,929 |
| Total | 14,927 |

**Educational level**

| *Type of educational level* | *Number of employees (Headcount)* |
|---|---|
| Master degree or above | 699 |
| Bachelor degree | 6,554 |
| College graduates | 3,582 |
| Below college graduates | 4,092 |
| Total | 14,927 |

### (2) Remuneration Policy

The Company strictly complies with domestic and business operating countries' laws and policies on labour remuneration and established competitive remuneration system and performance appraisal system. The Company pays the basic social insurance and housing fund for employees, implements enterprise annuity system, supplementary medical insurance system, and provides personal accident insurance and corporate supplementary pension insurance and a number of welfare including health check, paid vacation, helping and assisting those with difficulties or major diseases and etc., taking efforts to address the worries of employees, so as to provide reliable and multi-layered protection for employees.

### (3) Training Programme

Training programme and development of the Company is closely related to the strategy of Employees' career development of the Company. Based on the five-year development plan, the Company established a dimensional demand-oriented training model with layers and differentiation, which enhanced the training capability, highly promoted the internal teaching team's construction, gradually improved the training system, fulfilled the requirement of the Company's business development and built our core competitiveness.

# REPORT OF THE DIRECTORS

The directors present the report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as “the Group”) for the year ended 31 December 2016.

## 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 Report 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 services and geophysical and surveying services. The principal activities of the subsidiaries comprise provision of drilling, well workover and logging services. There were no significant changes in the nature of the Group’s principal activities during the year. The review of the operating result of the Company during the reporting period and the future development outlook of the Company is set out in the Management Discussion and Analysis section of this annual report.

## RISKS AND MEASURES

### (1) Major Potential Risks

1) Oil prices remained at low level due to the unresolved problem of oversupply of oil across the world, which may lead to the fluctuation of investments by oil companies and directly affect the market expansion and project operation of the Company. With limited number of projects available for tendering in the market, low tendering price and fierce competition, the Company is exposed to market risks.

2) As an offshore oilfield services company, the Company mainly conducts production and operation in the ocean. The harsh marine environmental conditions may cause damages to underwater facilities and pose threats to marine support, as a result, the Company may be vulnerable to risks of health, safety and environment.

3) With the expansion of business in different countries and regions, the Company has to interact frequently with local governments, enterprises and personnel. It may be exposed to overseas operation risks relating tax, law, finance and labour service due to geopolitical, religions and cultural factors, change of policies and differences in laws and regulations.

4) With the Company’s overseas businesses covering various countries and regions, the operation of the Company is exposed to foreign exchange risk due to the foreign currency liabilities and expenses from the overseas markets. Details are set out in the Note 41 to financial statements in this annual report.

5) In respect of the fluctuation in the industry and the market risks, the recoverable amount of certain fixed assets of the Company may lower than its carrying amount which may cause a risk of impairment of fixed assets.

6) As the international oil price remained at a low level, individual clients may not be able to perform the payment obligation on time which may cause a risk of collection of trade receivables.

### (2) Risk Management Measures

The Company reviewed risk appetite and tolerance of different regions based on the changes in operation environment, strengthened the risk assessment mechanism and optimized the “Risk Criteria” so as to objectively identify, analyze and assess risks. Through combining the risk possibilities, the Company would timely conduct a warning and adopt effective corresponding measures in respect of risk tolerance which is underestimated. The Company followed the principle of the combination of preventive, handling and remedial measures for the management of risk incidents. For instance, we conduct identification, analysis, assessment and corresponding measures throughout the management of safety and environmental protection risks. The Company combine the platform for the global market information sharing (which optimizes information research for studying information including laws and regulations of the countries and regions in which the Group operates, local customs and regions) to the market risk management.

## RESULTS AND DIVIDENDS

The Group's profit prepared under Hong Kong Financial Reporting Standards for the year ended 31 December 2016 and the statement of financial position of the Group at that date are set out in the financial statements of this annual report on pages 125 to 129.

The directors recommend the payment of a final dividend of RMB5 cents (tax inclusive) per ordinary share in respect of the year to shareholders who are entitled to dividends. This recommendation has been incorporated as proposed cash dividends within the retained profits section of the consolidated statement of financial position. The total dividend amounts to approximately RMB238,580,000 (tax inclusive). Further details of this accounting treatment are set out in the Note 14 to financial statements in this annual report.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2016 are set out in Note 19 to the financial statements in this annual report.

## GEARING RATIO

The details of gearing ratio of the Group as at 31 December 2016 are set out in Note 41 to the financial statements in this annual report.

## SHARE CAPITAL

During the reporting period, there was no changes in the share capital of the company.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Company Law of the PRC which would oblige the Company to offer new shares in proportion to the existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES OF THE COMPANY

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

## BONDS

During the year, the Company successfully issued corporate bonds with an aggregate amount of RMB10 billion by two tranches.

The first tranche of the bonds was issued on 26 May 2016, with the actual issue size of RMB5 billion. The first tranche of the corporate bonds comprises two types: corporate bonds type I has a term of 3 years and has an actual issue size of RMB2 billion with final coupon rate of 3.14%; corporate bonds type II has a term of 10 years and has an actual issue size of RMB3 billion with final coupon rate of 4.10%.

The second tranche of the bonds was issued on 21 October 2016, with the actual issue size of RMB5 billion. The second tranche of the corporate bonds comprises two types: corporate bonds type I has an issue size of RMB2.1 billion and has a term of 5 years with an option for the issuer to adjust the coupon rate and the investors' option to sell back at the end of the third year and final coupon rate of 3.08%; corporate bonds type II has an issue size of RMB2.9 billion and has a term of 7 years with an option for the issuer to adjust the coupon rate and the investors' option to sell back at the end of the fifth year and final coupon rate of 3.35%.

The above two tranches of bonds were traded on the SSE on 29 June 2016 and 3 November 2016 respectively. The proceeds from the issuance of bonds are proposed to fully repay the Company's debts and replenish working capital after deducting the issuance expenses.

The details of bonds issued of the Company during the reporting period are set out in Note 33 to the financial statements in this annual report.

## PLACING OF H SHARES

On 15 January 2014, the Company completed the placing of an aggregate of 276,272,000 H shares, representing approximately 5.79% of the total number of issued shares (as enlarged by the allotment and issue of the placing shares) and approximately 15.25% of the total number of H shares in issue (as enlarged by the allotment and issue of the placing shares). After the placing, the total number of issued shares of the Company increased from 4,495,320,000 shares to 4,771,592,000 shares. The total number of issued H shares increased from 1,534,852,000 H shares to 1,811,124,000 H shares. For further details, please refer to the Company's announcements dated 7 January 2014 and 15 January 2014, respectively. The net proceeds from the placing amounted to approximately HK$5,819,392,302.91 (after deduction of the commissions and estimated expense). Approximately US$490,431.73 was not yet utilized as at 31 December 2016.

## SUMMARY OF FINANCIAL INFORMATION

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

Unit: RMB'000

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Revenue | 15,085,545 | 23,174,248 | 32,993,239 | 27,363,812 | 22,104,699 |
| Other revenues | 153,207 | 242,495 | 223,721 | 163,306 | 174,043 |
| | 15,238,752 | 23,416,743 | 33,216,960 | 27,527,118 | 22,278,742 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | (4,520,118) | (4,213,421) | (3,769,586) | (3,310,618) | (3,173,463) |
| Employee compensation costs | (3,890,143) | (3,792,454) | (4,380,705) | (4,080,092) | (3,671,357) |
| Repair and maintenance costs | (500,093) | (799,297) | (1,094,907) | (930,115) | (793,854) |
| Consumption of supplies, materials, fuel, services and others | (4,116,437) | (4,569,260) | (5,955,000) | (4,897,780) | (4,071,683) |
| Subcontracting expenses | (2,364,588) | (3,474,789) | (5,445,405) | (3,913,722) | (2,825,522) |
| Operating lease expenses | (1,206,111) | (1,547,610) | (1,605,992) | (1,093,744) | (709,645) |
| Other operating expenses | (2,865,175) | (2,185,096) | (2,165,245) | (1,652,789) | (1,318,181) |
| Impairment of goodwill | (3,455,378) | (923,154) | – | – | – |
| Impairment of property, plant and equipment | (3,688,408) | (280,116) | (374,185) | – | (96,420) |
| Total operating expenses | (26,606,451) | (21,785,197) | (24,791,025) | (19,878,860) | (16,660,125) |
| (Loss)/profit from operations | (11,367,699) | 1,631,546 | 8,425,935 | 7,648,258 | 5,618,617 |
| Exchange gain/(loss), net | 268,710 | 87,726 | (5,690) | (6,403) | (41,913) |
| Finance costs | (1,047,667) | (700,259) | (587,535) | (638,328) | (512,718) |
| Interest income | 130,519 | 105,248 | 155,033 | 124,555 | 127,460 |
| Investment income | 191,933 | 102,345 | 193,795 | 94,302 | 2,169 |
| Share of profits of joint ventures, net of tax | 16,849 | 169,748 | 340,954 | 297,221 | 243,193 |
| (Loss)/profit before tax | (11,807,355) | 1,396,354 | 8,522,492 | 7,519,605 | 5,436,808 |
| Income tax credit/(expense) | 347,899 | (287,648) | (1,002,309) | (793,171) | (867,038) |
| (Loss)/profit for the year | (11,459,456) | 1,108,706 | 7,520,183 | 6,726,434 | 4,569,770 |

## ASSETS AND LIABILITIES

Unit: RMB'000

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Total assets | 80,544,057 | 93,525,051 | 86,874,307 | 79,262,283 | 74,648,528 |
| Total liabilities | 45,247,679 | 46,696,381 | 39,552,208 | 42,002,480 | 42,443,614 |

## PROPERTY, PLANT AND EQUIPMENT

The details of the movements in property, plant and equipment of the Group are set out in Note 16 to the financial statements in this annual report.

## DIVIDEND

The Company's dividend policy is: Dividend shall be determined by the Board of Directors of the Company according to overall financial condition of the Company, which includes but not limited to factors such as revenue and profits, capital requirements and surplus and expectations for the Company. In ensuring the normal operation of the Company and continuous development, and as long as the profit for the relevant year and accumulated retained earnings remain positive, the annual dividend level shall not be lower than 20% of the total net profit for the year. The specific payout amount shall be finally approved by the shareholders in a general meeting.

The formulation and implementation of the Company's dividend policy are in compliance with the Company's Articles of Association and the resolution of the General Meeting. The distribution plan and proportion are accurate and clear; and the related decision-making procedures and mechanism are thorough and complied. During the process of formulating and implementing the dividend policy, independent directors have fully performed and properly played their role and have fully taken into consideration the minority shareholders' opinions and requirements; and the legal rights of minority shareholders have been fully protected.

In 2016, based on a net profit of RMB–11,459,456,594 achieved by the Group (of which net profit attributable to the owners of the Company amounted to RMB–11,456,186,318) plus the retained profits of RMB27,231,095,428 as at the beginning of the year and deducted the dividend of 2015 of RMB324,468,256 declared and paid in 2016, the total distributable profit would be RMB15,450,440,854 at the end of 2016. The Group recommended a cash dividend of RMB0.05 per share (tax inclusive) on the basis that the total share capital was 4,771,592,000 shares as at 31 December 2016. The total dividend amounts to RMB238,579,600 and the balance of retained profits of RMB15,211,861,254 will be carried forward to the following years.

According to the Company Law and the Articles of Association of the Company, the accumulated statutory common reserve fund of the Company for 2015 has reached more than 50% of the registered capital of the Company, no further provision of such fund is required for this year.

Such distribution proposal will be proposed at the AGM of 2016 of the Company for approval.

Dividend of the Group in the recent three years:

Unit: RMB'000

| Dividend year | Cash dividend per 10 shares (yuan) (tax inclusive) | Cash dividend (tax inclusive) | Net profit attributable to equity holders of the Company in the consolidated financial statement | Percentage of net profit attributable to equity holders of the Company in the consolidated financial statement (%) |
|---|---|---|---|---|
| 2016 | 0.50 | 238,580 | (11,456,186) | (2) |
| 2015 | 0.68 | 324,468 | 1,073,907 | 30 |
| 2014 | 4.80 | 2,290,364 | 7,492,058 | 31 |

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable donations totaling RMB1,456,293.

## MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, sales to the Group's five largest customers accounted for approximately 89% of the total sales for the year and sales to the largest customer included therein accounted for approximately 69%. Purchases from the Group's five largest suppliers accounted for approximately 6% of the total purchases for the year; and purchases from the Group's largest supplier accounted for approximately 2% of the total purchases for the year.

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

## ASSETS MEASURED AT FAIR VALUE

The majority of the assets of the Group were measured 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 department on works of finance department. For details of fair value changes in available-for-sale assets of the Group during the reporting period, please see Note 40 to the financial statements in this annual report.

## OUTLOOK OF THE COMPANY

For details, please refer to the "2017 Business Outlook" of the Company set out in the Management Discussion and Analysis.

## CHARGE ON ASSETS

As at 31 December 2016, the Group had no large scale material charges against its assets.

## CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any contingent liabilities.

## DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company as at 31 December 2016 were:

| Non-executive directors: | Executive directors: | Independent Non-Executive directors: | Supervisors: |
|---|---|---|---|
| Lv Bo *(Chairman)* | Qi Meisheng | Law Hong Ping, Lawrence | Wei Junchao *(Chairman of Supervisory Committee)* |
| Xie Weizhi | Dong Weiliang | Fong Chung, Mark | Li Zhi *(Employee supervisor)* |
| | Li Feilong | Wong Kwai Huen, Albert | Cheng Xinsheng *(Independent supervisor)* |

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

Pursuant to the Rule 3.13 of the Listing Rules of the Hong Kong Stock Exchange, the Company had received annual confirmations of independence from Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert, 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, supervisors and the senior management of the Company are set out in "Directors, Supervisors, Senior Management and Employees" of the annual report.

## DIRECTORS' SERVICE CONTRACTS

The newly appointed directors and supervisors are required to enter into a service contract with the Company for a term of three years, renewable upon re-election. Details of the directors remunerations for the year 2016 are set out in "Directors, Supervisors, Senior Management and Employees" of the annual report.

Apart from the foregoing, no director proposed for re-election at the forthcoming AGM 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.

## INSURANCE FOR DIRECTORS

The Company has renewed its Directors Liability Insurance Policy of RMB200,000,000 in 2016.

## DIRECTORS' REMUNERATION

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

The remuneration committee had no objection to the remuneration of Directors, Supervisors and Senior Management disclosed in the annual report.

## DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

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 National Offshore Oil Corporation ("CNOOC"), other than CNOOC Limited ("CNOOC Group"), for the provision of oilfield services by the Company to CNOOC Limited and CNOOC Group, and for the provision of various services by CNOOC Group to the Company. Further details of the transactions undertaken in connection with these contracts during the year are included in Note 39 to the financial statements in this annual report.

Save as disclosed, no significant contract in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which the 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', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2016, 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 the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

| Name of Director | Capacity | Number of interested shares (shares) | Approximate percentage of the interests (H) in COSL (%) |
|---|---|---|---|
| Li Feilong | Beneficial Owner | 60,000 | 0.003% |

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

## DIRECTORS', SUPERVISORS' 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 IN SHARES

So far as is known to any Director or chief executive of the Company, as at 31 December 2016, other than the Directors or the chief executive of the Company as disclosed above, the following persons have interests or short positions in the H Shares or underlying H Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO or were otherwise notified to the Company and the Hong Kong Stock Exchange.

| Name of shareholder | Shares held | Number of shares interest (share) | Approximate percentage of the interests (H) in COSL (%) |
|---|---|---|---|
| Commonwealth Bank of Australia | Interest in controlled corporation | 177,796,000 (L) | 9.82 (L) |
| BlackRock, Inc. | Interest in controlled corporation | 166,421,405 (L)<br>1,294,000 (S) | 9.19 (L)<br>0.07 (S) |

*Notes:*

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

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

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

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

## CONNECTED TRANSACTIONS

Under the Listing Rules, connected transactions of the Company must be fully disclosed and are subject to the independent shareholders' approval, if the transaction is over a certain amount. The Company has applied to the Hong Kong Stock Exchange at the time of listing on the Hong Kong Stock Exchange for a waiver from strict compliance with the reporting, announcement and independent shareholders' approval requirements in respect of the continuing connected transactions of the Company and the Hong Kong Stock Exchange has granted a waiver in respect of such requirements for a period of three years, subject to the approval from Independent Directors with compliance to the requirements of the Listing Rules in respect of the continuing connected transactions of the Company upon expiry. Please see the 2015 annual report of the Company. In 2016, the Company renewed connected transactions expired at the end of 2016.

The Group has entered into a new Master Services Framework Agreement with CNOOC on 4 November 2016. Pursuant to the Master Agreement, the Group has agreed to continue to provide the Oilfield Services to the CNOOC and its subsidiaries, and the CNOOC and its subsidiaries has agreed to continue to provide the Machinery Leasing, Equipment, Material and Utilities Services as well as the Property Services to the Group. The resolution in respect of the continuing connected transactions for the three years from 1 January 2017 to 31 December 2019 was approved by the independent shareholders of the Company at the EGM held on 15 December 2016. For details, please refer to the announcements of the Company dated 6 November 2016 and 15 December 2016 respectively.

During the year ended 31 December 2016, the Group had the following continuing connected transactions:

### a. Included in revenue

| | | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| i | **CNOOC Limited Group** | | |
| | – Provision of drilling services | 2,730,362 | 5,645,213 |
| | – Provision of well services | 5,275,040 | 6,205,985 |
| | – Provision of marine support services | 1,773,992 | 2,319,417 |
| | – Provision of geophysical and surveying services | 664,001 | 1,365,081 |
| | | 10,443,395 | 15,535,696 |
| ii | **CNOOC Group** | | |
| | – Provision of drilling services | 12,682 | 38,726 |
| | – Provision of well services | 103,454 | 99,628 |
| | – Provision of marine support services | 19,244 | 105,980 |
| | – Provision of geophysical and surveying services | 18,444 | 76,421 |
| | | 153,824 | 320,755 |

### b. Included in operating expenses

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **i CNOOC Limited Group** | | |
| Materials, utilities and other ancillary services | 36,621 | 4,876 |
| | 36,621 | 4,876 |
| Property services | 1,827 | 6,359 |
| | 38,448 | 11,235 |
| **ii CNOOC Group** | | |
| Labour services | 1,271 | 3,449 |
| Materials, utilities and other ancillary services | 663,751 | 664,232 |
| Transportation services | 22,035 | 32,989 |
| Leasing of equipment | 220,860 | 507,097 |
| Repair and maintenance services | 6,562 | 19,452 |
| Management services | 2,021 | 2,300 |
| | 916,500 | 1,229,519 |
| Property services | 162,249 | 235,202 |
| | 1,078,749 | 1,464,721 |

### c. Included in interest income

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| CNOOC Finance (a subsidiary of CNOOC) | | |
| Interest income | 35,608 | 47,121 |

Deposits in CNOOC Finance Corporation Ltd. ("CNOOC Finance") carry interests at the applicable interest rate which is determined with reference to the prevailing bank rates published by the People's Bank of China.

### d. Included in finance costs

During the current year, the finance costs on the loan from a related party are US$681,000, which is equivalent to approximately RMB4,523,000.

### e. Deposits

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Deposits placed with CNOOC Finance as at the end of the reporting period | 1,801,400 | 1,506,039 |

The independent shareholders of the Company have approved the connected transactions set out in items (a) and (b) above on 20 December 2013. For items (c) to (e) above, the transactions were exempted from the independent shareholders' approval requirement and was approved by the Independent Directors.

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

1. the transactions were entered into between the Group and the connected persons or their respective associates (where applicable) in the ordinary and usual course of business of the Group;

2. the transactions were entered into on normal commercial terms or better;

3. the transactions were executed in accordance with the relevant agreements governing such transactions, on terms that are fair and reasonable and in the interests of the shareholders as a whole; and

4. the above transactions were entered into with the annual aggregate value within the relevant annual cap of each category.

Deloitte Touche Tohmatsu, the Company's auditors, were engaged by the Board of Directors to report on the Group's continuing connected transactions, including items (a) and (b) above, and the actual maximum daily balance of deposits (including interest receipts in respect of these deposits) placed by the Group with CNOOC Finance Corporation Ltd. as referred to in items (c) and (e) above, 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. Deloitte Touche Tohmatsu have issued their unqualified auditor's 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 auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

Explanations of impacts of connected transactions to the Company's profit and the necessity and sustainability of connected transactions:

There exist relatively more connected transaction between the Company and its connected persons such as CNOOC Limited. It is due to the franchise system and development history of exploitation of offshore petroleum resources in cooperation with other enterprises which fulfill the requirements of the industrial policies in China. These connected transactions become the main source for generating business revenues of the Company and are important to the development of the Company. The actual operation situation of the Company since it has been listed is able to prove that connected transactions are indispensable to reaching the development of the Company. The contract prices of connected transactions of the Company are determined according to the public tendering or negotiation, which complies with the principles of fairness, openness and justness and is beneficial to both the development of the Company's main business and the maximization of the shareholders' interests. It is proved that conducting connected transactions is necessary and will be continued.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public at the date of this report.

## AUDIT COMMITTEE

Before the field work of the auditors for annual audit, the audit committee of the Group reviewed the audit plan and other relevant information submitted by the auditors in accordance with the requirements under the relevant notices from CSRC, and approved the annual audit plan and work schedule formulated by the Company and auditors for annual audit and confirmed effective communications with the auditors for annual audit before and after such field work and suggested related opinion with regard to related work.

The final results of the Group have been reviewed by the audit committee of the Board which consists of three independent non-executive directors. The committee has reviewed the accounting principles and practices adopted by the Company, and has also discussed auditing, risk management, internal control and financial reporting matters including the review of audited 2016 annual results with the management.

## BUSINESS PLAN

Starting from the beginning of 2017, the international crude oil price would be higher in 2017 than that of the beginning of 2016, which can bring oilfield services industry to gradual recover. However, with a modest recovery in the exploration and development spending in the world in 2017, it is expected that the industry situation is still severe during the year.

In the context of gradual increase in the oil price, the Company expects that its work volumes of business segments and service prices of its partial business will increase with varying degrees in 2017. The Company will further enhance its QHSE management level, to ensure safety production; while effectively maintaining the domestic market, develop overseas markets and strive to achieve better operating results in 2017.

The above business plan is based on the current operations of the Company and current market conditions, which does not constitute the Company's profit forecast and substantive commitments of the directors. As for whether the Company will achieve the Company's expected performance in 2017, which would mainly depend on market and economy, investors are advised to pay attention to the investment risk.

## CORPORATE GOVERNANCE CODE AND MODEL CODE FOR SECURITIES TRANSACTIONS

For the year under review, the Company's compliance with the Corporate Governance Code is set out in the "Corporate Governance Report" section of this annual report. Upon specific enquiry to each and every director by the Company, the Board of Directors confirms that all members of the Board, for the year under review, have complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

## AUDITORS

This financial statements has been audited by Deloitte Touche Tohmatsu, who will retire at the forthcoming AGM at which a resolution for reappointing it as the auditor of the Company will be proposed.

## EXECUTION OF THE INSIDER INFORMATION MANAGEMENT SYSTEM

In 2016, the Company continuously worked on the regular registration of insiders. The Company actively organised trainings, in order to enhance the sense of confidentiality of information insiders, and to prevent insider dealing, the effect is as expected.

All directors and supervisors of the Company confirmed that they had not traded the Company's securities in violation of rules in the reporting period. Furthermore, pursuant to requirements of Provisions for the Establishment of Management Systems for the Registration of Persons Who Have Knowledge of Insider Information by Listed Companies issued by the China Securities Regulatory Commission, the Company also conducted self-assessment on whether there have been share transactions by any insider of the Company other than directors and supervisors during the reporting period, and did not find any insider trading of the Company's securities in violation of rules in 2016.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

According to the concept of "environmental protection, energy saving and efficiency improvement and green development", the Company set up an environmental protection management system and formed a dedicated team for environmental protection management to identify and control environmental factors and to ensure the completeness and effectiveness of its environmental protection facilities. By introducing advanced environmental protection ideas and concepts, the Company has adapted methods for classification and collection of pollutants arising from the operation, so as to continuously enhance its environmental protection management standards.

The Company implemented a comprehensive management system for its environmental protection initiatives and the system obtained DNV and certification by the PRC Maritime Safety Agency. Regular review and upgrade of the environmental protection management system are conducted each year so as to optimize the environmental protection management system and strengthen its work on environmental protection. The Company has engaged a professional part time environment protection team to offer trainings on environmental protection theory, management skill and awareness to improve the team's ability and arouse employees' awareness on law compliance. In the course of production and operation, the Company strictly complied with the environmental protection requirements of laws, regulations, relevant standards and international conventions. The Company has also regularly identified and assessed the laws and regulations related to environmental protection, continued to improve the relevant systems and ensured that its operation is in full compliance with laws; identified and assessed environmental issues in its operation, formulated and implemented management control measures based on the assessment results; reviewed the environmental protection measures at the same time to examine the effectiveness of implementation so as to effectively control environmental risks. The Company classifies and collects various pollutants arising from its production and operation. Pollutants which are allowed for emission are treated by the environmental protection equipment and facilities, and qualified institutions are appointed to handle the recycling of pollutants for which discharge is prohibited. The Company and each of its business units has formulated environmental protection contingency plans and filed to relevant PRC authorities; and contingency measures for potential emergent situations involving oil spills are also available in each operation base, emergency drills are conducted regularly in accordance with the requirements of relevant laws for training of preparedness and response in case of emergency. The Company actively learns from domestic and overseas environmental protection ideas and concepts and any outstanding proposals are put into practice so as to continuously enhance the environmental protection management standards of the Company.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company insists to govern the Company according to laws, strictly follows laws and regulations of the countries where it has operation, and implements industry standards, and provides qualified and highly effective professional services to clients in a sustainable way. Through implementation of systematic management, the Company practically complies with the safety production, environmental protection laws and regulations, strives for safety production, environment protection, clean production and energy saving, protects the safety and health of staff, and protect the environment from being harmed, continues to improve the quality, health, safety and environmental management level.

## MANAGEMENT CONTRACTS

No contracts concerning management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the reporting period.

## EQUITY-LINKED AGREEMENTS

As at 31 December 2016, the Company did not enter into any equity-linked agreement.

## BUSINESS COMPETITION WITH CONTROLLING SHAREHOLDERS

There is no substantial competition between the Company and CNOOC (including CNOOC's subsidiaries), the controlling shareholder of the Company. On 27 September 2002, CNOOC and the Company entered into a Non-competition Agreement, pursuant to which CNOOC has undertaken that there is no competition between CNOOC and the Company, and CNOOC will take various measures to avoid new competition.

## OTHER DISCLOSURE

An analysis of the Company's performance using key financial performance indicators is set out in the section headed "Management Discussion and Analysis" in this annual report; particulars of important events affecting the Company that have occurred since the end of the reporting period can be found in the section headed "Significant Events" in this annual report. In addition, discussions on the Company's environmental policies and performance and permitted indemnity provisions provided by the Company to its Directors are included in the sections headed "Sustainability Report" and "Corporate Governance Report" of the report. These discussions form part of this Directors' Report.

On behalf of the Board

**Lv Bo**
*Chairman*
21 March 2017

# Supervisory Committee Report

The Supervisory Committee of the Company for the year 2016 has diligently performed its responsibilities in accordance with the requirements of the Company Law of the People's Republic of China, Articles of Association and the Rules of Procedure for the Supervisory Committee of the Company, supervised and examined the procedures for decision making, the operating situation according to the law, financial reports disclosure and the construction and operation of the internal control system of the Company, and provided necessary protection for the legal benefits of the shareholders, the Company and the staff.

In 2016, seven Supervisory Committee's meetings were convened. Members of the Supervisory Committee attended the general meetings, Board meetings of the Company and the important management meetings of the Company to keep abreast of the issues of our daily production and operating activities, so as to further improve our supervision and inspection on compliance and risk control from procedures to content.

During the reporting period, the 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

Mr. Li Zhi was elected as the employee supervisor at the meeting of the employees' representatives of the Company held on 5 May 2016.

As at the date of this report, Mr. Wei Junchao acts as the chairman of the Supervisory Committee, Mr. Li Zhi acts as the employee supervisor and Mr. Cheng Xinsheng acts as the independent supervisor.

## 2. OPERATION OF THE SUPERVISORY COMMITTEE

1) Seven Supervisory Committee meetings were held on the same days and some time after the Board meetings which the Supervisors had attended. The meetings mainly verified the compliance in respect of procedures for calling Board meetings and board resolutions, and also expressed audit opinion in relation to the regular report approved by the Board and prepared opinion in relation to the provisions for impairment of assets.

2) Members of the Supervisory Committee also attended meetings of the professional committees under the Board of Directors and listened to a specific report given by the management of the Company in respect of the financial results and the operation of internal control system and the establishment and the issue about Key Performance Indicators on the management.

3) The Supervisory Committee had given its professional audit advice in respect of the 2015 Annual Report, the 1st quarterly report for the year 2016, the 2016 Interim Report and the 3rd quarterly report for the year 2016 in compliance with the regulatory requirements of A shares.

4) The Supervisory Committee reviewed the operation of internal control system and risk management by the Company and made certain recommendation for improvement.

5) Supervisor Wei Junchao, supervisor Li Zhi and supervisor Cheng Xinsheng attended all 7 regular Board meetings. Supervisor Wei Junchao and supervisor Li Zhi attended the 2015 AGM, 2016 First A Share Class Meeting and 2016 First H Share Class Meeting held on 31 May 2016; supervisor Wei Junchao attended 2016 First EGM; supervisor Cheng Xinsheng attended 2016 Second EGM.

## 3. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE

### (1) The Company's Operating Situation According to the Law

After supervising and examining the performance of duties by the Board of Directors of the Company and the senior management, and the construction and operation of internal control system of the Company, the Supervisory Committee of the Company 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 Supervisory Committee has 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 has reviewed relevant financial information of the Company. 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 treatment are consistent while the financial statements are true and reliable. Based on the domestic and international audit standards, Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu have audited the financial statements of the Company for year 2016 and have issued standard unqualified audit opinions on the financial statements. The Supervisory Committee considered the financial statements were objective and fairly reflected the financial position and the results of operation of the Company.

### (3) Connected Transactions

During the reporting period, all the connected transactions entered between the Company and CNOOC and its affiliates had complied with all the relevant requirements of The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange and those transactions were necessary for the production and operation of the Company and were at fair terms and in the interests of the Company and the shareholders as a whole.

### (4) Management Situation and Internal Control of the Company

The Supervisory Committee is of the opinion that during the reporting period and under the effective management and control of the Board and the management, the Company has continuously improved its internal control systems, enhanced the risk management capability to ensured regulated and steady operation of the Company. The Supervisory Committee is of the view that the Assessment Report of Internal Control of the Company was comprehensive, objective and matched the actual situations of the Company.

### (5) The Performance of Responsibilities of Directors and Senior Management

The Supervisory Committee 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 operating situation of the Company and thoroughly discussed the Company's affairs before making decisions. Facing with the harsh and complicated market environment, the management has actively taken challenges and earnestly performed their duties according to their terms of reference and implemented the decisions of the Board in a scientific way.

### (6) Execution of the Insiders' Information Management System

During the reporting period, the Supervisory Committee did not recognize any insider trading which prejudice the interests of the Company and shareholders by directors, supervisors and senior management as well as the related insiders.

### (7) External Guarantee

Provision of guarantee by the Company to subsidiaries of the Company is in accordance with the requirements under laws and regulations and the Articles of Association of the Company, which has been under necessary approval procedure and the Company has disclosed related information to comply with the requirements. The accumulated and current provisions of external guarantee by the Company were true.

### (8) Other Information

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 the Articles of Association and procedures approved at the general meetings and the Supervisory Committee has no disagreement over the result of the assessment.

For and on behalf
of Supervisory Committee

**Wei Junchao**
*Chairman of the Supervisory Committee*
21 March 2017

# Significant Events

## I. SIGNIFICANT RELATED PARTY TRANSACTIONS

Further details on related party transactions are given in Note 39 to the financial statements of this annual report.

## II. GUARANTEE

Unit: RMB'000

| | |
|---|---|
| **External guarantee provided by the Company (excluding guarantee to subsidiaries)** | |
| Total amount of guarantee occurred during the reporting period (excluding guarantee to subsidiaries) | – |
| Total balance of guarantee as at the end of the reporting period (A) (excluding guarantee to subsidiaries) | – |
| **Guarantee provided by the Company and its subsidiaries to its subsidiaries** | |
| Total amount of guarantee occurred by the Company to its subsidiaries during the reporting period | 14,801,784.6 |
| Total balance of guarantee provided by the Company to its subsidiaries at the end of the reporting period (B) | 14,321,391.8 |
| **Total guarantee provided by the Company (including guarantee to subsidiaries)** | |
| Total amount of guarantee (A+B) | 14,321,391.8 |
| Total amount of guarantee as a percentage of the Group's net assets (%) | 40.6 |
| Including: | |
| Amount of guarantee provided to shareholders, the actual controller and its related parties (C) | – |
| Debt guarantee directly or indirectly provided to parties with gearing ratio over 70% (D) | 14,261,042.1 |
| The excess of total amount of guarantee over 50% of the net assets (E) | – |
| Total amount of the 3 guarantees above (C+D+E) | 14,261,042.1 |
| **Guarantee details** | (1) Guarantee provided by the Company includes the guarantee to its subsidiaries in favour of US$1 billion bond issued by a subsidiary in 2012 and US$1 billion Euro medium term notes issued by a subsidiary in 2015.<br>(2) Subject parties with gearing ratio over 70% under debt guarantee are wholly-owned subsidiaries of the Company. |

## III. ENGAGEMENT AND DISMISSAL OF AUDITORS OF THE COMPANY

Unit: RMB million

| | Currently appointed |
|---|---|
| Name of domestic audit firm | Deloitte Touche Tohmatsu Certified Public Accountants LLP |
| Remuneration of domestic audit firm | – |
| The service period of domestic audit firm | 3 years |
| Name of international audit firm | Deloitte Touche Tohmatsu |
| Remuneration of international audit firm | – |
| The service period of international audit firm | 3 years |
| Remuneration of domestic and international audit firm | 14.8 |

| | Name | Remuneration |
|---|---|---|
| Audit of internal control by certified public accountant | Deloitte Touche Tohmatsu Certified Public Accountants LLP | Note: Remuneration of internal control audit was included in remuneration of domestic and international audit firm. |

*Note: On 31 May 2016, the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors for 2016 respectively was approved at the AGM 2015.*

## IV. OTHER MATTERS

On 20 March 2012, the Company disclosed in its announcement a connected transaction in relation to the transfer of land to CNOOC Infrastructure Management Co., Ltd. As at 31 December 2016, the Company is now actively undertaking relevant communication and coordination in respect of the transfer and the transfer procedures of such land transactions were not yet completed.

The Company disclosed announcements of "Status of Two Drilling Contracts" and "Further Status of Two Drilling Contracts" on 6 March 2016 and 20 March 2016 respectively. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

In December 2016, COSL Offshore Management AS ("COM", a subsidiary of the Company) as a plaintiff filed a Statement of Claim (the "Claim") against Statoil (Statoil Petroleum AS, hereinafter "Statoil") with Oslo District Court of Norway (the "Court") through WIKBORG, REIN & CO. ADVOKATFIRMA DA, an international law firm based in Norway, as litigation agent. COM has claimed that Statoil's termination of the contract in respect of the drilling rig of COSLInnovator was unlawful and has claimed the contract to be maintained. If the contract cannot be maintained, COM has claimed that Statoil is obliged to cover COM's loss resulting from the unlawful termination, and the exact amount of damages will be subject to subsequent proceedings. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

In January 2017, COM, a subsidiary of the Company as a plaintiff filed a Statement of Claim (the "Claim") against Statoil with the Court through WIKBORG REIN ADVOKATFIRMA AS, an international law firm based in Norway, as litigation agent. COM is of the view that Statoil shall pay the Claim for cost reimbursement and rate reductions happened in the period of year 2016 in amount up to the equivalence of US$15,238,596 incurred as a consequence of the drilling rig of COSLPromoter's compliance with requirements of Statoil. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

# Independent Auditor's Report

Deloitte.
德勤

## To the Shareholders of China Oilfield Services Limited

(Established in the People's Republic of China with limited liability)

## Opinion

We have audited the consolidated financial statements of China Oilfield Services Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 125 to 189, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key Audit Matters (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of property, plant and equipment, and goodwill** | |
| We identified impairment of property, plant and equipment, and goodwill as a key audit matter due to significant accounting estimations involved in estimating the recoverable amounts of the relevant assets and goodwill.<br><br>Due to the continued deterioration of global oilfield services market and recent low level of oil price, both the services prices and utilisation rates of the Group's drilling rigs and vessels decreased. Management has determined that certain drilling rigs and vessels included in the property, plant and equipment, and the goodwill associated to the relevant cash generating units ("CGUs") have impairment indicators.<br><br>The recoverable amount of the relevant assets or the CGUs has been determined based on a value in use calculation through discounting the estimated future cash flows generated from the relevant assets or the CGUs to the present value. In estimating the aforesaid recoverable amount, management is required to consider all relevant factors with reasonable and supportable assumptions to make significant accounting estimations. Details of the related estimation uncertainty are set out in note 4 to the consolidated financial statements. | Our procedures in relation to impairment of property, plant and equipment, and goodwill included:<br><br>• We tested the Group's key internal controls over valuation and determination of asset impairments;<br><br>• We evaluated the appropriateness of the methodologies of the impairment test;<br><br>• We tested the underlying data used by the Group in the impairment test. We involved our internal valuation specialists to evaluate the appropriateness of management's key assumptions and judgements in the impairment test. We also evaluated how the external valuer's work were relied on by management; and<br><br>• We verified the mathematical accuracy of the impairment test. |
| **Impairment of accounts receivable** | |
| We identified impairment of accounts receivable as a key audit matter due to the use of significant estimates and judgments by the Group's management in assessing the recoverability of accounts receivable.<br><br>The recoverability risk of accounts receivable has increased due to the further downturn in the global oil price where particular customers are unable to make timely payments. Further, some of the customers of the Group operate in countries facing more difficult political and economic circumstances, which expose the Group to additional recoverability risk of accounts receivable.<br><br>Management is required to determine the carrying amounts of the impaired accounts receivable, which are subject to significant management's estimates and judgements. Details of the related estimation uncertainty are set out in note 4 to the consolidated financial statements. | Our procedures in relation to management's impairment assessment of accounts receivable included:<br><br>• We tested the Group's key internal controls over the accounts receivable for impairment assessment;<br><br>• We analysed management's expectation of collections from customers and the historical settlement patterns of the customers; and<br><br>• We assessed the reasonableness of the management's assessment on impairment with reference to the credit risk characteristics, aging analysis and cash collections subsequent to the year end. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yam Siu Man.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong
21 March 2017

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **REVENUE** | 6 | **15,152,185** | 23,653,980 |
| Sales surtaxes | | **(66,640)** | (479,732) |
| Revenue, net of sales surtaxes | | **15,085,545** | 23,174,248 |
| Other revenues | 6 | **153,207** | 242,495 |
| | | **15,238,752** | 23,416,743 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | | **(4,520,118)** | (4,213,421) |
| Employee compensation costs | *7* | **(3,890,143)** | (3,792,454) |
| Repair and maintenance costs | | **(500,093)** | (799,297) |
| Consumption of supplies, materials, fuel, services and others | | **(4,116,437)** | (4,569,260) |
| Subcontracting expenses | | **(2,364,588)** | (3,474,789) |
| Operating lease expenses | *7* | **(1,206,111)** | (1,547,610) |
| Other operating expenses | | **(2,865,175)** | (2,185,096) |
| Impairment of goodwill | *17* | **(3,455,378)** | (923,154) |
| Impairment of property, plant and equipment | *16* | **(3,688,408)** | (280,116) |
| Total operating expenses | | **(26,606,451)** | (21,785,197) |
| **(LOSS)/PROFIT FROM OPERATIONS** | | **(11,367,699)** | 1,631,546 |
| Exchange gain, net | | **268,710** | 87,726 |
| Finance costs | 8 | **(1,047,667)** | (700,259) |
| Interest income | | **130,519** | 105,248 |
| Investment income | *7* | **191,933** | 102,345 |
| Share of profits of joint ventures, net of tax | *20* | **16,849** | 169,748 |
| **(LOSS)/PROFIT BEFORE TAX** | *7* | **(11,807,355)** | 1,396,354 |
| Income tax credit/(expense) | *12* | **347,899** | (287,648) |
| **(LOSS)/PROFIT FOR THE YEAR** | | **(11,459,456)** | 1,108,706 |
| Attributable to: | | | |
| Owners of the Company | | **(11,456,186)** | 1,073,907 |
| Non-controlling interests | | **(3,270)** | 34,799 |
| | | **(11,459,456)** | 1,108,706 |
| **(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Basic (RMB) | *15* | **(240.09) cents** | 22.51 cents |

Details of the dividends paid or proposed for the year are disclosed in note 14 to the consolidated financial statements.

# Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **(LOSS)/PROFIT FOR THE YEAR** | | **(11,459,456)** | 1,108,706 |
| **OTHER COMPREHENSIVE INCOME/(EXPENSE)** | *13* | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurement of defined benefit pension plan | | **46,836** | 33,988 |
| Income tax relating to items that will not be reclassified subsequently to profit or loss | | **(11,709)** | (8,497) |
| | | **35,127** | 25,491 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translation of financial statements of foreign operations | | **259,691** | 604,262 |
| Net fair value (loss)/gain on available-for-sale investments | | **(64,778)** | 61,089 |
| Share of other comprehensive income of joint ventures | | **11,848** | 6,550 |
| Income tax relating to items that may be reclassified subsequently to profit or loss | | **9,717** | (9,163) |
| | | **216,478** | 662,738 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX** | | **251,605** | 688,229 |
| **TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR** | | **(11,207,851)** | 1,796,935 |
| Attributable to: | | | |
| Owners of the Company | | **(11,210,542)** | 1,759,108 |
| Non-controlling interests | | **2,691** | 37,827 |
| | | **(11,207,851)** | 1,796,935 |

# Consolidated Statement of Financial Position

31 December 2016

| | Notes | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 16 | 57,457,239 | 60,388,044 |
| Goodwill | 17 | – | 3,394,504 |
| Other intangible assets | 18 | 427,027 | 469,605 |
| Investments in joint ventures | 20 | 600,364 | 681,314 |
| Available-for-sale investments | 21 | – | – |
| Other non-current assets | 26 | 439,121 | 1,150,440 |
| Deferred tax assets | 29 | 68,514 | 39,707 |
| Total non-current assets | | 58,992,265 | 66,123,614 |
| **CURRENT ASSETS** | | | |
| Inventories | 22 | 1,157,617 | 1,328,250 |
| Prepayments, deposits and other receivables | 23 | 442,960 | 496,384 |
| Accounts receivable | 24 | 4,795,964 | 6,652,732 |
| Notes receivable | 25 | 1,844,306 | 1,906,542 |
| Other current assets | 26 | 7,216,070 | 4,211,964 |
| Pledged deposits | 27 | 23,806 | 31,607 |
| Time deposits with maturity of over three months | 27 | – | 200,000 |
| Cash and cash equivalents | 27 | 6,071,069 | 12,573,958 |
| Total current assets | | 21,551,792 | 27,401,437 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 28 | 9,304,300 | 8,081,048 |
| Salary and bonus payables | | 776,939 | 985,252 |
| Tax payable | | 101,124 | 111,320 |
| Loan from a related party | 30 | 693,700 | – |
| Interest-bearing bank borrowings | 31 | 5,296,469 | 11,451,529 |
| Other current liabilities | 26 | 543,649 | 429,418 |
| Total current liabilities | | 16,716,181 | 21,058,567 |
| **NET CURRENT ASSETS** | | 4,835,611 | 6,342,870 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 63,827,876 | 72,466,484 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 29 | 234,456 | 627,316 |
| Provisions | 32 | 14,505 | – |
| Interest-bearing bank borrowings | 31 | 2,057,206 | 9,482,555 |
| Long term bonds | 33 | 25,279,744 | 14,390,824 |
| Deferred revenue | 34 | 936,804 | 1,070,670 |
| Employee benefit liabilities | 11 | 8,783 | 66,449 |
| Total non-current liabilities | | 28,531,498 | 25,637,814 |
| Net assets | | 35,296,378 | 46,828,670 |
| **EQUITY** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | 35 | 4,771,592 | 4,771,592 |
| Reserves | | 30,434,776 | 41,969,786 |
| | | 35,206,368 | 46,741,378 |
| Non-controlling interests | | 90,010 | 87,292 |
| Total equity | | 35,296,378 | 46,828,670 |

**Qi Meisheng**
*Director*

**Li Feilong**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | Issued capital RMB'000 | Capital reserve RMB'000 | Statutory reserve funds RMB'000 | Revaluation reserve RMB'000 | Remeasurement of defined benefit pension plan RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2015 | 4,771,592 | 12,371,737* | 2,508,656* | 39,139* | (66,996) * | (799,047)* | 26,157,189* | 2,290,364* | 47,272,634 | 49,465 | 47,322,099 |
| Profit for the year | – | – | – | – | – | – | 1,073,907 | – | 1,073,907 | 34,799 | 1,108,706 |
| Other comprehensive income for the year | – | – | – | 51,926 | 25,491 | 607,784 | – | – | 685,201 | 3,028 | 688,229 |
| Total comprehensive income for the year | – | – | – | 51,926 | 25,491 | 607,784 | 1,073,907 | – | 1,759,108 | 37,827 | 1,796,935 |
| Final 2014 dividend paid | – | – | – | – | – | – | – | (2,290,364) | (2,290,364) | – | (2,290,364) |
| Proposed final 2015 dividend (note 14) | – | – | – | – | – | – | (324,468) | 324,468 | – | – | – |
| At 31 December 2015 | 4,771,592 | 12,371,737* | 2,508,656* | 91,065* | (41,505)* | (191,263)* | 26,906,628* | 324,468* | 46,741,378 | 87,292 | 46,828,670 |
| Loss for the year | – | – | – | – | – | – | (11,456,186) | – | (11,456,186) | (3,270) | (11,459,456) |
| Other comprehensive (expense)/income for the year | – | – | – | (55,061) | 35,127 | 265,578 | – | – | 245,644 | 5,961 | 251,605 |
| Total comprehensive (expense)/income for the year | – | – | – | (55,061) | 35,127 | 265,578 | (11,456,186) | – | (11,210,542) | 2,691 | (11,207,851) |
| Capital contribution by non-controlling interests upon the establishment of a subsidiary | – | – | – | – | – | – | – | – | – | 27 | 27 |
| Final 2015 dividend paid | – | – | – | – | – | – | – | (324,468) | (324,468) | – | (324,468) |
| Proposed final 2016 dividend (note 14) | – | – | – | – | – | – | (238,580) | 238,580 | – | – | – |
| At 31 December 2016 | 4,771,592 | 12,371,737* | 2,508,656* | 36,004* | (6,378) * | 74,315* | 15,211,862* | 238,580* | 35,206,368 | 90,010 | 35,296,378 |

* These reserve accounts comprise the consolidated reserves of approximately RMB30,434,776,000 (2015: RMB41,969,786,000) in the consolidated statement of financial position as at 31 December 2016.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash generated from operations | 38 | 2,832,626 | 7,215,434 |
| Taxes refund/(paid): | | | |
| Mainland China corporate income tax refund | | 46,093 | 59,758 |
| Mainland China corporate income tax paid | | (16,833) | (485,327) |
| Overseas income taxes paid | | (121,238) | (233,639) |
| Net cash flows from operating activities | | 2,740,648 | 6,556,226 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment and other intangible assets | | (2,052,859) | (5,105,337) |
| Government grant received | | 7,500 | 13,480 |
| Purchase of investments in corporate wealth management products, liquidity funds and treasury bond related investments | | (15,200,000) | (8,400,000) |
| Proceeds on disposal/maturity of investments in corporate wealth management products and liquidity funds | | 12,181,645 | 9,434,005 |
| Proceeds from disposal of property, plant and equipment | | 32,434 | 58,580 |
| Cash advance made to joint ventures | | – | (13,046) |
| Placement of time deposits with maturity of over three months | | – | (2,484,424) |
| Withdrawal of time deposits with maturity of over three months | | 200,000 | 3,592,470 |
| Decrease in pledged deposits | | 7,801 | 7,512 |
| Interest received | | 142,421 | 107,314 |
| Dividends received from joint ventures | | 95,877 | 223,589 |
| Deposits for acquisition of property, plant and equipment | | (93,173) | (750,314) |
| Net cash flows used in investing activities | | (4,678,354) | (3,316,171) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Capital contribution from non-controlling interest upon the establishment of a subsidiary | | 27 | – |
| New loan raised from a related party | | 666,690 | – |
| Proceeds from issue of long term bonds | | 10,000,000 | 6,082,462 |
| Expenses on issue of long term bonds | | (13,750) | (12,458) |
| New bank loans raised | | – | 4,116,440 |
| Repayment of bank loans | | (14,364,478) | (3,885,618) |
| Dividends paid | | (324,468) | (2,290,364) |
| Interest paid | | (885,531) | (578,672) |
| Net cash flows (used in)/from financing activities | | (4,921,510) | 3,431,790 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | (6,859,216) | 6,671,845 |
| Cash and cash equivalents at the beginning of year | | 12,573,958 | 5,432,187 |
| Effect of foreign exchange rate changes, net | | 356,327 | 469,926 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 6,071,069 | 12,573,958 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and balances with banks and financial institutions | 27 | 6,094,875 | 12,805,565 |
| Less: Pledged deposits | 27 | (23,806) | (31,607) |
| Non-pledged time deposits at banks with maturity of over three months | 27 | – | (200,000) |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | 27 | 6,071,069 | 12,573,958 |

# Notes to the Consolidated Financial Statements



## 1. General 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, Binhai New District, Tianjin, the PRC. As part of the reorganisation (the "Reorganisation") of China National Offshore Oil Corporation ("CNOOC") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "HKSE") in 2002, and pursuant to an approval document obtained from the relevant government authority dated 26 September 2002, the Company was restructured into a joint stock limited liability company.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") were principally engaged in the provision of oilfield services including drilling services, well services, marine support services, and geophysical and surveying services.

In the opinion of the directors of the Company (the "Directors"), the holding company and the ultimate holding company of the Company is CNOOC, which is a state-owned enterprise ("SOE") incorporated in the PRC.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

## 2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

### 2.1 Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied for the first time in the current year the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations* |
| Amendments to HKAS 1 | *Disclosure Initiative* |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation* |
| Amendments to HKFRSs | *Annual Improvements to HKFRSs 2012-2014 Cycle* |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants* |
| Amendments to HKAS 27 | *Equity Method in Separate Financial Statements* |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | *Investment Entities: Applying the Consolidation Exception* |

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### 2.2 New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[1] |
| HKFRS 15 | *Revenue from Contracts with Customers*[1] |
| HKFRS 16 | *Leases*[2] |
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1] |
| Amendments to HKFRS 10 and HKAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to HKAS 7 | *Disclosure Initiative*[4] |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses*[4] |

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017

Except as described below, the Directors anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the Group's financial performance and positions.

## 2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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

**HKFRS 9 *Financial Instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale debt investments will be measured as fair value through profit or loss. In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

## 2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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

**HKFRS 15 *Revenue from Contracts with Customers***

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may not have a material impact on the revenue recognition and the consolidated financial statements of the Group in the future, but may result in additional disclosures on the subject matter.

**HKFRS 16 *Leases***

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurment of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payment in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

## 2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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

**HKFRS 16 *Leases* (continued)**

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB1,968,225,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

## 3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs, which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on HKSE ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## 3. Significant Accounting Policies (continued)

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### 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 to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

## 3. 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 of every year. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

### Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

## 3. Significant Accounting Policies (continued)

### Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

(a) from day rate contracts, as and when services have been performed;

(b) 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;

(c) revenue is recognised when the goods are delivered and titles have been passed;

(d) interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;

(e) dividend income from investments is recognised when the shareholders' right to receive payment has been established.

### 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 profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid lease payments for land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### Foreign currencies

The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates of exchange on the 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 prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 joint ventures are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the rate that approximates the exchange rates at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income, relating to that particular foreign operation is recognised in the profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the rate that approximates the exchange rates at the dates of the transactions.

## 3. Significant Accounting Policies (continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

The benefit of a government loan at a below-market rate of interests is treated as a government grant and is measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

### Other employee benefits

*Defined contribution plan*

The Group's employees in Mainland China are required to participate in a central pension plan operated by local municipal governments. The Group is required to contribute 19% to 22% of its payroll costs to the central pension plan. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension plan.

*Defined benefits plan*

For defined benefit pension plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in the reserve of "Remeasurement of defined benefit pension plan" and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item of employee compensation costs. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 3. Significant Accounting Policies (continued)

### Income tax (continued)

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Certain of the Group's drilling rigs are owned by the Company's wholly owned Bermuda (for tax purpose, domiciled in Singapore) and Singapore subsidiaries. Due to the changing demands of the offshore drilling markets and the ability to redeploy the Group's offshore units, such units will not reside in a location long enough to give rise to future tax consequences in that location. As a result, no deferred tax asset has been recognised in these circumstances. Should the Group's expectations change regarding the length of time an offshore drilling unit will be used in a given location, and tax laws and regulations in the future operating jurisdictions, the Group would adjust deferred tax accordingly.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward 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 carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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.

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. 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 to 30 years |

## 3. Significant Accounting Policies (continued)

### Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

### 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 intangible assets with finite useful lives are amortised on a straight-line basis over the following periods:

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

### Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

### Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its assets (other than inventories, financial assets and goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

## 3. Significant Accounting Policies (continued)

### Impairment of tangible and intangible assets other than goodwill (continued)

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Inventories

Inventories primarily consist of materials and supplies used for the repairs and maintenance of plant and equipment and daily operations. Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The materials and supplies are capitalised to plant and equipment when used for renewals or betterments of plant and equipment or recognised as expenses when used for daily operations.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is materials).

### Onerous contracts

Present obligation arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received form the contract.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Related parties

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

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

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

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 3. Significant Accounting Policies (continued)

### Dividends

Final and/or interim dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### 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.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*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 the consolidated statement of profit or loss as interest income. The loss arising from impairment is recognised in profit or loss as other operating expenses for loans and receivables.

*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 revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative loss reclassified from the revaluation reserve to other expenses in the consolidated statement of profit or loss. 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 accordance with the policies set out for "Revenue recognition" above.

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 intention to hold until the maturity date of the financial asset.

## 3. Significant Accounting Policies (continued)

### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

### 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 are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets or the group of financial assets, the estimated future cash flows of the financial assets or the group of financial assets have been affected.

For the financial assets or the group of financial assets, objective evidence of impairment could include:

- significant financial difficulty of the counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

*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 unless no similar credit risk characteristic were noted with other group of financial assets. If the Group determines that a financial asset is individually significant and assessed for impairment individually with impairment loss recognised, the aforesaid financial asset will not be included in a collective assessment of impairment due to no similar credit risk characteristic were noted with other group of financial assets. 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 loss is recognised in the consolidated statement of profit or loss. 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 and all collateral has been realised or has been transferred to the Group.

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 write-off is later recovered, the recovery is credited to other expenses in the consolidated statement of profit or loss.

## 3. Significant Accounting Policies (continued)

### Impairment of financial assets (continued)

*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 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.

If an available-for-sale asset that is carried at fair value is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

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, deducting any impairment loss on that investment previously recognised in consolidated statement of profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through consolidated statement of profit or loss. 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 and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's loans and borrowings include trade and other payables, loan from a related party, interest-bearing bank borrowings and long-term bonds.

*Subsequent measurement on loans and borrowings*

After initial recognition, loan from a related party, interest-bearing bank borrowings and long-term bonds 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 profit or loss 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 consolidated statement of profit or loss.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## 3. Significant Accounting Policies (continued)

### Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

*Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

## 4. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about those assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities within the next financial year.

### Estimation uncertainty

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

*Useful life and impairment of property, plant and equipment*

The estimated useful life of property, plant and equipment is based on the historical experience of the actual useful life of property, plant and equipment with similar characteristics and functions. If the useful life of these property, plant and equipment is less than previously estimated, the Group will accelerate the related depreciation or dispose of idle or obsolete property, plant and equipment. This requires management to use past experience in estimating the appropriate useful life.

Where there exists an indication of impairment of an asset within the unit containing the goodwill, the Group performs the impairment test in relation to the asset first and recognises any impairment loss for that asset before testing for impairment of the cash-generating units, or group of cash-generating units, containing the goodwill. 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In assessing the impairment loss of property, plant and equipment, the management would consider all relevant factors with reasonable and supportable assumptions as well as the latest development and various relevant factors of certain matter mentioned in note 4A in respect of the underlying drilling rig of the respective drilling service contract to make significant accounting estimations. An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs of disposal. This requires management to make assumptions about the future cash flows and discount rate and hence they are subject to uncertainty. Due to the continued deterioration of global oilfield services market and recent low level of oil price, both the services prices and utilisation rates of certain rigs and vessels decreased. Management is of the view that certain impairment indicators exist. The provision for impairment of property, plant and equipment recognised during the current year was RMB3,688,408,000 (2015: RMB280,116,000). As at 31 December 2016, the carrying amount of property, plant and equipment was RMB57,457,239,000 (2015: RMB60,388,044,000). Further details are given in note 16.

*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 or group of 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 or group of cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Based on the impairment indicators as mentioned above in estimation uncertainty of "useful life and impairment of property, plant and equipment", the value in use of the cash-generating units to which the goodwill is allocated has decreased. As a result of which, impairment loss of goodwill recognised during the current year was RMB3,455,378,000 (2015: RMB923,154,000). The goodwill was fully impaired during the year ended 31 December 2016 (the carrying amount of goodwill as at 31 December 2015: RMB3,394,504,000). Further details are given in note 17.

## 4. Significant Accounting Judgements and Estimates (continued)

### Estimation uncertainty (continued)

*Provisions for doubtful debts*

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 due to the further downturn in the global oil price where particular customers are unable to make timely payments. Further, some of the customers of the Group operates in countries facing more difficult political and economic circumstances, which expose the Group to additional risk.

The impairment amount is subject to management's assessment at each reporting date which involves an expectation of estimated collections from customers. Uncertainties exist with respect to evaluating the available evidence by management, such as the credit risk characteristics of the respective accounts receivable, aging analysis, cash collections subsequent to the year end date and impairment amounts that management estimates based on the consideration of the above. At 31 December 2016, impairment losses of approximately RMB2,079,877,000 (2015: RMB881,530,000) have been recognised for accounts receivable. As at 31 December 2016, the carrying amount of accounts receivable was RMB4,795,964,000 (2015: RMB6,652,732,000). Further details are given in note 24.

*Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets has been recognised on the tax loss of RMB8,429,917,000 (2015: RMB7,487,902,000) and deductible temporary differences of RMB1,719,266,000 at 31 December 2016 (2015: RMB177,153,000). Further details are contained in note 29. In case where there are actual future profits or the actual future profits generated are more than expected, or effective tax rate is changed, a material recognition or change of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition or change takes place.

*Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations (including those applicable to tax credits) and the amount and timing of future taxable income. Given the wide range of international business relationships and the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on best estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as the Group's experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Management judgement is required to determine the applicable tax rates in the further periods, based on the various tax laws, regulations, treaties and level of operations in jurisdictions of operation, future tax planning strategies and the forecast made on the Company's continuing compliance with the High-New Technical Enterprise ("HNTE") criteria. In cases where the actual tax rates are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place.

*Provision of onerous contracts*

A provision for loss on onerous contracts would be made by the Group if it has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The Group estimates the provision on onerous contracts being the present obligation of the unavoidable costs less the economic benefits expected to be received under those non-cancellable operating lease agreements of certain drilling rigs. The expected economic benefits are estimated based on the existing services contract of the aforesaid drilling rigs by reference to contracted day rate, expected utilization rate while unavoidable costs are estimated based on lease payments and cost level that the Group is obligated to make under those non-cancellable operating lease agreements.

The Group conducted an assessment of the non-cancellable operating lease agreements and made provision of RMB356,062,000 (2015: Nil) for onerous contracts at 31 December 2016. Further details are given in note 32. Determination of these provisions would require the use of judgment and estimates. Where the expectation is different from the original estimate, the provision for loss on onerous contracts in the periods in which such estimate is changed will be adjusted accordingly.

## 4A. Significant Event in the Year

On 4 March 2016, COSL Drilling Europe AS ("CDE"), the wholly-owned subsidiary of the Group, received notification from Statoil Petroleum AS ("Statoil") for requesting the termination and suspension of the service contracts of COSLINNOVATOR and COSLPROMOTER, respectively. CDE was also asked to take the necessary actions in order to fulfil certain requirements of the service contract of COSLPROMOTER. The original remaining contract periods for COSLINNOVATOR and COSLPROMOTER are 56 months and 61 months respectively based on the date the Group received the notification. Statoil is not going to pay any compensation to the Group in respect of the above termination and suspension of service contracts in accordance with the relevant agreements.

Taking into account the contractual arrangements with Statoil and status of the respective drilling rigs, the Group is of the view that the grounds for demanding termination and suspension of the above service contracts by Statoil are invalid. The service contract of COSLPROMOTOER with Statoil was resumed from 18 March 2016 after further negotiation between CDE and Statoil.

In accordance with the investigation report published by Petroleum Safety Authority Norway in July 2016, no non-conformity was found in the structure and design of COSLINNOVATOR and COSLPROMOTER based on the prevailing regulations governing construction of rigs in Norway.

On 14 December 2016, COSL Offshore Management AS ("COM"), the wholly-owned subsidiary of CDE, as a plaintiff filed a statement of claim (the "Claim") against Statoil. COM has claimed that Statoil's termination of the service contract of COSLINNOVATOR was unlawful and had claimed that this contract should be maintained. If the contract cannot be maintained, COM has claimed that Statoil is obliged to cover the Group's loss resulting from the unlawful termination, and the exact amount of damages will be subject to subsequent proceedings. As at the date of approval of these consolidated financial statements, the court hearing of the Claim has yet commenced.

## 5. Operating Segment Information

For management purposes, the Group is organised into business units based on their services and these are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the executive directors of the Company) for the purposes of making strategic decisions. The Group has four reportable and 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 services segment is engaged in the transportation of materials, supplies and personnel to offshore facilities, moving and positioning drilling structures, the transportation of crude oil and refined products;

(d) the geophysical 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 result, which is a measure of adjusted (loss)/profit before tax. The adjusted (loss)/profit before tax is measured consistently with the Group's (loss)/profit before tax except that interest income, finance costs, exchange gains/(losses) and investment income are excluded from such measurement.

All assets are allocated to reportable segments other than certain cash and cash equivalents (funds managed by the corporate treasury), pledged deposits, time deposits with maturity of over three months, certain other receivables, certain other current assets and deferred tax assets as these assets are managed on a group basis.

All liabilities are allocated to reportable segments other than certain other payables, loan from a related party, interest-bearing bank borrowings and long term bonds (funds managed by the corporate treasury), tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

## 5. Operating Segment Information (continued)

| Year ended 31 December 2016 | Drilling services RMB'000 | Well services RMB'000 | Marine support services RMB'000 | Geophysical and surveying services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **REVENUE:** | | | | | |
| Sales to external customers, net of sales surtaxes | 6,498,556 | 5,568,370 | 1,948,535 | 1,070,084 | 15,085,545 |
| Sales surtaxes | 21,156 | 25,567 | 16,047 | 3,870 | 66,640 |
| Sales to external customers, before net of sales surtaxes | 6,519,712 | 5,593,937 | 1,964,582 | 1,073,954 | 15,152,185 |
| Intersegment sales | 71,298 | 28,024 | 68,338 | 5,510 | 173,170 |
| Segment revenue | 6,591,010 | 5,621,961 | 2,032,920 | 1,079,464 | 15,325,355 |
| Elimination | (71,298) | (28,024) | (68,338) | (5,510) | (173,170) |
| Group revenue | 6,519,712 | 5,593,937 | 1,964,582 | 1,073,954 | 15,152,185 |
| Segment results | (10,079,886) | (384,557) | (327,374) | (559,033) | (11,350,850) |
| **Reconciliation:** | | | | | |
| Exchange gain, net | | | | | 268,710 |
| Finance costs | | | | | (1,047,667) |
| Interest income | | | | | 130,519 |
| Investment income | | | | | 191,933 |
| Loss before tax | | | | | (11,807,355) |
| Income tax credit | | | | | (347,899) |
| **As at 31 December 2016** | | | | | |
| Segment assets | 47,910,193 | 6,985,272 | 8,425,194 | 5,707,762 | 69,028,421 |
| Unallocated assets | | | | | 11,515,636 |
| Total assets | | | | | 80,544,057 |
| Segment liabilities | 4,792,788 | 4,008,658 | 1,381,543 | 1,009,145 | 11,192,134 |
| Unallocated liabilities | | | | | 34,055,545 |
| Total liabilities | | | | | 45,247,679 |
| **Other segment information:** | | | | | |
| Capital expenditure | 2,167,772 | 298,405 | 771,921 | 250,727 | 3,488,825 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 2,777,080 | 674,398 | 540,802 | 527,838 | 4,520,118 |
| Impairment of accounts receivable | 1,122,226 | 13,138 | 3,549 | 1,940 | 1,140,853 |
| Impairment of goodwill | 3,455,378 | – | – | – | 3,455,378 |
| Impairment of other receivables | 848 | 728 | 255 | 140 | 1,971 |
| Reversal of impairment of inventories | (5,978) | (5,130) | (1,802) | (985) | (13,895) |
| Impairment of property, plant and equipment | 3,688,408 | – | – | – | 3,688,408 |
| Share of (losses)/profits of joint ventures | (3,752) | 37,545 | – | (16,944) | 16,849 |
| Investments in joint ventures | – | 436,651 | – | 163,713 | 600,364 |

## 5. Operating Segment Information (continued)

| Year ended 31 December 2015 | Drilling services RMB'000 | Well services RMB'000 | Marine support services RMB'000 | Geophysical and surveying services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **REVENUE:** | | | | | |
| Sales to external customers, net of sales surtaxes | 12,039,525 | 6,913,187 | 2,703,409 | 1,518,127 | 23,174,248 |
| Sales surtaxes | 189,570 | 170,729 | 65,156 | 54,277 | 479,732 |
| Sales to external customers, before net of sales surtaxes | 12,229,095 | 7,083,916 | 2,768,565 | 1,572,404 | 23,653,980 |
| Intersegment sales | 88,307 | 201,831 | 83,707 | 9,861 | 383,706 |
| Segment revenue | 12,317,402 | 7,285,747 | 2,852,272 | 1,582,265 | 24,037,686 |
| Elimination | (88,307) | (201,831) | (83,707) | (9,861) | (383,706) |
| Group revenue | 12,229,095 | 7,083,916 | 2,768,565 | 1,572,404 | 23,653,980 |
| Segment results | 966,798 | 513,634 | 314,209 | 6,653 | 1,801,294 |
| **Reconciliation:** | | | | | |
| Exchange gain, net | | | | | 87,726 |
| Finance costs | | | | | (700,259) |
| Interest income | | | | | 105,248 |
| Investment income | | | | | 102,345 |
| Profit before tax | | | | | 1,396,354 |
| Income tax expense | | | | | 287,648 |
| **As at 31 December 2015** | | | | | |
| Segment assets | 56,032,445 | 7,822,223 | 8,315,831 | 6,309,795 | 78,480,294 |
| Unallocated assets | | | | | 15,044,757 |
| Total assets | | | | | 93,525,051 |
| Segment liabilities | 5,211,937 | 2,814,233 | 1,449,270 | 904,648 | 10,380,088 |
| Unallocated liabilities | | | | | 36,316,293 |
| Total liabilities | | | | | 46,696,381 |
| **Other segment information:** | | | | | |
| Capital expenditure | 3,973,601 | 705,055 | 1,543,821 | 1,644,036 | 7,866,513 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 2,614,886 | 691,086 | 515,177 | 392,272 | 4,213,421 |
| Impairment of accounts receivable | 548,311 | 7,376 | 1,981 | 1,125 | 558,793 |
| Impairment of goodwill | 923,154 | – | – | – | 923,154 |
| Impairment of other receivables | 1,312 | 760 | 297 | 168 | 2,537 |
| Impairment of inventories | 4,049 | 2,346 | 917 | 521 | 7,833 |
| Impairment of property, plant and equipment | 280,116 | – | – | – | 280,116 |
| Share of (losses)/profits of joint ventures | (5,789) | 120,049 | (3,129) | 58,617 | 169,748 |
| Investments in joint ventures | – | 481,280 | – | 200,034 | 681,314 |

## 5. Operating Segment Information (continued)

### Geographical information

The Group mainly engages in the provision of drilling services, well services, marine support services and geophysical and surveying services principally in Mainland China. Activities outside Mainland China are mainly conducted in Indonesia, Mexico, Norway and certain countries in the Far-East and Middle-East.

In determining the Group's geographical information, revenue is presented below based on the location of operations. Information about the Group's non-current assets is presented based on the geographical location of the assets.

The following table presents revenue and non-current assets (excluding goodwill, investments in joint ventures, financial instruments and deferred tax assets) information for the Group's geographical areas for the years ended 31 December 2016 and 2015.

| Year ended/as at 31 December 2016 | Domestic | International | | Total |
|---|---|---|---|---|
| | | North sea | Others | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment revenue: | | | | |
| Sales to external customers | **10,333,405** | **1,389,241** | **3,429,539** | **15,152,185** |
| Less: Sales surtaxes | **(66,640)** | **–** | **–** | **(66,640)** |
| Sales to external customers, net of sales surtaxes | **10,266,765** | **1,389,241** | **3,429,539** | **15,085,545** |
| Non-current assets: | **33,992,796** | **10,629,910** | **13,700,681** | **58,323,387** |

| Year ended/as at 31 December 2015 | Domestic | International | | Total |
|---|---|---|---|---|
| | | North sea | Others | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment revenue: | | | | |
| Sales to external customers | 15,954,214 | 3,161,998 | 4,537,768 | 23,653,980 |
| Less: Sales surtaxes | (479,732) | – | – | (479,732) |
| Sales to external customers, net of sales surtaxes | 15,474,482 | 3,161,998 | 4,537,768 | 23,174,248 |
| Non-current assets: | 35,611,585 | 11,566,382 | 14,830,122 | 62,008,089 |

### Information about a major customer

Revenue from transactions with a major customer, CNOOC Limited and its subsidiaries (the "CNOOC Limited Group"), including sales to a group of entities which are known to be under common control of CNOOC Limited, accounted for 69% (2015: 66%) of the total sales of the Group for the year ended 31 December 2016, details of the segments with such revenue are given in note 39(A).

## 6. Revenue and Other Revenues

Revenue, which is also the Group's turnover, mainly represents the invoiced value of offshore oilfield services rendered.

An analysis of revenue and other revenues is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Revenue: | | |
| Rendering of services (a) | **15,152,185** | 23,653,980 |
| Other revenues: | | |
| Insurance claims received | **55,419** | 119,213 |
| Government grants (b) | **62,297** | 112,836 |
| Others | **35,491** | 10,446 |
| Total other revenues | **153,207** | 242,495 |

(a) Before 1 May 2016, certain of the Group's revenues were subject to business tax levied at 3%. Pursuant to the Cai Shui [2016] No.36 "Notice on Tax Policy Concerning Nationwide Implementation of VAT Pilot Program" jointly issued by the Ministry of Finance of the PRC and the State Administration of Taxation of the PRC, starting from 1 May 2016, the Group's revenue generated from Mainland China is subject to value-added tax.

(b) Including release of deferred revenue of RMB17,329,000 for the year (2015: RMB44,501,000) (note 34).

## 7. (Loss)/Profit Before Tax

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Employee compensation costs | | |
| (including directors' and chief executive's remuneration): | | |
| Wages, salaries and bonuses | **2,695,518** | 2,825,364 |
| Social security costs | **781,015** | 525,477 |
| Retirement benefits and pensions | **413,610** | 441,613 |
| | **3,890,143** | 3,792,454 |
| Auditor's remuneration | **17,478** | 17,919 |

## 7. (Loss)/Profit Before Tax (continued)

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Loss on disposal of plant and equipment, net | | 54,785 | 33,581 |
| Lease payments under operating leases in respect of land and buildings, berths and equipment | | 1,206,111 | 1,547,610 |
| Provision for impairment of accounts receivable | *24* | 1,140,853 | 558,793 |
| Provision for impairment of other receivables | *23* | 1,971 | 2,537 |
| (Reversal of)/provision for impairment of inventories | *22* | (13,895) | 7,833 |
| Income from investments in corporate wealth management products, liquidity funds and treasury bond related investments | | 191,933 | 102,345 |
| Cost of inventories recognised as an expense | | 2,434,678 | 2,667,899 |
| Research and development costs, included in: | | 391,589 | 635,743 |
| Depreciation of property, plant and equipment | | 91,250 | 79,154 |
| Employee compensation costs | | 136,704 | 127,056 |
| Consumption of supplies, materials, fuel, services and others | | 163,635 | 429,533 |

## 8. Finance Costs

An analysis of finance costs is as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Interest on bank borrowings | 321,477 | 315,807 |
| Interest on loan from a related party | 4,523 | – |
| Interest on long term bonds | 728,001 | 388,140 |
| Total interests | 1,054,001 | 703,947 |
| Less: Interest capitalised (note 16) | (14,753) | (17,337) |
| | 1,039,248 | 686,610 |
| Other finance costs: | | |
| Others | 8,419 | 13,649 |
| | 1,047,667 | 700,259 |

## 9. Directors', Chief Executive's and Supervisors' Remuneration

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and the CO, is as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Fees | **1,280** | 1,280 |
| Other emoluments: | | |
| Basic salaries, allowances and benefits in kind | **1,839** | 986 |
| Bonuses* | **988** | 863 |
| Pension scheme contributions | **345** | 193 |
| | **3,172** | 2,042 |
| | **4,452** | 3,322 |

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

### (a) Independent non-executive directors and independent supervisors

The fees paid/payable to independent non-executive directors and independent supervisors of the Company during the year are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Independent non-executive directors: | | |
| Fong Chung, Mark (i) | **400** | 200 |
| Tsui Yiu Wa (i) | **–** | 200 |
| Wong Kwai Huen, Albert (ii) | **200** | – |
| Fong Wo, Felix (ii) | **200** | 400 |
| Law Hong Ping, Lawrence | **400** | 400 |
| | **1,200** | 1,200 |
| Independent supervisors: | | |
| Cheng Xinsheng (iii) | **80** | 40 |
| Wang Zhile (iii) | **–** | 40 |
| | **1,280** | 1,280 |

The independent non-executive directors' and independent supervisors' emoluments shown above were for their services as directors and supervisors of the Company.

There were no other emoluments payable to the independent non-executive directors and the independent supervisors during the year (2015: Nil).

Notes:

(i) Mr. Tsui Yiu Wa retired as an independent non-executive director on 2 June 2015 and Mr. Fong Chung, Mark, has been appointed as an independent non-executive director with effect from 2 June 2015.

(ii) Mr. Fong Wo, Felix, retired as an independent non-executive director on 31 May 2016 and Mr. Wong Kwai Huen, Albert, has been appointed as an independent non-executive director with effect from 31 May 2016.

(iii) Mr. Wang Zhile retired as an independent supervisor on 2 June 2015 and Mr. Cheng Xinsheng has been appointed as an independent supervisor with effect from 2 June 2015.

## 9. Directors', Chief Executive's and Supervisors' Remuneration (continued)

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

| | Salaries, allowances and benefits in kind RMB'000 | Bonuses RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2016** | | | | |
| Executive director and chief executive: | | | | |
| Qi Meisheng [(1)] | 322 | 160 | 74 | 556 |
| Li Yong [(1)] | 305 | 189 | 35 | 529 |
| | 627 | 349 | 109 | 1,085 |
| Executive director: | | | | |
| Li Feilong [(2)] | 401 | 203 | 81 | 685 |
| Dong Weiliang [(3)] | 499 | 199 | 86 | 784 |
| | 900 | 402 | 167 | 1,469 |
| Non-executive directors: | | | | |
| Lv Bo [(4)] | – | – | – | – |
| Liu Jian [(5)] | – | – | – | – |
| Xie Weizhi [(6)] | – | – | – | – |
| Cheng Chi [(6)] | – | – | – | – |
| Supervisors: | | | | |
| Li Zhi | 312 | 237 | 69 | 618 |
| Wei Junchao | – | – | – | – |
| | 312 | 237 | 69 | 618 |
| Total | 1,839 | 988 | 345 | 3,172 |

| | Salaries, allowances and benefits in kind RMB'000 | Bonuses RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **2015** | | | | |
| Executive director and chief executive: | | | | |
| Li Yong | 378 | 325 | 68 | 771 |
| Executive director: | | | | |
| Li Feilong | 366 | 285 | 67 | 718 |
| Non-executive directors: | | | | |
| Liu Jian | – | – | – | – |
| Cheng Chi | – | – | – | – |
| Zeng Quan [(7)] | – | – | – | – |
| Supervisors: | | | | |
| Li Zhi | 242 | 253 | 58 | 553 |
| Wei Junchao | – | – | – | – |
| Zhang Zhaoshan [(8)] | – | – | – | – |
| | 242 | 253 | 58 | 553 |
| Total | 986 | 863 | 193 | 2,042 |

## 9. Directors', Chief Executive's and Supervisors' Remuneration (continued)

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

*Notes:*

(1) Qi Meisheng was appointed and Li Yong resigned as chief executive and executive director on 15 June 2016 and 22 July 2016 respectively.

(2) Li Feilong was re-elected as an executive director on 15 December 2016.

(3) Dong Weiliang was appointed as an executive director on 22 July 2016.

(4) Lv Bo was appointed as a non-executive director on 15 December 2016.

(5) Liu Jian was resigned as a non-executive director on 16 December 2016.

(6) Xie Weizhi was appointed and Cheng Chi resigned as a non-executive director on 22 July 2016.

(7) Zeng Quan resigned as a non-executive director on 29 December 2015.

(8) Zhang Zhaoshan resigned as a supervisor on 29 December 2015.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

There was no arrangement under which a director or a supervisor or the chief executive waived or agreed to waive any remuneration during both years.

## 10. Five Highest Paid Employees

The five highest paid employees during the year do not include any directors, supervisors and the chief executive (2015: Nil), details of whose remuneration are set out in note 9. Details of the remuneration of the five (2015: Five) non-director, non-supervisor, and non-chief executive highest paid employees for the year are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Basic salaries, allowances and benefits in kind | **14,827** | 11,576 |
| Bonuses | **6,128** | 9,773 |
| Pension scheme contributions | **45** | 89 |
| | **21,000** | 21,438 |

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

| | Number of employees | |
|---|---|---|
| | 2016 | 2015 |
| HK$3,500,001 to HK$4,000,000 | **1** | 1 |
| HK$4,000,001 to HK$4,500,000 | **1** | 1 |
| HK$5,000,001 to HK$5,500,000 | **2** | 2 |
| HK$6,000,001 to HK$6,500,000 | **1** | – |
| HK$8,000,001 to HK$8,500,000 | **–** | 1 |
| | **5** | 5 |

## 11. Pensions and Defined Benefit Plan

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

In addition, the Group also has a defined benefit plan with a life insurance company to provide pension benefits for certain employees working in overseas subsidiaries.

The retirement expenses of the Group are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Contributions to the PRC government–regulated pension scheme | **342,690** | 280,258 |
| Contributions to overseas subsidiaries' pension scheme | **70,920** | 161,355 |
| | **413,610** | 441,613 |

At 31 December 2016, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2015: Nil).

## 12. Income Tax

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it does not have assessable 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 Mainland China. The Company's statutory tax rate is 25%.

The Company has applied to renew its HNTE certificate for three years commencing from 1 October 2014, and was re-certified as an HNTE in October 2014, which is effective for three years commencing from 1 October 2014. The Company obtained the final approval from Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of Tianjin State Administration of Taxation in January 2015. According to the approval, the CIT rate was approved to be 15% for the period from October 2014 to September 2017. Therefore, 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 2016 (2015: 15%).

The Group's activities in Indonesia are mainly subject to corporate income tax of 25% (2015: 25%). The Group's activities in Australia are subject to income tax of 30% (2015: 30%) based on its taxable profit generated. The Group's activities in Mexico are subject to income tax of 30% (2015: 30%). The Group's activities in Norway are subject to corporate income tax of 25% (2015: 27%). The Group's activities in the United Kingdom are subject to income tax of 20% (2015: 21%). The Group's activities in Qatar are subject to income tax of 10% (2015: 10%). The Group's activities in Iraq are subject to withholding tax based on 7% (2015: 7%) of revenue generated in Iraq. The Group's activities in Singapore are subject to income tax of 17% (2015: 17%). The Group's activities in the United States are subject to income tax of 34% (2015: 34%). The Group's activities in United Arab Emirates are not subject to any income tax. The Group's activities in Denmark are subject to income tax of 22% (2015: 24.5%). The Group's activities in Canada are subject to the net federal corporate income tax of 15% (2015: 15%) and provincial income tax ranging from 10% to 16% (2015: 10% to 16%), depending on the province and the size of the business. The Group's activities in Malaysia are subject to income tax of 24% (2015: 25%). The Group's activities in New Zealand are subject to withholding tax based on 15% (2015: 15%) of revenue generated in New Zealand. The Group's activities in Saudi Arabia commencing in the current year are subject to income tax of 20%. The Group's taxes pertaining to drilling activities in Oman are borne by the customer.

## 12. Income Tax (continued)

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Hong Kong profits tax | – | – |
| Overseas income taxes: | | |
| Current | 67,216 | 206,125 |
| Deferred | (125,469) | (223,908) |
| PRC corporate income taxes: | | |
| Current | 8,361 | 340,019 |
| Deferred | (292,137) | 47,820 |
| Over provision in prior year | (5,870) | (82,408) |
| Total tax (credit)/charge for the year | (347,899) | 287,648 |

A reconciliation of the income tax (credit)/expense applicable to (loss)/profit before tax at the statutory rate for Mainland China, where the Company and its key joint ventures are domiciled, to the tax (credit)/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:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % |
| (Loss)/profit before tax | (11,807,355) | | 1,396,354 | |
| Tax at the statutory tax rate of 25% (2015: 25%) | (2,951,839) | 25.0 | 349,088 | 25.0 |
| Tax effect as an HNTE | 194,266 | (1.6) | (224,101) | (16.0) |
| Tax effect of income not subject to tax | (4,212) | 0.1 | (55,719) | (4.0) |
| Tax effect of expense not deductible for tax | 39,605 | (0.3) | 28,992 | 2.1 |
| Tax effect of impairment of goodwill | 863,844 | (7.3) | 230,788 | 16.5 |
| Tax benefit for qualifying research and development expenses | (48,547) | 0.4 | (62,982) | (4.5) |
| Effect of non-deductible expenses/(non-taxable profit) and different tax rates for overseas subsidiaries | 1,025,458 | (8.7) | 114,172 | 8.2 |
| Tax effect of tax losses and deductible temporary differences unrecognised | 469,113 | (4.1) | 340,579 | 24.4 |
| Translation adjustment (a) | 46,437 | (0.4) | (415,496) | (29.8) |
| Others | 17,976 | (0.2) | (17,673) | (1.3) |
| Total tax (credit)/charge at the Group's effective tax rate | (347,899) | 2.9 | 287,648 | 20.6 |

(a) The translation adjustment mainly relates to the tax effect of difference between the profit before tax determined on the tax basis in Norwegian Krone ("NOK") and that determined on the accounting basis of some group companies in Norway in US dollars, the functional currency of these companies.

The share of tax attributable to joint ventures amounting to approximately RMB9,581,000 (2015: RMB60,655,000) is included in "Share of profits of joint ventures" in the consolidated statement of profit or loss.

## 13. Other Comprehensive Income/(Expense)

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Other comprehensive income includes: | | |
| **Items that will not be reclassified to profit or loss:** | | |
| Remeasurement of defined benefit pension plan | **46,836** | 33,988 |
| Income tax relating to items that will not be reclassified subsequently to profit or loss | **(11,709)** | (8,497) |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Exchange differences on translation of financial statements of foreign operations | **260,375** | 604,262 |
| Reclassification adjustment for the cumulative gain included in profit or loss upon dissolution of a subsidiary | **(684)** | – |
| Available-for-sale investments: | | |
| Gains arising during the year | **61,987** | **83,834** |
| Reclassification adjustments for the cumulative gain included in profit or loss upon disposal | **(126,765)** | **(22,745)** |
| Income tax impact | **9,717** | (9,163) |
| | **(55,061)** | 51,926 |
| Share of other comprehensive income of joint ventures | **11,848** | 6,550 |
| Other comprehensive income, net of income tax | **251,605** | 688,229 |

## 14. Dividends

| | 31 December 2016<br>RMB'000 | 31 December 2015<br>RMB'000 |
|---|---|---|
| Proposed final dividend – RMB0.05 per ordinary share (2015: RMB0.068 per ordinary share) | **238,580** | 324,468 |

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.

## 14. Dividends (continued)

Under the PRC Company Law and the Company's articles of association, net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to the reserves, the profit after tax shall be the amount determined under the PRC accounting principles and financial regulations in the PRC. Transfer to this reserve must be made before any distribution of dividends to shareholders.

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

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

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

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

## 15. (Loss)/Earnings Per Share Attributable To Owners Of The Company

The calculation of the basic (loss)/earnings per share attributable to owners of the Company is based on the following data:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **(Loss)/earnings** | | |
| (Loss)/earnings for the purpose of basic (loss)/earnings per share ((loss)/profit for the year attributable to owners of the Company) | **(11,456,186)** | 1,073,907 |

| | 2016 | 2015 |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic (loss)/earnings per share | **4,771,592,000** | 4,771,592,000 |

No diluted (loss)/earnings per share is presented for the years ended 31 December 2016 and 2015 as the Group had no dilutive potential ordinary shares in issue during those years.

## 16. Property, Plant and Equipment

| 31 December 2016 | 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 2015 and at 1 January 2016 | | | | | | | |
| Cost | 13,117,494 | 55,595,648 | 14,905,429 | 116,226 | 329,223 | 9,771,063 | 93,835,083 |
| Accumulated depreciation and impairment | (5,314,492) | (18,688,155) | (9,330,517) | (80,662) | (33,213) | – | (33,447,039) |
| Carrying amount | 7,803,002 | 36,907,493 | 5,574,912 | 35,564 | 296,010 | 9,771,063 | 60,388,044 |
| **Carrying amount** | | | | | | | |
| At 1 January 2016 | 7,803,002 | 36,907,493 | 5,574,912 | 35,564 | 296,010 | 9,771,063 | 60,388,044 |
| Additions | 11,833 | 86,824 | 458,456 | 2,176 | – | 2,902,873 | 3,462,162 |
| Depreciation provided during the year | (783,419) | (2,141,331) | (1,511,661) | (8,851) | (14,117) | – | (4,459,379) |
| Disposals/write-offs | (42,841) | (10,534) | (33,816) | (28) | – | – | (87,219) |
| Transfers from/(to) construction in progress ("CIP") | 2,701,871 | 3,128,081 | 519,421 | 282 | 618,330 | (6,967,985) | – |
| Impairment provided | – | (3,688,408) | – | – | – | – | (3,688,408) |
| Exchange realignment | 593 | 1,712,959 | 80,277 | – | 20,178 | 28,032 | 1,842,039 |
| At 31 December 2016 | 9,691,039 | 35,995,084 | 5,087,589 | 29,143 | 920,401 | 5,733,983 | 57,457,239 |
| At 31 December 2016 | | | | | | | |
| Cost | 15,347,674 | 61,391,744 | 15,827,718 | 118,392 | 968,722 | 5,733,983 | 99,388,233 |
| Accumulated depreciation and impairment | (5,656,635) | (25,396,660) | (10,740,129) | (89,249) | (48,321) | – | (41,930,994) |
| Carrying amount | 9,691,039 | 35,995,084 | 5,087,589 | 29,143 | 920,401 | 5,733,983 | 57,457,239 |

## 16. Property, Plant and Equipment (continued)

| 31 December 2015 | 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 2014 and at 1 January 2015 | | | | | | | |
| Cost | 11,633,754 | 48,883,546 | 13,343,021 | 109,915 | 70,597 | 10,492,239 | 84,533,072 |
| Accumulated depreciation and impairment | (5,158,792) | (15,697,310) | (8,105,427) | (75,710) | (23,141) | (134,618) | (29,194,998) |
| Carrying amount | 6,474,962 | 33,186,236 | 5,237,594 | 34,205 | 47,456 | 10,357,621 | 55,338,074 |
| Carrying amount | | | | | | | |
| At 1 January 2015 | 6,474,962 | 33,186,236 | 5,237,594 | 34,205 | 47,456 | 10,357,621 | 55,338,074 |
| Additions | – | 200,161 | 761,791 | 21 | – | 6,767,029 | 7,729,002 |
| Depreciation provided during the year | (617,943) | (2,151,337) | (1,367,151) | (9,264) | (10,518) | – | (4,156,213) |
| Disposals/write-offs | (46,731) | (22,185) | (22,727) | (425) | (93) | – | (92,161) |
| Transfers from/(to) construction in progress ("CIP") | 1,983,088 | 4,334,223 | 881,524 | 11,027 | 248,767 | (7,458,629) | – |
| Impairment provided | – | (280,116) | – | – | – | – | (280,116) |
| Exchange realignment | 9,626 | 1,640,511 | 83,881 | – | 10,398 | 105,042 | 1,849,458 |
| At 31 December 2015 | 7,803,002 | 36,907,493 | 5,574,912 | 35,564 | 296,010 | 9,771,063 | 60,388,044 |
| At 31 December 2015 | | | | | | | |
| Cost | 13,117,494 | 55,595,648 | 14,905,429 | 116,226 | 329,223 | 9,771,063 | 93,835,083 |
| Accumulated depreciation and impairment | (5,314,492) | (18,688,155) | (9,330,517) | (80,662) | (33,213) | – | (33,447,039) |
| Carrying amount | 7,803,002 | 36,907,493 | 5,574,912 | 35,564 | 296,010 | 9,771,063 | 60,388,044 |

Included in the current year's additions was an amount of approximately RMB14,753,000 (2015: RMB17,337,000) in respect of interest capitalised in property, plant and equipment (note 8), with a capitalisation rate of 4.86% (2015: 1.37%) per annum.

### Impairment of property, plant and equipment

During the year ended 31 December 2016, due to the continued deterioration of global oilfield services market and recent low level of oil price, the capital expenditure in global oil exploration and production sectors continuously declined and both the services prices and utilization rates of the plant and machinery decreased. The Directors carried out the review of the recoverable amounts of the Group's plant and machinery. Those assets are used in the Group's drilling services segment, marine support services segment and geophysical and surveying services segment. The review led to the recognition of an impairment loss of RMB3,688,408,000 (2015: RMB280,116,000), which has been recognised in profit or loss for the year ended 31 December 2016. The impairment losses have been classified under the drilling services segment. The recoverable amounts of the relevant assets, each of which was identified as a cash-generating unit within the drilling services segment, have been determined based on the higher of fair value less costs of disposal and value in use. The fair value less costs of disposal is arrived at on the basis of valuation carried out by an independent property agent. The fair value of relevant assets are determined based on a variety of valuation methods, including income approach and market approach, and the reasonableness of the assumptions and range of estimates indicated by those valuation methods were also considered by the Group. The income approach is by reference to the projected discounted cash flows over the remaining economic life of relevant assets. The market approach is by reference to the value that would be received from selling the asset in an orderly transaction between market participants at the measurement date. The above estimates of fair value required to use significant unobservable inputs representative of a level 3 fair value measurement, including historical contracted sales prices for similar assets, nonbinding quotes from brokers and/or indicative bids, estimated utilization rates, service prices, cost level and capital requirements.

## 16. Property, Plant and Equipment (continued)

**Impairment of property, plant and equipment (continued)**

In assessing value in use, the estimated future cash flows are discounted to their present value. The cash flow projection was based on financial budgets covering a five-year period approved by senior management. The cash flow beyond the five-year period is estimated based on the market trend and by reference to the relevant market trend report. The discount rate applied to the cash flow projection is 8% (2015: 8%). The discount rate used is a long-term weighted-average cost of capital, which is based on the management's best estimation of the investment returns that market participants would require for the relevant assets. Other key assumptions for the value in use calculations reflect management's judgments and expectation regarding the past performance of the relevant assets, as well as future industry conditions and operations, including estimated utilization rates, day rates, cost level and capital requirements.

## 17. Goodwill

Goodwill was generated in the acquisition of COSL Holding AS in 2008, which was combined into COSL Norwegian AS by merger during the year ended 31 December 2016 (collectively referred to as the "CNA").

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| COST | | |
| At 1 January | **4,375,038** | 4,122,652 |
| Exchange realignment | **298,739** | 252,386 |
| At 31 December | **4,673,777** | 4,375,038 |
| IMPAIRMENT | | |
| At 1 January | **980,534** | – |
| Impairment loss recognised in the year | **3,455,378** | 923,154 |
| Exchange realignment | **237,865** | 57,380 |
| At 31 December | **4,673,777** | 980,534 |
| CARRYING VALUE | | |
| At 31 December | **–** | 3,394,504 |

**Impairment testing of goodwill**

Goodwill generated through the above business combination has been allocated to a group of the drilling services cash-generating units under the drilling services segment as disclosed in note 5, for impairment testing.

During the year ended 31 December 2016, due to the continued deterioration of global oilfield services market and recent low level of oil price, the capital expenditure in global oil exploration and production sectors continuously declined and both the services prices and utilization rates of the plant and machinery decreased. Based on the impairment assessment review, an impairment loss of goodwill of approximately RMB3,455,378,000 (2015: RMB923,154,000) was recognised in profit or loss for the year ended 31 December 2016.

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. Details of the key assumptions used to measure the recoverable amount of such group of units are set out in note 16.

## 18. Other Intangible Assets

| 31 December 2016 | Trademark RMB'000 | Prepaid land lease payments RMB'000 (note) | Management system and software RMB'000 | Contract value RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Carrying amount at 1 January 2016 | 244 | 316,806 | 152,555 | – | 469,605 |
| Additions | – | 145 | 26,518 | – | 26,663 |
| Amortisation provided during the year | (42) | (5,235) | (55,462) | – | (60,739) |
| Disposals | – | (15,761) | – | – | (15,761) |
| Exchange realignment | – | 5,245 | 2,014 | – | 7,259 |
| At 31 December 2016 | 202 | 301,200 | 125,625 | – | 427,027 |
| At 31 December 2016 | | | | | |
| Cost | 411 | 343,668 | 491,973 | 124,838 | 960,890 |
| Accumulated amortisation | (209) | (42,468) | (366,348) | (124,838) | (533,863) |
| Carrying amount | 202 | 301,200 | 125,625 | – | 427,027 |

| 31 December 2015 | Trademark RMB'000 | Prepaid land lease payments RMB'000 (note) | Management system and software RMB'000 | Contract value RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Carrying amount at 1 January 2015 | 285 | 229,468 | 154,223 | – | 383,976 |
| Additions | – | 89,701 | 47,810 | – | 137,511 |
| Amortisation provided during the year | (41) | (5,500) | (51,667) | – | (57,208) |
| Exchange realignment | – | 3,137 | 2,189 | – | 5,326 |
| At 31 December 2015 | 244 | 316,806 | 152,555 | – | 469,605 |
| At 31 December 2015 | | | | | |
| Cost | 411 | 354,306 | 456,595 | 116,859 | 928,171 |
| Accumulated amortisation | (167) | (37,500) | (304,040) | (116,859) | (458,566) |
| Carrying amount | 244 | 316,806 | 152,555 | – | 469,605 |

*Note:* Pursuant to the announcement of the Company dated 20 March 2012 in respect of connected transaction, land use right with carrying amount of approximately RMB123,081,000 (2015: RMB126,017,000) included in prepaid land lease payments as at 31 December 2016 will be transferred to CNOOC Infrastructure Management Co., Ltd., a wholly-owned subsidiary of CNOOC, with the consideration of RMB157,032,500. Such land use right transfer agreement has already been signed and approved by the board of directors of the Company, and will become effective upon receiving the relevant government body's approval.

At the end of this reporting period, the Directors were uncertain to obtain the government approval for the transfer of the land use right within one year from the end of this reporting period, hence such land use right was not classified as assets held for sale at 31 December 2016 and 31 December 2015 respectively.

## 19. Particulars of Subsidiaries

Details of the Group's principal subsidiaries at the end of the reporting period are set out below:

| Name of entity | Place and date of incorporation/ registration | Principal place of business | Issued and fully paid share capital/ paid-in capital | Percentage of equity attributable to the Group 2016 | 2015 | Principal activities |
|---|---|---|---|---|---|---|
| COSL Chemicals (Tianjin), Ltd. | Tianjin, PRC 7 September 1993 | PRC | RMB 20,000,000 | 100% | 100% | Provision of drilling fluids services |
| PT. COSL INDO | Indonesia 1 August 2005 | Indonesia | US Dollar ("US$") 400,000 | 100% | 100% | Provision of oil&gas exploitation services |
| COSL-HongKong Limited | Hong Kong 1 December 2005 | Hong Kong | Hong Kong Dollar ("HK$") 10,000 | 100% | 100% | Investment holding |
| COSL (Australia) Pty Ltd. | Australia 11 January 2006 | Australia | Australian Dollar 10,000 | 100% | 100% | Provision of drilling services |
| COSL Mexico S.A.de C.V | Mexico 26 May 2006 | Mexico | US$8,504,525 | 100% | 100% | Provision of drilling services |
| COSL (Middle East) FZE | United Arab Emirates 2 July 2006 | United Arab Emirates | UAE Dirhams 1,000,000 | 100% | 100% | Provision of oil&gas exploitation services |
| CNA | Norway 23 June 2008 | Norway | NOK1,541,328,656 | 100% | 100% | Investment holding |
| COSL Drilling Pan-Pacific (Labuan) Ltd. | Malaysia 4 April 2009 | Malaysia | US$100,000 | 100% | 100% | Management of jack-up drilling rigs |
| COSL Drilling Pan-Pacific Ltd. | Singapore 13 April 2009 | Singapore | US$1,000,000 | 100% | 100% | Management of jack-up drilling rigs |
| COSL Singapore Capital Ltd. | Singapore 29 October 2009 | Singapore | Singapore Dollar 2 | 100% | 100% | Bond issuance |
| Pt. Samudra Timur Santosa ("PT STS")(a) | Indonesia 27 July 2010 | Indonesia | US$250,000 | 49% | 49% | Provision of marine support services |
| COSL Oil-Tech (Singapore) Ltd. | Singapore 31 January 2011 | Singapore | US$100,000 | 100% | 100% | Provision of oilfield services and related activities |
| COSL Finance (BVI) Limited | British Virgin Islands 12 July 2012 | British Virgin Islands | US$1 | 100% | 100% | Bond issuance |
| COSL Deepwater Technology Co. Ltd. | Shenzhen, PRC 12 September 2013 | PRC | RMB 470,000,000 | 100% | 100% | Provision of geophysical and surveying services |
| COSL Drilling Saudi Ltd. | Saudi Arabia 19 April 2016 | Saudi Arabia | Saudi Riyal 375,000 | 96% | N/A | Provision of drilling services |

## 19. Particulars of Subsidiaries (continued)

(a) In the opinion of the Directors, the Group has control over PT STS as the Group has 100% voting rights on PT STS that gives it the current ability to direct the relevant activities of PT STS. Accordingly, PT STS had been accounted for as a subsidiary and has been consolidated into the Group's consolidated financial statements for the years ended 31 December 2016 and 31 December 2015 respectively.

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

## 20. Investments in Joint Ventures

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Share of net assets | 600,364 | 681,314 |

Particulars of all joint ventures are as follows:

| Name | Nominal value of issued ordinary/ registered share capital | Place and date of incorporation/ registration and operations | Percentage of Ownership interest 2016 | Percentage of Ownership interest 2015 | Percentage of Voting rights held 2016 | Percentage of Voting rights held 2015 | Principal activities |
|---|---|---|---|---|---|---|---|
| China Offshore Fugro GeoSolutions (Shenzhen) Company Ltd. | US$6,000,000 | Shenzhen, PRC 24 August 1983 | 50 | 50 | 50 | 50 | Provision of geophysical and surveying services |
| China France Bohai Geoservices Co., Ltd. | US$6,650,000 | Tianjin, PRC 30 November 1983 | 50 | 50 | 50 | 50 | Provision of logging services |
| China Petroleum Logging-Atlas Cooperation Service Company | US$2,000,000 | Shenzhen, PRC 10 May 1984 | 50 | 50 | 50 | 50 | Provision of logging services |
| China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar") (a) | RMB4,640,000 | Shenzhen, PRC 25 October 1984 | 60 | 60 | 50 | 50 | Provision of drilling fluids services |
| CNOOC-OTIS Well Completion Services Ltd. | US$2,000,000 | Tianjin, PRC 14 April 1993 | 50 | 50 | 50 | 50 | Provision of well completion services |
| COSL-Expro Testing Services (Tianjin) Company Ltd. | US$5,000,000 | Tianjin, PRC 28 February 2007 | 50 | 50 | 50 | 50 | Provision of well testing services |
| PBS-COSL Oilfield Services Company SDN BHD ("PBS-COSL") (b) | Brunei Dollar 100,000 | Brunei 20 March 2014 | 49 | 49 | 50 | 50 | Provision of drilling services |

## 20. Investments In Joint Ventures (continued)

(a) The Group has 60% of the equity interests in Magcobar, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of Magcobar, at least two-thirds of the voting rights are required for decisions on directing the relevant activities of this entity. In the opinion of the Directors, the Group does not have control over Magcobar and the investment in this joint arrangement constitutes interest in a joint venture based on the rights and obligations of the parties to this joint arrangement. Accordingly, Magcobar has been accounted for in the Group's consolidated financial statements using the equity method.

(b) The Group has 49% of the equity interests in PBS-COSL, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of PBS-COSL, the board of directors of PBS-COSL shall comprise four directors whereby both the Company and the other sole investor shall appoint two directors each. Unanimous approvals by the directors of PBS-COSL are required for decisions on directing the relevant activities of PBS-COSL. In the opinion of the Directors, the Group does not have control over PBS-COSL and the investment in this joint arrangement constitutes interest in a joint venture based on the rights and obligations of the parties to this joint arrangement. Accordingly, PBS-COSL has been accounted for in the Group's consolidated financial statements using the equity method.

All of the above investments in joint ventures are directly held by the Company.

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

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

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| The Group's share of profit | 16,849 | 169,748 |
| The Group's share of other comprehensive income | 11,848 | 6,550 |
| The Group's share of total comprehensive income | 28,697 | 176,298 |

| | 31 December<br>2016<br>RMB'000 | 31 December<br>2015<br>RMB'000 |
|---|---|---|
| Aggregate carrying amount of the Group's interests in these joint ventures | 600,364 | 681,314 |

## 21. Available-For-Sale Investments

| | 31 December<br>2016<br>RMB'000 | 31 December<br>2015<br>RMB'000 |
|---|---|---|
| Unlisted equity investment, at cost (a) | 142,810 | 133,682 |
| Less: Provision for impairment | (142,810) | (133,682) |
| Total net carrying amount at 31 December | – | – |

(a) As at 31 December 2016 and 2015, the equity investment in an equity's security, Petrojack ASA, was an unlisted investment. Petrojack ASA had withdrawn its listing status from the stock market since March 2010. Full provision against the equity investment in Petrojack ASA had been made.

## 22. Inventories

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Gross inventories | 1,190,639 | 1,374,032 |
| Less: Provisions | (33,022) | (45,782) |
| | 1,157,617 | 1,328,250 |

As at 31 December 2016 and 2015, the Group's inventories consisted of materials and supplies.

## 23. Prepayments, Deposits and Other Receivables

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Prepayments | 57,234 | 83,920 |
| Deposits | 73,233 | 84,854 |
| Other receivables | 328,293 | 341,439 |
| | 458,760 | 510,213 |
| Less: Provision for impairment of other receivables | (15,800) | (13,829) |
| | 442,960 | 496,384 |

An analysis of other receivables is as follows:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Prepaid tax | 115,295 | 73,996 |
| Reimbursable advance to suppliers | 78,041 | 139,524 |
| Dividend receivable | 62,000 | 44,000 |
| Interest receivable | 6,924 | 18,826 |
| Advance to employees | 9,991 | 7,029 |
| Other advance | 10,425 | 13,113 |
| Insurance claim receivables | 11,266 | 3,326 |
| Others | 34,351 | 41,625 |
| | 328,293 | 341,439 |

## 24. Accounts Receivable

The Group normally allows a credit period of 30 to 45 days to its trade customers in Mainland China and no more than 6 months to its trade customers with good trading history in overseas. 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 the CNOOC Limited Group (the "CNOOC Group"), and the CNOOC Limited Group, 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, net of provision for impairment, as at the end of the reporting period, based on the invoice date, is as follows:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Outstanding balances aged: | | |
| Within six months | **4,226,057** | 5,634,523 |
| Six months to one year | **280,809** | 267,240 |
| One to two years | **80,571** | 599,953 |
| Two to three years | **208,527** | 151,016 |
| | **4,795,964** | 6,652,732 |

Included in the Group's accounts receivable balance are debtors with a carrying amount of approximately RMB569,907,000 (2015: RMB1,018,209,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on past experience, the Directors 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.

Aging of accounts receivable which are past due but not impaired:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Outstanding balances aged: | | |
| Six months to one year | **280,809** | 267,240 |
| One to two years | **80,571** | 599,953 |
| Two to three years | **208,527** | 151,016 |
| | **569,907** | 1,018,209 |

The Group has provided fully for all receivables aged over three years because historical experience shows that those receivables are generally not recoverable.

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| At 1 January | **881,530** | 294,067 |
| Impairment losses recognised | **1,162,447** | 564,656 |
| Impairment losses reversed | **(21,594)** | (5,863) |
| Impairment losses written-off | **(16)** | – |
| Exchange realignment | **57,510** | 28,670 |
| At 31 December | **2,079,877** | 881,530 |

## 25. Notes Receivable

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Trade acceptances | **1,839,346** | 1,879,836 |
| Bank acceptances | **4,960** | 26,706 |
| | **1,844,306** | 1,906,542 |

All the notes receivable are of trading nature and will be due within one year from the date of issuance, in which the trade acceptances are normally settled within 180 days from the date of issuance.

## 26. Other Current Assets/Liabilities and Other Non-Current Assets

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Investments in corporate wealth management products | **2,808,327** | 1,502,210 |
| Investments in liquidity funds (a) | **1,834,501** | 2,403,714 |
| Current portion of deferred expenses (b) | **62,743** | 75,441 |
| Value-added tax to be deducted and prepayment | **51,379** | – |
| Value-added tax recoverable | **47,221** | 230,599 |
| Treasury bond related investments | **2,411,899** | – |
| Other current assets | **7,216,070** | 4,211,964 |
| Current portion of deferred revenue *(note 34)* | **(106,344)** | (429,418) |
| Output value-added tax to be recognised | **(95,748)** | – |
| Provision of onerous contracts *(note 32)* | **(341,557)** | – |
| Other current liabilities | **(543,649)** | (429,418) |
| Non-current portion of deferred expenses (b) | **126,000** | 153,531 |
| Value-added tax recoverable | **75,886** | 123,951 |
| Tax recoverable (b) | **144,062** | 122,644 |
| Deposits paid for the acquisition of property, plant and equipment (b) | **93,173** | 750,314 |
| Other non-current assets | **439,121** | 1,150,440 |

(a) The liquidity funds have no fixed maturity date and no coupon rate. Details of fair value measurement are disclosed in note 40.

(b) Other non-current assets mainly consisted of deferred expenses recognised in relation to mobilisation costs incurred by the Group's jack-up and semi-submersible drilling rigs, tax recoverable generated from certain overseas income tax paid which is deductible for PRC corporate income taxes purpose and deposits paid for the acquisition of property, plant and equipment. The current portion of deferred expenses was recorded as other current assets. The deferred expenses are amortised over their respective drilling contracts periods.

## 27. Cash And Cash Equivalents, Pledged Deposits and Time Deposits

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Cash and balances with banks | **2,682,547** | 7,297,742 |
| Deposits with CNOOC Finance Corporation Ltd. ("CNOOC Finance") | **1,801,400** | 1,506,039 |
| Time deposits at banks | **1,610,928** | 4,001,784 |
| Cash and balances with banks and financial institutions | **6,094,875** | 12,805,565 |
| Less: | | |
| Pledged deposits-current | **(23,806)** | (31,607) |
| Time deposits with maturity of over three months | **–** | (200,000) |
| Cash and cash equivalents | **6,071,069** | 12,573,958 |

At the end of the reporting period, the cash and bank balances and time deposits at banks of the Group denominated in RMB amounted to approximately RMB3,635,694,000 (2015: RMB3,397,319,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates.

## 28. Trade and Other Payables

The aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Outstanding balances aged: | | |
| Within one year | **8,172,037** | 6,745,877 |
| One to two years | **135,473** | 191,053 |
| Two to three years | **87,928** | 45,426 |
| Over three years | **66,433** | 43,540 |
| | **8,461,871** | 7,025,896 |

## 29. Deferred Taxation

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Deferred tax assets | **68,514** | 39,707 |
| Deferred tax liabilities | **(234,456)** | (627,316) |
| | **(165,942)** | (587,609) |

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

| | Balance at 1 January 2015 RMB'000 | Recognised in profit or loss RMB'000 | Recognised in other comprehensive income RMB'000 | Exchange realignment RMB'000 | Balance at 31 December 2015 and 1 January 2016 RMB'000 | Recognised in profit or loss RMB'000 | Recognised in other comprehensive income RMB'000 | Exchange realignment RMB'000 | Balance at 31 December 2016 RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| Deferred tax assets: | | | | | | | | | |
| Provision for staff bonus | 186,532 | (77,845) | – | – | 108,687 | (18,653) | – | – | 90,034 |
| Impairment of assets | 71,320 | (16,816) | – | – | 54,504 | 21,969 | – | – | 76,473 |
| Accrued liabilities | – | 9,273 | – | – | 9,273 | (2,477) | – | – | 6,796 |
| Provision for onerous contracts | – | – | – | – | – | 53,409 | – | – | 53,409 |
| Deductible tax loss | 11,181 | 18,274 | – | 1,463 | 30,918 | 230,362 | – | 3,202 | 264,482 |
| Others | 2,176 | 8,299 | – | 373 | 10,848 | (1,346) | – | 616 | 10,118 |
| | 271,209 | (58,815) | – | 1,836 | 214,230 | 283,264 | – | 3,818 | 501,312 |
| Deferred tax liabilities: | | | | | | | | | |
| Accelerated depreciation of property, plant and equipment | 747,601 | (63,683) | – | 6,749 | 690,667 | (74,713) | – | 5,622 | 621,576 |
| Fair value adjustment arising from acquisition of a subsidiary | 257,545 | (183,147) | – | 7,969 | 82,367 | (56,484) | – | 3,121 | 29,004 |
| Fair value change in available for sale investment | 6,906 | – | 9,163 | – | 16,069 | – | (9,717) | – | 6,352 |
| Others | 284 | 11,927 | – | 525 | 12,736 | (3,145) | – | 731 | 10,322 |
| | 1,012,336 | (234,903) | 9,163 | 15,243 | 801,839 | (134,342) | (9,717) | 9,474 | 667,254 |
| | 741,127 | (176,088) | 9,163 | 13,407 | 587,609 | (417,606) | (9,717) | 5,656 | 165,942 |

## 29. Deferred Taxation (continued)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of Group's joint ventures for which deferred tax liabilities have not been recognised was RMB804,817,000 (31 December 2015: RMB1,013,919,000). No liability has been recognised in respect of these differences as the investment company and those joint ventures are all located in the PRC and the applicable tax rate of those joint ventures was the same as or higher than the applicable tax rate of the investment company.

At 31 December 2016, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB28,342,000 (2015: RMB1,628,456,000). No liability have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 December 2016, accumulated tax losses arising in the Group of approximately RMB8,429,917,000 (2015: RMB7,487,902,000) were available for offsetting against future taxable profits of the companies in which the losses arose.

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

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| 31 December 2020 | **94,984** | 88,913 |
| 31 December 2021 | **160,003** | – |
| 31 December 2035 | **11,062** | 10,355 |
| 31 December 2036 | **11,064** | – |
| | **277,113** | 99,268 |

At 31 December 2016, the Group had tax losses arising in Norway of RMB8,152,804,000 (2015: RMB7,388,634,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2016, the Group has deductible temporary differences of RMB1,719,266,000 (2015: RMB177,153,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

## 30. Loan from a Related Party

| | Contractual interest rate (%) per annum | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|---|
| Loan from a related party | | | |
| – unsecured | LIBOR+50bps | **693,700** | – |

During the year, the Group borrowed a US$100,000,000 loan from a fellow subsidiary, which is repayable on demand, for the purpose of financing CNA's daily operations.

## 31. Interest-Bearing Bank Borrowings

**Current:**

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Short term bank loan-guaranteed (a) | – | 3,896,160 |
| Current portion of long term bank loans | **5,296,469** | 7,555,369 |
| | **5,296,469** | 11,451,529 |

**Non-current:**

| | Contractual interest rate (%) per annum | Year of maturity | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|---|---|
| Export-Import Bank of China – unsecured (b) | LIBOR+170bps | 2020 | **2,324,634** | 2,716,102 |
| Bank of China – unsecured (c) | LIBOR+138bps | 2017 | **1,798,323** | 8,560,202 |
| Bank of China – unsecured (d) | LIBOR+90bps | 2017 | **1,664,880** | 3,116,928 |
| Industrial and Commercial Bank of China – unsecured (d) | LIBOR+90bps | 2017 | **1,248,660** | 2,337,696 |
| CDB Development Fund (as defined below) – unsecured (e) | 1.08% | 2035 | **223,909** | 216,745 |
| CDB Development Fund – unsecured (e) | 1.08% | 2033 | **93,269** | 90,251 |
| | | | **7,353,675** | 17,037,924 |
| Less: Current portion of long term bank loans | | | **(5,296,469)** | (7,555,369) |
| | | | **2,057,206** | 9,482,555 |

(a) The Group borrowed a US$600,000,000 short term loan from Hongkong and Shanghai Banking Corporation Limited in May 2015 for the purpose of financing CNA's daily operations. The loan was guaranteed by CNOOC, bearing interest at rates ranging from LIBOR+0.375% to LIBOR+0.675% per annum and was fully repaid during the year ended 31 December 2016.

(b) The Group borrowed a US$800,000,000 loan for the purpose of funding the acquisition of a subsidiary. The repayment started on 2 September 2011 over 19 instalments amounting to US$42,100,000 bi-annually.

(c) The Group entered into a US$2,200,000,000 credit facility agreement with Bank of China on 30 April 2009, of which US$1,700,000,000 was assigned to replace CNA's loans and bonds and US$500,000,000 was assigned to finance CNA's daily operations. The repayment started on 14 May 2012 over 11 instalments bi-annually.

(d) The Group borrowed US$800,000,000 from Bank of China and US$600,000,000 from Industrial and Commercial Bank of China in May 2009 to replace CNA's syndicated bank loan. The repayments started on 25 May 2012 and 22 May 2012, respectively, over 11 instalments bi-annually.

(e) The Group borrowed RMB320,000,000 and RMB130,000,000 loans from China Development Bank Development Fund Co., Ltd. ("CDB Development Fund"), a wholly owned subsidiary of China Development Bank, in December 2015 for the purpose of funding the acquisition of properties, plant and equipment. China Development Bank is a state-owned bank. The repayments will start in December 2018 over 36 and 32 instalments bi-annually, respectively. These loans bear interest at 1.08% per annum which is below prevailing market interest rate. The fair value of the loans measured at prevailing market interest rate of 4.9% per annum at initial recognition was approximately RMB306,995,000. The difference of RMB143,005,000 between the proceeds of the loans received and the fair value of the loans is treated as government grant and recognised in deferred revenue (note 34).

For all bank borrowings as stated above, the weighted average effective interest rate for the year ended 31 December 2016 was 2.51% per annum (2015: 1.66% per annum).

## 31. Interest-Bearing Bank Borrowings (continued)

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Bank borrowings repayable: | | |
| Within one year | **5,296,469** | 11,451,529 |
| In the second year | **458,420** | 7,398,079 |
| In the third to fifth year, inclusive | **1,241,186** | 1,700,476 |
| Beyond five years | **357,600** | 384,000 |
| | **7,353,675** | 20,934,084 |

## 32. Provision

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| As at 1 January | **–** | – |
| Provisions for the year | **356,062** | – |
| As at 31 December | **356,062** | – |
| Less: current portion of provisions *(note 26)* | **(341,557)** | – |
| Non-current portion of provisions | **14,505** | – |

Due to the continued deterioration of global oilfield services market and recent low level of oil price, both the services prices and utilization rates of the plant and machinery decreased. The provision represents the expected losses upon certain non-cancellable operating lease agreements in which the Group was obligated to execute.

The Group estimates the aforesaid expected losses being the present obligation of the unavoidable costs less the economic benefits expected to be received under those non-cancellable operating lease agreements of certain drilling rigs. The expected economic benefits are estimated based on the existing services contract of the aforesaid drilling rigs by reference to contracted day rate, expected utilization rate while unavoidable costs are estimated based on lease payments and cost level that the Group is obligated to make under those non-cancellable operating lease agreements.

## 33. Long Term Bonds

| | Year of maturity | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|---|
| Corporate bonds (a) | 2022 | **1,500,000** | 1,500,000 |
| 2016 Corporate Bonds | | | |
| (Type I of the First Tranche Issue as defined below) (b) | 2019 | **1,997,744** | – |
| (Type II of the First Tranche Issue as defined below) (b) | 2026 | **2,996,045** | – |
| (Type I of the Second Tranche Issue as defined below) (b) | 2019 | **2,097,323** | – |
| (Type II of the Second Tranche Issue as defined below) (b) | 2021 | **2,896,216** | – |
| Senior unsecured USD bonds (c) | 2022 | **6,897,106** | 6,442,611 |
| Guaranteed medium term notes | | | |
| First Drawdown Note (d) | 2020 | **3,449,024** | 3,226,724 |
| Second Drawdown Note (d) | 2025 | **3,446,286** | 3,221,489 |
| | | **25,279,744** | 14,390,824 |

(a) On 18 May 2007, the Group issued 15-year corporate bonds, with a nominal value of RMB100 per bond, amounting to RMB1,500,000,000. The bonds carry effective interest rate of 4.48% per annum (2015: 4.48% per annum), and the redemption or maturity date is 14 May 2022.

## 33 Long Term Bonds (continued)

(b) On 26 May 2016, the Group issued its first tranche (the "First Tranche Issue") of domestic corporate bonds ("2016 Corporate Bonds") with an aggregate amount of RMB5,000,000,000. The First Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,000,000,000 (the "Type I of the First Tranche Issue") carries effective interest rate of 3.19% per annum and the maturity date is 27 May 2019. The second type of bonds with a principal amount of RMB3,000,000,000 (the "Type II of the First Tranche Issue") carries effective interest rate of 4.12% per annum and the maturity date is 27 May 2026.

On 21 October 2016, the Group issued its second tranche (the "Second Tranche Issue") of 2016 Corporate Bonds with an aggregate amount of RMB5,000,000,000. The Second Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,100,000,000 (the "Type I of the Second Tranche Issue") and is repayable on 24 October 2021. The Group has the right to unadjust or adjust the coupon rate for the fourth and fifth year at the end of the third year on 24 October 2019 by giving a notice to the bondholders. The bondholders may accordingly at their option to require the Group to redeem the Type I of the Second Tranche Issue at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the third year until the maturity date. The effective interest rate of the Type I of the Second Tranche Issue is 3.13% per annum. The second type of bonds with a principal amount of RMB2,900,000,000 (the "Type II of the Second Tranche Issue") is repayable on 24 October 2023. The Group has the right to unadjust or adjust the coupon rate for the sixth and seventh year at the end of the fifth year on 24 October 2021 by giving a notice to the bondholders. The bondholders may accordingly at their option to require the Group to redeem the Type II of the Second Tranche Issue at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the fifth year until the maturity date. The effective interest rate of the Type II of the Second Tranche Issue is 3.38% per annum.

(c) On 6 September 2012, COSL Finance (BVI) Limited, a subsidiary of the Group, issued 10-year senior unsecured bonds, with a US$1,000,000,000 principal amount. The redemption or maturity date is 6 September 2022. The effective interest rate of the senior unsecured bonds was 3.38% per annum.

(d) On 20 July 2015, COSL Singapore Capital Ltd., a wholly-owned subsidiary of the Company, established the Euro medium term note programme (the "EMTN Programme"). Under the EMTN Programme, COSL Singapore Capital Ltd. may issue drawdown notes in tranches up to an aggregate principal amount of US$3,500,000,000.

On 30 July 2015, COSL Singapore Capital Ltd. issued the first tranche of drawdown note under the EMTN Programme with nominal amount of US$500,000,000 (the "First Drawdown Note"). The effective interest rate was 3.61% per annum after taking into consideration of initial transaction costs. The principal of the First Drawdown Note will be repaid on 30 July 2020. On 30 July 2015, COSL Singapore Capital Ltd. issued the second tranche of drawdown note under the EMTN Programme with nominal amount of US$500,000,000 (the "Second Drawdown Note"). The effective interest rate was 4.58% per annum after taking into consideration of initial transaction costs. The principal of the Second Drawdown Note will be repaid on 30 July 2025.

## 34. Deferred Revenue

Deferred revenue consists of the contract value generated in the process of the acquisition of CNA, the deferred mobilisation revenue, government grants, subsidies received from customers related to acquisition of machinery for provision of drilling services (the "Subsidies"), the compensation fee from customer in respect of the cancellation of service contract and the difference between proceeds received from loans at a below-market rate granted by CDB Development Fund and the fair value of the loans at initial recognition based on the prevailing market interest rate (the "Others"). The deferred revenue generated from contract value, deferred mobilisation revenue and the Subsidies are amortised according to the related drilling contract periods and are credited to revenues of the Group. The deferred revenue generated from the compensation fee arising from the cancellation of service contract are amortised over the remaining service contract period and are credited to revenue of the Group. The deferred revenue generated from government grants and the Others are recognised according to the depreciable periods of the related assets and the periods in which the related costs incurred, respectively, and are credited to other revenue of the Group.

## 34. Deferred Revenue (continued)

| | Contract value RMB'000 | Mobilisation revenue RMB'000 | Government grant related to assets RMB'000 | Government grant related to income RMB'000 | Compensation fee RMB'000 | Subsidies RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2015 | 443,717 | 190,842 | 216,165 | 16,164 | – | 322,008 | – | 1,188,896 |
| Additions | – | 18,997 | 13,479 | 22,208 | 567,285 | 2,716 | 143,005 | 767,690 |
| Credited to profit or loss | (74,578) | (71,983) | (22,441) | (22,060) | (264,047) | (75,196) | – | (530,305) |
| Exchange realignment | 23,901 | 9,611 | – | – | 23,668 | 16,627 | – | 73,807 |
| At 31 December 2015 | 393,040 | 147,467 | 207,203 | 16,312 | 326,906 | 266,155 | 143,005 | 1,500,088 |
| Additions | – | 20,584 | 7,500 | 12,021 | – | – | – | 40,105 |
| Credited to profit or loss | (79,539) | (57,044) | (15,534) | (1,795) | (334,412) | (53,651) | (10,184) | (552,159) |
| Exchange realignment | 23,217 | 8,594 | – | – | 7,506 | 15,797 | – | 55,114 |
| At 31 December 2016 | 336,718 | 119,601 | 199,169 | 26,538 | – | 228,301 | 132,821 | 1,043,148 |

The following is the analysis of the deferred revenue balances for financial reporting purposes:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Current portion | 106,344 | 429,418 |
| Non-current portion | 936,804 | 1,070,670 |
| Balance at end of the year | 1,043,148 | 1,500,088 |

## 35. Issued Capital

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Registered, issued and fully paid: | | |
| H shares of RMB1.00 each | 1,811,124 | 1,811,124 |
| A shares of RMB1.00 each | 2,960,468 | 2,960,468 |
| | 4,771,592 | 4,771,592 |

## 36. Operating Lease Arrangements

The Group leases certain of its office properties, berths and equipment under operating lease arrangements. Leases for properties, berths and equipment are negotiated for terms ranging from one to five years.

At 31 December 2016 and 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Within one year | 591,054 | 716,957 |
| In the second to fifth year, inclusive | 1,377,171 | 1,601,193 |
| | 1,968,225 | 2,318,150 |

## 37. Capital Commitments

The Group had the following capital commitments, principally for the construction and purchases of property, plant and equipment at the end of the reporting period:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Contracted, but not provided for | **1,287,341** | 3,476,027 |

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

## 38. Notes to the Consolidated Statement of Cash Flows

Reconciliation of (loss)/profit before tax to cash generated from operations

| | *Notes* | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| (Loss)/profit before tax | | **(11,807,355)** | 1,396,354 |
| Adjustments for: | | | |
| Finance costs | *8* | **1,039,248** | 686,610 |
| Interest income | | **(130,519)** | (105,248) |
| Investment income | *7* | **(191,933)** | (102,345) |
| Share of profits of joint ventures | *20* | **(16,849)** | (169,748) |
| Exchange gain, net | | **(289,392)** | (90,640) |
| Loss on disposal of property, plant and equipment, net | *7* | **54,785** | 33,581 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | | **4,520,118** | 4,213,421 |
| Impairment of accounts receivable and other receivables | *7* | **1,142,824** | 561,330 |
| (Reversal of)/provision for impairment of inventories | *7* | **(13,895)** | 7,833 |
| Provision for onerous contracts | *32* | **356,062** | – |
| Impairment of goodwill | | **3,455,378** | 923,154 |
| Impairment of property, plant and equipment | | **3,688,408** | 280,116 |
| | | **1,806,880** | 7,634,418 |
| Decrease/(increase) in inventories | | **198,824** | (36,635) |
| Decrease in accounts receivable | | **946,308** | 135,276 |
| Decrease in notes receivable | | **62,236** | 869,285 |
| Decrease in prepayments, deposits and other receivables | | **56,348** | 153,136 |
| Increase/(decrease) in trade and other payables, net of payables for purchases of property, plant and equipment | | **506,529** | (1,155,084) |
| Decrease in salary and bonus payables | | **(224,945)** | (463,147) |
| (Decrease)/increase in deferred revenue | | **(519,554)** | 78,185 |
| Cash generated from operations | | **2,832,626** | 7,215,434 |

## 39. 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.

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

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

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

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

| | | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|---|
| i | **CNOOC Limited Group** | | |
| | – Provision of drilling services | **2,730,362** | 5,645,213 |
| | – Provision of well services | **5,275,040** | 6,205,985 |
| | – Provision of marine support services | **1,773,992** | 2,319,417 |
| | – Provision of geophysical and surveying services | **664,001** | 1,365,081 |
| | | **10,443,395** | 15,535,696 |
| ii | **CNOOC Group** | | |
| | – Provision of drilling services | **12,682** | 38,726 |
| | – Provision of well services | **103,454** | 99,628 |
| | – Provision of marine support services | **19,244** | 105,980 |
| | – Provision of geophysical and surveying services | **18,444** | 76,421 |
| | | **153,824** | 320,755 |
| iii | **Joint ventures** | | |
| | – Provision of drilling services | **53** | 142 |
| | – Provision of well services | **3,618** | 11,623 |
| | – Provision of geophysical and surveying services | **6,412** | 21,133 |
| | | **10,083** | 32,898 |

## 39. Related Party Transactions (continued)

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

#### b. Included in operating expenses

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **i CNOOC Limited Group** | | |
| Materials, utilities and other ancillary services | **36,621** | 4,876 |
| | **36,621** | 4,876 |
| Property services | **1,827** | 6,359 |
| | **38,448** | 11,235 |
| **ii CNOOC Group** | | |
| Labour services | **1,271** | 3,449 |
| Materials, utilities and other ancillary services | **663,751** | 664,232 |
| Transportation services | **22,035** | 32,989 |
| Leasing of equipment | **220,860** | 507,097 |
| Repair and maintenance services | **6,562** | 19,452 |
| Management services | **2,021** | 2,300 |
| | **916,500** | 1,229,519 |
| Property services | **162,249** | 235,202 |
| | **1,078,749** | 1,464,721 |
| **iii Joint ventures** | | |
| Materials, utilities and other ancillary services | **148,166** | 59,236 |
| Leasing of equipment | **15,968** | 18,647 |
| | **164,134** | 77,883 |

#### c. Included in interest income

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| CNOOC Finance (a subsidiary of CNOOC) | | |
| Interest income | **35,608** | 47,121 |

Deposits in CNOOC Finance carry interests at the applicable interest rate which is determined with reference to the prevailing bank rates published by the People's Bank of China.

#### d. Dividend income from joint ventures

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Dividend income from joint ventures | **113,877** | 182,347 |

## 39. Related Party Transactions (continued)

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

**e. Included in finance costs**

During the current year, the finance costs on the loan from a related party (note 30) are US$681,000, which is equivalent to approximately RMB4,523,000.

**f. Deposits**

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Deposits placed with CNOOC Finance as at the end of the reporting period | **1,801,400** | 1,506,039 |

Except for items a(iii) and b(iii) in note 39 (A) above, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

**g. Commitments with related parties**

*(a) Operating lease commitments*

The Group has the following significant operating lease commitments with related parties principally for leasing of certain properties and equipment, which have been included in note 36:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Within one year | **112,505** | 111,979 |
| In the second to fifth year, inclusive | **213,480** | 276,120 |
| | **325,985** | 388,099 |

*(b) Capital commitments*

The Group has no capital commitments with related parties as of 31 December 2016 and 2015.

**h. Outstanding balances with related parties**

**Accounts receivable**

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

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Due from CNOOC Limited Group | **2,869,109** | 3,502,886 |
| Due from CNOOC Group | **77,857** | 102,673 |
| Due from joint ventures | **1,144** | 2,567 |
| | **2,948,110** | 3,608,126 |

## 39. Related Party Transactions (continued)

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

#### h. Outstanding balances with related parties (continued)

**Prepayments, deposits and other receivables**

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Due from CNOOC Limited Group | 8,104 | 1,792 |
| Due from CNOOC Group | 1,438 | 694 |
| Due from joint ventures | 13,706 | 15,331 |
| | 23,248 | 17,817 |
| Less: Provision for impairment of other receivables | (500) | (500) |
| | 22,748 | 17,317 |

**Dividend receivable**

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Dividend receivable from joint ventures | 62,000 | 44,000 |

**Notes receivable**

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Due from CNOOC Limited Group | 1,831,076 | 1,877,031 |

**Trade and other payables**

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Due to CNOOC Limited Group | 51,601 | 12,814 |
| Due to CNOOC Group | 855,867 | 864,434 |
| Due to joint ventures | 169,371 | 127,018 |
| | 1,076,839 | 1,004,266 |

**Loan from a related party**

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| An unsecured loan (note 30) | 693,700 | – |

## 39. Related Party Transactions (continued)

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

#### h. Outstanding balances with related parties (continued)

The Group and the above related parties are within the CNOOC Group and CNOOC Limited Group and are under common control (except for the joint ventures of the Group) by the same ultimate holding company.

The balances with related parties at 31 December 2016 included in accounts receivables, prepayments, deposits and other receivables, notes receivable, dividend receivable and trade and other payables of the Group, are unsecured, interest-free, and have no fixed terms of repayment. Loan from a related party is charged at LIBOR+50bps and repayable on demand.

In connection with the Reorganisation of CNOOC in preparation for the listing of the Company's shares on the HKSE, the Company entered into several agreements with the CNOOC Group and CNOOC Limited Group which govern the employee benefit arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the leasing of properties and various other commercial arrangements.

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 and CNOOC Limited Group to lease the aforesaid properties together with other properties for a term of one year. These leases have been renewed annually.

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

#### i. Transactions with other SOEs in the PRC

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services of vessels and drilling rigs, purchases of goods, services or property, plant and equipment in the PRC, other than the CNOOC Group and CNOOC Limited Group, in the normal course of business at terms comparable to those with other non-SOEs. None of these transactions are material related party transactions, individually or collectively, that require separate disclosure.

In addition, the Group has certain of its cash and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2016, as summarised below:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Cash and cash equivalents | **901,134** | 1,055,675 |
| Time deposits with financial institutions | **1,610,928** | 2,531,656 |
| | **2,512,062** | 3,587,331 |
| Long-term bank loans *(note 31)* | **2,057,206** | 9,482,555 |
| Current portion of long term bank loans *(note 31)* | **5,296,469** | 7,555,369 |
| | **7,353,675** | 17,037,924 |

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

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Finance costs | **306,466** | 302,987 |

## 39. Related Party Transactions (continued)

### (B) Compensation of key management personnel of the Group

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Short-term employee benefits | 3,874 | 4,712 |
| Post-employment benefits | 487 | 503 |
| Total compensation paid to key management personnel | 4,361 | 5,215 |

Further details of Directors', supervisors and the chief executive's emoluments are included in note 9.

## 40. Financial Instruments

### (a) Financial instruments by category

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

#### Financial assets

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
| Financial assets included in deposits and other receivables *(note 23)* | 260,440 | – | 260,440 | 331,439 | – | 331,439 |
| Accounts receivable *(note 24)* | 4,795,964 | – | 4,795,964 | 6,652,732 | – | 6,652,732 |
| Notes receivable *(note 25)* | 1,844,306 | – | 1,844,306 | 1,906,542 | – | 1,906,542 |
| Pledged deposits *(note 27)* | 23,806 | – | 23,806 | 31,607 | – | 31,607 |
| Time deposits with maturity of over three months *(note 27)* | – | – | – | 200,000 | – | 200,000 |
| Cash and cash equivalents *(note 27)* | 6,071,069 | – | 6,071,069 | 12,573,958 | – | 12,573,958 |
| Financial assets included in other current assets *(note 26)* | 5,220,226 | 1,834,501 | 7,054,727 | 1,502,210 | 2,403,714 | 3,905,924 |
| Total | 18,215,811 | 1,834,501 | 20,050,312 | 23,198,488 | 2,403,714 | 25,602,202 |

## 40. Financial Instruments (continued)

### (a) Financial instruments by category (continued)

**Financial liabilities**

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| At amortised cost: | | |
| Current | | |
| Financial liabilities included in trade and other payables | **9,060,757** | 7,696,720 |
| Salary and bonus payables | **776,939** | 985,252 |
| Interest-bearing bank borrowings | | |
| – current portion *(note 31)* | **5,296,469** | 11,451,529 |
| Loan from a related party *(note 30)* | **693,700** | – |
| Subtotal | **15,827,865** | 20,133,501 |
| Non-current | | |
| Interest-bearing bank borrowings *(note 31)* | **2,057,206** | 9,482,555 |
| Long term bonds *(note 33)* | **25,279,744** | 14,390,824 |
| Subtotal | **27,336,950** | 23,873,379 |
| Total | **43,164,815** | 44,006,880 |

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets | Fair value as at 31/12/2016 RMB'000 | Fair value as at 31/12/2015 RMB'000 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| Available-for-sale investments– money market fund | **1,834,501** | 2,403,714 | Level 1 | Quoted bid prices in an active market |

### (c) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
| **Financial liabilities** | | | | |
| Non-current | | | | |
| Long term bonds *(note 33)* | **25,279,744** | 14,390,824 | **25,363,569** | 14,210,661 |

The fair value of long term bonds issued by the Group, with fair value hierarchy of level 2, are determined by reference to the present value valuation technique under income approach and applying prime rate as adjusted to reflect the credit risk of the issuers as key inputs.

## 41. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing bank borrowings, loan from a related party, long term bonds, cash and short term deposits and investments in corporate wealth management products, liquidity funds and treasury bond related 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 of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB and USD, the aforesaid currency is defined as the functional currency of the Company and some subsidiaries respectively. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has foreign currency sales, purchases, bank borrowings, loan from a related party, long term bonds, pledged deposits, time deposits with maturity of over three months and cash and cash equivalents denominated in foreign currency, which expose the Group to foreign currency risk. The management monitors foreign exchange exposure and will consider hedging other foreign currency exposure should the need arise.

Management has assessed the Group's exposure to foreign currency risk (due to changes in the fair values or future cash flows of monetary assets and liabilities) by using a sensitivity analysis on the change in the foreign exchange rates of the US dollar, from which the Group's foreign currency risk has mainly arisen as at 31 December 2016 and 2015. The sensitivity analysis also includes inter-company balances where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. Based on management's assessment at 31 December 2016, a depreciation of US dollars by 5% would lead to an increase in the Group's net loss by approximately RMB104,509,000 (2015: decrease in the Group's net profit by RMB91,677,000). Conversely, an appreciation of US dollars by 5% would lead to a decrease in the Group's net loss by approximately RMB104,509,000 (2015: increase in the Group's net profit by RMB91,677,000).

### Interest rate risk

The fair value interest rate risk relates primarily to the Group's fixed-rate long-term bonds (see note 33) and fixed-rate bank borrowings (see note 31). The cash flow interest rate risk of the Group relates primarily to variable-rate loan from a related party (see note 30) and variable-rate bank borrowings (see note 31 for details of these borrowings) and certain cash and cash equivalent (see note 27). The Group currently does not have an interest rate policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on time deposits is insignificant as the fixed deposits are short-term.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. No sensitivity analysis has been presented for cash and cash equivalent as the Directors consider that the fluctuation in interest rates on cash and cash equivalent is minimal. For variable-rate bank borrowings, the analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2015: 50 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates had been increased (decreased) by 50 basis points (2015: 50 basis points) and all other variables were held constant, the Group's post-tax loss would increase (decrease) by approximately RMB32,901,000 for the year ended 31 December 2016 (2015: the Group's post-tax profit would decrease (increase) by RMB81,890,000) without considering the effect of capitalisation of borrowing costs.

### 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.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents and investments in corporate wealth management products, liquidity funds and treasury bond related 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.

## 41. Financial Risk Management Objectives and Policies (continued)

### Credit risk (continued)

The Group has concentration of credit risk on investments in corporate wealth management products and liquidity funds. However, the credit risk on such investments is limited because the counterparties are banks with good reputation.

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. The Group has concentration of credit risk in respect of accounts receivable as the Group's largest trade receivable and the five largest trade receivables represent 60% (2015: 53%) and 82% (2015: 92%) of the total trade receivables respectively.

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

### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings, loan from a related party and long term bonds and ensures compliance with loan covenants.

The Group's objective is to maintain a balance between continuity of funding and flexibility through long term bonds and interest-bearing loans. 18% of the Group's borrowings would mature in less than one year as at 31 December 2016 (2015: 32%) based on the carrying value of interest-bearing bank borrowings, loan from a related party and long-term bonds reflected in the financial statements.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

| | 31 December 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | Carrying amount RMB'000 |
| Interest-bearing bank borrowings | – | 5,412,112 | 654,873 | 1,323,753 | 409,481 | 7,800,219 | 7,353,675 |
| Loan from a related party | – | 700,536 | – | – | – | 700,536 | 693,700 |
| Long term bonds | – | 917,763 | 917,763 | 12,845,430 | 16,560,483 | 31,241,439 | 25,279,744 |
| Financial liabilities included in trade and other payables | – | 9,060,757 | – | – | – | 9,060,757 | 9,060,757 |
| Salary and bonus payables | – | 776,939 | – | – | – | 776,939 | 776,939 |
| | – | 16,868,107 | 1,572,636 | 14,169,183 | 16,969,964 | 49,579,890 | 43,164,815 |

| | 31 December 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | Carrying amount RMB'000 |
| Interest-bearing bank borrowings | – | 11,779,656 | 7,735,714 | 1,843,071 | 450,605 | 21,809,046 | 20,934,084 |
| Long term bonds | – | 537,986 | 537,986 | 4,860,758 | 12,527,414 | 18,464,144 | 14,390,824 |
| Financial liabilities included in trade and other payables | – | 7,696,720 | – | – | – | 7,696,720 | 7,696,720 |
| Salary and bonus payables | – | 985,252 | – | – | – | 985,252 | 985,252 |
| | – | 20,999,614 | 8,273,700 | 6,703,829 | 12,978,019 | 48,955,162 | 44,006,880 |

## 41. Financial Risk Management Objectives and Policies (continued)

**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank borrowings, loan from a related party, long term bonds, trade and other payables, less cash and cash equivalents (not including pledged deposits). Capital represents equity attributable to owners of the Company and non-controlling interests. The gearing ratios as at the end of the reporting periods were as follows:

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 |
|---|---|---|
| Interest-bearing bank borrowings *(note 31)* | **7,353,675** | 20,934,084 |
| Trade and other payables *(note 28)* | **9,304,300** | 8,081,048 |
| Loan from a related party *(note 30)* | **693,700** | – |
| Long term bonds *(note 33)* | **25,279,744** | 14,390,824 |
| Less: Cash and cash equivalents and time deposit with maturity of over three months *(note 27)* | **(6,071,069)** | (12,773,958) |
| Net debt | **36,560,350** | 30,631,998 |
| Equity attributable to owners of the Company | **35,206,368** | 46,741,378 |
| Non-controlling interests | **90,010** | 87,292 |
| Total capital | **35,296,378** | 46,828,670 |
| Capital and net debt | **71,856,728** | 77,460,668 |
| Gearing ratio | **51%** | 40% |

## 42. Statement of Financial Position and Reserves of the Company

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 (Restated) |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 29,850,501 | 29,457,953 |
| Other intangible assets | 316,459 | 342,077 |
| Investments in subsidiaries | 7,773,474 | 7,348,799 |
| Investments in joint ventures | 600,364 | 681,314 |
| Other long term receivables | 7,090,716 | 13,930,576 |
| Other non-current assets | 225,211 | 827,346 |
| Total non-current assets | 45,856,725 | 52,588,065 |
| CURRENT ASSETS | | |
| Inventories | 617,046 | 776,802 |
| Prepayments, deposits and other receivables | 1,182,187 | 799,292 |
| Accounts receivable | 4,636,542 | 5,344,932 |
| Notes receivable | 1,843,406 | 1,906,542 |
| Other current assets | 7,106,097 | 3,905,924 |
| Pledged deposits | 5,723 | 4,156 |
| Time deposits with maturity of over three months | – | 200,000 |
| Cash and cash equivalents | 3,881,176 | 6,888,194 |
| Total current assets | 19,272,177 | 19,825,842 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 8,647,005 | 7,205,759 |
| Salary and bonus payables | 670,580 | 818,553 |
| Tax payable | 980 | – |
| Interest-bearing bank borrowings | 5,296,469 | 7,555,369 |
| Other current liability | 448,513 | 10,185 |
| Total current liabilities | 15,063,547 | 15,589,866 |
| NET CURRENT ASSETS | 4,208,630 | 4,235,976 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 50,065,355 | 56,824,041 |
| NON-CURRENT LIABILITIES | | |
| Deferred tax liabilities | 123,239 | 425,416 |
| Provisions | 14,505 | – |
| Interest-bearing bank borrowings | 2,057,206 | 9,482,555 |
| Long term bonds | 11,487,328 | 1,500,000 |
| Deferred revenue | 358,323 | 372,650 |
| Total non-current liabilities | 14,040,601 | 11,780,621 |
| Net assets | 36,024,754 | 45,043,420 |

## 42. Statement of Financial Position and Reserves of the Company (continued)

| | 31 December 2016 RMB'000 | 31 December 2015 RMB'000 (Restated) |
|---|---|---|
| EQUITY | | |
| Issued capital | **4,771,592** | 4,771,592 |
| Reserves | **31,253,162** | 40,271,828 |
| Total equity | **36,024,754** | 45,043,420 |

### Movements in the Company's reserves

| | Capital reserve RMB'000 | Statutory reserve funds RMB'000 | Revaluation reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Retained profits RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2015 (Restated) | 12,371,737 | 2,508,656 | 39,139 | (78,287) | 23,142,920 | 2,290,364 | 40,274,529 |
| Profit for the year (Restated) | – | – | – | – | 2,149,003 | – | 2,149,003 |
| Other comprehensive income for the year (Restated) | – | – | 51,926 | 86,734 | – | – | 138,660 |
| Total comprehensive income for the year (Restated) | – | – | 51,926 | 86,734 | 2,149,003 | – | 2,287,663 |
| Final 2014 dividend paid | – | – | – | – | – | (2,290,364) | (2,290,364) |
| Proposed final 2015 dividend | – | – | – | – | (324,468) | 324,468 | – |
| At 31 December 2015 (Restated) | 12,371,737 | 2,508,656 | 91,065 | 8,447 | 24,967,455 | 324,468 | 40,271,828 |
| Loss for the year | **–** | **–** | **–** | **–** | **(8,755,425)** | **–** | **(8,755,425)** |
| Other comprehensive (expense)/ income for the year | **–** | **–** | **(55,061)** | **116,288** | **–** | **–** | **61,227** |
| Total comprehensive (expense)/ income for the year | **–** | **–** | **(55,061)** | **116,288** | **(8,755,425)** | **–** | **(8,694,198)** |
| Final 2015 dividend paid | **–** | **–** | **–** | **–** | **–** | **(324,468)** | **(324,468)** |
| Proposed final 2016 dividend | **–** | **–** | **–** | **–** | **(238,580)** | **238,580** | **–** |
| At 31 December 2016 | **12,371,737** | **2,508,656** | **36,004** | **124,735** | **15,973,450** | **238,580** | **31,253,162** |

*Note:* The Company has applied amendments to HKAS 27 *Equity Method in Separate Financial Statements* for the first time in the current year and the investment in joint ventures has been accounted for using the equity method in its separate financial statements. The Company adjusted retrospectively the above amendments in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## 42. Statement of Financial Position and Reserves of the Company (continued)

The effect of the changes in the Company's accounting policy described above on the financial positions of the Company as at the end of the immediately preceding financial year, i.e. 31 December 2015 is as follows:

| | As at 31 December 2015 (originally stated) RMB'000 | Adjustments RMB'000 | As at 31 December 2015 (restated) RMB'000 |
|---|---|---|---|
| Investments in joint ventures | 148,926 | 532,388 | 681,314 |
| Total effects on net assets | 148,926 | 532,388 | 681,314 |
| Reserves | 39,739,440 | 532,388 | 40,271,828 |
| Total effects on equity | 39,739,440 | 532,388 | 40,271,828 |

As detailed in note 14, the Company is required to transfer a minimum percentage of after-tax profit, if any, to the statutory common reserve fund, until the fund aggregates 50% of the Company's registered capital. As the aggregate amount of the statutory reserve funds as at 31 December 2016 and 2015 were in excess of 50% of the Company's registered capital, the Directors are of the view that no further provision of these funds is required for both years.

As at 31 December 2016, in accordance with the PRC Company Law, an amount of approximately RMB12,371,737,000 (2015: RMB12,371,737,000) standing to the credit of the Company's capital reserve account and an amount of approximately RMB2,508,656,000 (2015: RMB2,508,656,000) standing to the credit of the Company's statutory reserve funds, as determined under the PRC accounting principles and financial regulations in the PRC, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained profits of approximately RMB16,212,030,000 (2015: RMB25,291,923,000) available for distribution as dividends. Save as the aforesaid, the Company did not have any reserves available for distribution to its shareholders at 31 December 2016.

The retained profits of the Company determined under the relevant PRC accounting principles and financial regulations in the PRC amounted to approximately RMB16,212,030,000 as at 31 December 2016 (2015: RMB25,291,923,000).

## 43. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 21 March 2017.

# Company Information

## Legal Name
中海油田服务股份有限公司

## English Name
China Oilfield Services Limited

## Short Name
中海油服/COSL

## Authorised Representative
Mr. Qi Meisheng

## The Registration Address
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## The Registration Date
26 September 2002

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## Newspapers for Disclosure of Information
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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## Share Registrar
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**A Share:**
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Shanghai Branch
China Insurance Building,
166 East Lujiazui Road, Shanghai

## Place Where this Annual Report is Available
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6 Dongzhimenwai Xiaojie,
Dongcheng District, Beijing

## Place of Listing of Shares, Stock Name and Stock Code
**Place of Listing of H Share**
The Stock Exchange of Hong Kong Limited
H Share abbreviation:
CHINA OILFIELD
Stock Code of H Share: 2883

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

## Unified Social Credit Code
91120116MA0666060G

## Name and Office Address of the Company's Auditor
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1 East Chang An Ave.,
Beijing, China

International: Deloitte Touche Tohmatsu
Address: 35/F One Pacific Place
88 Queensway
Hong Kong

# Documents for Inspection

1. Financial statements signed and sealed by legal representative, the person in charge of accounting work and the person in-charge of accounting department.
2. Original copy of auditors' report (PRC) with seals of audit firm and signed by certified public accountants.
3. Original copy of auditors' report (Hong Kong) signed by certified public accountants.
4. Original copy of all documents of the Company and Announcements disclosed on the newspaper designated by CSRC during the reporting period.
5. 2016 Annual Report published in the Hong Kong Stock Exchange.

**China Oilfield Services Limited**

吕波

**Lv Bo**

*Chairman*

21 March 2017

# Glossary

| | |
|---|---|
| COSL, the Company or the Group | China Oilfield Services Limited |
| CNOOC | China National Offshore Oil Corporation |
| CNOOC Limited | CNOOC Limited |
| 2D | Seismic data collected in two dimensional form, by utilizing a single sound source and one or more collection points; typically 2D is used to map geographical structures for initial analysis. |
| 3D | Seismic data collected in three-dimensional form, by utilizing two sound sources and two or more collection points; typically 3D is used to acquire refined seismic data and to raise the probability of successful exploration well drilling |
| COSL Holding AS | Formerly COSL Drilling Europe AS or CDE, the subsidiary of the Company in Norway |
| ELIS | Enhanced Logging Imaging System |
| OSHA | Statistical standard for occupational injuries and diseases |
| QHSE | Quality, health, safety and environment management system |
| HTHP | High temperature and high pressure |
| WTI | West Texas Intermediate crude oil |
| IPM | Integrated Project Management |
| LWD | Logging-while-drilling, generally means the measuring of physical parameters of rock formation during the process of drilling, and transmitting the real time measured results by data telemetry system to the ground surface for processing. |
| Cementing | The technique of filling of cement slurries into the ring-shaped space formed between the inner well hole casing and the well wall to cement them together. |
| Well completion | Services and installation of equipment that are necessary to prepare a well for production, including casing and well treatment, such as acidizing and fracking |
| Well workover | Any work on a completed well designed to maintain, restore or improve production from a currently producing petroleum reservoir, this may include replacement of casing and well treatment, such as sand control, fracking and acidizing |
| Available day utilization rate | Operating days/(calendar days-days of repairs and maintenance) |
| Calendar day utilization rate | Operating days/calendar days |
| Integrated marine surveying vessels | Vessels providing marine surveying, marine geological coring, CPT in-situ testing, marine environment observation/sampling and marine supporting services. |

| | |
|---|---|
| Geophysical vessels | Vessels carrying out marine seismic survey. Equipped with seismic survey equipment, streamers towed behind vessel, collecting seismic data by generating and receiving seismic waves during continuous sailing. |
| RSS | Rotary Steerable System |
| Seismic data | Data recorded in either two dimensional (2D) or three dimensional (3D) form from sound wave reflections off of subsurface geology. This data is used to understand and map geological structures for exploratory purposes to predict the location of undiscovered reserves. |
| Streamers | Clear flexible tubing containing numerous hydrophones used for marine seismic surveys; streamers are towed behind seismic vessels at controlled shallow water depths to collect seismic data |
| Jack-up rigs | Jack-up rigs are so named because they are self-elevating—with three or four movable legs that can be extended ("jacked") above or below the drilling deck. During towing, the legs of a jack-up rig are elevated. When the rig reaches the drill site, the crew jacks the legs downward through the water and into the sea floor (or onto the sea floor with mat supported jack-ups). This anchors the rig and holds the drilling deck well above the waves. |
| Semi-submersibles | 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. |
| Module rigs | Complete rig installation fixed on offshore jacket which is immovable as a whole. |
| bbl | A barrel, which is equivalent to approximately 158.988 liters or 0.134 tons of oil (at a API gravity of 33 degrees). |
| foot | Measuring unit of length, which is equivalent to approximately 0.305 meter. |
| Standard coal | The uniform standard of thermal value, China required the thermal value of 1 kg standard coal to be 7,000 kilocalorie. |
| Recordable incidents | Injury incident caused by work or impact of the work environment leading to death or occupational diseases or loss of consciousness, restricted working ability or mobility, or job transfer or injury incident which requires more than a simple medical treatment. |

CHINA OILFIELD SERVICES LIMITED

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