2017 中期報告
Interim Report

中海油田服務股份有限公司
China Oilfield Services Limited

(Stock Code 股票代號 A 股: 601808 ; H 股: 2883)

Contents

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.

Financial Highlights

	First Half of 2015 RMB million	First Half of 2016 RMB million	First Half of 2017 RMB million
Revenue	12,089	6,963	7,096
Profit from operations	1,261	-8,142	238
Profit from operations (excluding impairment of fixed assets and goodwill)	2,252	-998	238
Profit for the period	922	-8,400	-350
Profit for the period (excluding impairment of fixed assets and goodwill)	1,913	-1,256	-350
	RMB/share	RMB/share	RMB/share
Earnings per share	0.19	-1.76	-0.08

Chief Executive Officer's Report

Dear Shareholders,

In the first half of 2017, as compared with the same period last year, international crude oil price slightly rebounded but was still maintained at a low level. The market expected a slow recovery in the oilfield services industry, and large-scale equipment still faced the challenge of over-supply. Under such circumstances, the Company devoted in the development of overseas markets while firmly engaged in the core market of offshore China. At the same time, the Company focused on various development such as refinement of cost management, speeding up of the industrialization of proprietary technology and innovation of business model, to continuously enhance the core competitiveness of the Company and made a series of achievements in our operation. As compared with the same period last year, the utilization rate of the Company's equipment increased; the profits for well services segment and marine support services segment improved; geophysical and surveying services segment actively participated in market competition of international market and earned a series of operation opportunities of international market in the period. The achievements above not only established a solid foundation for the achievement of the Company's business objectives for the year, but also set a foundation for the development of the Company in the forthcoming years.

1. CONTINUOUS REINFORCEMENT OF DOMESTIC MARKET AND BREAKTHROUGH IN OVERSEAS MARKETS

The Company continued to reinforce its absolute leading position in the offshore China market, and carried on to strengthen the strategic partnership with CNOOC Limited. The Company proactively explored new modes for the provisions of services based on the need of customers. Leveraging on its own advantages, the Company continued to provide services with high quality and efficiency under the low oil price environment. At the same time, the Company enhanced the exploration of international markets and continued to propel the construction of the six overseas output value contributing regions. During the period, the Company has gained market breakthrough in regions such as Southeast Asia, Middle East, America, Europe and Africa. For example, the Company obtained the title of "outstanding contractor for the year" again from PEMEX, by virtue of its safe, high-quality and efficient service; "HYSY936" successfully explored the new market of Fieldwood Energy, and gained the commendation from customers with its excellent high temperature and high pressure well service; "HYSY720" and "HYSY721", the deep-water 3D seismic data acquisition vessels of the Company, successfully completed the operation in the equatorial region of Africa. The operation became the first individual operation of 3D seismic data acquisition project in the sea with over 10,000 km^2 operation area in the history of China's marine oilfield exploration, which signified the Company's ability to implement high-end 3D seismic data acquisition operation under extremely cold and extremely hot conditions.

2. STEADY FINANCIAL INDICATORS AND SIGNIFICANT RESULTS IN REDUCING COST AND IMPROVING EFFICIENCY

The Company continued to strengthen the refinement of capital management. During the period, cash flow remained steady; the currency structure of debts was reasonable; gearing ratio decreased; and financing channels was flexible and smooth. By further imposing straight control over capital expenditure, optimizing procurement modes, enhancing self-maintenance of equipment, reducing administrative expenses, innovating human resources sharing system and optimizing management structure and with various management methods, the variable cost of the Company was reduced by almost RMB1 billion on the heels of significant reductions over the past few years.

3. PROMOTE STEADY SCIENTIFIC RESEARCH AND SPEED UP INDUSTRIALIZATION OF TECHNOLOGY

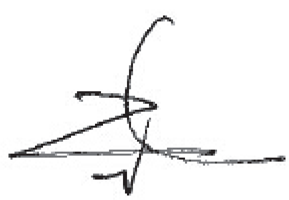
In the first half of the year, the contribution ratio of the Company's technology sector further increased. The Company has established a plan for the industrialization of product technology, which specified output nodes, investment scale and expected benefits of the industrialization outcomes for various professional aspects. A team of experts was formed to further optimize the industrialization ability construction indicators and economic benefit indicators, while numerous projects have already achieved the industrialization targets or have actualized the application of industrialization. For example, the Company's self-developed Drilog® LWD and Welleader® RSS were widely applied in the offshore and onshore markets of China; and complete-set of geophysical seismic data acquisition equipment was put into production. Under the circumstance of low oil prices, the achievement above in the application of technology also emphasized the comparable advantages of the Company for reducing cost of per BOE and providing efficient and high-quality services.

4. SAFETY AND ENVIRONMENTAL PROTECTION PERFORMANCE REMAINED STABLE AND CONTINUED RAISING OF QHSE MANAGEMENT LEVEL

The Company continued to promote the internationalization and industrialization of the QHSE management, and set out development targets for each of the management systems and implemented relevant measures, which effectively raise onsite working standards and facilitate the enhancement of the essential elements of safety management. At the same time, the Company has strengthened communication of safety culture with safety institutions in each operational location, and created a good atmosphere for safety culture. During the period, overall production safety of the Company remained stable, and the operation and maintenance management of equipment of the Company was well with equipment intact rate of 99.42% and OSHA ratio of 0.046.

FUTURE OUTLOOK

At present, although the oil and gas industry, which the Company engages in, is still facing a lot of challenges, the Company will stay firm for its objective of achieving "double-50%" for mid-and long-term. The Company devotes to enhancing the utilization rate of existing equipment and propelling the development of industrialization for technology sector, in order to transfer cost advantage to its core competitiveness. The Company continues to research on and promote different measures such as solutions to highly difficult development like thick hypotonic oil to satisfy the industry and the requirements of customers, such that the Company can achieve its yearly business objectives. Base on the unique integrated advantage, solid financial structure and the principle of innovate and reform of COSL with an experienced team in management and operation, we are confident that COSL can firmly move ahead.



Qi Meisheng
Chief Executive Officer and President of COSL

23 August 2017

Management Discussion and Analysis

INDUSTRY OVERVIEW

In the first half of 2017, the global economy recovered slowly and maintained a low growth rate. Although oil price has slightly recovered as compared with the same period last year, the overall expenditure of oil and gas industry rebounded slightly, oil price was still facing frequent fluctuation. According to information from third-parties such as IHS, the exploration and development expenditure for the upper stream worldwide, after experiencing sharp declines, will rebound 8.3% to US$379.0 billion in 2017. Regarding the world's offshore exploration and development expenditure which has recorded a decrease of 27.9% in 2016 and will decrease further by 12.6% to US$104.0 billion in 2017, presenting a continuous downward trend. The recovery of offshore service market will be slower than that of the onshore service market. According to the forecast by Spears & Associates, the total market value for global oilfield services in 2017 amounted to US$257.3 billion, representing an increase of 17% as compared with the same period last year. The overall oilfield services industry will experience an upturn.

BUSINESS REVIEW

In the first half of 2017, there was frequent fluctuation in international oil price, therefore, the oilfield service industry was still facing relatively higher pressure. On the one hand, the Group continued to consolidate production safety, enhance work efficiency, promote self-developed technology steadily and refine its capital management; on the other hand, the Group extensively studied the market demand. While devoting to maintain its leading position in the oilfield service industry of coastal China, the Group continued its efforts in the expansion of the international market, diversified customer bases and searched for more regional business opportunities. At the same time, the Group continued to consider controlling costs as its key focus area for internal control and further reduced the cost by optimizing procurement, speeding up industrialization of proprietory product technology, encouraging self-repair and maintenance and purchasing more domestic equipment and facilities. As a result of strenuous efforts, the workload of certain service lines of jack-up and semi-submersible drilling rigs, marine support and well service and the service prices of a number of business lines had been adjusted in the first half year, which improved the overall operating condition of the Group. In the first half of 2017, the revenue of the Group amounted to RMB7,095.9 million, representing an increase of RMB133.3 million as compared with the same period last year. Net profit amounted to RMB -350.4 million, representing a decrease in loss of RMB8,049.1 million as compared with RMB -8,399.5 million of the same period last year.

Drilling Services Segment

The revenue of the drilling services segment in the first half of the year was RMB2,795.5 million, representing a decrease of 20.2% as compared with RMB3,501.8 million for the same period last year.

In the first half of 2017, the Group adhered to enhance service quality, imposed strict control on operating cost and continued to put effort in developing international business. The Group entered into the "NH9" Indonesia operation contract and laid a solid foundation for the in-depth exploration of the Indonesian market; the Group entered into the "HYSY937" operation contract in Indonesia and secured the operating contracts for the upcoming 2 years; it also won the bidding of the "HYSY936" Mexico operation project and further diversified its customer base in the Mexico region.

At the end of June 2017, the Group operated and managed a total of 43 drilling rigs (including 32 jack-up drilling rigs and 11 semi-submersible drilling rigs). 19 of them were operating in the coastal area of China, 9 were operating in international regions such as the North Sea of Norway, Mexico and Indonesia, and 15 rigs were on standby. In addition, the Group also owned 3 accommodation rigs and 5 module rigs.

During the first half of the year, the number of operating days of the Group's drilling rigs amounted to 4,015 days, representing an increase of 43 days, or 1.1% compared with the same period last year. The calendar day utilization rate was 51.3%, an increase of 1.6 percentage points compared with the same period last year due to the decrease in the number of standby days.

The operation details of the Group's jack-up and semi-submersible drilling rigs in the first half of 2017 are as follows:

Drilling Services	For the six months ended 30 June 2017	2016	Change
Operating days (day)	**4,015**	3,972	1.1%
Jack-up drilling rigs	**3,363**	3,336	0.8%
Semi-submersible drilling rigs	**652**	636	2.5%
Available day utilization rate	**54.6%**	53.8%	Up 0.8 percentage point
Jack-up drilling rigs	**59.1%**	58.2%	Up 0.9 percentage point
Semi-submersible drilling rigs	**39.3%**	38.4%	Up 0.9 percentage point
Calendar day utilization rate	**51.3%**	49.7%	Up 1.6 percentage point
Jack-up drilling rigs	**57.6%**	55.6%	Up 2.0 percentage points
Semi-submersible drilling rigs	**32.7%**	31.8%	Up 0.9 percentage point

As at 30 June 2017, the number of operating days of the jack-up drilling rigs of the Group amounted to 3,363 days, representing an increase of 27 days compared with the same period last year. The number of operating days of the semi-submersible drilling rigs amounted to 652 days, representing an increase of 16 days compared with the same period last year, mainly due to the decrease of standby days during the period.

In the first half of the year, the number of operating days of the 3 accommodation rigs of the Group amounted to 194 days, representing a decrease of 27 days compared with the same period last year, while the calendar day utilization rate decreased 22.0 percentage points to 38.7%. The number of operating days of the 5 module rigs which operates in Mexico Gulf amounted to 242 days, representing a decrease of 149 days compared with the same period last year, while the calendar day utilization rate decreased to 26.7%.

In the first half of 2017, the average daily revenue of the Group's drilling rigs decreased as compared with the same period last year, details of which set forth below:

Average daily revenue (US$10,000 per day)	For the six months ended 30 June 2017	2016	Change	Percentage change
Jack-up drilling rigs	**6.8**	7.6	(0.8)	(10.5%)
Semi-submersible drilling rigs	**18.8**	23.6	(4.8)	(20.3%)
Subtotal of drilling rigs	**8.7**	10.7	(2.0)	(18.7%)
Accommodations rigs	**4.4**	8.0	(3.6)	(45.0%)
Average of the Group	**8.5**	10.6	(2.1)	(19.8%)

Notes: (1) Average daily revenue = revenue/operating days.

(2) USD/RMB exchange rate was 1:6.7744 on 30 June 2017 and 1:6.6312 on 30 June 2016, respectively.

Well Services Segment

In the first half of the year, the Group had an increase in the operation volume of certain service lines of the well services segment, and its overall revenue increased to RMB2,479.9 million accordingly, representing an increase of 16.2% compared with the same period last year.

In the first half of 2017, the Group insisted on propelling the commercialization of its R&D technology in a steady pace. The self-developed LWD Drilog® and RSS Welleader® tools were successfully applied in the large-scale China sea market, which signified that the operational ability of the new tools has been officially formed. The operation of the self-developed drilling acoustic logging tool was successfully completed in Shanxi, which clearly stated that the Group has basically finished the early preparation for commercial promotion of drilling acoustic logging tool. The self-developed NMR logging tool was successfully applied for the first time on the onshore wells in the Far East region, signifying that the Group's well services have gained further recognitions from the international market. The implementation of the self-developed liquid cement system in the deep water layer of South China Sea was a success, which laid a good foundation for the continuous exploration of the South China Sea deep water market. The initial application of the self-developed intelligent well completion and water injection tool was successful, which conveyed that the water injection technology business has established a strong technological foundation for expansion.

At the same time, well service business has made various achievements in the development of international market during the first half of the year. Our logging business successfully won an operation project in Indonesia through tender, and obtained the first Indonesian serial oil pipeline salvage business contract. Our cementing equipment business was awarded a lease agreement in Indonesia. Our drilling and completion fluids business was awarded a service contract in Indonesia. Wireline logging service was first introduced to the onshore well market of the Far East region. Logging business was awarded an integrated contract of wireline logging in Canada. The sale of chemicals successfully obtained orders from a Canadian company. The success in securing all these projects set a milestone for the Group to further open up the markets of Indonesia, the Far East and North America.

Marine Support Services Segment

In the first half of 2017, revenue from the marine support services segment of the Group increased by 32.5% over the same period last year to RMB1,138.9 million, among which, revenue from chartered vessels amounted to RMB248.2 million.

In response to fierce market competition, the marine support services segment has made full use of its resources to ensure the marine support services business can maintain its leading position in the China Sea. At the same time, the Group made persistent efforts in expanding the international market. In the first half of the year, both the operation volume and service price of business in the China Sea had been adjusted. In the international market, our 3 workover support barges obtained a 3-year service contract in Indonesia.

As at 30 June 2017, the operating days of the self-owned vessels of the Group's marine support services business amounted to 13,406 days, representing an increase of 1,881 days when compared with the same period last year, and the calendar day utilization rate increased by 8.4 percentage points to 85.2% as compared with the same period last year, which was mainly attributable to the decrease of standby days and maintenance days for the period resulting in the increase of the operation volume and utilization rate of standby vessels and AHTS vessels. In addition, the operation volume of the Group's chartered vessels for the period also increased, with 3,989 days of operation which was 542 days more when compared with the same period last year. Details are set out in the following table:

Marine Support Services (self-owned vessels)	For the six months ended 30 June 2017	 2016	Percentage change
Operating days (day)	**13,406**	11,525	16.3%
Standby vessels	**6,016**	5,719	5.2%
AHTS vessels	**4,128**	2,242	84.1%
Platform supply vessels	**2,062**	2,357	(12.5%)
Multi-purpose vessels	**476**	533	(10.7%)
Workover support barges	**724**	674	7.4%

Geophysical and Surveying Services Segment

Revenue of the geophysical and surveying services segment of the Group was RMB681.6 million for the first half of the year, representing an increase of RMB215.0 million, or 46.1% over the same period last year.

In the first half of 2017, the Group vigorously developed the international market for geophysical business in order to compensate for the impact brought by the exploration market downturn."HYSY751" and "HYSY770" obtained an extended contract in the Middle East region in the first half of the year; while "HYSY721" and "HYSY720" successfully completed a massive 3D acquisition project in West Africa, which fulfilled the implementation of 3D acquisition in equatorial area that the Group had not engaged before.

In terms of operation volume, the Group actively explored the international market and adapted geophysical vessels for 3D acquisition operation according to customer demand, which resulted in 3D acquisition business increased by 8,752 km^2 in the first half of 2017 and demonstrated a significant increase as compared with the same period last year. The operation volume of 3D data processing business had a decrease of 14.8%. Details are as follows:

Geophysical and Surveying Services	For the six months ended 30 June **2017**	2016	Percentage change
2D			
Acquisition (km)	–	9,419	(100.0%)
Data processing (km)	–	3,518	(100.0%)
3D			
Acquisition (km^2)	**16,577**	7,825	111.8%
of which: submarine cable (km^2)	**190**	107	77.6%
Data processing (km^2)	**6,243**	7,329	(14.8%)

In the first half of 2017, the revenue of the Group's surveying service business amounted to RMB139.7 million, representing an increase of RMB53.0 million as compared with RMB86.7 million of the same period last year.

FINANCIAL REVIEW

1 Analysis of condensed consolidated statement of profit or loss

1.1 Revenue

In the first half of 2017, the operation volume and service price of partial business of the Group increased to a certain extent resulting in an increase of RMB133.3 million in revenue, or 1.9% compared with the same period last year, detailed analysis is as follow:

Revenue of each of the business segments in the first half of 2017:

Unit: RMB million Business segments	For the six months ended 30 June **2017**	2016	Change	Percentage change
Drilling services	**2,795.5**	3,501.8	(706.3)	(20.2%)
Well services	**2,479.9**	2,134.8	345.1	16.2%
Marine support services	**1,138.9**	859.4	279.5	32.5%
Geophysical and surveying services	**681.6**	466.6	215.0	46.1%
Total	**7,095.9**	6,962.6	133.3	1.9%

- Revenue generated from drilling services decreased by 20.2% over the same period last year. The major reason was that operation volume and service price of some of the rigs in the international market decreased.
- Revenue of well services increased by 16.2% over the same period last year, which was mainly due to the increase in operation volume and service prices of some of our business lines.
- Revenue from marine support services increased by 32.5% over the same period last year, mainly due to the increase of 1,881 days in operation volume of self-owned vessels when compared with the same period last year, and an increase of 542 days in operation volume of chartered vessels when compared with the same period last year during the first half of the year. Besides, the service prices of which also increased.
- Revenue from geophysical and surveying services increased by 46.1% as compared with the same period last year, mainly due to the increase in business volume of 3D acquisition during the first half year.

1.2 Operating expenses

In the first half of 2017, the operating expenses of the Group amounted to RMB6,887.4 million, representing a decrease of RMB8,234.2 million or 54.5% from RMB15,121.6 million for the same period last year.

The table below shows the breakdown of operating expenses of the Group in the first half of 2017:

Unit: RMB million	For the six months ended 30 June 2017	2016	Change	Percentage change
Depreciation of property, plant and equipment and amortization of intangible assets	**2,258.0**	2,217.3	40.7	1.8%
Employee compensation costs	**1,703.5**	1,847.4	(143.9)	(7.8%)
Repair and maintenance costs	**111.2**	139.2	(28.0)	(20.1%)
Consumption of supplies, materials, fuel, services and others	**1,186.9**	1,685.1	(498.2)	(29.6%)
Subcontracting expenses	**897.1**	917.9	(20.8)	(2.3%)
Operating lease expenses	**217.4**	587.1	(369.7)	(63.0%)
Impairment of property, plant and equipment	**–**	3,688.4	(3,688.4)	(100.0%)
Impairment of goodwill	**–**	3,455.4	(3,455.4)	(100.0%)
Other operating expenses	**513.3**	583.8	(70.5)	(12.1%)
Total operating expenses	**6,887.4**	15,121.6	(8,234.2)	(54.5%)

From the above breakdown in operating expenses, the new equipment led to an increase in depreciation of property, plant and equipment and amortization of intangible assets of RMB40.7 million.

By using various measures to control its labor cost, the employee compensation costs decreased by RMB143.9 million as compared with the same period last year.

The decrease in maintenance days of drilling rigs and vessels and the strengthening of self-maintenance ability led to a decrease of repair and maintenance costs of RMB28.0 million.

The adoption of variety measures in cost control and technology innovation by the Group led to a decrease of materials consumption cost of RMB498.2 million.

By reducing the use of external resources and lowering the price of subcontracting services, the subcontracting expenses in the first half of the year decreased by RMB20.8 million as compared with the same period last year.

In the first half of 2017, the operating lease expenses decreased by RMB369.7 million as compared with the same period last year, mainly due to the drop of the provision for onerous contracts in the first half of the year when compared with the same period last year, decrease in lease prices and volume of leasing business.

In the first half of 2016, unfavourable market environment gave rise to an impairment loss of RMB3,688.4 million against property, plant and equipment, while there was no such loss during the period.

In the first half of 2016, unfavourable market environment gave rise to an impairment loss of goodwill amounting to RMB3,455.4 million, while there was no such loss during the period.

Other operating expenses decreased by RMB70.5 million as compared with the same period last year. The reversal of impairment of accounts receivable for the period led to a decrease of RMB34.7 million in other operating expenses.

The table below shows the operating expenses of each of the business segments in the first half of 2017:

Unit: RMB million Business segments	For the six months ended 30 June 2017	2016	Change	Percentage change
Drilling services	**3,007.4**	11,055.1	(8,047.7)	(72.8%)
Well services	**2,003.5**	2,316.8	(313.3)	(13.5%)
Marine support services	**1,035.3**	1,008.3	27.0	2.7%
Geophysical and surveying services	**841.2**	741.4	99.8	13.5%
Total	**6,887.4**	15,121.6	(8,234.2)	(54.5%)

1.3 Profit from operations

The profit from operations of the Group during the first half of 2017 amounted to RMB237.5 million, representing a decrease in loss of RMB8,379.1 million as compared with RMB -8,141.6 million for the same period last year.

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

Unit: RMB million Business segments	For the six months ended 30 June 2017	 2016	 Change
Drilling services	**(202.2)**	(7,548.4)	7,346.2
Well services	**488.8**	(175.1)	663.9
Marine support services	**106.5**	(148.8)	255.3
Geophysical and surveying services	**(155.6)**	(269.3)	113.7
Total	**237.5**	(8,141.6)	8,379.1

1.4 Financial expenses, net

In the first half of 2017, the net financial expenses of the Group were RMB654.5 million, representing an increase of RMB248.5 million or 61.2% as compared to the same period last year, mainly due to the increase in finance costs by RMB110.1 million, increase in exchange loss by RMB144.5 million and increase in interest income by RMB6.1 million during the period.

1.5 Investment income

During the first half of 2017, the investment income of the Group amounted to RMB125.0 million, representing a decrease of RMB30.2 million or 19.5% from RMB155.2 million for the same period last year, mainly due to the decrease in the investment of wealth management products during the period.

1.6 Share of profits of joint ventures, net of tax

In the first half of 2017, the Group's share of profits of joint ventures amounted to RMB36.5 million, representing an increase of RMB8.2 million as compared with RMB28.3 million for the same period last year, which was mainly attributable to the increase in the profits of some of our joint ventures during the period.

1.7 Income tax

In the first half of 2017, the income tax expense of the Group was RMB94.9 million, representing an increase of RMB59.4 million or 167.3% as compared with RMB35.5 million for the same period last year. The reversal of deferred tax assets recognized in prior year in relation to the deductible tax loss made last year led to an increase in the income tax expenses.

1.8 Profit for the period

In the first half of 2017, profit for the period of the Group was RMB -350.4 million, representing a decrease in loss of RMB8,049.1 million as compared with RMB -8,399.5 million for the same period last year.

1.9 Basic earnings per share

In the first half of 2017, the Group's basic earnings per share was RMB -0.08, representing a decrease in loss of RMB1.68 as compared with the basic earnings per share of RMB -1.76 for the same period last year.

2 Analysis on condensed consolidated statement of financial position

As of 30 June 2017, total assets of the Group amounted to RMB74,191.9 million, representing a decrease of RMB6,352.2 million or 7.9% as compared with RMB80,544.1 million as at the end of 2016. Total liabilities were RMB39,690.8 million, representing a decrease of RMB5,556.9 million or 12.3% as compared with RMB45,247.7 million as at the end of 2016. Shareholders' equity was RMB34,501.1 million, representing a decrease of RMB795.3 million or 2.3% as compared with RMB35,296.4 million as at the end of 2016.

An analysis of significant changes in account items on the condensed consolidated statement of financial position is as follows:

Unit: RMB million Items	30 June 2017	31 December 2016	Percentage change	Reasons
Accounts receivable	7,179.4	4,796.0	49.7%	As affected by the environment of the industry, the payment period of customers extended.
Notes receivable	4.3	1,844.3	(99.8%)	Mainly due to the receipts of notes that fell due at the beginning of the period during the period.
Other current assets	2,225.1	7,216.1	(69.2%)	Due to the disposal and maturity of liquidity funds, treasury bond related investments and wealth management products. And the investment decreased in this period.
Tax payable	31.3	101.1	(69.0%)	Mainly due to the payment of income tax.
Loan from a related party	2,371.0	693.7	241.8%	Obtained borrowing amounted to US$0.25 billion from Overseas Oil and Gas Corporation, Ltd.
Interest-bearing borrowings – current portion	570.4	5,296.5	(89.2%)	Mainly due to the repayment of US$721.4 million (approximately RMB4,994.9 million), and the long-term borrowing reclassified into this account due within one year amounted to RMB570.4 million.

3 Analysis of condensed consolidated statement of cash flows

At the beginning of 2017, the Group held cash and cash equivalents of RMB6,071.1 million. Net cash inflows from operating activities for the period amounted to RMB396.0 million. Net cash inflows from investing activities were RMB3,565.9 million. Net cash outflows from financing activities were RMB4,136.7 million. The impact of foreign exchange fluctuations on cash and cash equivalents was a decrease of RMB158.7 million. As at 30 June 2017, the Group's cash and cash equivalents amounted to RMB5,737.6 million.

3.1 Cash flows from operating activities

For the six months ended 30 June 2017, the Group's net cash inflows from operating activities amounted to RMB396.0 million, representing an increase of RMB91.4 million or 30.0% as compared with the same period last year. This was mainly due to the cash received from government grant and subsidy increased by RMB47.6 million as compared to the same period last year; the proceeds from the sales of goods and rendering of services were reduced by RMB603.0 million as compared to the same period last year; the payments for purchase of goods and receipt of services decreased by RMB65.1 million as compared to the same period last year; the payments to employees and the cash paid for employees reduced by RMB394.8 million as compared to the same period last year; the cash paid for various tax expenses decreased by RMB210.9 million as compared to the same period last year; and the cash paid for other relevant operating activities increased by RMB24.0 million as compared with the same period last year.

3.2 Cash flows from investing activities

For the six months ended 30 June 2017, the net cash inflows from the Group's investing activities amounted to RMB3,565.9 million, representing an increase of RMB5,033.0 million in cash inflows as compared with the same period last year. This was mainly due to the cash paid for the purchase of available-for-sale investments decreased by RMB1,800.0 million as compared with the same period last year; the cash received from the disposal of available-for-sale investments increased by RMB3,641.6 million as compared with the same period last year; the cash paid for property, plant and equipment acquisitions increased by RMB499.5 million; and the total increase of cash inflows of other investing activities was RMB90.9 million.

3.3 Cash flows from financing activities

For the six months ended 30 June 2017, the Group's net cash outflows from financing activities amounted to RMB4,136.7 million, representing an increase of RMB636.4 million in cash outflows over the same period last year. This was mainly due to the cash received from the loan from a related party of RMB1,722.9 million, while there was no such matter during the same period last year. During the period, no long term bond has been issued, while RMB5,000.0 million of cash were received from the issue of long term bonds in the same period last year; the cash paid for the repayment of bank borrowings decreased by RMB2,696.8 million as compared with the same period last year; and the total increase of cash outflows of other financing activities was RMB56.1 million.

3.4 The impact of foreign exchange rate changes on cash and cash equivalents during the period was a decrease of RMB158.7 million.

4 Capital Expenditure

In the first half of 2017, the capital expenditure of the Group was RMB1,366.3 million, representing a decrease of RMB657.5 million or 32.5% as compared with RMB2,023.8 million for the same period last year.

The capital expenditure of each business segment is shown in the table below:

Unit: RMB million Business segments	For the six months ended 30 June **2017**	 2016	 Change	Percentage change
Drilling services	**630.0**	1,292.8	(662.8)	(51.3%)
Well services	**346.3**	77.8	268.5	345.1%
Marine support services	**377.0**	472.1	(95.1)	(20.1%)
Geophysical services	**13.0**	181.1	(168.1)	(92.8%)
Total	**1,366.3**	2,023.8	(657.5)	(32.5%)

The capital expenditure of the drilling services segment was mainly used for one 5,000 ft. semi-submersible drilling rig. The capital expenditure of the well services segment was mainly used for the construction and purchase of relevant well services equipment relating to such business segment. The capital expenditure of the marine support services segment was mainly used for construction of oilfield utility vessels and Standby vessels.

5 Major Subsidiaries

COSL Norwegian AS ("CNA"), COSL PROSPECTOR PTE.LTD. and COSL DRILLING STRIKE PTE.LTD. are major subsidiaries of the Group engaged in drilling operations.

As at 30 June 2017, the total assets of CNA amounted to RMB12,730.7 million and equity was RMB277.0 million. CNA realized revenue of RMB563.6 million in the first half of 2017, representing a decrease of RMB594.0 million or 51.3% as compared with the same period last year. The major reason of revenue reduction was that operation volume decreased. The net profit amounted to RMB -230.2 million, representing a decrease in loss of RMB3,893.5 million as compared with the same period last year. The reason of decrease in loss was that the Group had recognized impairment loss of property, plant and equipment and goodwill during the same period last year, while there was no such matter in this period, and the Group strengthened its cost control.

As at 30 June 2017, the total assets of COSL PROSPECTOR PTE.LTD. amounted to RMB8,841.5 million and equity was RMB -1,038.2 million. The Company determined to provide continued financial support for COSL PROSPECTOR PTE.LTD. in order to make sure it will be able to continue as a going concern. COSL PROSPECTOR PTE.LTD. realized revenue of RMB55.2 million in the first half of 2017, representing an increase of RMB55.2 million or 100.0% as compared with the same period last year. The net profit amounted to RMB -441.8 million, representing a decrease in loss of RMB515.6 million as compared with the same period last year. The reason of increase in revenue and decrease in loss of profit was the Group had recognized impairment loss of property, plant and equipment during the same period last year, while there was no such matter in this period. Meanwhile, the operation volume increased and the Group strengthened its cost control.

As at 30 June 2017, the total assets of COSL DRILLING STRIKE PTE.LTD. amounted to RMB4,407.3 million and equity was RMB -898.3 million. The Company determined to provide financial support for COSL DRILLING STRIKE PTE.LTD. in order to make sure it will be able to continue as a going concern. COSL DRILLING STRIKE PTE.LTD. realized revenue of RMB230.8 million in the first half of 2017, representing a decrease of RMB189.5 million or 45.1% as compared with the same period last year, which was mainly due to the service price falling. The net profit amounted to RMB -235.7 million. Due to the Group had recognized impairment loss of property, plant and equipment during the same period last year, while there was no such matter in this period; meanwhile, the Group strengthened its cost control. Influenced by the reasons above-mentioned, the company represented a decrease in loss of RMB63.3 million as compared with the same period last year.

PROSPECT

Looking forward to the second half of 2017, the price of crude oil will remain at low level in the near term and the trend of fluctuation of crude oil price will sustain. Although the bidding activities of oilfield services has already resumed, the number of reserved contracts for oilfield services contractors continues to drop. In business negotiation, oil companies always have more bargaining power than oilfield services companies. Therefore, the operating environment of the oilfield industry will still be difficult and different business segments of the Company will continue to face certain degree of pressure in operation.

AUDIT COMMITTEE

The audit committee comprises of three independent non-executive directors of the Company. The audit committee has reviewed the accounting principles and practices adopted by the Group as well as the risk management, internal control and financial reporting matters. The unaudited interim financial report for the six months ended 30 June 2017 has been reviewed by the audit committee.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2017, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (hereafter referred to as the "Listing Rules").

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

Upon specific enquiry to all directors and supervisors by the Company, the directors and supervisors have confirmed that they have, for the six months ended 30 June 2017, complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

PURCHASE, SALE AND REDEMPTION OF OUR LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the six months ended 30 June 2017, none of the directors and supervisors had any material interest, whether direct or indirect, in any contract that was significant to the Group's business and to which the Company, its controlling shareholder or any of its subsidiaries or subsidiaries of the Group was a party.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 June 2017, the interests and short positions of the directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

Save as disclosed above, as at 30 June 2017, none of the directors, supervisors and chief executives of the Company or their respective associates had any other interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and HKSE pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 30 June 2017, other than the directors or the chief executives of the Company as disclosed above, the following persons had interests or short positions in the H Shares or underlying H Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO or were otherwise notified to the Company and HKSE:

Name of shareholder	Shares held	Number of shares in interest (share)	Approximate percentage of the interests (H) in COSL (%)
BlackRock, Inc.	Interest in controlled corporation	186,551,151 (L) 584,000 (S)	10.30 (L) 0.03 (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.

THE RIGHTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months period ended 30 June 2017 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, supervisors and senior management 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.

EMPLOYEE AND REMUNERATION POLICY

The Company strictly complies with the domestic and business operating countries' labor policies and relevant laws and regulations and has established a competitive remuneration, welfare and insurance management system. A mechanism in relation to wage increase associated with economic efficiency and labor productivity is in place. We adhere to performance-oriented practices and follow a clear system of reward and punishment to practicably implement salary adjustment in order to fully motivate our staff. The staff welfare and insurance system is well-coordinated and a supplementary enterprise insurance system compatible with social insurance is established, so as to retain our employees.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Changes in Directors

On 1 June 2017, the Company convened the Annual General Meeting of 2016, in which, Mr. Law Hong Ping, Lawrence was re-appointed as an independent non-executive director of the Company with a term of three years, commencing from the date on which the resolution was passed at the general meeting.

On 23 August 2017, the board of directors received the written resignations from Mr. Dong Weiliang and Mr. Xie Weizhi. The resignation of Mr. Dong Weiliang was due to his retirement and will take effect after the appointment of new director is approved at the general meeting of the Company. The resignation of Mr. Xie Weizhi was due to the adjustment of his work arrangement and will take effect immediately.

(2) Changes in Senior Management

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.

On 21 March 2017, the Company convened the first Board meeting, in which, Ms. Jiang Ping was elected as the secretary to the Board (company secretary) and authorised representative of the Company, and Mr. Wang Baojun is ceased to be the secretary to the Board (company secretary) and authorised representative of the Company, with effect from 22 March 2017.

GEARING RATIO

As at 30 June 2017, the net current assets of the Group increased to RMB4,985.5 million compared with RMB4,835.6 million as at 31 December 2016, while the current ratio increased to 1.42 times, compared with 1.29 times as at 31 December 2016.

The Group monitors capital using the gearing ratio, which is net debt divided by the total capital plus net debt. The gearing ratios as at the end of each reporting period were as follows:

	30 June 2017 **RMB'000**	31 December 2016 RMB'000
Interest-bearing bank borrowings	**2,309,919**	7,353,675
Trade and other payables	**7,680,763**	9,304,300
Loan from a related party	**2,371,040**	693,700
Long term bonds	**24,965,089**	25,279,744
Less: Cash and cash equivalents	**(5,737,634)**	(6,071,069)
Net debt	**31,589,177**	36,560,350
Equity attributable to owners of the Company	**34,394,023**	35,206,368
Non-controlling interests	**107,047**	90,010
Total Capital	**34,501,070**	35,296,378
Capital and net debt	**66,090,247**	71,856,728
Gearing ratio	**48%**	51%

PROGRESS OF BUSINESS PLAN

In the first half of 2017, the international crude oil prices have increased by a certain level as compared with the corresponding period last year, but the global expenditure on exploration and development remained low with a severe industrial situation.

The international oil price for the second half year is expected to remain low. It is expected that a significant upturn in the oil field service will not occur in short term and the operation of the Company in the second half of the year will still be difficult. The Company will take more active and flexible market strategies. While stabilizing and enhancing the domestic market, the Company will put greater effort in expanding overseas market, be persistent in reducing cost and increasing efficiency and strictly of control over the expenditure, so as to strive for the improvement of the Company's operating result.

FOREIGN CURRENCY RISK

The Group's operation is affected by the exchange rate fluctuation of RMB against other foreign currencies. If the exchange rate fluctuation is significant, the Group's net profit will be affected to a certain extent. Meanwhile, if the exchange rate fluctuation is significant, the exchange gain/loss, the pressure from repayment of US debt and the expenditures of acquiring imported equipment will be affected to a certain extent. The management of the Group will continuously monitor such foreign exchange risk.

CHARGES ON ASSETS

As at 30 June 2017, the Group had no material charges against its assets.

MISCELLANEOUS

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 30 June 2017, the infrastructure project has fulfilled the investment requirements for the transfer. The transfer procedures of such land transaction were not yet completed, and the Company is now actively promoting relevant work in respect of the transfer.

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 plaintiff, has filed a Statement of Claim through WIKBORG REIN ADVOKATFIRMA AS, an international law firm based in Norway, as litigation agent, to Oslo District Court against Statoil. COM is of the view that Statoil shall responsible for the cost reimbursement and rate reductions happened in the period of year 2016 in amount up to the equivalence of US$15,238,596 regarding the COSLPromoter, a drilling platform. For more information, please refer to the relevant announcements issued 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).

The directors are of the opinion that there have been no material changes to the information published in its annual report for the year ended 31 December 2016, other than those disclosed in this interim report.

DISCLOSURE OF INFORMATION ON THE HKSE'S WEBSITE

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the HKSE's website (http://www.hkex.com.hk) and our website (http://www.cosl.com.cn) in due course.

By Order of the Board
China Oilfield Services Limited
Jiang Ping
Company Secretary

23 August 2017

Deloitte.
德勤

To the Board of Directors of China Oilfield Services Limited

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Oilfield Services Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 45, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 August 2017

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
REVENUE	*3*	**7,102,216**	6,989,747
Sales surtaxes		**(6,346)**	(27,103)
Revenue, net of sales surtaxes		**7,095,870**	6,962,644
Other revenues		**29,074**	17,299
		7,124,944	6,979,943
Depreciation of property, plant and equipment and amortisation of intangible assets		**(2,257,973)**	(2,217,294)
Employee compensation costs		**(1,703,455)**	(1,847,394)
Repair and maintenance costs		**(111,247)**	(139,217)
Consumption of supplies, materials, fuel, services and others		**(1,186,885)**	(1,685,102)
Subcontracting expenses		**(897,053)**	(917,863)
Operating lease expenses		**(217,432)**	(587,147)
Other operating expenses		**(513,372)**	(583,779)
Impairment of goodwill	*9*	**–**	(3,455,378)
Impairment of property, plant and equipment		**–**	(3,688,408)
Total operating expenses		**(6,887,417)**	(15,121,582)
PROFIT/(LOSS) FROM OPERATIONS		**237,527**	(8,141,639)
Exchange (loss)/gain, net		**(122,723)**	21,792
Finance costs		**(579,424)**	(469,386)
Interest income		**47,682**	41,626
Investment income		**124,966**	155,248
Share of profits of joint ventures, net of tax		**36,537**	28,302
LOSS BEFORE TAX	*4*	**(255,435)**	(8,364,057)
Income tax expense	*5*	**(94,931)**	(35,473)
LOSS FOR THE PERIOD		**(350,366)**	(8,399,530)
Attributable to:			
Owners of the Company		**(369,513)**	(8,403,180)
Non-controlling interests		**19,147**	3,650
		(350,366)	(8,399,530)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	*7*	**(7.74) cents**	(176.11) cents

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
LOSS FOR THE PERIOD	**(350,366)**	(8,399,530)
OTHER COMPREHENSIVE (EXPENSE)/INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(181,269)**	183,719
Net fair value loss on available-for-sale investments	**(25,450)**	(91,304)
Share of exchange differences of joint ventures	**(3,460)**	4,199
Income tax relating to items that may be reclassified subsequently to profit or loss	**3,817**	13,696
	(206,362)	110,310
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD, NET OF INCOME TAX	**(206,362)**	110,310
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	**(556,728)**	(8,289,220)
Attributable to:		
Owners of the Company	**(573,765)**	(8,294,720)
Non-controlling interests	**17,037**	5,500
	(556,728)	(8,289,220)

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**55,930,567**	57,457,239
Goodwill	9	**–**	–
Other intangible assets		**397,198**	427,027
Investments in joint ventures		**597,275**	600,364
Available-for-sale investments		**–**	–
Other non-current assets	12	**402,109**	439,121
Deferred tax assets		**68,115**	68,514
Total non-current assets		**57,395,264**	58,992,265
CURRENT ASSETS			
Inventories		**1,193,239**	1,157,617
Prepayments, deposits and other receivables		**435,534**	442,960
Accounts receivable	10	**7,179,353**	4,795,964
Notes receivable	11	**4,330**	1,844,306
Other current assets	12	**2,225,113**	7,216,070
Pledged deposits		**21,375**	23,806
Cash and cash equivalents		**5,737,634**	6,071,069
Total current assets		**16,796,578**	21,551,792
CURRENT LIABILITIES			
Trade and other payables	13	**7,680,763**	9,304,300
Salary and bonus payables		**662,285**	776,939
Tax payable		**31,319**	101,124
Loan from a related party	14	**2,371,040**	693,700
Interest-bearing bank borrowings	15	**570,404**	5,296,469
Other current liabilities	12	**495,290**	543,649
Total current liabilities		**11,811,101**	16,716,181
NET CURRENT ASSETS		**4,985,477**	4,835,611
TOTAL ASSETS LESS CURRENT LIABILITIES		**62,380,741**	63,827,876
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**297,475**	234,456
Provisions	16	**–**	14,505
Interest-bearing bank borrowings	15	**1,739,515**	2,057,206
Long term bonds	17	**24,965,089**	25,279,744
Deferred revenue	18	**867,029**	936,804
Employee benefit liabilities		**10,563**	8,783
Total non-current liabilities		**27,879,671**	28,531,498
Net assets		**34,501,070**	35,296,378
EQUITY			
Equity attributable to owners of the Company			
Issued capital	19	**4,771,592**	4,771,592
Reserves		**29,622,431**	30,434,776
		34,394,023	35,206,368
Non-controlling interests		**107,047**	90,010
Total equity		**34,501,070**	35,296,378

Qi Meisheng
Director

Li Feilong
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	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 2017 (audited)	**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**
(Loss)/profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(369,513)**	**–**	**(369,513)**	**19,147**	**(350,366)**
Other comprehensive expense for the period	**–**	**–**	**–**	**(21,633)**	**–**	**(182,619)**	**–**	**–**	**(204,252)**	**(2,110)**	**(206,362)**
Total comprehensive (expense)/ income for the period	**–**	**–**	**–**	**(21,633)**	**–**	**(182,619)**	**(369,513)**	**–**	**(573,765)**	**17,037**	**(556,728)**
Final 2016 dividend paid (note 6)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(238,580)**	**(238,580)**	**–**	**(238,580)**
At 30 June 2017 (unaudited)	**4,771,592**	**12,371,737**	**2,508,656**	**14,371**	**(6,378)**	**(108,304)**	**14,842,349**	**–**	**34,394,023**	**107,047**	**34,501,070**
At 1 January 2016 (audited)	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)/profit for the period	–	–	–	–	–	–	(8,403,180)	–	(8,403,180)	3,650	(8,399,530)
Other comprehensive (expense)/ income for the period	–	–	–	(77,608)	–	186,068	–	–	108,460	1,850	110,310
Total comprehensive (expense)/ income for the period	–	–	–	(77,608)	–	186,068	(8,403,180)	–	(8,294,720)	5,500	(8,289,220)
Capital contribution by non-controlling interests upon the establishment of a subsidiary	–	–	–	–	–	–	–	–	–	27	27
Final 2015 dividend paid (note 6)	–	–	–	–	–	–	–	(324,468)	(324,468)	–	(324,468)
At 30 June 2016 (unaudited)	4,771,592	12,371,737	2,508,656	13,457	(41,505)	(5,195)	18,503,448	–	38,122,190	92,819	38,215,009

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	**2016**
	RMB'000	**RMB'000**
	(Unaudited)	**(Unaudited)**
NET CASH FROM OPERATING ACTIVITIES	**396,002**	304,648
INVESTING ACTIVITIES		
Purchases of property, plant and equipment and other intangible assets	**(1,584,728)**	(1,085,259)
Government grant received	**600**	578
Purchase of investments in corporate wealth management products, liquidity funds and treasury bond related investments	**(5,000,000)**	(6,800,000)
Proceeds on disposal/maturity of investments in corporate wealth management products, liquidity funds and treasury bond related investments	**10,095,629**	6,454,038
Proceeds from disposal of property, plant and equipment	**9,696**	17,227
Decrease in pledged deposits	**2,431**	10,645
Interest received	**52,508**	54,366
Dividends received from joint ventures	**59,597**	43,377
Deposits for acquisition of property, plant and equipment and other intangible assets	**(69,833)**	(162,107)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	**3,565,900**	(1,467,135)
FINANCING ACTIVITIES		
New loan raised from a related party	**1,722,884**	–
Capital contribution from non-controlling interest on the establishment of a subsidiary	**–**	27
Proceeds from issue of long term bonds	**–**	5,000,000
Expenses on issue of long term bonds	**–**	(7,000)
Repayment of bank loans	**(4,994,919)**	(7,691,715)
Dividends paid	**(238,580)**	(324,468)
Interest paid	**(626,099)**	(477,132)
NET CASH USED IN FINANCING ACTIVITIES	**(4,136,714)**	(3,500,288)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(174,812)**	(4,662,775)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**6,071,069**	12,573,958
Effect of foreign exchange rate changes	**(158,623)**	77,374
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**5,737,634**	7,988,557

1. Corporate information and principal activities

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 No.1581, Haichuan Road, Tanggu Ocean Hi-tech Zone, Binhai Hi-tech Development District, Tianjin, the PRC. As part of the reorganisation (the "Reorganisation") of China National Off-shore 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") are 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 condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

As at 30 June 2017, particulars of the principal subsidiaries of the Group are as follows:

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 30 June 2017	30 June 2016	Principal activities
COSL Chemicals (Tianjin), Ltd.	Tianjin, PRC 7 September 1993	PRC	RMB20,000,000	**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 exploration services
COSL-HongKong Limited	Hong Kong 1 December 2005	Hong Kong	Hong Kong Dollar 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 exploration services
COSL Norwegian AS ("CNA")	Norway 23 June 2008	Norway	Norwegian Krone ("NOK") 1,541,328,656	**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	RMB470,000,000	**100%**	100%	Provision of geophysical and surveying services
COSL Drilling Saudi Ltd.	Saudi Arabia 19 April 2016	Saudi Arabia	Saudi Riyal 375,000	**96%**	96%	Provision of drilling services

1. Corporate information and principal activities (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 condensed consolidated financial statements for the six months ended 30 June 2017 and 2016.

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 current interim period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

As at 30 June 2017, particulars of the joint ventures of the Group are as follows:

Name	Nominal value of issued ordinary/ registered share capital	Place and date of incorporation/ registration and operations	Percentage of Ownership interest 2017	Percentage of Ownership interest 2016	Percentage of Voting rights held 2017	Percentage of Voting rights held 2016	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

(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 condensed 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 condensed consolidation financial statements using the equity method.

All of the above investments in joint ventures are directly held by the Company.

2. Basis of preparation and accounting policies

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 "*Interim Financial Reporting*" issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the HKSE.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

Accounting policies and adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016. The adoption of amendments to standards that are mandatorily effective for the current interim period does not have any material impact on the accounting policy adopted, financial position or performance of the Group and/or disclosures set out in these condensed consolidated financial statements.

2A. Significant event

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. During the current interim period, certain written pleadings have been submitted by COM to the court. As at the date of approval of these condensed consolidated financial statements, the court hearing of the Claim has yet commenced.

3. 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 before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, exchange (losses)/gains and investment income are excluded from such measurement.

3. Operating segment information (continued)

All assets are allocated to reportable segments other than certain cash and cash equivalents (funds managed by the corporate treasury), pledged deposits, 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.

Six months ended 30 June 2017 (Unaudited)	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 sale surtaxes	2,795,449	2,479,908	1,138,922	681,591	7,095,870
Sales surtaxes	1,663	3,131	1,198	354	6,346
Sales to external customers, before net of sales surtaxes	2,797,112	2,483,039	1,140,120	681,945	7,102,216
Intersegment sales	30,181	121	1,289	–	31,591
Segment revenue	2,827,293	2,483,160	1,141,409	681,945	7,133,807
Elimination	(30,181)	(121)	(1,289)	–	(31,591)
Group revenue	2,797,112	2,483,039	1,140,120	681,945	7,102,216
Segment results	(203,976)	524,140	106,513	(152,613)	274,064
Reconciliation:					
Exchange loss, net					(122,723)
Finance costs					(579,424)
Interest income					47,682
Investment income					124,966
Loss before tax					(255,435)
Income tax					94,931
As at 30 June 2017 (Unaudited)					
Segment assets	46,445,009	7,069,515	8,615,412	5,642,627	67,772,563
Unallocated assets					6,419,279
Total assets					74,191,842
Segment liabilities	3,908,434	3,094,648	1,482,423	902,160	9,387,665
Unallocated liabilities					30,303,107
Total liabilities					39,690,772

3. Operating segment information (continued)

Six months ended 30 June 2016 (Unaudited)	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 sale surtaxes	3,501,801	2,134,848	859,385	466,610	6,962,644
Sales surtaxes	8,922	7,287	10,178	716	27,103
Sales to external customers, before net of sales surtaxes	3,510,723	2,142,135	869,563	467,326	6,989,747
Intersegment sales	27,872	12,151	14,286	2,821	57,130
Segment revenue	3,538,595	2,154,286	883,849	470,147	7,046,877
Elimination	(27,872)	(12,151)	(14,286)	(2,821)	(57,130)
Group revenue	3,510,723	2,142,135	869,563	467,326	6,989,747
Segment results	(7,550,228)	(149,798)	(148,802)	(264,509)	(8,113,337)
Reconciliation:					
Exchange gain, net					21,792
Finance costs					(469,386)
Interest income					41,626
Investment income					155,248
Loss before tax					(8,364,057)
Income tax					35,473
As at 31 December 2016 (Audited)					
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

4. Loss before tax

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

	Note	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Loss on disposal of plant and equipment, net	*8*	**21,133**	14,333
Reversal of impairment of accounts receivable		**(44,431)**	(2,543)
Provision for impairment of other receivables		**9,767**	1,278
Provision for/(reversal of) impairment of inventories		**1,627**	(107)
Income from investments in corporate wealth management products, liquidity funds and treasury bond related investments		**124,966**	155,248
Cost of inventories recognised as an expense		**558,256**	902,322

5. 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 High-New Technical Enterprise ("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 six months ended 30 June 2017 (six months ended 30 June 2016: 15%).

The Group's activities in Indonesia are mainly subject to corporate income tax of 25% (six months ended 30 June 2016: 25%). The Group's activities in Australia are subject to income tax of 30% (six months ended 30 June 2016: 30%) based on its taxable profit generated. The Group's activities in Mexico are subject to income tax of 30% (six months ended 30 June 2016: 30%). The Group's activities in Norway are subject to corporate income tax of 24% (six months ended 30 June 2016: 25%). The Group's activities in the United Kingdom are subject to income tax of 19% (six months ended 30 June 2016: 20%). The Group's activities in Qatar are subject to income tax of 10% (six months ended 30 June 2016: 10%). The Group's activities in Iraq are subject to withholding tax based on 7% (six months ended 30 June 2016: 7%) of revenue generated in Iraq. The Group's activities in Singapore are subject to income tax of 17% (six months ended 30 June 2016: 17%). The Group's activities in the United States are subject to income tax of 34% (six months ended 30 June 2016: 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% (six months ended 30 June 2016: 22%). The Group's activities in Canada are subject to the net federal corporate income tax of 15% (six months ended 30 June 2016: 15%) and provincial income tax ranging from 11% to 16% (six months ended 30 June 2016: 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% (six months ended 30 June 2016: 24%). The Group's activities in New Zealand are subject to withholding tax based on 15% (six months ended 30 June 2016: 15%) of revenue generated in New Zealand. The Group's activities in Saudi Arabia are subject to income tax of 20% (six months ended 30 June 2016: 20%). The Group's taxes pertaining to drilling activities in Oman are borne by the customer. The income tax of the Group's activities in the Gabonese Republic commencing in the current interim period is borne by the customer.

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

	Six months ended 30 June	
	2017	**2016**
	RMB'000	**RMB'000**
	(Unaudited)	**(Unaudited)**
Hong Kong profits tax	–	–
Overseas income taxes:		
Current	**24,599**	108,414
Deferred	**(8,213)**	(77,762)
PRC corporate income taxes:		
Current	**1,800**	3,067
Deferred	**77,568**	8,142
Over provision in prior year	**(823)**	(6,388)
Total tax charge for the period	**94,931**	35,473

5. Income tax (continued)

A reconciliation of the income tax expense applicable to loss before tax at the statutory rate for Mainland China, where the Company and its key joint ventures are domiciled, to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Six months ended 30 June			
	2017 RMB'000 (Unaudited)	**%**	**2016 RMB'000 (Unaudited)**	**%**
Loss before tax	**(255,435)**		(8,364,057)	
Tax at the statutory tax rate of 25% (six months ended 30 June 2016: 25%)	**(63,859)**	**25.0**	(2,091,014)	25.0
Tax effect as an HNTE	**(23,028)**	**9.0**	(1,710)	0.1
Tax effect of income not subject to tax	**(9,134)**	**3.6**	(7,075)	0.1
Tax effect of expense not deductible for tax	**22,134**	**(8.7)**	39,188	(0.5)
Tax effect of impairment of goodwill	**–**	**–**	863,844	(10.3)
Tax benefit for qualifying research and development expenses	**(17,837)**	**7.0**	(19,288)	0.2
Effect of non-deductible-expenses/(non-taxable profit) and different tax rates for overseas subsidiaries	**146,416**	**(57.3)**	622,217	(7.5)
Tax effect of tax losses and deductible temporary differences unrecognised	**4,363**	**(1.7)**	518,769	(6.2)
Utilisation of tax losses previously not recognised	**–**	**–**	(17,204)	0.2
Translation adjustment (a)	**58,926**	**(23.1)**	114,660	(1.4)
Others	**(23,050)**	**9.0**	13,086	(0.1)
Total tax charge at the Group's effective tax rate	**94,931**	**(37.2)**	35,473	(0.4)

(a) The translation adjustment mainly relates to the tax effect of difference between the profit before tax determined on the tax basis in NOK and that determined on the accounting basis of some group companies in Norway in US dollars, the functional currency of these companies.

6. Dividends paid and proposed

During the current interim period, a final dividend of RMB0.05 per ordinary share of the Company comprising 4,771,592,000 ordinary shares existed as at 31 December 2016 (2016: RMB0.068 per ordinary share of the Company comprising 4,771,592,000 ordinary shares existed as at 31 December 2015) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to RMB238,580,000 (2016: RMB324,468,000).

The board of directors has determined that no dividend will be paid in respect of the current interim period.

7. Loss per share attributable to owners of the company

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	**2016 RMB'000 (Unaudited)**
Loss		
Loss for the purposes of basic loss per share (loss for the period attributable to owners of the Company)	**(369,513)**	(8,403,180)

7. Loss per share attributable to owners of the company (continued)

	Six months ended 30 June	
	2017	**2016**
	(Unaudited)	**(Unaudited)**
Number of shares		
Number of ordinary shares		
for the purpose of basic loss per share	**4,771,592,000**	4,771,592,000

No diluted loss per share is presented for the six-month periods ended 30 June 2017 and 2016 as the Group had no dilutive potential ordinary shares in issue during those periods.

8. Property, plant and equipment

During the current interim period, the Group acquired certain machines and equipment, motor vehicles and incurred cost on construction in progress with an aggregate cost amounting to approximately RMB1,364,035,000 (six months ended 30 June 2016: RMB2,015,095,000). Machines and equipment with an aggregate net carrying amount amounting to RMB30,829,000 (six months ended 30 June 2016: RMB31,560,000) were disposed of during the current interim period, resulting in a loss on disposal of RMB21,133,000 (six months ended 30 June 2016: RMB14,333,000).

Out of the total interest costs incurred, an amount of approximately RMB8,203,000 (six months ended 30 June 2016: RMB7,548,000) was capitalised in property, plant and equipment in the current interim period.

During the current interim period, the Directors carried out the review of the recoverable amounts of the Group's plant and machinery due to lack of sustained recovery of global oilfield services market and oil price. Those assets are used in the Group's drilling services segment, marine support services segment and geophysical and surveying services segment. No impairment loss has been recognised in current interim period.

During the six months ended 30 June 2016, impairment loss of RMB3,688,408,000 was recognised which was classified under drilling services segment based on the review of recoverable amounts of the Group's plant and machinery. The recoverable amount of the relevant assets, each of which was identified as a cash-generated unit within the drilling services segment, has 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.

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%. 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.

9. Goodwill

In prior years, goodwill was generated in the acquisition of COSL Holding AS in 2008, which was combined into CNA by merger during the year ended 31 December 2016 (collectively referred to as the "CNA"), and was allocated to a group of the drilling services cash-generating units under the drilling services segment for impairment testing. During the six months ended 30 June 2016, due to the continued deterioration of global oilfield services market and low level of oil price, the capital expenditure in global oil exploration and production sectors continuously declined and both the service prices and utilization rates of the plant and machinery decreased, the goodwill of approximately RMB3,455,378,000 was fully impaired during the six months ended 30 June 2016 based on the impairment assessment review made by the management of the Company.

10. 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 1 year to its trade customers with good trading history in overseas. The 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:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Outstanding balances aged:		
Within six months	**6,434,361**	4,226,057
Six months to one year	**281,353**	280,809
One to two years	**272,209**	80,571
Over two years	**191,430**	208,527
	7,179,353	4,795,964

11. Notes receivable

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade acceptances	**3,980**	1,839,346
Bank acceptances	**350**	4,960
	4,330	1,844,306

All the notes receivable are of trading nature and will be due within 180 days from the date of issuance, in which the trade acceptances are normally settled within 180 days from the date of issuance.

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Investments in corporate wealth management products	**1,317,921**	2,808,327
Investments in liquidity funds (a)	**–**	1,834,501
Current portion of deferred expenses (b)	**46,513**	62,743
Value-added tax to be deducted and prepayment	**60,271**	51,379
Value-added tax recoverable	**55,043**	47,221
Treasury bond related investments	**745,365**	2,411,899
Other current assets	**2,225,113**	7,216,070
Current portion of deferred revenue (note 18)	**(95,499)**	(106,344)
Output value-added tax to be recognised	**(262,360)**	(95,748)
Provision of onerous contracts (note 16)	**(137,431)**	(341,557)
Other current liabilities	**(495,290)**	(543,649)
Non-current portion of deferred expenses (b)	**112,340**	126,000
Value-added tax recoverable	**77,011**	75,886
Tax recoverable (b)	**142,925**	144,062
Deposits paid for the acquisition of property, plant and equipment (b)	**53,992**	93,173
Prepayment for certain land use rights in PRC(b)	**15,841**	–
Other non-current assets	**402,109**	439,121

12. Other current assets/liabilities and other non-current assets (continued)

(a) The liquidity funds have no fixed maturity date and coupon rate. Details of fair value measurement are disclosed in note 23. The Group disposed all liquidity funds during current interim period.

(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, deposits paid for the acquisition of property, plant and equipment and prepayment for certain land use rights in PRC. The current portion of deferred expenses was recorded as other current assets. The deferred expenses are amortised over their respective drilling contracts periods.

13. Trade and other payables

The aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Outstanding balances aged:		
Within one year	**6,687,379**	8,172,037
One to two years	**122,250**	135,473
Two to three years	**69,802**	87,928
Over three years	**69,512**	66,433
	6,948,943	8,461,871

14. Loan from a related party

During the current interim period, the Group borrowed new loans with carrying amount of US$250,000,000 (equivalent to approximately RMB1,722,884,000) (six month ended 30 June 2016: Nil) from a fellow subsidiary, which is repayable on demand and carries effective interest rate of LIBOR+0.5% per annum. The proceeds were used to financing CNA's daily operations.

15. Interest-bearing bank borrowings

During the current interim period, the Group did not obtain any new bank loan, but repaid bank loans of US$721,410,000 (equivalent to approximately RMB4,994,919,000) (six months ended 30 June 2016: US$1,181,755,000 (equivalent to approximately RMB7,691,715,000)).

For all bank borrowings of the Group, the weighted average effective interest rate for the six months ended 30 June 2017 was 2.67% per annum (six months ended 30 June 2016: 1.85% per annum) and the borrowings are repayable in instalments over a period of 1 to 19 years.

16. Provisions

	Provision for onerous contracts RMB'000
At 1 January 2016 (audited)	–
Provisions for the year	356,062
At 31 December 2016 (audited)	356,062
Provisions for the period	–
Decrease during the period	(218,631)
At 30 June 2017 (unaudited)	137,431

16. Provisions (continued)

The following is the analysis of the provision for onerous contracts for financial reporting purposes:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Current portion	**137,431**	341,557
Non-current portion	**–**	14,505
Balance at end of the period/year	**137,431**	356,062

Due to lack of sustained recovery of global oilfield services market and oil price, 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.

17. Long term bonds

	Year of maturity	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
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	**1,998,211**	1,997,744
(Type II of the First Tranche Issue as defined below) (b)	2026	**2,996,255**	2,996,045
(Type I of the Second Tranche Issue as defined below) (b)	2019	**2,097,795**	2,097,323
(Type II of the Second Tranche Issue as defined below) (b)	2021	**2,896,607**	2,896,216
Senior unsecured USD bonds (c)	2022	**6,739,115**	6,897,106
Guaranteed medium term notes			
First Drawdown Note (d)	2020	**3,372,863**	3,449,024
Second Drawdown Note (d)	2025	**3,364,243**	3,446,286
		24,965,089	25,279,744

(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, and the redemption or maturity date is 14 May 2022.

(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.

17. Long term bonds (continued)

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 is 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 is 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.

18. 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 a wholly-owned subsidiary of a state-owned bank 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 revenues 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 revenues of the Group.

	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 2016 (audited)	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 (audited)	**336,718**	**119,601**	**199,169**	**26,538**	**–**	**228,301**	**132,821**	**1,043,148**
Additions	**–**	**4,809**	**600**	**43,022**	**–**	**–**	**–**	**48,431**
Credited to profit or loss	**(41,128)**	**(27,070)**	**(11,043)**	**(2,193)**	**–**	**(27,742)**	**(5,091)**	**(114,267)**
Exchange realignment	**(7,289)**	**(2,528)**	**–**	**–**	**–**	**(4,967)**	**–**	**(14,784)**
At 30 June 2017 (unaudited)	**288,301**	**94,812**	**188,726**	**67,367**	**–**	**195,592**	**127,730**	**962,528**

18. Deferred revenue (continued)

The following is the analysis of the deferred revenue balances for financial reporting purposes:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Current portion	**95,499**	106,344
Non-current portion	**867,029**	936,804
Balance at end of the period/year	**962,528**	1,043,148

19. Issued capital

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
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

20. 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.

As at 30 June 2017 and 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	**283,337**	591,054
In the second to fifth year, inclusive	**1,567,023**	1,377,171
	1,850,360	1,968,225

21. Capital commitments

The Group had the following capital commitments, principally for construction and purchases of property, plant and equipment at the end of the reporting period:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Contracted, but not provided for	**1,050,162**	1,287,341

22. Related party transactions

As disclosed in note 1, the Company is a subsidiary of CNOOC, which is a SOE subject to the control of the State Council of the PRC Government. The Group has extensive transactions and relationships with the members of CNOOC. The transactions were made on terms agreed among the parties. The Directors are of the opinion that the transactions with related parties were conducted in the ordinary course of business.

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

In addition to the transactions and balances detailed elsewhere in these condensed consolidated financial statements, the following is a summary of significant transactions carried out between the Group and (i) CNOOC Limited and its subsidiaries (the "CNOOC Limited Group"); (ii) CNOOC and its subsidiaries, excluding the CNOOC Limited Group (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

		Six months ended 30 June	
		2017	**2016**
		RMB'000	**RMB'000**
		(Unaudited)	**(Unaudited)**
i	CNOOC Limited Group		
	Provision of drilling services	**1,469,169**	1,270,944
	Provision of well services	**2,297,850**	1,920,365
	Provision of marine support services	**1,073,507**	781,237
	Provision of geophysical and surveying services	**318,448**	281,612
		5,158,974	4,254,158
ii	CNOOC Group		
	Provision of drilling services	**59,013**	2,855
	Provision of well services	**69,376**	27,772
	Provision of marine support services	**19,363**	2,654
	Provision of geophysical and surveying services	**13,657**	27,412
		161,409	60,693
iii	Joint ventures		
	Provision of well services	**4,754**	2,458
	Provision of geophysical and surveying services	**–**	928
		4,754	3,386

22. Related party transactions (continued)

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

b. Included in operating expenses

	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
i CNOOC Limited Group		
Leasing of equipment	**–**	1,203
Materials, utilities and other ancillary services	**8,808**	–
	8,808	1,203
Property services	**1,176**	–
	9,984	1,203
ii CNOOC Group		
Labour services	**1,121**	1,349
Materials, utilities and other ancillary services	**159,973**	193,960
Transportation services	**16,934**	1,579
Leasing of equipment	**45,922**	140,511
Repair and maintenance services	**846**	2,327
Management services	**2**	6
	224,798	339,732
Property services	**45,840**	40,990
	270,638	380,722
iii Joint ventures		
Materials, utilities and other ancillary services	**19,900**	5,552
Leasing of equipment	**12,389**	5,868
	32,289	11,420

c. Included in interest income

	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
CNOOC Finance Co., Ltd. ("CNOOC Finance", a subsidiary of CNOOC)		
Interest income	**9,526**	24,791

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

	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Dividend income from joint ventures	**37,597**	19,377

22. Related party transactions (continued)

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

e. Included in finance costs

During the current interim period, the finance costs on the loan from a related party (note 14) are US$2,017,000 (six months ended 30 June 2016: Nil), which is equivalent to approximately RMB13,858,000 (six months ended 30 June 2016: Nil).

f. Deposits

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Deposits placed with CNOOC Finance as at the end of the reporting period	**1,406,137**	1,801,400

g. Commitments with the related parties

i. Operating lease commitments

The Group has the following significant operating lease commitments with CNOOC Group principally for properties and equipment, which have been included in note 20:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within one year	**111,538**	112,505
In the second to fifth year, inclusive	**154,440**	213,480
	265,978	325,985

ii Capital commitments

As at 30 June 2017, the Group has no capital commitments with related parties.

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.

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Due from CNOOC Limited Group	**5,144,415**	2,869,109
Due from CNOOC Group	**155,300**	77,857
Due from joint ventures	**2,811**	1,144
	5,302,526	2,948,110

22. 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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Due from CNOOC Limited Group	**4,370**	8,104
Due from CNOOC Group	**508**	1,438
Due from joint ventures	**9,702**	13,706
	14,580	23,248
Less: Provision for impairment of other receivables	**(500)**	(500)
	14,080	22,748

Dividend receivable

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Dividend receivable from joint ventures	**40,000**	62,000

Notes receivable

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Due from CNOOC Limited Group	**–**	1,831,076

Trade and other payables

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Due to CNOOC Limited Group	**19,738**	51,601
Due to CNOOC Group	**585,154**	855,867
Due to joint ventures	**139,564**	169,371
	744,456	1,076,839

22. Related party transactions (continued)

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

h. Outstanding balances with related parties (continued)

Loan from a related party

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
An unsecured loan (note 14)	**2,371,040**	693,700

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 30 June 2017 included in accounts receivables, prepayments, deposits and other receivables, dividend receivable, notes receivables 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 +0.5% per annum 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.

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 the 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 30 June 2017, as summarised below:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Cash and cash equivalents	**571,356**	901,134
Time deposits with financial institutions	**467,530**	1,610,928
	1,038,886	2,512,062
Long-term bank loans (note 15)	**1,739,515**	2,057,206
Current portion of long term bank loans (note 15)	**570,404**	5,296,469
	2,309,919	7,353,675

22. Related party transactions (continued)

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

i. Transactions with other SOEs in the PRC (continued)

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

	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Finance costs	**80,871**	161,930

(B) Compensation of key management personnel of the Group

	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Short-term employee benefits	**2,879**	2,590
Post-employment benefits	**354**	227
Total compensation paid to key management personnel	**3,233**	2,817

23. 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

	30 June 2017 (Unaudited)		31 December 2016 (Audited)		
	Loans and receivables 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	**220,755**	**220,755**	260,440	–	260,440
Accounts receivable (note 10)	**7,179,353**	**7,179,353**	4,795,964	–	4,795,964
Notes receivable (note 11)	**4,330**	**4,330**	1,844,306	–	1,844,306
Pledged deposits	**21,375**	**21,375**	23,806	–	23,806
Cash and cash equivalents	**5,737,634**	**5,737,634**	6,071,069	–	6,071,069
Financial assets included in other current assets (note 12)	**2,063,286**	**2,063,286**	5,220,226	1,834,501	7,054,727
Total	**15,226,733**	**15,226,733**	18,215,811	1,834,501	20,050,312

23. Financial instruments (continued)

(a) Financial instruments by category (continued)

Financial liabilities

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	**7,460,685**	9,060,757
Salary and bonus payables	**662,285**	776,939
Interest-bearing bank borrowings		
– current portion (note 15)	**570,404**	5,296,469
Loan from a related party (note 14)	**2,371,040**	693,700
Subtotal	**11,064,414**	15,827,865
Non-current		
Interest-bearing bank borrowings (note 15)	**1,739,515**	2,057,206
Long term bonds (note 17)	**24,965,089**	25,279,744
Subtotal	**26,704,604**	**27,336,950**
Total	**37,769,018**	**43,164,815**

(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), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at 30/06/2017 RMB'000 (Unaudited)	Fair value as at 31/12/2016 RMB'000 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale investments – money market fund	–	1,834,501	Level 1	Quoted bid prices in an active market

23. Financial instruments (continued)

(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 condensed consolidated financial statements approximate to their fair values.

	Carrying amounts		Fair values	
	30 June 2017 RMB'000 (Unaudited)	**31 December 2016 RMB'000 (Audited)**	**30 June 2017 RMB'000 (Unaudited)**	**31 December 2016 RMB'000 (Audited)**
Financial liabilities				
Non-current				
Long term bonds (note 17)	**24,965,089**	25,279,744	**25,137,328**	25,363,569

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.

24. 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 cash equivalents 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 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.

The loans for foreign operations within the Group that form part of the Group's net investment in the foreign operations are denominated in foreign currencies, other than the functional currency of the lender.

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 30 June 2017. 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. The following table details the Group's sensitivity to a 5% (six months ended 30 June 2016: 5%) appreciation or depreciation of US dollars.

24. Financial risk management objectives and policies (continued)

Foreign currency risk (continued)

	(Decrease)/increase in loss		(Decrease)/increase in other comprehensive expense (six months ended 30 June 2016: increase/(decrease) in other comprehensive income)	
	30 June 2017 RMB'000 (Unaudited)	30 June 2016 RMB'000 (Unaudited)	30 June 2017 RMB'000	30 June 2016 RMB'000
US$	**380,546**	275,713	**345,630**	–

Interest rate risk

The fair value interest rate risk relates primarily to the Group's fixed-rate long-term bonds (see note 17) and fixed-rate bank borrowings (see note 15). The cash flow interest rate risk of the Group relates primarily to variable-rate loan from a related party (see note 14) and variable-rate bank borrowings (see note 15) and certain cash and cash equivalents. 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 loan from a related party and variable-rate bank borrowings, the analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole period. A 50 basis points (2016: 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 (2016: 50 basis points) and all other variables were held constant, the Group's post-tax loss would increase (decrease) by approximately RMB10,897,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB33,080,000) 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.

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 72% (31 December 2016: 60%) and 86% (31 December 2016: 82%) of the total trade receivables respectively.

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

24. Financial risk management objectives and policies (continued)

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. 10% of the Group's borrowings would mature in less than one year as at 30 June 2017 (31 December 2016: 18%) 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.

	30 June 2017 (Unaudited)					
	On demand or 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	**637,819**	**646,353**	**970,123**	**392,514**	**2,646,809**	**2,309,919**
Loan from a related party	**2,393,901**	**–**	**–**	**–**	**2,393,901**	**2,371,040**
Long term bonds	**905,974**	**2,905,974**	**12,109,534**	**14,297,168**	**30,218,650**	**24,965,089**
Financial liabilities included in trade and other payables	**7,460,685**	**–**	**–**	**–**	**7,460,685**	**7,460,685**
Salary and bonus payables	**662,285**	**–**	**–**	**–**	**662,285**	**662,285**
	12,060,664	**3,552,327**	**13,079,657**	**14,689,682**	**43,382,330**	**37,769,018**

	31 December 2016 (Audited)					
	On demand or 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

24. 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 six months ended 30 June 2017 and 2016.

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:

	30 June 2017 RMB'000 (Unaudited)	**31 December 2016 RMB'000 (Audited)**
Interest-bearing bank borrowings (note 15)	**2,309,919**	7,353,675
Trade and other payables (note 13)	**7,680,763**	9,304,300
Loan from a related party (note 14)	**2,371,040**	693,700
Long term bonds (note 17)	**24,965,089**	25,279,744
Less: Cash and cash equivalents	**(5,737,634)**	(6,071,069)
Net debt	**31,589,177**	36,560,350
Equity attributable to owners of the Company	**34,394,023**	35,206,368
Non-controlling interests	**107,047**	90,010
Total capital	**34,501,070**	35,296,378
Capital and net debt	**66,090,247**	71,856,728
Gearing ratio	**48%**	51%

25. Approval of these condensed consolidated financial statements

These condensed consolidated financial statements were approved and authorised for issue by the board of directors on 23 August 2017.

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Yu Guimin
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CHINA OILFIELD SERVICES LIMITED
中海油田服務股份有限公司
(Stock Code 股票代號 A 股: 601808 ; H 股: 2883)

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