COSL

CHINA OILFIELD SERVICES LIMITED

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

NAVIGATION FOR BETTER

ANNUAL REPORT 2017

Company Profile

INTRODUCTION

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

OUR PERFORMANCE

In 2017, COSL provided clients with single, bundled, integrated and general contracting business services in each phase of exploration, development and production of oil and gas through business in four main segments (drilling services, well services, marine support services and geophysical and surveying services). Furthermore, the Company's performance in some broaden operating aspects such as society and environment has also fulfilled its expectation (details please refer to Financial Statements and Sustainability Report).

STRATEGIC TARGET

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

CORPORATE GOVERNANCE

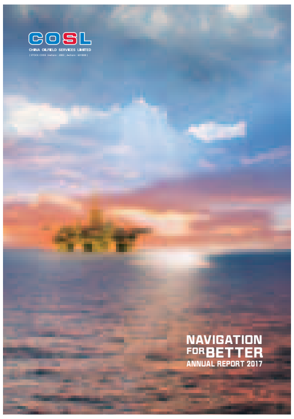
Corporate governance of COSL includes not only those set out in the Corporate Governance Code of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Company Law of PRC and the Articles of Association of the Company, but also stricter and self-established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

PROSPECT

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

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

Content



Company Profile

Drilling Services

Well Services

Marine Support Services

Geophysical and Surveying Services

Business Overview

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

DOMESTIC

The Company maintains the leading position in China offshore oilfield services market and provides services in drilling, well, marine support and geophysical and surveying. Revenue from Mainland China in 2017 amounted to RMB13.06 billion, representing 75.1% of the total revenue.

INTERNATIONAL

In 2017, the Company achieved breakthroughs in exploring new businesses, markets and customers on the basis of the traditional international operation markets. Revenue from the international market in 2017 amounted to RMB4.32 billion, representing 24.9% of the total revenue.

Asia Pacific region: Businesses involve geophysical services, drilling, logging, directional drilling, cementing, drilling & completion fluids, well completion, work-over services, stimulation, marine support services and product sales.

Middle East region: Businesses involve drilling, logging, directional drilling, cementing, drilling & completion fluids, well completion, work-over services, stimulation, geophysical services and product sales.

America region: Businesses involve drilling, cementing, drilling & completion fluids, logging, geophysical services and marine support services.

Europe region: Businesses involve drilling services and accommodation rigs.

Africa region: Businesses involve drilling services and geophysical services.

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

2017 Performances

Total revenue for the year: **RMB17,379.4 million**

Profit from operations: **RMB1,427.5 million**

Profit for the year: **RMB71.2 million**

Basic earnings per share: **RMB0.69 cent/share**

Total assets: **RMB73,857.3 million**

Total equity: **RMB34,677.8 million**

Financial Highlights

Unit: RMB million

	2017	2016	Change %
Revenue			
Domestic revenue	13,056.8	10,266.8	27.2
International revenue	4,322.6	4,818.7	(10.3)
Total	17,379.4	15,085.5	15.2
Operating expenses	(16,275.0)	(26,606.5)	(38.8)
Profit/(loss) from operations	1,427.5	(11,367.7)	(112.6)
Profit/(loss) before tax	332.5	(11,807.4)	(102.8)
Income tax (expense)/credit	(261.3)	347.9	(175.1)
Profit/(loss) for the year	71.2	(11,459.5)	(100.6)
Basic earnings/(loss) per share (cent/share)	0.69	(240.09)	(100.3)
Net assets per share (RMB/share)	7.3	7.4	(1.4)
Ratio			
Return on equity (%)	0.2	(27.9)	
Return on asset (%)	0.1	(13.2)	
Gearing ratio (%)	44.5	50.9	
Price/Earnings ratio	921.9	(2.7)	
Dividend yield (%)	0.9	0.8	
Dividend payout ratio (%)	865.8	(2.1)	

Notes:

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

FIVE-YEAR FINANCIAL POSITION REVIEW

Unit: RMB million

Major financial data and indicators	2017	2016	Change over the same period last year (%)	2015	2014	2013
Revenue	17,379.4	15,085.5	15.2	23,174.2	32,993.2	27,363.8
Profit/(loss) from operations	1,427.5	(11,367.7)	(112.6)	1,631.5	8,425.9	7,648.3
Profit/(loss) for the year	71.2	(11,459.5)	(100.6)	1,108.7	7,520.2	6,726.4
Basic earnings/(loss) per share (cent/share)	0.69	(240.09)	(100.3)	22.51	157.36	149.40
	As at the end of 2017	As at the end of 2016	Change over the end of the same period last year (%)	As at the end of 2015	As at the end of 2014	As at the end of 2013
Total equity	34,677.8	35,296.4	(1.8)	46,828.7	47,322.1	37,259.8
Total assets	73,857.3	80,544.1	(8.3)	93,525.1	86,874.3	79,262.3

Chairman's Statement

"In 2017, the international crude oil price and the oilfield services industry have slightly recovered in general. However, domestic and foreign oil and gas companies still remained relatively low level of capital expenditures to oil and gas exploration and development, and the oilfield service industry continued to suffer from great pressure. Against such sluggish industrial recovery, the Board appointed me as the chairman on 16 December 2016. In this regard, I was grateful for our shareholders' and the Board's trust in me, and I realized my responsibilities inherent in that role. During the year, all the directors of the Board of the Company performed their duties with due diligence and democratic decision-making. In face of the severe industrial situation, all directors analyzed and discussed about the industrial situation to ensure the sustainable healthy development of our principal businesses. Under such extremely challenging and competitive environment, the Company has successfully "turned losses into profits" while it has also identified new development visions and strategies in the medium to long term. We strived for innovation and changes and committed to enhancing our core competitiveness, laying an important foundation for our sustainable development."

Lv Bo
Chairman

Dear shareholders,

In 2017, the international crude oil price and the oilfield services industry have slightly recovered in general. However, domestic and foreign oil and gas companies still remained relatively low level of capital expenditures to oil and gas exploration and development, and the oilfield service industry continued to suffer from great pressure. Against such sluggish industrial recovery, the Board appointed me as the chairman on 16 December 2016. In this regard, I was grateful for our shareholders' and the Board's trust in me, and I realized my responsibilities inherent in that role. During the year, all the directors of the Board of the Company performed their duties with due diligence and democratic decision-making. In face of the severe industrial situation, all directors analyzed and discussed about the industrial situation to ensure the sustainable healthy development of our principal businesses. Under such extremely challenging and competitive environment, the Company has successfully "turned losses into profits" while it has also identified new development visions and strategies in the medium to long term. We strived for innovation and changes and committed to enhancing our core competitiveness, laying an important foundation for our sustainable development.

1. CORPORATE GOVERNANCE AND RISK CONTROL

In 2017, in view of the industrial situation, the Board adopted an improved risk appraisal assessment model that would enable full control of risk to further optimize its internal management control system and introduce vigorous regulation in significant areas. In the meantime, the Company implemented a series of measures for maintaining compliance disclosure, public shareholders' interests and protection of investors, including preparing the "Administrative Measures for Information Disclosures Suspension and Business Waiver Management" and adopting separate counting for small and medium investors in the "Articles of Association". It also should be pointed out that the Board achieved further optimal allocation of Company assets and equipment in response to changing market and customer demands. These measures enable the Company to more effectively follow the industry's development and customer demands while steadily maintaining the Company's strategic development path. In 2017, due to retirement of directors and change of work, our directors have been changed. The Company's current Board composition is in line with the principle of diversity of directors and our directors have sufficient experience in the industrial, financial and legal sectors. Our independent directors serve as the chairman in several professional committees which ensures effective corporate governance.

2. SUSTAINABLE DEVELOPMENT AND FULFILLING SOCIAL RESPONSIBILITIES

Sustainability has always been at the heart of the Company's development strategy, and to this end, the Company continues to improve health, safety and the environment in full compliance with the 10 Principles of the United Nation's Global Compact and relevant regulations. In 2017, the Company continued its sustainable development philosophy of "Green, Clean, Low-carbon and Recycling Economy" while making progress in the area of environmental protection. The Company also continued to build intrinsically safe management practices by shoring up risk weaknesses. Though accelerating its overseas market expansion, the Company still devoted attention and resources to charitable activities, environmental protection, staff care and social relief work. The Company participated in and donated to charitable activities in all its operational locales. In 2017, the Company was included as a constituent stock in the Hang Seng (China A) Corporate Sustainability Benchmark Index for the sixth consecutive year and became a constituent stock in the Hang Seng Corporate Sustainability Benchmark Index for the fourth year, a recognition of the Company's sustainable development strategy by the capital market.

3. IMPLEMENTATION OF MEDIUM TO LONG-TERM STRATEGY AND INNOVATION & DEVELOPMENT

Severe industry conditions in 2017 did not distract the Company from its medium to long term path of strategic development path with a focus on improving profitability. The Company made great progress in both technological development and market expansion. In 2018, the Company will continue to grow steadily along its development path, and will pursue deeper reforms to achieve its "dual 50%" strategic target for the medium to long term. Goals include: first, adapting to the new pattern and model in the oil and gas industry, transforming growth drivers, furthering the synergy of different sectors, and striving to improve the contributions of the technical sector and overseas revenue; second, continuing to accelerate the practical implementation of scientific research achievements, striving to achieve technical breakthroughs in highly difficult industries, providing environmental protection, facilitating the high-end integration and transformation of the technology sector from providing diversified services to preparing package solutions for customers; and third, reforming and making innovations to the management model as well as adopting flexible market strategies and business models to speed the expansion of potential markets.

4. THE BOARD'S MAJOR CONCERNS IN 2018

In 2018, the international oilfield services industry is expected to see a certain degree of recovery. The Board and management will closely monitor the situation, improve development quality and implement management and controls that effectively respond to market orientation and customer demand. This will include: first, strictly controlling our budget and ensuring low costs and healthy cash flow; second, continuing to improve the internal control system, and adopting corresponding measures for risk control to effectively avoid and reduce our operational risks; third, closely tracking changes in domestic and overseas customer investment and market demand and determining demand for resources to reduce rising cost pressures by strictly controlling the size of capital investments; and fourth, speeding the implementation of medium to long term strategies, accelerating the integration and consolidation of existing capacities, and promoting new technologies to build technical products with strategic advantages.

After years in recession, the international oil and gas industry now sees signs of a slow recovery since 2018. However the situation remains uncertain and complex, with more competitive pressures due to the industry's own unique characteristics. COSL intends to eagerly seize opportunities, deepen reform and turn challenges into opportunities. It will practice the core value of creating "win-win" relationships with shareholders, clients, employees and business partners. Along with the members of the Board, I believe that with the support of all shareholders and friends and the concerted efforts of the management

and employees, the Company will not only adapt to new conditions, but thrive in them. Finally, on behalf of the Board, I would like to express my gratitude to all of our staff for their total dedication to the Company's development, and to our shareholders and friends for their support and encouragement.

Lv Bo
Chairman

27 March 2018

Chief Executive Officer's Report

Qi Meisheng
Chief Executive Officer and President of COSL

Dear shareholders,

In 2017, international crude prices climbed after a period of fluctuation and the oil and gas industry's expenditures on exploration and development increased compared to 2016; factors which will facilitate the slow recovery of the oilfield service market. However, due to uncertainties over the subsequent trend of oil pricing and the lack of radical improvement to the oversupply situation, market competition remains intense. Against this background, the Company consistently improved its core competitiveness by such means as maintaining its presence in the core China offshore oilfield services market, expanding its overseas markets, focusing on lean cost management, speeding up the industrialization of its own technologies, and optimizing the assets structure. The Company advanced its "dual 50%" strategy to a high degree, and achieved its operational task of turning losses into profits.

1. STRIVING FOR EXCELLENCE IN EQUIPMENT MANAGEMENT AND CONTINUING QHSE IMPROVEMENT

The Company continued to strengthen its intrinsically safe management and effectively improved on-site working standards. Overall risk control was significantly improved. The Company was prominently recognized by both domestic and overseas customers for its excellent safety management practices, safety culture and safety performance record. The internationalization and industrialization of the Company's QHSE also brought outstanding results. During 2017, the Company's overall stable security situation and its excellent operational and maintenance practices led to an equipment availability of 99.77% and an OSHA recordable incident occurrence rate of 0.0537.

2. CONTINUOUSLY IMPROVING SERVICE MODELS AND THE EXPANDING SCALE EFFECT OF OVERSEAS MARKETS

The Company continued to consolidate its leading position in China offshore oilfield services market. In line with customer demand, the Company explored new service models while continuing to provide customers with efficient, high-quality services which leveraged its advantages under low oil prices. It consistently expanded the scale effect of overseas markets and advanced their further exploration. With CNOOC winning more overseas projects, the Company optimized the organizational structure and management model of its overseas companies and improved the regional layout of overseas markets to improve overall profitability. During 2017 the Company made breakthroughs in the exploration of new businesses, markets and customers. For example, in American markets, its drilling work broke efficiency records on block operations. The Company was once again named "Excellent Contractor of the Year" by Petroleos Mexicanos (PEMEX). In the Asia-Pacific region, the drilling and completion fluids business obtained onshore operation projects with high temperature, high pressure and high difficulty, while the drilling business won a succession of long-term customer contracts. In the Middle East, the Company completed various IPM services and operations for drilling wells. In the Far East, its seismic acquisition and drilling services completed operations to a high standard of quality, safety and efficiency. In Africa, it set new records on the maximum daily geophysical 3D seismic acquisition domestically.

3. STEADILY ADVANCING R&D OF TECHNICAL PRODUCTS AND SPEEDING SERIATION AND INDUSTRIALIZATION

In 2017, the Company accelerated the seriation and industrialization of technical products, bringing to it obvious competitive and market recognition advantage.

The technology sector's contribution to our overall business operation further increased. The Company prepared plans for the further industrialization of technical products, while various existing programs met their targets for industrialization or achieving industrial application. For example, the self-developed Drilog® LWD and Welleader® RSS are now widely applied in the onshore and offshore Chinese markets. The cementing technology forms high-temperature and ultra-high-temperature cement slurries at 120-260℃. The Company's geophysical set seismic exploration equipment has also reached production. Well completion instruments and sieve tube products have rapidly established full-chain capacities. In the current low oil price situation, the application of these and other technical developments highlighted the Company's comparable advantages in reducing the cost of barreled oil, improving oilfield recovery efficiency, and providing efficient, high-quality services. The Company has increased the speed of research and development of technical products and improved its capability to rapidly achieve commercial applications of current technologies through external partnerships.

4. SOUND FINANCIAL INDICATORS AND OUTSTANDING ACHIEVEMENTS IN REDUCING COSTS AND IMPROVING EFFICIENCY

The Company continued to strengthen the refined fund management and repaid large US dollar loans to reduce interest expenses. It continued to optimize wealth management plans and to further improve its fund utilization efficiency. In 2017, cash flow was stable and financing channels were flexible and smooth. The Company effectively reduced variable costs through further improvement to its acquisition and material management models, strengthening in-house equipment repair capabilities, advancing the application of self-developed products, optimizing the assets and organizational structures, and making innovations in the human resources sharing mechanism and other management models.

OUTLOOK

In 2018 and the foreseeable future, the Company will continue toward its "dual 50%" strategic development target, pursue the synergy of sectors and cost advantages, advance the seriation and industrialization of technical products to improve the technology sector's contribution to our business operation and overseas revenue. It will study new business models and customer demands to guide it toward technical breakthroughs in highly difficult, environmental and high-end integrated sectors. It will take effective measures to reduce costs in management, technology and equipment, and will sharpen its cost competitiveness to maintain the long-term competitiveness of the Company.

Based on such factors as its unique inherent advantages, its sound financial structure, its capacity for innovation and reform, and the extensive management and operation experience of the COSL team, I am confident of the medium to long term development of the Company.

Qi Meisheng
Chief Executive Officer and President

27 March 2018

Management Discussion and Analysis

Drilling Services

2017 INDUSTRY REVIEW

In 2017, the oil price increased gradually and it maintained above US$60 per barrel at the end of the year. Throughout the year, the average oil price has hovering around at the level of US$55 per barrel. During the reporting period, the oilfield services market was still in a rebalancing process, yet the entire operating environment has improved steadily as compared with 2016. The oilfield services industry continued to adopt certain measures for reducing service and management costs and undergo mergers and acquisitions as well as reorganization which resulted in changes in competitiveness among the industry. According to the data of Spears, an institution for the industry information, the size of the global offshore drilling market dropped 29.2% to US$27.04 billion in 2017 as compared to 2016. The top ten drilling contractors took up 53.6% of the global market share. The size of the geophysical prospecting market shrunk to US$6.83 billion in 2017, with a year-on-year decrease of 6.9%. The top ten geophysical prospecting service providers occupied 83.0% of the global geophysical prospecting market share.

Drilling Services Segment

COSL is the major supplier of China offshore drilling services and an important participant in international drilling services. The Group mainly provides services such as drilling, module rigs, land drilling rigs and drilling rigs management. At the end of 2017, the Group operated and managed a total of 43 drilling rigs (of which 32 are jackup drilling rigs, and 11 are semi-submersible drilling rigs), 3 accommodation rigs and 5 module rigs.

In 2017, revenue from drilling services amounted to RMB6,691.3 million, representing an increase of 3.0% as compared with RMB6,498.5 million of 2016.

The market environment was still challenging in 2017. The Group, on one hand, placed refined management on first priority, explored opportunities for cost reduction and efficiency enhancement, promoted vertical development for equipment, strengthened its professional management of maintenance, encouraged using domestic equipment, broke the monopoly of foreign technologies and reduced the maintenance fees effectively; and on the other hand, it also acted proactively to further consolidate the domestic market and explore overseas markets, improved service quality, advocated the concept of win-win cooperation and valued-add servicing which gained recognition from customers and enhanced its core competitiveness, so as to increase the utilization rate of equipment. Our drilling of "HYSY936" excelled its strong competitors and won the bid of offshore drilling service in Mexico, which further increased the Group's market shares there. "COSLHunter" broke the single well's operation time record among other operators for several times, which helped reinforce the image of the Group. "HYSY937" performed well in the Indonesian operation project in Southeast Asia and further increased the Group's market share in the Indonesian market leveraging its satisfying performance. In Far East region, "Nanhai 8" commenced highly-difficult operation and its success not only enabled China to become the third country having the capability to carry drilling in such region, but its early completion of operation also laid a sound foundation for the Company to introduce other businesses into the market.

At the end of 2017, we had 22 drilling rigs operating in the coastal area of China, 5 rigs operating overseas such as in Norway (North Sea), Mexico and Indonesia, 16 were on standby.

In 2017, our drilling rigs operated for 8,997 days, representing an increase of 627 days as compared with 2016. The calendar day utilization rate of the rigs reached to 57.2%, which is 5.4 percentage points up as compared to last year.

Drilling Services

Operation details of jack-up and semi-submersible drilling rigs of the Group in 2017 are as follows:

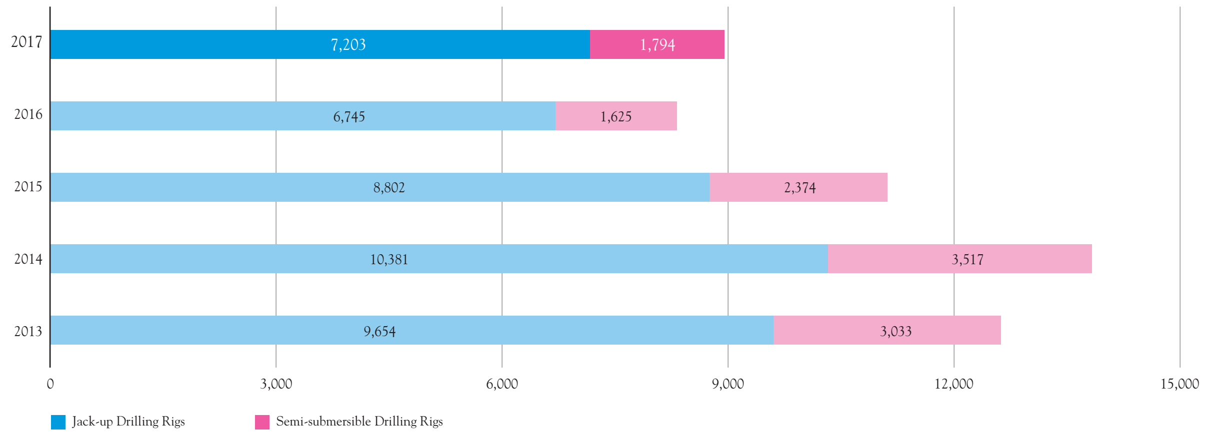
	2017	2016	Change	Percentage change
Operating days (day)	8,997	8,370	627	7.5%
Jack-up drilling rigs	7,203	6,745	458	6.8%
Semi-submersible drilling rigs	1,794	1,625	169	10.4%
Available day utilization rate	59.6%	55.5%	Up 4.1 percentage points	
Jack-up drilling rigs	62.9%	58.2%	Up 4.7 percentage points	
Semi-submersible drilling rigs	49.1%	46.4%	Up 2.7 percentage points	
Calendar day utilization rate	57.2%	51.8%	Up 5.4 percentage points	
Jack-up drilling rigs	61.4%	55.6%	Up 5.8 percentage points	
Semi-submersible drilling rigs	44.7%	40.4%	Up 4.3 percentage points	

As at 31 December 2017, our jack-up drilling rigs operated for 7,203 days, representing an increase of 458 days as compared with 2016; our semi-submersible drilling rigs operated for 1,794 days, representing an increase of 169 days as compared with 2016. This was mainly due to the decrease in standby and maintenance days, which resulted in the increase in operation days.

Three accommodation rigs operated for 378 days, representing a decrease of 27 days as compared with last year. Utilization rate of the calendar day decreased by 19.3 percentage points to 36.0% due to the increase in maintenance and standby days.

Five module rigs operated in the Gulf of Mexico for 466 days, representing a decrease of 152 days over last year. Utilization rate of the calendar day decreased by 8.3 percentage points to 25.5% due to the increase in standby days.

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



In 2017, the average day income of the drilling rigs of the Group slightly increased as compared with 2016, details as follows:

Average day income (ten thousand US$/day)	**2017**	2016	**Change**	**Percentage change**
Jack-up drilling rigs	**7.1**	6.8	**0.3**	**4.4%**
Semi-submersible drilling rigs	**20.4**	18.5	**1.9**	**10.3%**
Drilling rigs sub-total	**9.8**	9.4	**0.4**	**4.3%**
Accommodation rigs	**3.5**	6.8	**(3.3)**	**(48.5%)**
Group average	**9.5**	9.2	**0.3**	**3.3%**

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

(2) USD/RMB exchange rate was 1: 6.5342 on 29 December 2017 and 1: 6.9370 on 30 December 2016, respectively.

Well Services

Well Services Segment

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

In 2017, revenue from the well service segment increased by 17.9% from RMB5,568.4 million of 2016 to RMB6,566.0 million.

In 2017, the Group improved its working standard comprehensively and enhanced its ability of business services while accelerating the research and development of high-end technologies and continuously promoted serialization and industrialization of its technical products. Through enhancing operation capacity by its self-research and development of technical equipment, the new ultrasonic imaging logging tool developed by the Group completed its initial operation. Also, the Group's large-diameter rotating borehole apparatus completed its first offshore operation, passing the capacity test of sampling techniques used in pebble grave and loose formation, and its performance reached the international advanced level. The Group achieved breakthroughs in the industrial application of the "Snake" LWD system products-with large scale application of the products, the Rotary steering tools provided access to vertical sloping and facilitated an upgrade of vertical drilling technology while the drilling bit measuring equipment passed the drilling test. The proportion of using self-owned equipment increased as compared with last year and further reduced the operating costs. As for drilling and completion fluid and cementing, the pilot test of the Group's self-developed primary isolated liquid agent was successful, which marked an improvement of the cementing isolation technology, laying a solid foundation of internationalization of the Group's self-developed products and enriching the Group's theroectical and practical experience. As for well completion, the Group's self-developed DRA airtight spiral complex loading technology also passed the test, which was an important breakthrough in airtight techniques of well completion, and broke the price monopoly of the airtight spiral processing technology. It was significant move for the Group in expanding its domestic and foreign airtight tools markets.

In addition to improving its technological research and development, the oilfield services segment gained a rich harvest in the international market in 2017. In Southeast Asia, the Group made breakthroughs in drilling geothermal wells as it was awarded the first hot-well logging service contract, and won several bids for logging cable, LWD and cementing services. The Group made another breakthrough in the Far East region as it completed its high-end nuclear magnetic operation and successfully passed the technical test of an oil company in the Far East region.

Marine Support Services

Marine Support Services Segment

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

In 2017, the Group implemented stringent and more refined management in marine support services segment, enhanced its operation capacity, improved the service efficiency of self-owned vessels and explored new domestic markets and sought for "growth points" in all directions in the market, and market share reached highest point among recent years. In addition, it actively expanded the international market and increased its brand value, breaking multiple records and built a sterling brand reputation in North America. Also, it won a long term cooperative contract for 4 pontoons in the Indonesian market, which was another breakthrough achieved in overseas market.

In 2017, revenue of marine support services business grow by 25.1% to RMB2,437.8 million from RMB1,948.5 million in 2016. Due to the influence of the market, the chartered vessels operated 8,094 days in total in 2017, increased by 285 days compared to last year, generating revenue of RMB473.3 million, up by RMB51.5 million from the last year.

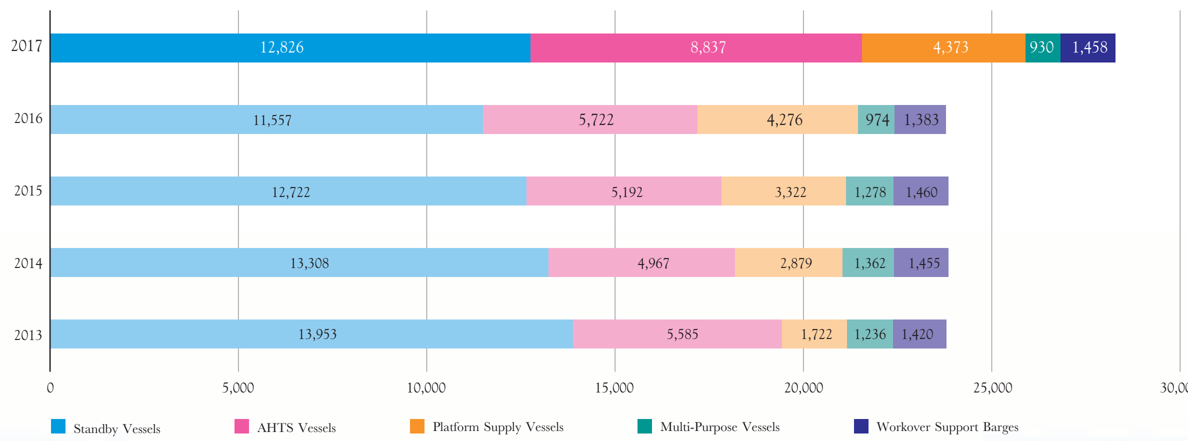
The calendar day utilization rate of self-owned utility vessels was 86.7% in 2017, representing an increase of 8.0 percentage points as compared with last year.

Self-owned utility vessels of the Group operated 28,424 days in 2017, representing an increase of 4,512 days as compared with last year. Details are as follows:

Operating days (day)	2017	2016	Change	Percentage change
Standby vessels	12,826	11,557	1,269	11.0%
AHTS vessels	8,837	5,722	3,115	54.4%
Platform supply vessels	4,373	4,276	97	2.3%
Multi-purpose vessels	930	974	(44)	(4.5%)
Workover support barges	1,458	1,383	75	5.4%
Total	28,424	23,912	4,512	18.9%

In 2017, the total transportation volume of oil tankers of the Group amounted to 1,416,000 tonnes, representing an increase of 2.0% from 1,388,000 tonnes as compared with last year.

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



Geophysical and Surveying Services

Geophysical and Surveying Services Segment

The Group is a major supplier for China offshore geophysical and surveying services and a solid competitor and a provider of effective and high quality service in the global geophysical and surveying market. At the end of 2017, the Group owns 5 towing streamer seismic vessels, 1 professional source vessel, 2 undersea cable team, 5 integrated marine surveying vessels and 2 support vessels for operation in deep water. Services for clients include but not limited to providing integrated services of wide azimuth, broadband, high density and multi-component seismic acquisition, processing and interpretation by undersea cable, and also integrated offshore surveying services.

In 2017, revenue of geophysical and surveying services segment grew to RMB1,684.3 million, representing an increase of 57.4% compared with RMB1,070.1 million of 2016, of which, the surveying services recorded revenue of RMB460.1 million, representing an increase of 153.9% as compared with RMB181.2 million over last year.

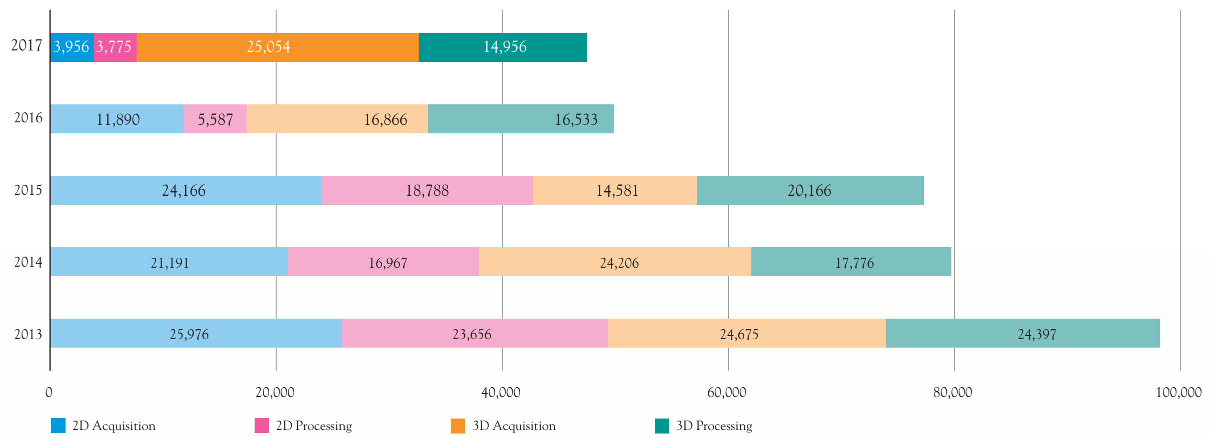
In 2017, the Group continued to enhance its operation capacity of geophysical and surveying services and develop innovative operation model, and actively explored the domestic and international markets to capture cooperation opportunities with overseas parties through improving its management. The domestic block seismic data collection cooperation project of the Group completed the entire operation through processing and collection integrated services, which increased its market share in China's 3D seismic data collection market. "HYSY720" achieved a breakthrough in 12-streamer seismic vessels at shallow water region in Far East, which further strengthened the capacity of the operation fleet, expanded the operation area and consolidated the Group's position in the international market. After winning the bid of the first overseas onshore data processing inversion contract in Pakistan, the Group was awarded another overseas onshore data processing inversion contract, its first engagement in seismic data processing over the frozen ground in North America. Moreover, the Group was also awarded an integrated 3D acquisition contract in Myanmar, which marked the beginning for further exploration of potential customers and projects.

In 2017, as affected by the industry environment, the operation volume of other business segments decreased except for the significant increase in the operation volume of 3D acquisition of the Group.

The details of operation volume are as follows:

Businesses	2017	2016	Change	Percentage change
2D acquisition (km)	3,956	11,890	(7,934)	(66.7%)
2D processing (km)	3,775	5,587	(1,812)	(32.4%)
3D acquisition (km^2)	25,054	16,866	8,188	48.5%
of which: submarine cable (km^2)	844	700	144	20.6%
3D processing (km^2)	14,956	16,533	(1,577)	(9.5%)

The Operating Volume of Geophysical Service Fleet in Recent Years (KM/KM²)



Major Subsidiaries

COSL Norwegian AS ("CNA"), COSL Chemicals (Tianjin), Ltd., COSL America, Inc., COSL Singapore Limited, China Oilfield Services (BVI) Limited are major subsidiaries of the Group engaged in drilling and well services relevant operations.

As at 31 December 2017, the total assets of CNA amounted to RMB13,421.2 million and equity was RMB32.5 million. CNA realized revenue of RMB1,133.6 million in 2017, representing a decrease of RMB770.5 million or 40.5% as compared with last year. The major reason of revenue reduction was that operation volume decreased. Revenue from principal operations amounted to RMB1,133.6 million and operating profit amounted to RMB-478.9 million. The net profit amounted to RMB-463.8 million, representing a decrease in loss of RMB5,027.7 million as compared with last year. The reason of decrease in loss was that the Group had recognized impairment loss of assets and goodwill during 2016, while there was no such matter in this year, and the Group strengthened its cost control.

As at 31 December 2017, the total assets of COSL Singapore Limited amounted to RMB26,004.1 million and equity was RMB3,457.4 million. COSL Singapore Limited realized revenue of RMB1,677.5 million in 2017, representing a decrease of RMB43.6 million or 2.5% as compared with last year. Revenue from principal operations amounted to RMB1,564.6 million and operating profit amounted to RMB-1,314.5 million. The net profit amounted to RMB-1,351.6 million, representing a decrease in loss of RMB1,642.3 million as compared with last year. Thereinto, COSL PROSPECTOR PTE. LTD., COSL DRILLING STRIKE PTE. LTD. are major subsidiaries of COSL Singapore Limited.

As at 31 December 2017, the total assets of COSL PROSPECTOR PTE. LTD. amounted to RMB8,798.1 million and equity was RMB-1,419.8 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 RMB136.2 million in 2017, representing an increase of RMB136.2 million or 100.0% as compared with last year. The net profit amounted to RMB-866.4 million, representing a decrease in loss of RMB222.0 million as compared with last year. The reason of decrease in loss of profit was the Group had recognized impairment loss of assets during 2016, while there was no such matter in this year. Meanwhile, the Group strengthened its cost control.

As at 31 December 2017, the total assets of COSL DRILLING STRIKE PTE. LTD. amounted to RMB4,716.0 million and equity was RMB-1,172.9 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 RMB425.1 million in 2017, representing a decrease of RMB134.5 million or 24.0% as compared with last year, which was mainly due to the service price falling. The net profit amounted to RMB-548.2 million. Due to the Group had recognized impairment loss of assets during 2016, while there was no such matter in this year; meanwhile, the Group strengthened its cost control. Influenced by the reasons mentioned above, the result led to a decrease in loss of RMB738.1 million as compared with last year.

As at 31 December 2017, the total assets of COSL Chemicals (Tianjin), Ltd. amounted to RMB417.8 million and equity was RMB243.5 million. COSL Chemicals (Tianjin), Ltd. realized revenue of RMB379.4 million in 2017, representing a decrease of RMB26.3 million or 6.5% as compared with last year. Revenue from principal operations amounted to RMB378.8 million and operating profit amounted to RMB41.1 million. The net profit amounted to RMB36.2 million, representing a decrease of RMB11.4 million as compared with last year.

As at 31 December 2017, the total assets of COSL America, Inc. amounted to RMB811.7 million and equity was RMB-56.2 million. The Company determined to provide continued financial support for COSL America, Inc. in order to make sure it will be able to continue as a going concern. COSL America, Inc. realized revenue of RMB549.9 million in 2017, representing a decrease of RMB67.8 million or 11.0% as compared with last year. Revenue from principal operations amounted to RMB549.9 million and operating profit amounted to RMB-45.7 million. The net profit amounted to RMB-43.0 million, representing a decrease in loss of RMB16.7 million as compared with last year.

As at 31 December 2017, the total assets of China Oilfield Services (BVI) Limited amounted to RMB1,887.1 million and equity was RMB141.3 million. China Oilfield Services (BVI) Limited realized revenue of RMB1,135.5 million in 2017, representing an increase of RMB113.9 million or 11.1% as compared with last year. Revenue from principal operations amounted to RMB1,132.6 million and operating profit amounted to RMB95.2 million. The net profit amounted to RMB67.6 million, representing an increase of RMB204.7 million as compared with last year.

FINANCIAL REVIEW

1. Analysis on Consolidated Statement of Profit or Loss

1.1 Revenue

For the year of 2017, revenue of the Group amounted to RMB17,379.4 million, representing an increase of RMB2,293.9 million or 15.2% as compared with last year. The detailed analysis is set out below:

Analysis by business segment

Unit: RMB million

Business segments	2017	2016	Change	Percentage change
Drilling services	6,691.3	6,498.5	192.8	3.0%
Well services	6,566.0	5,568.4	997.6	17.9%
Marine support services	2,437.8	1,948.5	489.3	25.1%
Geophysical and surveying services	1,684.3	1,070.1	614.2	57.4%
Total	17,379.4	15,085.5	2,293.9	15.2%

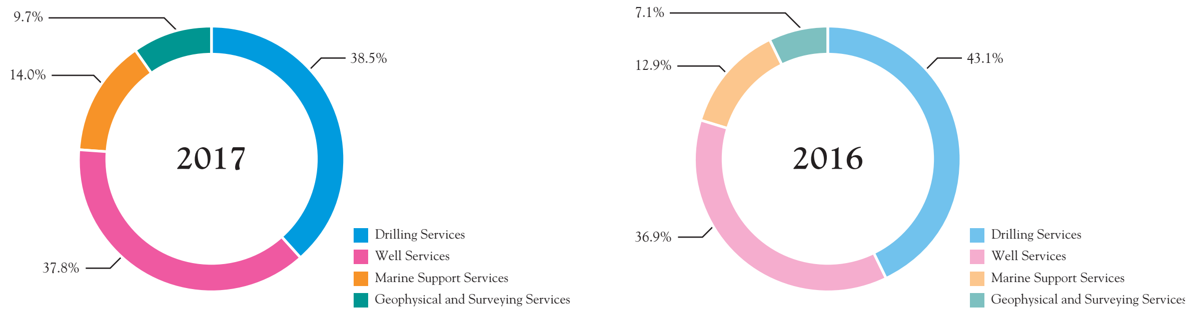
- Revenue generated from drilling services increased by 3.0% as compared with last year. The main reason was that operation days of drilling rigs increased.

- Revenue of well services increased by 17.9% as compared with last year, which was mainly due to the increase in service price and operation volume.

- Revenue from marine support services increased by 25.1% as compared with last year, which was mainly due to the fact that the operation days increased by 4,512 days and the service price also increased.

- Revenue from geophysical and surveying services increased by 57.4% as compared with last year, which was mainly due to the significant increase in operation volume of 3D Acquisition and surveying services.

Revenue Analysis – By Business



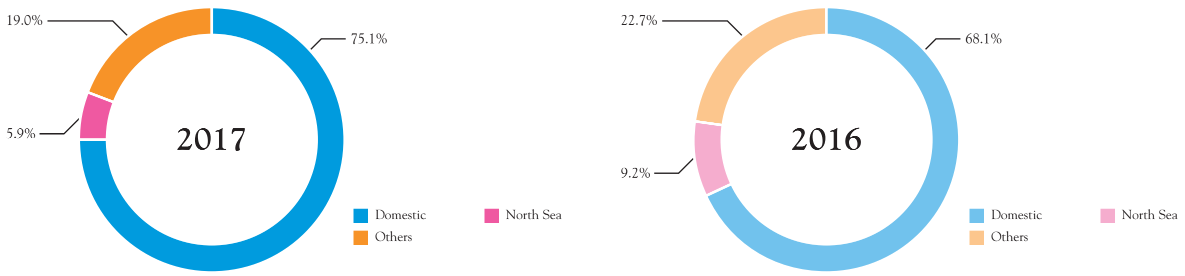
Analysis by operation area

Unit: RMB million

Region	2017	2016	Change	Percentage change
Offshore China	13,056.8	10,266.8	2,790.0	27.2%
North Sea	1,033.9	1,389.2	(355.3)	(25.6%)
Other	3,288.7	3,429.5	(140.8)	(4.1%)
Total	17,379.4	15,085.5	2,293.9	15.2%

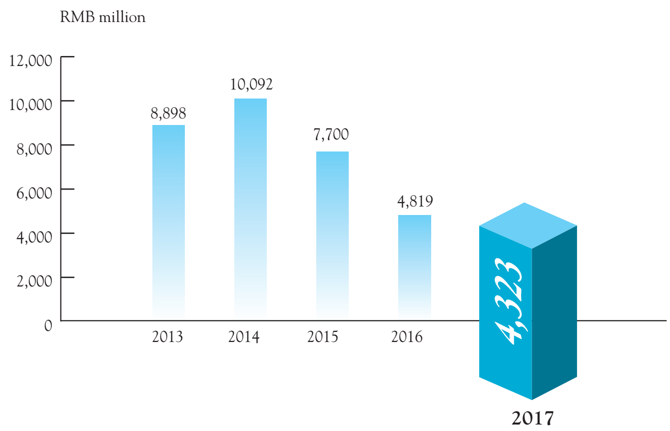
In terms of operation area, the Group's main source of revenue was from offshore China, accounting for 75.1% of the Group's total income. In 2017, the Group's international business recorded revenue of RMB4,322.6 million (compared with RMB4,818.7 million over last year), accounting for 24.9% of the Group's revenue for the year, representing a decrease of 7.0 percentage points. Among which, North Sea recorded an annual revenue of RMB1,033.9 million, representing 5.9% of the Group's revenue for the year.

Operation Area



The Latest Five Years' Revenue from International Business

International Revenue



1.2 Operating expenses

For the year 2017, operating expenses of the Group amounted to RMB16,275.0 million, representing a decrease of RMB10,331.5 million or 38.8% compared with RMB26,606.5 million for last year.

The table below shows the operating expenses for the Group in 2017 and 2016:

Unit: RMB million

	2017	2016	Change	Percentage change
Depreciation of property, plant and equipment and amortization of intangible assets	4,468.1	4,520.1	(52.0)	(1.2%)
Employee compensation costs	4,001.6	3,890.1	111.5	2.9%
Repair and maintenance costs	363.8	500.1	(136.3)	(27.3%)
Consumption of supplies, materials, fuel, services and others	3,064.1	4,116.4	(1,052.3)	(25.6%)
Subcontracting expenses	2,362.7	2,364.6	(1.9)	(0.1%)
Operating lease expenses	594.2	1,206.1	(611.9)	(50.7%)
Other operating expenses	1,415.6	2,865.3	(1,449.7)	(50.6%)
Impairment of goodwill	–	3,455.4	(3,455.4)	(100.0%)
Impairment of property, plant and equipment	4.9	3,688.4	(3,683.5)	(99.9%)
Total operating expenses	16,275.0	26,606.5	(10,331.5)	(38.8%)

Depreciation of property, plant and equipment and amortization of intangible assets decreased by RMB52.0 million for the year.

Due to a detailed management of the Group and cost control from the source, repair and maintenance cost, consumption of supplies, materials, fuels, services and others and operating lease expenses decreased significantly in 2017.

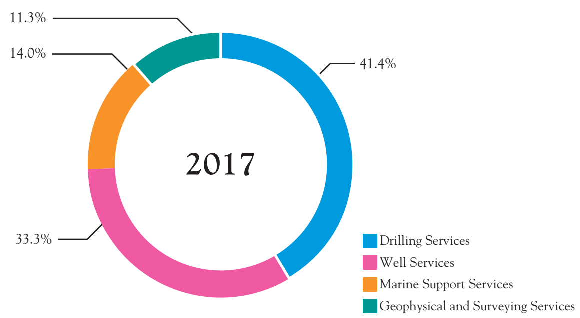
Other operating expenses decreased by RMB1,449.7 million as compared with last year, which was mainly due to the reversal of impairment loss of accounts receivable during the year. In addition, significant provision made on accounts receivable and provision for onerous contracts for last year resulted in a relatively larger amount of other operating expenses for last year.

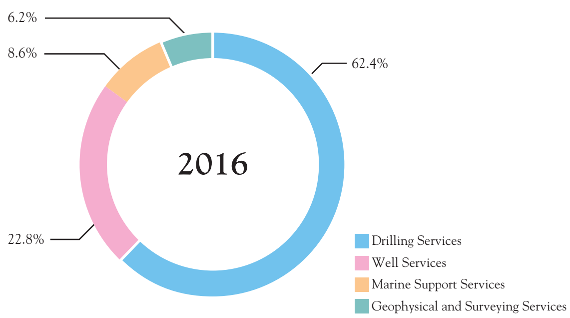
The operating expenses for each segment are shown in the table below:

Unit: RMB million

Business segments	2017	2016	Change	Percentage change
Drilling services	6,734.4	16,602.0	(9,867.6)	(59.4%)
Well services	5,418.1	6,062.4	(644.3)	(10.6%)
Marine support services	2,275.3	2,285.7	(10.4)	(0.5%)
Geophysical and surveying services	1,847.2	1,656.4	190.8	11.5%
Total	16,275.0	26,606.5	(10,331.5)	(38.8%)

Analysis of Operating Expenses – By BUSINESS SEGMENTS





1.3 Profit from operations

For the year 2017, the Group's profit from operations amounted to RMB1,427.5 million, representing an increase of RMB12,795.2 million as compared with profit from operations of RMB-11,367.7 million of last year.

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

Unit: RMB million

Business segments	2017	2016	Change
Drilling services	(27.2)	(10,076.1)	10,048.9
Well services	1,267.3	(422.1)	1,689.4
Marine support services	294.5	(327.4)	621.9
Geophysical and surveying services	(107.1)	(542.1)	435.0
Total	1,427.5	(11,367.7)	12,795.2

1.4 Financial expenses, net

Unit: RMB million

	2017	2016	Change	Percentage change
Exchange loss/(gain), net	388.1	(268.7)	656.8	(244.4%)
Finance costs	1,100.9	1,047.6	53.3	5.1%
Interest income	(99.6)	(130.5)	30.9	(23.7%)
Financial expenses, net	1,389.4	648.4	741.0	114.3%

The exchange loss increased by RMB656.8 million as affected by the change of exchange rates.

1.5 Share of profits of joint ventures, net of tax

For the year 2017, the Group's share of profits of joint ventures amounted to RMB106.9 million, representing an increase of RMB90.1 million as compared with RMB16.8 million of 2016. This was mainly attributable to the increase in gains of joint ventures.

1.6 Profit before tax

The profit before tax generated by the Group was RMB332.5 million in 2017, representing an increase of RMB12,139.9 million as compared with the profit before tax of RMB-11,807.4 million for the last year.

1.7 Income tax

The income tax expense of the Group in 2017 was RMB261.3 million, representing an increase of RMB609.2 million as compared with the income tax credit of RMB347.9 million of 2016, which was mainly due to the reversal of the deferred tax assets recognised in respect of the deductible loss in relation to prior year, which resulted in an increase in income tax expense.

1.8 Profit for the year

For the year 2017, profit of the Group was RMB71.2 million, representing an increase of RMB11,530.7 million as compared with the profit for the year of RMB-11,459.5 million for the last year.

1.9 Basic earnings per share

For the year 2017, the Group's basic earnings per share were approximately RMB0.69 cent, representing an increase of approximately RMB240.78 cents as compared with the basic earnings per share of approximately RMB-240.09 cents for the last year.

1.10Dividend

For the year 2017, the Board of the Company proposed a final dividend of RMB0.06 per share (tax inclusive), totaling RMB286.3 million. If approved by the general meeting, the final dividends are expected to be paid on or before 30 June 2018.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H share of the Company when distributing final dividends to them. For H shares of the Company registered other than in the name(s) of individual(s), including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed to be shares held by non-resident enterprise shareholder(s). On the basis, enterprise income tax shall be withheld from dividends payable to such shareholder(s).

2. Analysis on Consolidated Statement of Financial Position

As at 31 December 2017, the total assets of the Group amounted to RMB73,857.3 million, representing a decrease of RMB6,686.8 million or 8.3% as compared with RMB80,544.1 million at the end of 2016. The total liabilities amounted to RMB39,179.5 million, representing a decrease of RMB6,068.2 million or 13.4% as compared with RMB45,247.7 million at the end of 2016. Total equity amounted to RMB34,677.8 million, representing a decrease of RMB618.6 million or 1.8% as compared with RMB35,296.4 million by the end of 2016.

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

Unit: RMB million

Items		2017	2016	Change	Percentage change	Reasons
Assets						
1	Other non-current assets	326.8	439.1	(112.3)	(25.6%)	The prepayments for the construction of drilling rigs, marine vessels and geophysical vessels were transferred to construction in progress.
2	Notes receivable	85.5	1,844.3	(1,758.8)	(95.4%)	Cash was received due to the maturity of the notes receivable.
3	Other current assets	2,843.4	7,216.1	(4,372.7)	(60.6%)	The liquidity funds, treasury bond related investments and corporate wealth management products acquired by the Group were disposed or due.
4	Time deposits with maturity of over three months	28.9	–	28.9	100.0%	The time deposits with maturity of over three months held by the Group at the end of 2017 increased.
5	Cash and cash equivalents	9,009.1	6,071.1	2,938.0	48.4%	The business performance has improved as compared with last year.
6	MultiClient library	22.8	–	22.8	100.0%	Due to the development of MultiClient library project in the geophysical and surveying services business for the year.
Liabilities						
1	Loans from a related party	2,287.0	693.7	1,593.3	229.7%	A new borrowing of US$250 million during the year.
2	Interest-bearing bank borrowings (current)	563.4	5,296.5	(4,733.1)	(89.4%)	Repayment of the bank borrowings which were due within the year.
3	Interest-bearing bank borrowings (non-current)	1,409.2	2,057.2	(648.0)	(31.5%)	Loan repayment and the long-term borrowings which were due within one year reclassified to current portion.
4	Other current liabilities	177.2	543.6	(366.4)	(67.4%)	The utilization of the provision for onerous contracts within one year.
5	Deferred tax liabilities	322.9	234.5	88.4	37.7%	The reversal of deferred tax assets recognized in prior year in relation to the deductible tax loss made last year.
6	Provision	–	14.5	(14.5)	(100.0%)	The reclassification of the provision for onerous contracts.
7	Employee benefit liabilities	20.9	8.8	12.1	137.5%	The re-measurement of defined benefit plan for pension.

3. Analysis of consolidated statement of cash flows

At the beginning of 2017, the Group held cash and cash equivalents of RMB6,071.1 million, during 2017, the net cash inflows from operating activities amounted to RMB5,474.5 million; net cash inflows from investing activities amounted to RMB2,577.9 million; net cash outflows from financing activities amounted to RMB4,880.2 million and the impact of foreign exchange fluctuations resulted in a decrease in cash of RMB234.2 million. At 31 December 2017, the Group's cash and cash equivalents amounted to RMB9,009.1 million.

3.1 Cash flows from operating activities

For the year ended 31 December 2017, net cash inflows from operating activities of the Group amounted to RMB5,474.5 million, representing an increase of 99.8% as compared with last year. This was mainly attributed to an increase in revenue as a result of the increasing workload.

3.2 Cash flows from investing activities

For the year ended 31 December 2017, net cash inflows generated from investing activities of the Group amounted to RMB2,577.9 million, representing an increase of RMB7,256.3 million as compared with last year, which was mainly attributable to the increase of RMB1,023.0 million in the cash outflows of the acquisition of property, plant and equipment as compared with last year, the increase of RMB7,447.0 million in the net inflows of disposal and acquisition of available-for-sale investments as compared with last year, the increase of RMB228.9 million in the net outflows of deposit and withdrawal of time deposits with maturity of over three months, and the total increase of cash inflows of RMB1,061.2 million in other investment activities.

3.3 Cash flows from financing activities

For the year ended 31 December 2017, net cash outflows from financing activities of the Group amounted to RMB4,880.2 million, representing a decrease of outflows of RMB41.3 million as compared with last year. This was mainly attributable to the decrease of cash paid for repayment of loans by RMB9,090.1 million as compared with last year, the decrease of cash received from issuance of bonds by RMB10,000.0 million as compared with last year and the total increase of cash inflows of RMB951.2 million in other financing activities.

3.4 The effect of foreign exchange fluctuations on cash during the year was a decrease in cash of RMB234.2 million.

4. Capital expenditure

In 2017, the capital expenditure of the Group amounted to RMB2,298.4 million, representing a decrease of RMB1,190.4 million or 34.1% as compared with last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segments	2017	2016	Change	Percentage change
Drilling services	1,074.6	2,167.8	(1,093.2)	(50.4%)
Well services	651.9	298.4	353.5	118.5%
Marine support services	466.2	771.9	(305.7)	(39.6%)
Geophysical and surveying services	105.7	250.7	(145.0)	(57.8%)
Total	2,298.4	3,488.8	(1,190.4)	(34.1%)

The capital expenditure of the drilling services segment was mainly used for the construction of drilling rigs. The capital expenditure of the well services segment was mainly used for the construction and purchase of various well services equipment. The capital expenditure of the marine support services segment was mainly used for the construction of utility vessels. The capital expenditure of the geophysical and surveying services segment was mainly used for the construction of geophysical vessel and integrated surveying vessels.

BUSINESS PLAN

The recent oil price has rebounded from the low level in the previous two years, and the overall exploration and development expenditure of the oil and gas industry has increased, which facilitate the slow recovery of the oilfield services market and improve the workload of various sectors of the Company in varying degrees. However, due to the uncertainties over the subsequent trend of oil price, and that the oversupply in the oilfield services industry has not been radically improved, the Company is still under the competitive pressure in the oilfield services industry. The Company will closely monitor and track the changes in the investment of domestic and overseas clients and the market demand, and continue to promote its market development as well as industrialization and seriation of technology, striving to achieve its target of “dual 50%” for the medium term.

2018 BUSINESS OUTLOOK

According to the estimated data of IHS, an institution for international information services, it is estimated that the investment in upstream exploration and development around the world increase by 10% from US$382.0 billion in 2017 to US$422.0 billion in 2018; with an increase of 5.0% in the offshore exploration and development expenditure it will achieve a resuming growth of 6.0% to US$172.6 billion in 2018.

In general, the oilfield services industry will still face with greater operating pressure in spite of the gradual recovery trend of capital expenditure of global oil and gas companies and the increasingly active tendering activities in oilfield services in 2018.

Corporate Governance Report

As a domestic and overseas listing company, the Company has reviewed the compliance with the Corporate Governance Code (hereafter referred to as the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (hereafter referred to as the "Listing Rules") and the regulatory documents on listed companies issued by China Securities Regulatory Commission. Upon the review, the Board is of the view that the corporate governance of the Company has generally met the requirements set out in the Code and the regulations during the reporting period. During the 12 months ended 31 December 2017, the Company has strictly complied with principles and code provisions as set out in the Corporate Governance Code in Appendix 14 of the Listing Rules.

The Board is of the view that the improvement in corporate governance in 2017 was mainly reflected in the following aspects:

1. The Company has strengthened risk management, optimized the risk assessment model and adopted new dynamic risk criteria for comprehensive risk assessment and prevention. The risk assessment model and dynamic risk criteria can be adjusted and updated promptly according to the industrial environment and the Company's safety and operational management conditions.

2. The Company has further confirmed the authority of the Board and management regarding to risk prevention and determined, based on the authority, various risk prevention matters in relevant aspects such as the Company's strategies, operation safety and finance. The management strengthened and enhanced the awareness of comprehensive risk prevention, reported the general risks regularly, reported the significant or unexpected risks at all times and reported the safety-related and uncertain risks specially.

3. According to the changing regulatory environment and the management needs of the Company's operation, the Company optimized its information disclosures and internal control and management system and promoted optimization of the internal control and management system. The Company formulated the "Administrative Measures for Information Disclosures Suspension and Business Waiver Management", made amendments to "Information Disclosures and Management System" and further abided by laws to perform its information disclosure obligations. The Company also revised the "Information Management System", optimized the Company's information management function, established the "Working Rules for the Secretary to the Board of Directors", enhanced the Company's governance performance and standardized the appointment, performance and training of secretary to the Board of Directors.

4. Under the low oil price, the Company enhanced its safety and production system, further confirmed the Company's major responsibilities, continued to improve its QHSE management and ensured a highly efficient and controlled safety management and environmental risk management.

5. Improving information disclosure and investor relationship. According to the industrial environment and actual operation situation, the Company timely published risk alerts to investors in the first quarter report, interim report and third quarter report, expressing the sincerity to be accountable to investors and the idea of offering maximum protection to small and medium investors.

In 2017, the stock of the Company continued to be included in the Hang Seng (China A) Corporate Sustainability Benchmark Index and to be included again in the Hang Seng Corporate Sustainability Benchmark Index. During the year, the Company was awarded the "Top 50 Proactive Board of Supervisors of Listed Companies" on the award of "Best Practice Selection of the Supervisory Committee of Listed Companies". The Company was also awarded the "Best Corporate Governance", "Best Secretary of the Board" and "Best Investor Relations" on the "Annual Listed Company Award" and won the "Shanghai-Hong Kong Stock Connect Best Investment Value Award" on the "2017 China Financing Grand Prize" held by China Financial Market. All of the above showed the recognition of its corporate governance standards by the capital markets.

(I) DIRECTOR'S INVOLVEMENT IN SECURITIES TRANSACTIONS

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2017, the provisions of the Model Code for Securities Transaction by Directors of Listed Issuers ("the Model Code") set out in Appendix 10 to the Listing Rules were observed. The Company currently has adopted a code of conduct for securities transactions by directors that is stricter than the provisions set out in the Model Code. Upon specific inquiries, all directors have confirmed that they were in strict compliance with the provisions of the Model Code. In addition, directors, supervisors and senior management of the Company confirmed that during the 12 months ended 31 December 2017, they complied with the "Management Rules with regard to the Holding of and Changes in Company Shares by Directors, Supervisors and Senior Management of Listed Companies" regulated by the China Security Regulatory Commission.

(II) PERFORMANCE OF THE BOARD OF DIRECTORS

1. Composition of the Board of Directors

The composition of the Board of Directors during 2017 and on the date of this report is as follows:

Chairman:	Lv Bo
Executive directors:	Qi Meisheng Liu Yifeng (appointed at the 2017 first EGM)
Non-executive directors:	Lv Bo Meng Jun (appointed at the 2017 first EGM)
Independent non-executive directors:	Law Hong Ping, Lawrence (re-appointed at the 2016 AGM) Fong Chung, Mark, Wong Kwai Huen, Albert
Remark 1:	
Executive director who resigned during the reporting period:	Dong Weiliang (resigned at the 2017 first EGM) Li Feilong (resigned on 28 February 2018)
Non-executive director who resigned during the reporting period:	Xie Weizhi (resigned at the Third Meeting of Board of Directors in 2017)
Remark 2:	On 27 March 2018, due to the adjustment of his work arrangement, Mr. Lv Bo resigned his posts of chairman of the Board and non-executive director and will take effect on 28 March 2018. On the meeting of the Board held on 27 March 2018, the Board appointed Mr. Qi Meisheng, who as an executive director of the Company, as the chairman of the Board, with effect on 28 March 2018.

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

The Articles of Association of the Company clearly define the duties and functions of the Board of Directors and the Management. The division of functions is consistent with those disclosed in the Corporate Governance Report 2016 (for details, please search our website for Articles of Association of the Company or Annual Report 2016).

The duty and authority of the Board in the Articles of Association of the Company is consistent with those disclosed in the Corporate Governance Report 2016 (for details, please search our website for Articles of Association of the Company or Annual Report 2016).

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

3. Board Meetings

The Board of Directors convened five on-site meetings during the year. Please see Table I of this Report for details of meeting attendance of directors. For other items not within the scope of the regular Board meeting's agenda and require approval from the Board, the Chairman may serve to the members of the Board the proposed resolutions in written form in accordance with the related requirements of the Articles of Association, and the items will become valid resolutions upon signing by the directors which meets the quorum as stated in the Articles of Association. To create more opportunities for the independent non-executive directors to express their views and make recommendation in respect of the Company's affairs, the Chairman hold several meetings with independent non-executive directors in the absence of executive directors every year so as to listen to the advice of independent directors in respect of the corporate governance and management (this practice has adopted the Code provision A.2.7). In the year of 2017, four meetings were held in such regard. The Board is of the view that meeting proceedings and resolutions of the Board complied with requirements of laws, regulations and the Articles of Association, which ensured prudent discussion by directors before decision on material items, and performance of integrity and due diligence and act in the interests of the Company and shareholders as a whole by directors in the related decision making process. Please see Table II for detailed resolutions adopted by the Board in the year of 2017.

4. Performance of Independent Non-executive Directors

The Board currently has three independent non-executive directors, all of them have rich professional experience in the fields of accounting, law and finance, and are very familiar with the operation of board of directors and duties of independent non-executive directors of listed companies. During the reporting period, the independent non-executive directors effectively performed their due diligent and attentive responsibilities as directors, and provided various professional advices to the Company, especially in the review of financial reports, the review of connected transactions, the management of risk, among which, please see section VII of this Corporate Governance Report for details of related reviews of financial reports and the internal control system, as well as sections V and VI of this report for other relevant work. In 2017, the independent directors also reviewed the resolution on the asset-disposal related connected transactions and the deposit in connected financial companies of the Company and expressed their independent opinion. Please see the section headed "Summary of General Meetings" of this annual report for the details of the independent directors' attendance of the general meetings during the reporting period. Please see Table I of this report for details of Board meetings and professional committee meeting attendance of independent directors.

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

5. Policy on Diversification of Board Composition

The Board of Directors held discussion with regard to the diversification policy of Board Composition, and considered it could play a positive role for the Company in achieving sustainable development. The Board considered that the Company should have different perspective at the time of selecting directors (including but not confined to factors of professional background, age, gender, location and race, etc.), so as to achieve and maintain a policy of diversification among the directors. The Board will endeavour to implement the policy of diversification. The Nomination Committee will be responsible for monitoring the implementation of this policy and making recommendations to the Board on assessing the implementation process at an appropriate time. The Company carried out the nomination and election of directors in 2017 (Mr. Liu Yifeng joined the Board of Directors to succeed Mr. Dong Weiliang, Mr. Meng Jun joined the Board of Directors to succeed Mr. Xie Weizhi, Mr. Law Hong Ping, Lawrence was re-appointed to be independent non-executive Director), and the nomination committee considered that when the Company handled the director nomination process, the policy of diversification of Directors was adequately considered.

6. Directors and General Meetings

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

7. Other Matters

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

(III) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The functions of the Chairman and the Chief Executive Officer of the Company are clearly defined and such positions are at present separately held by two persons, Mr. Lv Bo as Chairman and Mr. Qi Meisheng as the Chief Executive Officer.

Since 28 March 2018, Mr. Qi Meisheng is the Chairman and Mr. Cao Shujie is the Chief Executive Officer.

(IV) TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

The term of office of Lv Bo was from the 2016 second EGM held on 15 December 2016 to 27 March 2018. The term of office of Meng Jun is three years since the 2017 first EGM. The terms of office of Law Hong Ping, Lawrence is three years since the 2016 AGM.

(V) DIRECTORS' REMUNERATION

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

(1) The Remuneration and Appraisal Committee of the Company consists of four members, all of them are non-executive directors, namely Wong Kwai Huen, Albert, Meng Jun (appointed at the 2017 first EGM), Law Hong Ping, Lawrence (re-appointed at the 2016 AGM) and Fong Chung, Mark. Three of them are independent non-executive directors. Wong Kwai Huen, Albert acts as Chairman.

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

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

During the reporting period, the committee held one meeting (please see Table I for meeting summaries) to review the performance and remuneration of the management of the Company for the year 2016 and the Key Performance Indicators for the management of the Company in 2017.

(VI) NOMINATION OF DIRECTORS

1. The Composition and Functions of the Nomination Committee

(1) The Nomination Committee of the Company consists of three members, namely Law Hong Ping, Lawrence (re-appointed at the 2016 AGM), Qi Meisheng and Wong Kwai Huen, Albert, and Law Hong Ping, Lawrence acts as Chairman.

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

2. The work of the Nomination Committee during the year

During the period under review, the Nomination Committee held 2 meetings, for details of the meeting please see Table I, during which the nomination of directors was discussed, the nomination of the secretary to the Company was discussed, the independence of the independent non-executive directors was recognized and the diversity of the Directors was discussed.

(VII) THE AUDIT COMMITTEE

1. The Composition and Functions of the Audit Committee

(1) The Audit Committee consists of three members, namely Fong Chung, Mark, Law Hong Ping, Lawrence (re-appointed at the 2016 AGM) and Wong Kwai Huen, Albert. All of them are independent nonexecutive directors, and Fong Chung, Mark acts as Chairman.

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

2. The work of the Audit Committee during the year

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

(1) Reviewed the annual operating results of 2016, the first quarterly operating results, the interim operating results and the third quarterly operating results of 2017 of the Company. During the review process, the members performed sufficient and necessary communication with the Company's auditors and the management of the Company and fulfilled its duties in ensuring the Company's compliance with regulations, the completeness and accuracy of the operating results disclosed by the Company.

(2) Reviewed, discussed and optimized the internal audit and risk management work of the Company and considered and approved the 2017 internal audit proposal of the Company. During the reporting period, the committee adopted the internal audit working report, strengthened the risk-based assessment and required to achieve comprehensive risk management regarding the internal control system and risk management and control in the internal audit proposal.

(3) Reviewed the connected transactions of the Company. Adopted the internal report on 2016 connected transactions, enquired about the progress of the 2017 daily connected transactions and the arrangement of asset-disposal related connected transactions and approved unanimously the report on 2016 connected transactions of the Company.

(4) Regarding the appointment of the auditors, the Committee unanimously approved the recommendations on appointing Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2017.

(VIII) TRAINING FOR DIRECTORS

The trainings of Directors during the year 2017 were as follows: In April, the Directors conducted field research on the production research and experiment institution of the oilfield production division, the electricity workshop of the equipment research and development center of the geophysical and surveying division and HYSY648 in Tianjin; in June, Qi Meisheng, Director, attended a workshop for chairman and general manager of listed companies in Beijing.

(IX) BOARD SECRETARY

Jiang Ping, the Board Secretary (and the Company Secretary) was appointed by the Board in March 2017, biography of whom was set out in the section "Directors, Supervisors, Senior Management and Employees" in the 2017 Annual Report. The Board Secretary of the Company reports to the Chairman and Chief Executive Officer and makes recommendation to the Board in respect of corporate governance. For the year 2017, Ms. Jiang Ping has confirmed that she has taken not less than 15-hour relevant and professional training.

(X) PROTECTION ON THE SHAREHOLDERS' INTERESTS

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

(XI) THE REMUNERATION OF AUDITORS

The Company re-appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2017, and to authorize the Board to fix their remuneration. The fees for the audit and non-audit work provided to the Company during the reporting period were as follows:

Auditing – The audit fees totaled RMB13,900,000 for audit/review of the annual and interim financial statements in 2017 and internal control. Non-auditing – The charges for agreed-upon procedures totaled RMB648,000.

(XII) RESPONSIBILITIES UNDERTAKEN

The Board of Directors acknowledges its responsibilities of preparing the account of the Company and the auditors have also explained their reporting responsibilities in the financial reports; the Board of Directors undertakes the responsibilities for the effectiveness of internal control of the Company and its subsidiaries and has completed the relevant review and assessment during the reporting period, and concluded that there were no material weaknesses in the internal controls of the Company and its subsidiaries; the Board of Directors confirms that, unless otherwise stated in this report, there are no major events and circumstances of uncertainty which may affect the operation of the Company as a going concern.

Table I: Board Meetings & Professional Committee Meetings

Meeting	Time	Place	Attendant	Moderator	Notes
First Meeting of Board of Directors	21 March 2017	Shenzhen	Lv Bo, Qi Meisheng, Dong Weiliang,Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert, Xie Weizhi	Lv Bo	Three supervisors attended as non-voting delegates
Second Meeting of Board of Directors	27 April 2017	Tianjin	Lv Bo, Dong Weiliang, Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert, Xie Weizhi	Lv Bo	Two supervisors attended as non-voting delegates
Third Meeting of Board of Directors	23 August 2017	Beijing	Lv Bo, Qi Meisheng, Dong Weiliang, Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Lv Bo	Three supervisors attended as non-voting delegates
Fourth Meeting of Board of Directors	26 October 2017	Beijing	Lv Bo, Qi Meisheng, Dong Weiliang, Li Feilong, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Lv Bo	Three supervisors attended as non-voting delegates
Fifth Meeting of Board of Directors	15 December 2017	Shenzhen	Lv Bo, Qi Meisheng, Li Feilong, Liu Yifeng, Meng Jun, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Lv Bo	Three supervisors attended as non-voting delegates
First Meeting of Audit Committee	20 March 2017	Shenzhen	Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert	Fong Chung, Mark	One supervisor attended as non-voting delegate
Second Meeting of Audit Committee	26 April 2017	Tianjin	Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert	Fong Chung, Mark	One supervisor attended as non-voting delegate
Third Meeting of Audit Committee	22 August 2017	Beijing	Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert	Fong Chung, Mark	Two supervisors attended as non-voting delegates
Fourth Meeting of Audit Committee	25 October 2017	Beijing	Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert	Fong Chung, Mark	One supervisor attended as non-voting delegate
First Meeting of Remuneration and Appraisal Committee	20 March 2017	Shenzhen	Wong Kwai Huen, Albert, Fong Chung, Mark, Law Hong Ping, Lawrence, Xie Weizhi	Wong Kwai Huen, Albert	
First Meeting of Nomination Committee	20 March 2017	Shenzhen	Law Hong Ping, Lawrence, Qi Meisheng, Wong Kwai Huen, Albert	Law Hong Ping, Lawrence	
Second Meeting of Nomination Committee	22 August 2017	Beijing	Law Hong Ping, Lawrence, Qi Meisheng, Wong Kwai Huen, Albert	Law Hong Ping, Lawrence	

Table II: Particulars of the Board resolutions

Meeting	Matters considered
First Meeting of Board of Directors	1. Approving the audited 2016 Financial Report of the Company 2. Approving the proposal to re-appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company at the general meeting, and authorize the Board of Directors to approve their remunerations 3. Approving the resolution of the dividend distribution plan for the year 2016 4. Approving proposal for the Directors' Report and Corporate Governance Report of the Company for the year 2016 5. Approving the Sustainability Report 2016 6. Approving the 2016 Assessment Report on Internal Control 7. Approving the resolution of disclosure of results for the year 2016 8. Approving the proposal to authorize the Board to further issue of H shares under the mandate of general meeting, the number of H shares shall not exceed 20% of the issued H shares of the Company 9. Approving the proposal for the repurchase of 10% A shares and 10% H shares under the mandate 10. Approving the proposal for provide guarantee for company which the Company belongs 11. Approving the Management Performance Assessment 12. Approving Mr. Law Hong Ping, Lawrence as candidate for independent non-executive director 13. Approving the proposal for convening Annual General Meeting and Class Meeting 14. Approving the resolution of change of board secretary of the Company
Second Meeting of Board of Directors	1. Approving 2017 First Quarterly Report, and authorized the Secretary to the Board to disclose according to regulation 2. Approving the resolution on the signing of the connected transaction in relation to deposit and settlement services with CNOOC Finance Corporation Limited the grant to the Company's management to sign the agreements related to such transaction
Third Meeting of Board of Directors	1. Approving the 2017 Interim Report of the Company 2. Approving the disclosure of 2017 Interim Results of the Company 3. Approving the proposal for establishment of the "Administrative Measures for Information Disclosures Suspension and Business Waiver Management" and revision of the "Information Disclosures and Management System" 4. Approving Mr. Liu Yifeng as candidate for executive director 5. Approving Mr. Meng Jun as candidate for non-executive director 6. Approving the proposal for convening Extraordinary General Meeting

Meeting	Matters considered
Fourth Meeting of Board of Directors	1. Approving 2017 Third Quarterly Report, and authorized the Secretary to the Board to disclose according to regulation 2. Approving the proposal of revision of the Articles of Association 3. Approving the resolution on the connected transaction in relation to the disposal of assets of HYSY701/702 4. Approving the proposal for establishment of Working Rules of the Board Secretary
Fifth Meeting of Board of Directors	No matters shall be disclosed
Written Resolutions approved in 2017	1. Resolution on appointment of one executive vice president and two vice presidents (10 January) 2. Resolution on approval for a fixed-asset investment (23 February)

Summary of General Meetings

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which resolutions were published
AGM 2016	1 June 2017	**As ordinary resolutions:** 1. The audited financial statements and the auditor's report for the year ended 31 December 2016 were approved; 2. The profit distribution and declaration of dividends for the year ended 31 December 2016 was approved; 3. The Report of Directors for the year ended 31 December 2016 was approved; 4. The Supervisory Committee Report for the year ended 31 December 2016 was approved; 5. The appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors for 2017 respectively was approved and the Board was authorised to determine their remunerations; 6. The resolution of the re-appointment of Mr. Law Hong Ping, Lawrence, as an independent non-executive director of the Company was approved; 7. The resolution of the provision of guarantees for relevant Subsidiaries of the Company as set out in the section headed "Letter from the Board-Proposed Provision of Guarantees for Subsidiaries" in the circular of the Company dated 11 April 2017 was approved. **As special resolutions:** 1. The resolution of granting the Board a mandate to issue further H shares representing up to 20% of the aggregate amount of the H shares in issue during the relevant period was approved; 2. The resolution of granting the repurchase rights on 10% A shares and 10% H shares to the Board was approved; 3. The resolution of the amendment of the Articles of Association was approved.	The convening of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 8 shareholders in attendance either in person or by proxy at the AGM, representing 3,163,705,427 shares or 66.30% of the voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. Independent non-executive directors, Mr. Fong Chung, Mark and Mr. Wong Kwai Huen, Albert, Employee Supervisor Mr. Li Zhi and independent supervisor Mr. Cheng Xinsheng could not attend the meeting due to other business while all other directors and supervisor of the Company attended the AGM.	www.sse.com.cn www.hkex.com.hk

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which resolutions were published
2017 First A Share Class Meeting	1 June 2017	**As special resolution:** 1. The resolution of granting the repurchase rights on 10% A shares and 10% H shares to the Board was approved.	The convening of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 7 shareholders (including online voting) in attendance either in person or by proxy at the meeting, representing 2,412,105,077 shares or 81.48% of the A voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. Independent non-executive directors, Mr. Fong Chung, Mark and Mr. Wong Kwai Huen, Albert, Employee Supervisor Mr. Li Zhi and independent supervisor Mr. Cheng Xinsheng could not attend the meeting due to other business while all other directors and supervisor of the Company attended the AGM.	www.sse.com.cn www.hkex.com.hk
2017 First H Share Class Meeting	1 June 2017	**As special resolution:** 1. The resolution of granting the repurchase rights on 10% A shares and 10% H shares to the Board was approved.	The convening of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 1 shareholder in attendance either in person or by proxy at the meeting, representing 751,626,350 shares or 41.50% of the H voting shares. The aforesaid resolutions were approved by way of on-site voting by poll. Independent non-executive directors, Mr. Fong Chung, Mark and Mr. Wong Kwai Huen, Albert, Employee Supervisor Mr. Li Zhi and independent supervisor Mr. Cheng Xinsheng could not attend the meeting due to other business while all other directors and supervisor of the Company attended the AGM.	www.sse.com.cn www.hkex.com.hk
2017 First EGM	13 December 2017	**As ordinary resolutions:** 1. The resolution of the appointment of Mr. Liu Yifeng as an executive director of the Company with immediate effect was approved; 2. The resolution of the appointment of Mr. Meng Jun as a non-executive director of the Company with immediate effect was approved. **As special resolution:** 1. The resolution of the amendment of the Articles of Association was approved.	The convening of this meeting was in compliance with Company Law and other relevant laws, administrative regulations and Articles of Association. There were 27 shareholders in attendance either in person or by proxy at the general meeting, representing 3,436,269,838 shares or 72.02% of the voting shares. The aforesaid resolutions were approved by way of onsite and online voting by poll. Executive director Mr. Dong Weiliang, independent non-executive director, Mr. Fong Chung, Mark, Employee Supervisor Mr. Li Zhi and independent supervisor Mr. Cheng Xinsheng could not attend the meeting due to other business while all other directors and supervisor of the Company attended the EGM.	www.sse.com.cn www.hkex.com.hk

COSL Sustainability Report 2017

About This Report

This is the 12th annual report on sustainable development released by China Oilfield Services Limited (hereinafter referred to as "COSL", "the Company" or "we"). It discloses the performance of COSL in terms of the economy, the environment, society, etc, during the period of 1 January 2017 to 31 December 2017. Portions of the content and data exceed the above timeframe.

● Statement by the Board of Directors

The China National Offshore Oil Corporation (CNOOC) is a member of the UN Global Compact; by extension, as a member of CNOOC, COSL will comply with the UN Globbal Compact's 10 principles. The Board of Directors will facilitate the Company to fulfill its responsibilities, including the disclosure obligations of related information.

● References and Guarantee of Reliability

References for the preparation of this report include "Sustainability Reporting Guidelines (G4.0)" issued by the Global Reporting Initiative (GRI), the UN Global Compact's 10 Principles, the "Environmental, Social and Governance Reporting Guide" within Listing Rules of Hong Kong Stock Exchange, the "Guidelines of Environmental Information Disclosure for Listed Corporations" issued by the Shanghai Stock Exchange, and the "Guide for Preparation of Social Responsibility Report of China (CASS-CSR3.0)" from the Chinese Academy of Social Sciences.

The Company affirms that the report does not contain any knowingly false representations, misleading statements or material omissions.

● Sources of Information and Descriptions

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

● Preparation Process

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

● Report Improvement

The 2017 Report describes the fulfillment of the Company's sustainable development objectives in the five major areas of "Risk Management", "Capability Improvement", "Safety and Environmental Protection", "Staff Development" and "Social Contribution". It also highlights the topic of "Promoting a Dual 50% Strategy and Building a World Class Company". All opinions and suggestions, including the concerns of shareholders, were considered during preparation of the report.

● Languages

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

● Access to the Report

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

For information on COSL's corporate governance system, measures and results, please refer to the "COSL 2017 Annual Report – Corporate Governance Report".

About COSL

Company Profile

China Oilfield Services Limited is one of the world's leading integrated oilfield services providers. The company is listed on the Hong Kong and Shanghai stock exchanges, and has a history of more than 50 years in offshore oil and gas exploration, development and production. Its business currently encompasses the core service segments of geophysical and surveying, drilling, wells, and marine support. COSL not only provides single-operation services to customers, but also offers IPM services using the best offshore oilfield technology in Asia-Pacific. COSL's business has expanded to Asia-Pacific, the Middle East, the Americas, Europe, Africa and the Far East, with activities taking place in more than 30 countries and regions around the globe.

Corporate Culture

Corporate Spirit
Always Do Better

Performance Guideline
Do Everything Diligently

Core Values
Realise win-win with shareholders, customers, employees and partners

Code of Conduct
Integrity, dedication, cooperation, and self-discipline

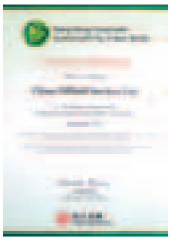
Honours in 2017

High and New Technology Enterprise certificate
The Ministry of Science and Technology of PRC, the four ministries of Tianjin

Golden Hong Kong Shares "Best Investor Relations"
Zhitong Caijing

"Best Corporate Governance" company
China Financial Market magazine (Hong Kong)

"Best Board of Directors for Investor Relations of Listed Companies on China's Main Board"
Securities Times



Constituent Stock of the Hang Seng Corporate Sustainability Benchmark Index and the Hang Seng (China A) Corporate Sustainability Benchmark Index
Hang Seng Indexes

Vision Awards "Gold Award" (for 2016 Annual Report)
League of American Communications Professionals LLC

The party committee branch of "HYSY981" was titled as the first basic level demonstration branch of the state-owned enterprises
The Party Committee State-owned Assets Supervision and Administration Commission

Business Development

Business Presence

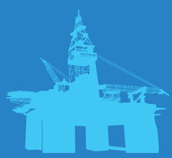
Asia-Pacific: Singapore, Indonesia, Myanmar, Malaysia, Timor-Leste, Cambodia, Brunei, Papua New Guinea
Middle East: Iraq, United Arab Emirates, Qatar, Saudi Arabia, Kuwait
Africa: Gabon, Nigeria, Cameroon
Americas: Mexico, Brazil, Canada, Argentina
Northern Europe: Norway, North Sea (UK)
Far East: Far East

Business Scope

Geophysical and Surveying Services

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

+



Drilling Services

- Offshore Drilling
- Land Drilling
- Drilling Rig Management
- Modular Drilling Rigs

+

Well Services

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

+

Marine Support Services

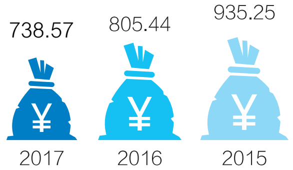
- Anchor Handling
- Towing
- Offshore Transportation
- Stand-by
- Oil Lifting
- Fire Fighting
- Rescue
- Oil Spill Assistance

COSL in 2017

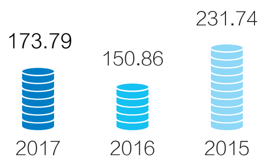
Key Performance

Market Performance

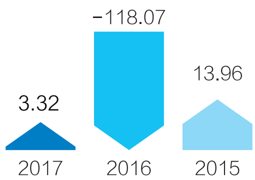
Total assets
Unit: RMB100 million



Operating revenue
Unit: RMB100 million



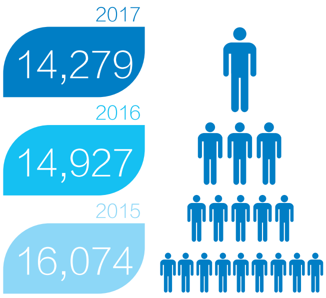
Profit before tax
Unit: RMB100 million



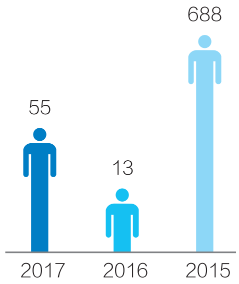
Market Performance	Unit	2017	2016	2015
Total equity	RMB100 million	346.78	352.96	468.29
Revenue from international business	RMB100 million	43.23	48.19	77.00
Percentage of revenue from international business	%	25	32	33
Total taxation	RMB100 million	10.76	13.06	21.84
Number of new patents	Item	74	134	182

Social Performance

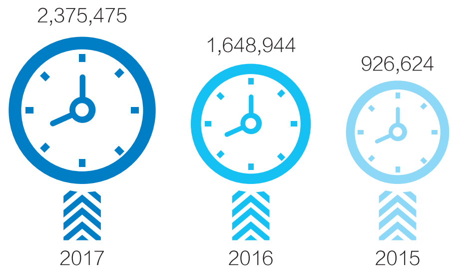
Total number of employees
Unit: Person



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



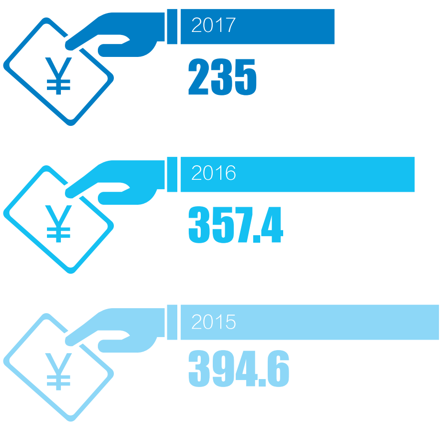
Total time of employees' training
Unit: Hours



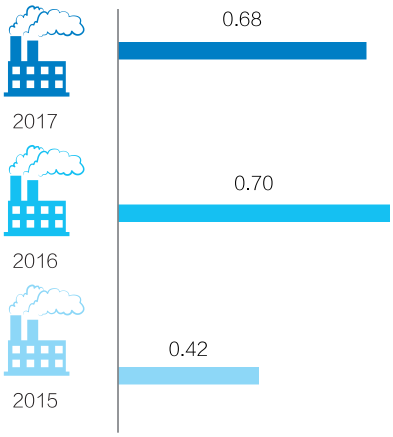
Social Performance	Unit	2017	2016	2015
Percentage of female employees	%	8.1	8.0	8.5
Social insurance coverage	%	100	100	100
Percentage of labor contract signed	%	100	100	100
Staff turnover rate	%	2.2	2.9	1.9
Total donation & employee relief fund	RMB10,000	356.7	257.1	118.9
Number of maritime rescue and salvage	Times	26	22	19
Number of employees participating in volunteering activities	Person-times	1,043	2,425	2,321

Environmental Performance

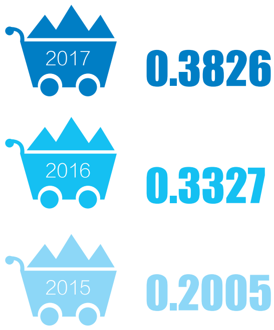
Investment in energy conversion and emission reduction
Unit: RMB10,000



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



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



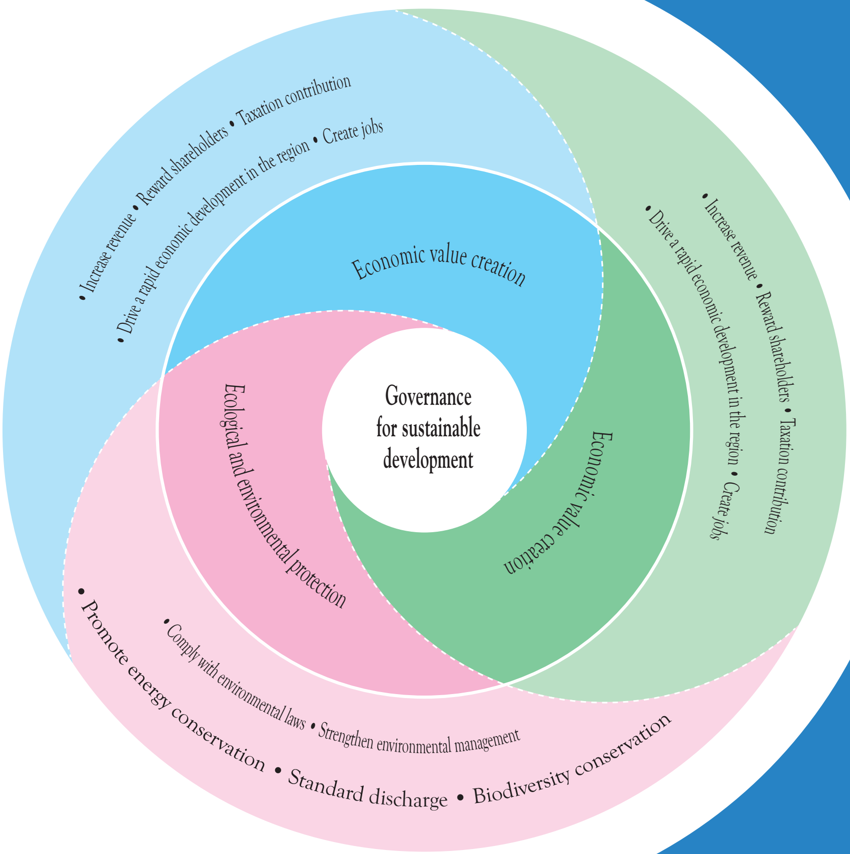
Note: The investment in energy saving and emission reduction exclude the increase in the investment of construction of large-scale equipment by the Company for energy saving and emission reduction.

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

Sustainable Development Governance

Sustainable Development Governance

The Company continues to optimise governance for sustainable development in accordance with bringing its philosophy of "always do better" into its enterprise development strategy and daily operations. The Company appoints a specific department to prepare and publish sustainability reports and carry out sustainable development training and exchanges. However, all departments and business units participate in the functions and responsibilities of promoting the systematic and standardised management of sustainable development, to ultimately achieve combined governance for sustainable development and business management.



In 2017, the Company organised training on the theory and practice of sustainable development for relevant department personnel, covering the basic concepts of sustainable development, international and domestic standards, development trends and practical cases. The training improved the work skills of participants and contributed to the more effective sustainable development of the Company.

Communication with Stakeholders

The Company attaches great importance to communication with stakeholders. It strives to keep channels of communication open and effective by such means as routinely conducting in-depth research on stakeholders' concerns, by adopting relevant demands as Company objectives and incorporating them into our plans for sustainable development. Through a variety of channels and platforms, the Company maintains ongoing communication on new developments in its capability and on its performance to meet the reasonable expectations and demands of all parties.

Stakeholders	Concerns	Responses and measures
Regulatory authorities and government	Implementing macroeconomic policy Operation in compliance with law Paying taxation in accordance with the law	Promoting laws and regulations Paying taxation in accordance with the law Accepting supervision and evaluation Visiting and reporting
Employees	Protection of rights Career development Health and safety Employee participation Employee care	Equal employment policies Optimisation of pay and benefits Four-level training Respecting diversity Occupational health and safety management Employee representatives meetings Cultural and recreational activities Employee care
Shareholders	Improving corporate governance Value creation Guarding against operational risks Information disclosure	Regular reports General meetings Daily communication Publishing annual reports and sustainability reports
Customers	Provision of safe, high quality and efficient services Security of customer information Improvement of customer satisfaction	Development of quality management system Continuous innovation Providing professional solutions Visits and communications Protecting customer information Comprehensive improvement of work standards
Suppliers and contractors	Compliance with business ethics and laws and regulations Establish long-term partnerships Mutual benefit and win-win development	Business discussions and technology exchange Negotiation of contracts and daily exchange Electronic management platform
Financial institutions	Operating conditions Operational risks Corporate governance	Special sessions Information disclosure
Media	Fulfillment of sustainable development Corporate performance Major events, activities and initiatives	Information disclosure Multi-channel communication
Charity and non-governmental organisations	Maintaining close contact and information sharing Participation in social activities	Participation in social welfare Information disclosure
Community and the public	Improving communication and exchange Carrying out social contribution activities Supporting public welfare	Philanthropy Marine salvage Promoting employment Supporting education Community care Volunteering services
Environment	Compliance with environmental laws and regulations Environmental protection Conserving energy and reducing emissions	Establishment of environment management system Conduct environmental training and awareness Clean production Conservation of biological diversity Practicing environmental charity

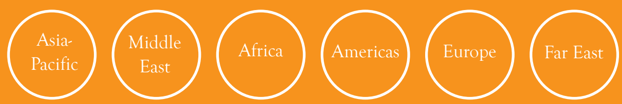
Promoting a Dual 50% Strategy and Building a World Class Company

In recent years as China's offshore oilfield service industry has witnessed remarkably rapid development, COSL has grown to become the largest integrated oilfield service contractor in the Asian offshore market. Drawing on the cumulative achievements and experience of the "12th Five-Year Plan" and analysis of the industry landscape and its own development, the Company has prepared a roadmap to accelerate international development while serialising and industrialising its technical products.

The Company is committed to realising its strategic objective of realising "Dual 50%" (deriving 50% of total revenue from overseas and technology accounts) by year 2020, and making it a truly world's class oilfield service enterprise.

International Development

Construction of six major overseas regions and optimization of oversea resources allocation



Establish six major overseas output contribution areas, optimise allocation of overseas resources

Optimization of headquarter's management model with market-oriented

An operational model which focuses on business development with support and cooperation from business contracts and comprehensive management has been established at Company's headquarters. The new model enables market development in disparate regions to be better coordinated and optimised according to their respective directions and intensity. It also encourages close monitoring of projects within the full regional market chain, helping to ensure the achievement of annual marketing objectives.

Reform of Overseas Regional Companies

The Company's vigorous push for institutional reform saw reforms completed in the Middle and Far East, and reform being actively promoted in Singapore. The reforms are designed to improve the operational efficiency, market development capability and management of regional companies.

Accelerated Implementation of Key Projects

In 2017, the Company entered into 140 new overseas contracts with a total contract value of RMB10,065 million. It made new expansions into Papua New Guinea, Argentina, Kuwait and Cameroon, and obtained 24 new customers such as Kangean in Indonesia, TWINZA in Papua New Guinea, Fieldwood in the Americas, Lundin in Europe. With the quality of its overseas projects' operation improving, the Company's brand image has enjoyed a steadily greater profile.

Improving Marketing Abilities and Creating a Talent Reserve

The Company established a marketing competency model and training matrix which aims to systematically improve staff ability. Focused on marketing and business, the training covers such topics as etiquette, business speech and communication, marketing planning, key customer management, business knowledge and risk identification, negotiation, strategy and decision making. These are supplemented with practical case studies. Also now established is the Marketing Staff Qualification Certification and Training Management System. The system creates a foundation for an international marketing talent reserve through dynamic management of marketing staff database, ability assessment, training and examination, and issue of certificates.

Serialization and industrialization of technical products

Serialization aims to identify the shortcomings and improve ability of the Company

3 Categories

11 Technology series

39 Sub-series

Three categories comprising equipment, technologies and solutions, 11 technology series and 39 sub-series of core technical products have been developed, providing a reliable technical reserve for global market development

The Aims of Industrialisation: Seize Markets and Create Benefits

The Company's comprehensive plan for serialisation-based industrialisation includes a schedule for the industrialisation of research and development results. The purpose of this facet of the plan is to transform the results of industrialisation into a solid technical base from which to further develop the Company.

To fully push forward the serialization and industrialization of technical products:

- A technical product industrialization incentive fund was established to motivate the technical team
- A joint laboratory was established in North America to the bottleneck of high-end technology research
- The Company communicated and shared with international peers to quickly commercialize existing technology
- The Company started to provide entrusted mechanical processing to assist in the upgrading of manufacturing ability
- A production enhancement coordination institution was established to strengthen the matching of technical research achievements with market demand
- The "Guiding Opinions on Estimation of Economic Benefits" were prepared to quantize technical investment and output
- The development of laboratory capability was strengthened to build technical say
- A "Technical Forum" was held to create the environment for technical innovations

The first 15 industrialisation incentive fund projects from the "13th Five-year Plan" period made rapid progress:

- Operational success rates for D+W logging/drilling and the rotary steerable system have significantly improved.
- Successful industrialisation of the 675-type "Four Line" logging/drilling system
- The applicable formation temperature of EZ-FLOW Drill-in Fluid has been raised to 170 degrees Celsius.
- New cementing technology includes a cement slurry series resistant to temperatures as high as 120 to 260 degrees Celsius.
- Vertically-integrated capability for well completion tools and sieve tube products has been quickly introduced, demonstrating the Company's strength in research and development.

Risk Management: A Comprehensive New System of Prevention and Control

Lawful Compliance

Compliance with Relevant Laws and Regulations. The Company maintains full compliance with all labour and social security laws and regulations relevant to its operations. To this end, the Company respects and protects the rights of employees, complies with competition laws and regulations and promotes fair competition, and complies with environmental protection laws and regulations. The Company is strives to improve its environmental management and is committed to clean production, saving energy and reducing emissions.

A Stronger System of Compliance. Based on its commitment to governance in respect to the law, the Company strengthened its system of lawful compliance by revising various internal legal systems and continuing to improve its management of legal affairs. Further improvements to the Company's legal risk prevention system were also introduced, covering the whole "prevention in advance, control in process and ex-post remedy" spectrum. In 2017, the Company achieved a 100% legal review rate of regulations and systems, economic contracts and material decisions, virtually eradicating occurrences of non-compliance.

Promoting Professional Legal Teams. The Company's team of qualified legal professionals has enabled it to make comprehensive improvements to its governance in compliance with law. The Company organised law compliance training programmes to improve employee awareness of legal compliance.

Internal Control and Risk Management

Internal Control and Management

Continued Optimisation of Internal Controls. The Company conducted a survey on the status and issues of its internal control system which aided it in setting clear objectives for the further optimsation and improved coordination of internal controls. These are described in an Optimisation Work Plan, under which self-examinations are organised and comprehensively reviewed with the goal of enhancing the applicability, reasonableness and operability and effectiveness of internal control systems while ensuring their compliance. The Company's internal control systems for 2017 covered the full business process and included 13 major systems and 447 rules. Of the latter, 118 has been newly prepared or revised.

Exploring Institutional Innovation, Unleashing the Potential of Overseas Institutions. Dramatic changes to the oil and gas industry in recent years have resulted in intensified competition in the Company's overseas regions. The Company's response has been to facilitate internal control system optimisation for these overseas institutions. Overseas systems will be developed in view of local laws and regulations and each region's management model and operating characteristics.

Promoting Advanced Systems and Improving their Execution. The Company arranged various forms of training to improve the effectiveness of its systems. It also facilitated units at all levels to share advanced management experience with the aim of enhancing internal control management and their ability to implement systems.

Expansion of Internal Control Evaluations, Promotion of System Optimisation. In accordance with the Management Measures for Internal Control Examination and Evaluation, the Company determined the scope of internal control evaluation in the areas of material risk, central tasks and audit results. It then carried out evaluations on the effectiveness of its internal control system. Defects were identified and quickly rectified, contributing to its continuous improvement.

Continuing Internal Audits, Promoting System Improvement. The Company used strategy and risk-oriented internal audits to facilitate and ensure the implementation of internal control and risk management in accordance with the principle of "eliminating any undeveloped system". Recognising the full value of the line of defence, the Company made thorough analysis of audit findings and strengthened its rectification of audit issues to promote continuous improvement of its internal control system and control risks at the system source.

Risk Management

Continuing Improvements to the Risk Management and Control Mechanism, Timely Identification and Control of Risks. The Company established a philosophy, culture and system of risk management which specifies functions, principles and models and incorporates risk identification, assessment and warning into routine operations. To facilitate this, the Company organised regular risk assessment meetings, put forward risk management measures and requirements, and monitored and controlled the status of risk implementation.

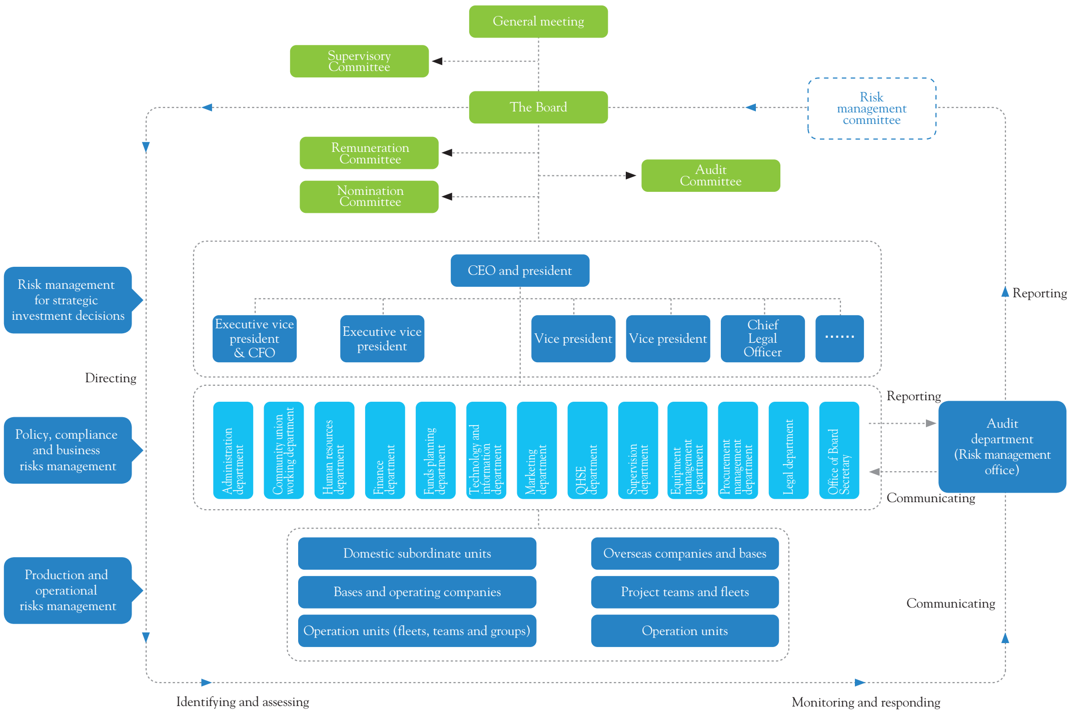
Enhancing Risk Detection and the Role of Early Warning. The Company expanded the scope of participation in risk assessment, improved the timeliness and accuracy of risk information collection, continued to improve its risk database and risk standards, and further optimised its Quarterly Reports on Comprehensive Risk Management. The Company improved its early risk warning indicator system and monitored dynamic risk development trends in view of risk features. It analysed risk from multiple perspectives, including from the system, regional and professional standpoints, and strengthened risk information according to risk distribution.

Summarising Risk Control Experience, Solidifying Risk Control Measures. The Company made timely summaries of experiences in risk management and control via reviews and analyses of risk management and control cases. Summarised experiences were incorporated into risk management and control measures, and into business processes and systems to facilitate continuous improvement of risk management.

Risk Management Training, Improving Risk Prevention Awareness. The Company arranged for a series of targeted risk management training sessions to complement the risk management research and on-site training of its units. These strengthened staff knowledge of risk management, improved risk prevention awareness, and enhanced staff members' ability to identify, assess and cope with risk. Measures further contributing to these objectives included the issuing of quarterly risk reports, engagement of experts for explanation, sharing advanced staff management experience, and case analysis.

Internal control and risk management training performance table (2015-2017)

Indicator	Unit	2017	2016	2015
Number of internal control management training	Times	162	156	125
Number of participants in internal control management training	Person-times	2,362	2,257	1,774
Number of risk management training	Times	49	46	43
Number of participants in risk management training	Person-times	1,743	1,635	1,522



Risk Management Organization Chart

Anti-fraud Initiatives

Preventing Commercial Corruption. The Company continued to carry out anti-corruption and anti-fraud work based on issues identified through whistleblowing and/or revealed through inspection and audit. It comprehensively reviewed areas and positions with a higher risk of corruption, gradually improved its corruption risk database, developed and revised 19 anti-fraud rules, and launched tip-off telephone numbers and email addresses on its website home page to more encourage staff to exert its powers of supervision. The Company's vigorous implementation of monitoring, enforcement and accountability were effective in preventing instances of corruption, bribery and insider trading. In 2017, no instances of corruption, fraud or money laundering were detected by the Company.

Exploring Management's Ethical Compliance Overseas. Using questionnaire surveys, benchmark learning, analysis and research, the Company has developed a comprehensive body of ethical compliance rules for overseas management, including the "Code of Conduct and Ethics for Overseas Employees" and "Disciplinary Procedures for Overseas Employees". Tip-off telephone numbers and email addresses were introduced in Southeast Asia, the Middle East, the Americas, Europe, Africa and Australia and the Far East.

Intensified Anti-fraud Education. As part of its anti-corruption education campaign, the Company reviewed 54 typical cases of "micro-corruption" involving human resources, public services, financial management, business reception and business cars. These reviews heightened the awareness of management and employees of how and where instances of corruption may take occur. Meanwhile, inspection and supervision organisations at all levels of the Company carried out 496 activities to further the anti-corruption education of 19,403 members of staff.

Performance of internal control and risk management trainings (2015-2017)

Indicator	Unit	2017	2016	2015
Number of anti-fraud training	Times	496	467	462
Number of participants in anti-fraud training	Person-times	19,403	17,272	16,217

Starting a New Chapter in Sustainable Development

- Quality Management
- Professional Services
- Technological Innovations
- Supply Chain Management

Quality Management

By adhering to a management policy of "supremacy of credibility, equipment in good condition and quality assurance", the Company continues to improve its management quality and its ability to provide customers with quality products and services, thereby increasing customer satisfaction.

◎ Improving Quality Management Organisation

The Company's direct subsidiaries have established complementary organisational networks which unify the management and supervision of product and service quality.

◎ Improving Quality Management Systems

As part of its effort to continuously improve its quality management, all Company units identified their deviations from the latest quality system versions and the Company's requirements for QHSE management and international and industrial management. The exercise led to improvements in quality management system documentation. The relevance, effectiveness and operability of quality management systems were further enhanced through regular evaluation by supervisors, internal/external audit, and management appraisal and compliance evaluation.

◎ Conducting Quality Training

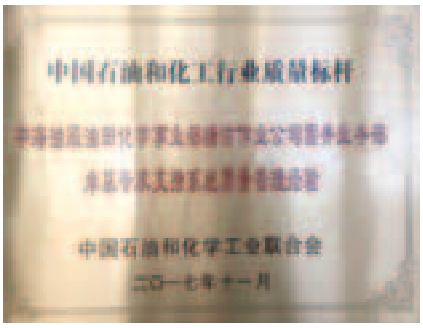
Each Company unit maintained specific quality management system training programmes. They taught the basics of quality management and practical quality control, and included the study of selected case studies as well as skill contests and exchanges. All of the above helped staff to understand the importance of quality operations, services and products. In 2017, the Company conducted 553 quality training sessions with 9,786 participants.

◎ Special Quality Checks

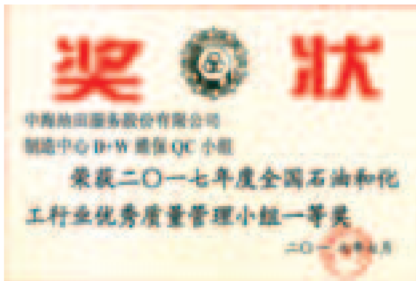
The Company carries out special checks which mainly relate to quality systems, asset integrity and sustainability, and customer satisfaction. Corrective and preventive measures are implemented as required for any issues identified by the checks.

◎ Carry out QC Team Activities

During 2017 COSL carried out 194 QC team activities, and its Manufacturing Centre D+W Repair and Maintenance QC Team received first prize from Petroleum and Chemical Industry Association for high quality management teams in the national oil and chemical industry.



In 2017, management of the Company's cementing business's shore-based expert support system was recognised as a "Model for Quality Management (Technology) Methods" by the China Petroleum and Chemical Industry Association.



Professional Services

Provision of Professional Services

COSL is dedicated to providing customers with efficient, effective high quality services. The Company's high standard of professional services and good operational performance have enabled it to make considerable progress developing overseas markets in the face of intense competition. It recently expanded into four new markets – Papua New Guinea, Argentina, Kuwait and Cameroon – and entered into new cooperative arrangements with 24 customers including as Kangean and WNEL in Indonesia, TWINZA in Papua New Guinea, Fieldwood in the Americas, Lundin in the UK.

On 3 June, the Company was recognised as an "Outstanding Contractor of PEMEX 2016" in the supplier responsibility and operation performance contest held by Petroleos Mexicanos (PEMEX).

In Asia-Pacific, the Company is one of the most powerful oilfield contractors in Indonesia. HYSY937 was recognised as a "business card" in the Indonesian market. Its drilling and completion fluids business entered the onshore high temperature and pressure sector of the Indonesian market for the first time.

In the Middle East, the Company overcame challenges relating to drilling and completion in Iraq's Missan Oilfield, completing general drilling and contracting services for 33 wells and production optimisation for 138 wells. The period of its safe operation now exceeds 1,500 days. The HYSY751 source vessel set a record new low of 0.4% for blown-out shot rate in Red Sea seismic operation, far exceeding the standards required by contract.

In Africa, the Company completed a three-dimensional seismic survey over a 10,000 square-kilometre area, setting a new daily production record of 116.14 square kilometres.

In the Americas, COSLHunter set multiple records for being the fastest operation in the HOKCHI area set by Pan American Oil Company. It also earned efficiency improvement awards for all four of the wells it drilled in 2017.

In Europe, the Company's outstanding performance with Statoil led to it receiving intentions of cooperation from Lundin and Nexen UK, achieving a diversified customer base.

In the Far East, NH8 made a major oil and gas discovery while maintaining safe, high-quality and efficient operations.

Strengthening Communication with Customers

In 2017, the Company continued to guide its development toward meeting customer needs. It also improved communications with IOCs, NOCs and government authorities through a combination of invitation and going global. Its participation in international oil conferences enables to monitor the industry's latest technologies and facilitates development of overseas markets. The Company also interacts with customers in multiple ways – such as through visits, customer invitations, and customer satisfaction surveys. In combination, these give the Company an up-to-date picture of customer demands while fostering the mutual understanding needed for broader, deeper future cooperation. The Company additionally placed emphasis on customer information safety management, the management and maintenance of customer information in strict accordance with relevant rules and procedures, and arranged training to strengthen the safety and precaution awareness and skills of staff responsible for customer information management and ensuring customer information safety.

Mexico Oil Exhibition 2017


Pan America invited its shareholders to visit COSLHUNTER

Case Establish Annual Marketing Meeting System, Improve Marketing Performance

In 2017, the Company held its third annual marketing management meeting. Given its growing international customer base, separate domestic and overseas meetings were held. In both, innovative interaction models were introduced to brief customers, encourage their engagement and improve marketing effectiveness. The annual meetings focused on COSL's latest oilfield technology developments. Future prospects for cooperation with oil companies and partners were also discussed. More frequent interactions of this type will lay the groundwork for extensive and deep cooperation between parties in future.

▲ Group photo at an annual international meeting

Technological Innovations

The Company attaches great importance to the serialisation and industrialisation of technical products, incorporates the 'business, investment, research and reserve' into its development strategies, enhances investment with management and capital resources, accelerates the research of technical products, quickly improves its product series to build market competitiveness, and strives to build the technology segment into the new growth pole for its development."

—Qi Meisheng, CEO and president

Systems and Management Mechanisms for Technological Innovation

In 2017, the Company revealed a rolling technical development plan for 2018-2022 which specified its path for the industrialisation of technical products and international technology development. The Company implemented the "Guiding Opinions on Realisation of Technical Research Achievements", published the "Guiding Opinions on Estimation of Economic Benefits of Technical Research Achievements", and strengthened its support for realisation of technical research achievements to build an effective "ecology of innovation".

The Company's innovative energy continued to be strengthened with the establishment of a joint laboratory in North America, and the creation of a new environment for utilising global intelligent resources. It communicated and shared with international peers to quickly commercialise existing technology

Technical Innovations Platform and Talents

As a high tech enterprise in the PRC, the Company operates a national enterprise technology centre, a national marine high tech industrialisation base and a national offshore oil exploration engineering laboratory. The Company has established a research and development support system comprising "five academies and one institute", a high-level scientific research platform, a first-class logging and directional drilling research and development experimental and physical drilling testing platform, and a first-class national oilfield chemical and recovery enhancement laboratory, all of which have effectively supported the sustainable development of the Company.

The Company has also promoted the building of a talented team. It currently has a key area innovation team under the National Innovative Talent Promotion Programme, a leading technical innovation talent under China's "Ten Thousand Talent" programme, two young and middle-aged experts who have made outstanding contributions under the "National Hundred, Thousand and Ten Thousand Talent Programme", and 27 senior professor level engineers.

Realisation and Application of Technical Innovations

In 2017, COSL achieved great results in the area of technical innovation. During the year, it was granted 74 patents, including 53 invention patents and 21 utility model patents. The Company comprehensively accelerated the serialisation and industrialisation of its technical products. The speed and quality of its technical achievements significantly improved, and it obtained remarkable results in innovation and production enhancement. The Company received a first prize at the National Science and Technology Progress Awards, and a third prize at the Tianjin Science and Technology Progress Awards.

74
Patents granted during the year

53
Invention patents

21
Utility model patents

Key Performance Table for Technical Innovations (2015-2017)

Indicator	Unit	2017	2016	2015
Research and development expenses	RMB10,000	39,977	56,710	88,198
Number of new patents	Item	74	134	182
Number of new invention patents	Item	53	60	58

Technological Achievements in 2017

First Prize, National Science and Technology Progress Award
Industrial application of key technologies for drilling and completion of high temperature, high pressure wells in the South China Sea.

Third Prize, Tianjin Science and Technology Progress Awards
Application of safe and efficient drilling technologies in complex formation at Missan Oilfield; research in multifunction ultrasound imaging logging, in key technologies for protection of reservoirs during the full process of drilling and completion of wells in complex reservoirs in the Bohai Sea.

Second Prize, Shandong Provincial Science and Technology Progress Awards First Prize, China Petroleum and Chemical Industry Association Technology Innovation Awards
Industrial application of key technologies and ancillary equipment for sand control in sandstone oilfields with complex conditions.

Third Prize, China Petroleum and Chemical Industry Association Science and Technology Progress Awards
Application of key technologies for protection of deep sea pipelines.

Breakthrough 1
Successful research and development of large-diameter rotary shaft wall coring device

Breakthrough 2
Successful operation of high-speed pulser for logging while drilling

Breakthrough 3
Nanometer microsphere drive technology helps oilfields enhance production and efficiency

Breakthrough 4
New deepwater cementing head breaks international monopoly

Supply Chain Management

Building a Global Supply Chain

Beginning with supply chain management, COSL made considerable progress in its work in the areas of procurement management, inventory management and control, warehousing resource optimisation, import and export management and overseas supply chain building.

In 2017, seeking sources of procurement, lower costs and increased efficiency and considering the strategic goals of its six major overseas output contribution areas, the Company gradually improved its global supply chain management presence and constructed overseas procurement centres in Singapore, Houston, the Middle East and Norway. The Houston and Norway centres were established in February and August, respectively; while the Middle East centre completed an institutional reform and the Singapore centre commenced a full range of operations. With supporting regional operational needs as their primary purpose, the overseas procurement centres worked mainly on finding sources of procurement. In 2017, they achieved procurement at the source amounting to more than US$14 million and directly lowered procurement costs in the middle links by approximately US$1.3 million. Additionally, COSL improved coordination between overseas procurement centres and domestic units with procurement needs, strengthened regional coordination and management functions of property management centres in domestic branches of the Company, enhanced planning for centralised regional procurement, and formed a "4+4" global supply chain structure.

Strengthened Warehousing and Logistics Management

The Company effectively conducted various materials management toward its objective of "professional, standardised, regulated and informatised" materials management. Through establishing an innovative management model for regional logistics centres and coordinating regional warehousing and logistics management, the Company enhanced its ability to ensure materials supply and reduced its warehousing and logistics costs. It also adopted innovative management measures, including deep application of inventory quotas, joint reserve, centralised sharing, cross-department joint management and control, and a KPI assessment mechanism. As a result, its inventory structure continued to be optimised and overall inventory levels were far lower than international industry norms. While ensuring production and operation, the Company realised optimum cost through reasonable warehousing and logistics coordination.

Continuing Improvements in Global Supply Resource Management

The Company strictly implemented its supplier management system, adhered to supplier management by category and level, operated the daily supplier management mechanism for admission, use, review, exit and information feedback, and strengthened dynamic maintenance of suppliers.

In the supplier management process – including admission review, classification, selection and use, bidding qualification pre-review and performance assessment – the Company not only considered their product quality, business skills and price level, but devoted increased attention to their corporate reputation, business ethics, credit ratings by banks, HSE system certification, development prospects and performance in fulfillment of social responsibilities, as well as their compliance with the laws and regulations relating to child labour, wages and working hours.

In the procurement process, the Company notified suppliers of compliance requirements and conducted qualification pre-review and compliance background investigations of suppliers by collecting qualification documents, online searches and making on-site assessments. The Company insisted taking into account search results for suppliers' bribery and criminal records and their legal representatives as an important review factor, and showed preference to those suppliers who met Company compliance requirements.

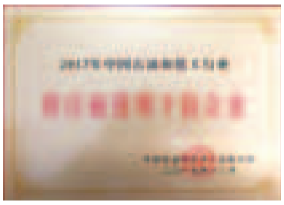
The Company made extensive use of compliant and highly-efficient electronic bidding platforms to provide suppliers/contracts with public, fair and transparent opportunities for participation, and strengthened the training of management and staff of both sides.

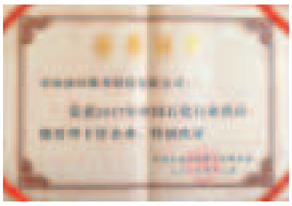
The Company conducted training and exchange programmes for supplier management. During these, workflows were explained and cases were analysed to regulate day-to-day operations (attended by 55 persons).

The Company trained 185 suppliers, conveying its management requirements and explaining the operational skills for the electronic bidding platform. As a result, exchange of information was strengthened between the supply side and demand side.

With the Company's outstanding performance in global supply chain construction and "regulated, professional, standardised and informatised" materials management, and after recommendation from its parent company and review by an expert China Petroleum and Chemical Industry Association panel, the Company was named among the "Top 10 Supply Chain Management Enterprises in the PRC Petroleum and Chemical Industry in 2017" as announced on www.cpcia.cn. Xu Qianbin, a member of the Company's procurement management department, was also recognised among "Top 10 Supply Chain Management Figures in the PRC Petroleum and Chemical Industry in 2017".

The Company was named among the "Top 10 Supply Chain Management Enterprises in the PRC Petroleum and Chemical Industry in 2017" by the China Petroleum and Chemical Industry Association





Number of suppliers by region (2015-2017)

Year	Total number of suppliers at the end of the year	Overseas	Domestic	Major cities				
				Tianjin	Beijing	Guangdong	Shanghai	Others
2017	4,720	2,293	2,427	593	444	403	168	819
2016	2,461	261	2,200	518	404	382	151	745
2015	2,241	220	2,021	459	387	348	136	691

Note:

The Company established an overseas supplier database in 2017, with a total of 1,983 suppliers, mainly comprising 1,380 in Southeast Asia including Singapore and Indonesia, 386 in North America and Mexico, 203 in the Middle East, and 14 in other areas.

The Company has 2,737 domestic suppliers, including 2,427 PRC suppliers and 310 overseas suppliers.

Safety and Environmental Protection to Help Build an Ecologically Civilised New Homeland

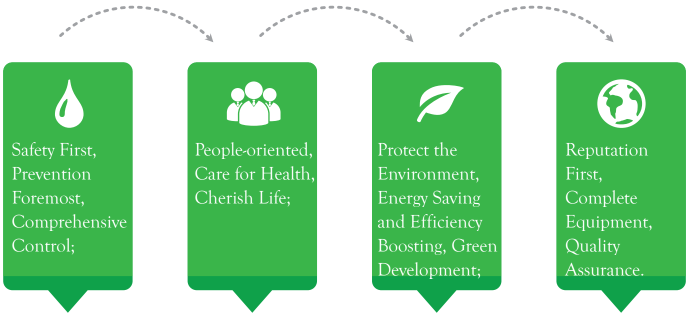
Operation Safety

Occupational Health

Environmental protection

Operation Safety

QHSE policies:

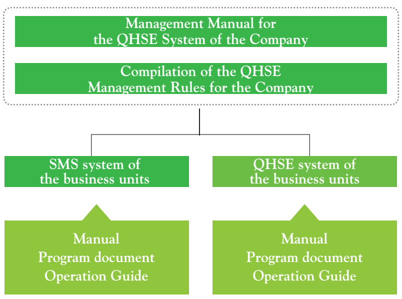


HSE strategic objectives:

To achieve our goal of zero accidents, we promise:

- Through the measurement, assessment, reporting and benchmarking of management performance, to constantly improve the management systems for quality, health, safety and environmental protection and continuously enhance the management quality;
- Management's active participation in quality, health, safety and environmental protection;
- To provide safety training to all staff and constantly enhance their safety awareness;
- That employees shall have the right to stop operation in case of danger;
- To focus on environmental protection and clean production;
- To continue to improve emergency management and minimise losses arising from incidents;
- To cultivate culture of safety, and to share and deliver our safety values;
- To require our contractors to manage quality, health, safety and environmental protection in accordance with this policy.

QHSE management organization



QHSE system structure

QHSE Management

In 2017, the Company continued to improve its QHSE management system building in accordance with relevant laws, regulations and industry standards. The Company maintained strict compliance with ISO9001 (quality management standard), ISO14001 (environmental management standard), OHSAS18001 (occupation and health safety management standard) and ISM CODE (international vessel safety and anti-pollution rules), fully and effectively implemented SMS/QHSE systems and continued in their improvement.

The Company continued to improve the relevant and SMS/QHSE systems and structure, analysed the differences between the internal control systems of the Company and its international peers, conducted comprehensive review and optimisation of its 52 existing quality, health, safety and environmental protection systems, and formulated revisions and supplementary plans for its QHSE internal control system. During the year, the Company developed two new systems and revised eight, further refining its QHSE internal control system, and conducted step-wise progressive refinements to QHSE responsibility documentation to gradually adapt to the expectations of domestic and international operating environments.

To improve its safety and pollution prevention management ability and comprehensively improve the SMS operational effectiveness, the Company maintains a team of high-quality SMS internal auditors and gave full responsibility to the internal auditor as a supervisor, liaison and advocate in SMS operation. Additionally, per regulatory requirements, the Company invited experts from relevant authorities such as maritime bureaus to provide explanations and training on safety inspection methods, safety management system internal audit key points and skills for ISM (NSM) rule compliance.

Through analysis of the policies, ideas and best practices of international petroleum companies and the systematic identification of the laws and regulations under which the Company operates, the Company recognised a total of 1,181 QHSE laws and regulations, including 24 for quality, 145 for health, 341 for safety, 193 for environmental protection, 281 for maritime affairs, 20 for energy, and 177 overseas regulations.

Operation Safety Management

Following its policy of "safety first, prevention foremost, and comprehensive control", the Company vigorously conducted QHSE substance management and continued to consolidate the foundations for safety management. The Company emphasised a combination of prevention, control and treatment in this respect, and accordingly engaged in special activities such the establishment of production safety models, improvement of "backward" units, fostering a Company culture of safety, strengthening the inspection and treatment of hidden dangers, and conducting company-wide safety education and training. By these and other means, the Company maintained full management and control of systematic production safety risks and has built an intrinsically safe enterprise.

Production Safety Performance (2015-2017)

Indicator	Unit	2017	2016	2015
Number of production safety accidents	Case	9	25	28
Number of recordable injury incidents	Case	12	23	15
OSHA ratio	%	0.06	0.10	0.07
Accumulated lost working days ratio	%	1.08	3.83	2.63
Number of death of employees	Person	0	2	0
Number of death of contractors	Person	0	0	0

Note: OSHA ratio = Recordable incidents×200,000/Total working hours
Accumulated lost working days ratio = Lost working days×200,000/Total working hours

◎ Significant Improvement of QHSE Management

By adopting an "onion peeling" method and starting with the key elements of "people, machine, materials, rules and environment", the Company focused on solving management problems at their weakest points. It proceeded to identify and develop annual improvement measures on a level-by-level basis, strengthening its basic management progressively and systematically.

◎ Strengthened Risk Management and Control

The Company continued to strengthen safety and risk management controls, fully implemented the "double prevention" mechanism, and implemented safety and risk controls – including those exerted on a daily, monthly and annual basis. It implemented a safe production risk announcement system and encouraged the dynamic management of risks with the participation of all employees.

Annual Risk Control. At the beginning of the year, the Company organised and developed risk identification and evaluation methods, then identified annual unacceptable risks and accordingly developed management and control measures and key points of control.

Monthly Risk Control. Monthly safety risk analysis meetings enabled front-line units to combine production and operation plans, analyse operation risks for the coming month, and formulate appropriate control measures.

Daily Risk Control. Through application of job safety analysis (JSA), Company units identified their potential operational risks and established appropriate control measures, compelling all employees to participate.

◎ Identifying and Addressing Hidden Dangers

The Company deepened its implementation of safety inspection mechanisms, carrying out several types of general and special inspections while developing and setting "red lines" for inspection standards. In 2017, the Company focused on comprehensively addressing hidden dangers revealed through inspections, full implementation of safety inspection mechanisms, and divisional and regional self-management and monitoring. The Company treated major risks and hidden dangers as accidents, and if necessary held individuals responsible and accountable when these dangers were not rectified in a timely manner.

◎ Strengthening Safety Education and Training

Using a variety of platforms including internet and video, the Company conducted QHSE training, imposed stricter requirements for safety training for all employees, and continued to advance safety training for all employees in relation to operational conditions.

In 2017, all units of the Company carried out a total of 20,836 safety training sessions in various forms in accordance with the work plan for the year, with 309,368 employees participating.

The Company made full use of its network resource advantage by organising all its employees to learn common safety skills through its "remote safety education platform". Of the Company's 13,613 employees, 13,611 (99.99%) participated, with an examination pass rate of 99.99%.

Safety Emergency Management

The Company continued to optimise its emergency management system, including general and special emergency plans and on-site emergency procedures. It established an emergency group composed of experts from various fields to enhance its response to emergency situations. Furthermore, the Company built and ran detailed simulations of the most high-risk operational emergency scenarios. These led to several improvements in the Company's preparations for major accidents.

In 2017, the Company carried out a total of 16,423 ship-shore joint exercises and on-site exercises involving rigs, ships and shore facilities. These included 986 general exercises and 15,437 special exercises with a total 324,106 participants, at a total cost of RMB2,883,400.

Occupational Health

Health Management

In 2017 the Company's commitment to the occupational health of its employees was manifested in the continued improvement of management rules such as the "Occupational Health Management Approach", the comprehensive implementation of health education and promotion, and the formulation of health improvement and occupational health management plans, including the extension of a hearing protection plan for all staff. Every front-line unit complied with these plans and developed a series of occupational health management programmes.

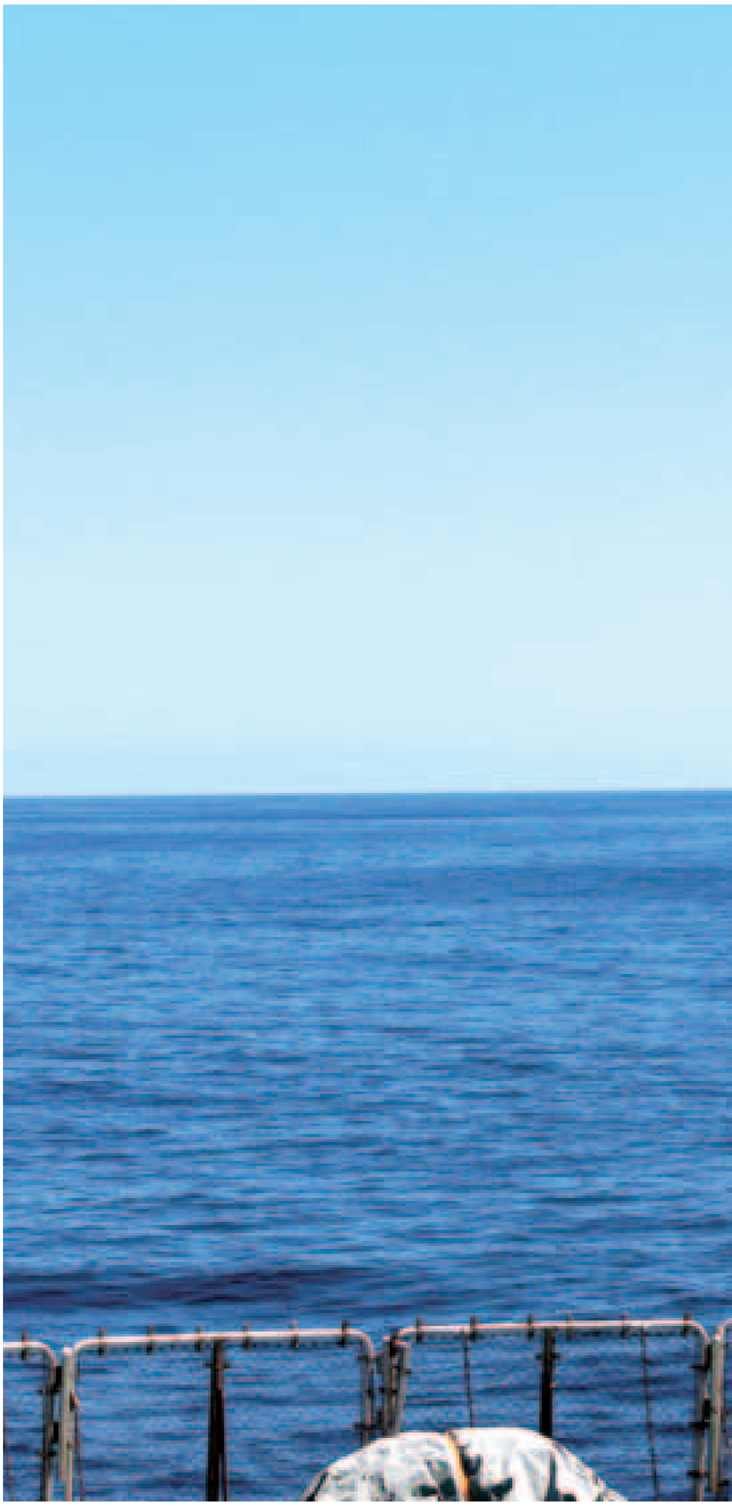
The Company provides employees with health checks in three categories: health certificate examinations for offshore and outside working employees, with a health certificate holding rate of 100% in 2017; occupational health checks for employees in contact with dangerous factors of occupational diseases, with a check completion rate of 99.92% in 2017; and routine physical examinations for onshore employees, with coverage rate of 99% in 2017.

The Company set up infirmaries in and assigns general practitioners for rigs, vessels and field operation bases with staffs/crews of more than 25 persons. In vessels where no medical practitioner is assigned, the Company provides medicines and blood pressure monitors and part-time health workers to manage and record their distribution and monitor the health of staff. At all operational bases, the Company provides first-aid kits in designated locations which are supervised by specific persons.

The Company engaged the Maritime and Oil Centre for Disease Control to assess the status of occupational hazards within the Company in accordance with the "Proposal for Assessment of Status of Occupational Hazards", as required by laws, regulations, rules and standards relating to occupational health, and with reference to relevant industry technical specifications. From this assessment, the Company subsequently analysed and determined the types, links, concentration and intensity of occupational hazard factors in the production process. Their potential levels of harm were assessed, the effectiveness of measures to control occupational hazard factors was evaluated, and key control points and special requirements for protection were identified. These actions provided the data and scientific basis for developing the Company's policies and measures for occupational health protection.

In response to international and domestic contagious diseases and public health events, the Company assessed relevant information and specified prevention and control measures. The latter were published on the Company website and sent to all units. The Company also organised all units to conduct public epidemic prevention measures.

At the same time, the Company worked to make continuous improvements in employees' working conditions, with reference to relevant laws, regulations and standards, to provide staff with a safer and more comfortable work environment.



Health checks for Chinese employees (2015-2017)

Indicator	Unit	2017	2016	2015
Coverage of all staff health check and health records	%	98.73	98.81	99.07
Number of persons attending occupational health checks	Person	5,155	5,138	5,482
Completion rate of occupational health checks	%	99.92	99.88	99.91
Proportion of completion in inspection of occupational hazard factors	%	100	96.3	98.5

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

Results of completion of health examination of employees exposed to occupational hazard factors (2017)

Health examination types	Actual examination person-time (Unit: person-time)	Completion rate of examination (Unit: %)
Pre-employment occupational health examination	318	100
On-the-job occupational health examination	4,656	99.96
Post-employment occupational health examination	213	99.07

Case The All-employee Health Promotion Programme

In 2017, the Company developed an all-employee health promotion programme with the aim of improving employee health through intervention and emphasising the importance of good health.

Accordingly, all units engaged in a variety health promotion activities such as walking, break-time exercises, rope skipping and shuttlecock kicking. These encouraged employees to maintain healthy work habits and to minimise the occurrence waist and spinal diseases due to prolonged sitting.

The Company also equipped its platforms and vessels with gyms and table tennis rooms in which fitness equipment such as treadmills and stationary bicycles are available for employee use during work breaks.

Health Training

The Company comprehensively publicised and implementated occupational disease prevention laws, regulations and rules, aided employees in understanding their jobs' occupational hazards, promoted knowledge of prevention and control of occupational diseases, and enhanced awareness of self-protection. A major element of these efforts comprised of expert-led seminars on health and first aid. These were complemented by the posting of health promotion posters, issue of electronic health magazines, and by health blogs on the Company website. The Company's Quality Safety Department also used "Chronic Disease Series Publicity Day" as an occasion to publish relevant materials, posters and videos on the Company website and send them to all units, to promote knowledge and prevention of disease.

Themed Day Publicity Campaign (2017)

Period of launch	Publicity Campaign for Themed Day
First quarter	World Tuberculosis Day, World Sleep Day
Second quarter	World Health Day, World Malaria Day, World Day for Iodine Deficiency Disease, World No Tobacco Day
Third quarter	World Hepatitis Day, Healthy Lifestyle Day
Fourth quarter	Global Handwashing Day, World Diabetes Day, World COPD Day

In total, Company units carried out 862 recordable occupational health education and training activities in 2017. The number of participants was 5,640 and the training completion rate was 100%. With the period from 25 April to 1 May 2017 comprising the 15th publicity week for the Occupational Disease Prevention Law of the PRC, the Company promoted the Law through training sessions and information displayed on WeChat and display boards. It also implemented the Law's requirements by offering occupational health training, detection of occupational hazards, occupational healthcare of employees, occupational health archives, and warning signs and reminders of occupational hazards.

Publicity week activities for the Occupational Disease Prevention Law of the PRC (2017)

Form of activities	Number of activities	Total participant
Staff symposium and knowledge lectures	191	3546
Knowledge quizzes for occupational health	68	1848
Occupational health training courses	148	2734
On-site consultation	138	1291
Publicity through media including television and newspapers	98	1070
Publicity through new media including SMS, Weibo and Wechat	114	3477
Printing promotional materials	92 publicity banners; 116 publicity paintings; 101 publicity columns; 140 publicity materials.	
Distribution of publicity videos	8	

Case Occupational Training for Better Health Awareness

On 5 May, experts from the China Safety and Health Education Website were invited to Tianjin to teach cardiopulmonary resuscitation (CPR) and the emergency treatment of heat stroke and other dangers caused by hot, hazy working environments.

On 9 June, a "Care for Health, Start with Me" lecture was arranged to teach medical knowledge on preventing occupational diseases and improve the sub-health conditions of staff in light of their job nature.

On 29 August, a "Patriotic Health" public promotion campaign was held at the Xinjiang region of COSL. The campaign offered information on CPR and on-site emergency rescue, sources of indoor and outdoor pollution, and the prevention and treatment of common office diseases.

On 13 and 18 October, two "Emergency Rescue, Care for Health" health lectures were given in the Zhanjiang region.

Mental Health Counselling

Due to the special nature of the Company's business, employees working offshore and outside for extended periods may experience work stress of unusual intensity. In response, the Company frequently holds counselling activities, as well as training for all units to reduce employee strain and stress.

The Company carried out team building and expansion activities to promote the physical and mental health of employees.

The Company held knowledge lectures titled "Mental Health and Stress Management" and psychological companionship counseling activities

Environmental Protection

Environment management

◎ Building an Environmentally Friendly System

The Company practices green development in full compliance with the Environmental Protection Law of the PRC and the laws, regulations and regulatory documents relating to the atmosphere and water. It has established and implemented environmental protection rules such as “Management Measures for Environmental Protection”, “Implementation Rules for Environmental Factor Assessment Management” and “Implementation Rules for Environmental Protection Management”, and strengthened environmental protections in its production and operations. The Company regulates pollution prevention management in its production and operations to protect the ecology, preserve natural resources, and minimise the environmental impact of its production and operations. The Company continues to benchmark, revised and update successive iterations of its environmental management system on an ongoing basis to ensure its lawful compliance and effectiveness, including in relation to the “Implementation Rules for the Management of Water and Electricity Conservation” and “Implementation Rules for the Management of Energy Saving Duty Supervisors”. All Company units successfully completed upgrading and revising their related systems and have obtained certification for the latest international ISO standards.

◎ Environmental Impact Assessment

In the course of its production and operating activities, the Company carries out environmental impact assessments in compliance with requirements of the “Law of the PRC on Environmental Impact Assessment” and the “Administrative Regulations on Environmental Protection for Construction Projects”. It analyses, predicts and evaluates the environmental impacts it may possibly cause, and formulates strategies and measures to prevent or alleviate adverse environmental impacts. The Company continuously tracks the effectiveness of its measures in order to avoid or alleviate impacts on the environment. To date, the Company’s operations and construction projects have not caused adverse impacts on the environment.

◎ Environmental Protection Education and Training

The Company incorporated environmental protection in its systems training, launched promotional training for employees in different positions, and continued to improve staff awareness of environmental protection laws. Combining production and operational characteristics, each working base focused on training in accordance with the latest requirements, laws and regulations concerning such matters as rubbish sorting, and the use of anti-pollution facilities and oil leakage emergency equipment.

Date	Location	Content of training	Audience	Number of trainees
August 2017	Zhanjiang main venue and other venues of branches of the Company (video training)	Introduction to the rules for International/National Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM/NSM) and the techniques and skills for Safety Management System (SMS)	HSE managers at the relevant units	188
December 2017	Yanjiao main venue and other venues of branches of the Company (video training)	Introduction to environment and environmental protection, newly revised relevant laws and regulations for environmental protection, hazardous chemicals management, environmental protection and the internal rules for management of hazardous chemicals	Environmental protection management personnel of front-line units	295

A signature commitment to promote environmental protection

Double-sided printing to save resources and reduce waste

Radioactive material drills to verify emergency plans

Clean Production

The Company adheres to the sustainable development philosophy of "Green, Clean, Low-carbon and Recycling Economy" and implements the concept of green and low carbon into every step in its production and operation. The Company pursues clean production and invested RMB27.1432 million for environmental protection in total in 2017.

◎ Saving Energy and Reducing Emissions

The Company follows an established policy of environmental protection and energy conservation entitled "Care for Environment, Energy Saving and Efficiency Boosting, Green Development". It also acts in compliance with the energy saving and emissions control requirements of the countries and regions where it operates. To this end, the Company has established an energy management internal control system, prepared and implemented "Energy Saving Management Measures", manages energy usage via an internal control system, and conducts regular revisions, inspections and reviews of the above.

Additionally, the Company promotes the concepts of the "green office" and "green operation" by strictly controlling the consumption of office supplies and fully exploiting the advantages of office automation. The widespread use of videoconferencing has sharply reduced the costs of attending conferences in person. Also, the Company enforces water and electricity saving measures and advocates energy-saving habits among employees. The Company manages the use of official vehicles to minimise the cost of business trips.

In 2017, the Company invested RMB2.35 million in energy saving and emission reduction measures. The Company's total energy consumption was 402,797 tonnes of standard coal, representing a savings of 2,797.6 tonnes of standard coal. We only consumed 0.3826 tonne of standard coal per RMB10,000 worth of production output.

To maintain full compliance with national laws, regulations and regulatory documents relating to water, the Company has strengthened its water management throughout the production process, implemented plans and objectives for water savings, improving water utilisation rates and reduced consumption of fresh water. During 2017, the Company achieved a water saving volume of 32,021 tonnes.

Statistics of energy and water consumption (2015-2017)

Indicator	Unit	2017	2016	2015
Electricity	10,000 kWh	1,702.85	1,604.20	1,594.20
Diesel fuel	Tonnes	272,430.94	229,176.89	226,744.88
Natural gas	Cubic meters	284,690.00	259,051.00	244,648.00
Oil fuel	Tonnes	782.15	1,132.14	1,494.99
Gasoline	Tonnes	466.96	520.94	519.51
Engine oil	Tonnes	1,049.33	946.02	882.76
Water	Tonnes	884,765.00	905,344.27	978,742.11

◎ Discharge Gas Management

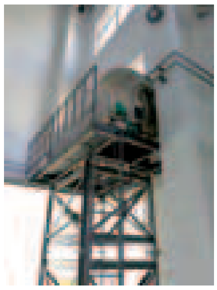
The Company strictly complies with the requirements of national laws, regulations and regulatory documents relating to the atmosphere. Air Pollution Prevention Certificates issued by the China Classification Society (CCS) have been obtained for all Company vessels, and International Air Pollution Prevention Certificates for Diesel Engines have been obtained for newly built vessels and platforms equipped with advanced diesel engines. For the day-to-day operation of vessels and platforms, qualified fuels meeting the requirements of the countries where they are located are utilised to minimise exhaust emissions of such materials as nitrogen oxides and sulphur oxides.

◎ Sewage Management

The Company has equipped environmental protection equipment and facilities such as water and oil separators and domestic sewage treatment plants at its operational sites to treat and discharge industrial wastewater and domestic sewage in accordance with standards including the "Effluent Limitations for Pollutants from Offshore Petroleum Exploration and Production (GB4914-2008)", "Discharge Standard for Water Pollutants from Ships (GB3552-83)", the relevant emissions standards of countries in which it operates, and the requirements of international treaties. It arranges maintenance of environmental protection equipment and facilities in accordance with the requirements of the PMS/AMQS maintenance system and executes regular industrial wastewater and domestic sewage discharges that meet relevant standards. Pollutants which do not meet emissions requirements are transported from the working base to qualified third parties who have signed agreements with the Company for appropriate recycling and treatment.

Case

The cementing and thickening experiment instruments used by the Company's research institute require cooling treatment following high-temperature and high-pressure tests. In the past, the water used for cooling was directly discharged, wasting water resources. In 2017, circulation devices were installed to recycle the cooling water following instrument experiments. It is estimated that these will save approximately 700 tonnes of water per year.



◎ Waste Management

The Company has created facilities for the separation of recyclables in respect to the various pollutants produced by the production and operational process in accordance with the laws and regulations of the countries in which it operates and with international treaties. Pollutants which are allowed for emission are discharged after treatment at recycling facilities. Qualified third-parties are appointed to handle the recycling of pollutants for which discharge is prohibited by law.

Case

To prevent the leakage of substances such as diesel and sludge and the resulting environmental pollution, land drillers lay anti-leakage geo-membranes at the bottom of oil tanks at well sites and drilling tools to recycle the leaked waste.

Statistics for discharged volume by the Company in China's waters (2015-2017)

Indicator	Unit	2017	2016	2015
Qualified discharge of oil polluted water	Cubic metres	421.45	795.86	910.14
Discharge of crushed domestic waste	Tonnes	283.44	215.94	290.66
Qualified discharge of drilling slurry	Tonnes	33,711.38	35,246.70	27,605.51
Carbon dioxide	Tonnes	*849,890.00	716,874.00	710,452.86
Emission of carbon dioxide for an output value of ten thousand	Tonnes RMB10,000	0.68	0.70	0.42

*Note: Discharged volume of carbon dioxide increased due to combine effects of new vessels' operation and the increase in operation volume and difficulties.

Ecological Protection

The Company maintains strict compliance with rules and requirements for environmental protection in the countries and regions in which it operates, and views ecological protection as a matter of serious importance. The waste generated from onsite operations is within the approved discharge standard while discharging of harmful waste into the sea is avoided. The Company has established a pollutant recycling system by which it recycles and arranges classified storage of pollutants which are banned from emission. These are subsequently delivered them to centralised land facilities for treatment. The Company researches and develops the use of green and low carbon products, and uses green offshore products which contain low sulphur.

◎ Prevention of Oil Leakage

In response to oil leakages which may occur in the course of production and operation, the Company has developed a third-party recognised management system and practical operational procedures and effective measures for their prevention. Systems such as the "Operational Management Procedures for Fuel Refilling at Drilling Rigs", "Regulations on the Use of Oil-based Mud and the Transfer of Oil-based Mud/Based Oil/Brine" have been devised for Company drilling rigs. All Company vessels have obtained International Oil Pollution Prevention Certificates issued by the China Classification Society (CCS). The Company has also devised comprehensive guides such as the "Guide on Pollution Prevention Management of Vessels", the "Guide on Loading and Unloading Operation and Management of Oil Tankers" and the "Guide on Offshore Oil Export Operation of Oil Tankers" to reduce the incidence of accidental leakages.

The Company has also established sound oil spill contingency plans for a variety of oil spills, sea environments and resource statuses. Each working base is equipped with oil spill contingency supplies such as oil removers, oil fences and oil spill contingency buckets. For emergent situations involving pollution caused by oil spills, on-site contingency solutions and on-board oil pollution contingency plans shall be drafted and reported to related national departments for the record. If an oil spill occurs during the operation of an individual vessel, all working bases shall immediately initiate emergent treatment according to the contingency plan. If an oil spill occurs during the provision of drilling and well work-over services as an operator, all operational units shall follow the unified command of the operator and work closely to carry out emergent treatment. The Company carries out annual oil spill contingency drills to continuously improve on-site response and treatment capabilities.

The Company has also purchased oil pollution liability insurance for every rig and vessel, which would make cash compensation for potential oil leakage accidents. Through the strict implementation of various management systems and measures, the Company did not experience any oil leakage accidents during 2017.

◎ Prevention of Groundwater Pollution

The Company protects groundwater resources with consistent investments in research and development of new technologies and new techniques for pollution-reducing on-site operations. For fracturing operations, the Company has designed a liquid nitrogen gas lift method which discharges fracking fluid back to the ground more thoroughly and thus reduces groundwater contamination. For drilling operations, the Company adds leak-proof materials to the drilling fluid. This prevents groundwater pollution caused by the leakage of fluid into stratigraphic fissures.

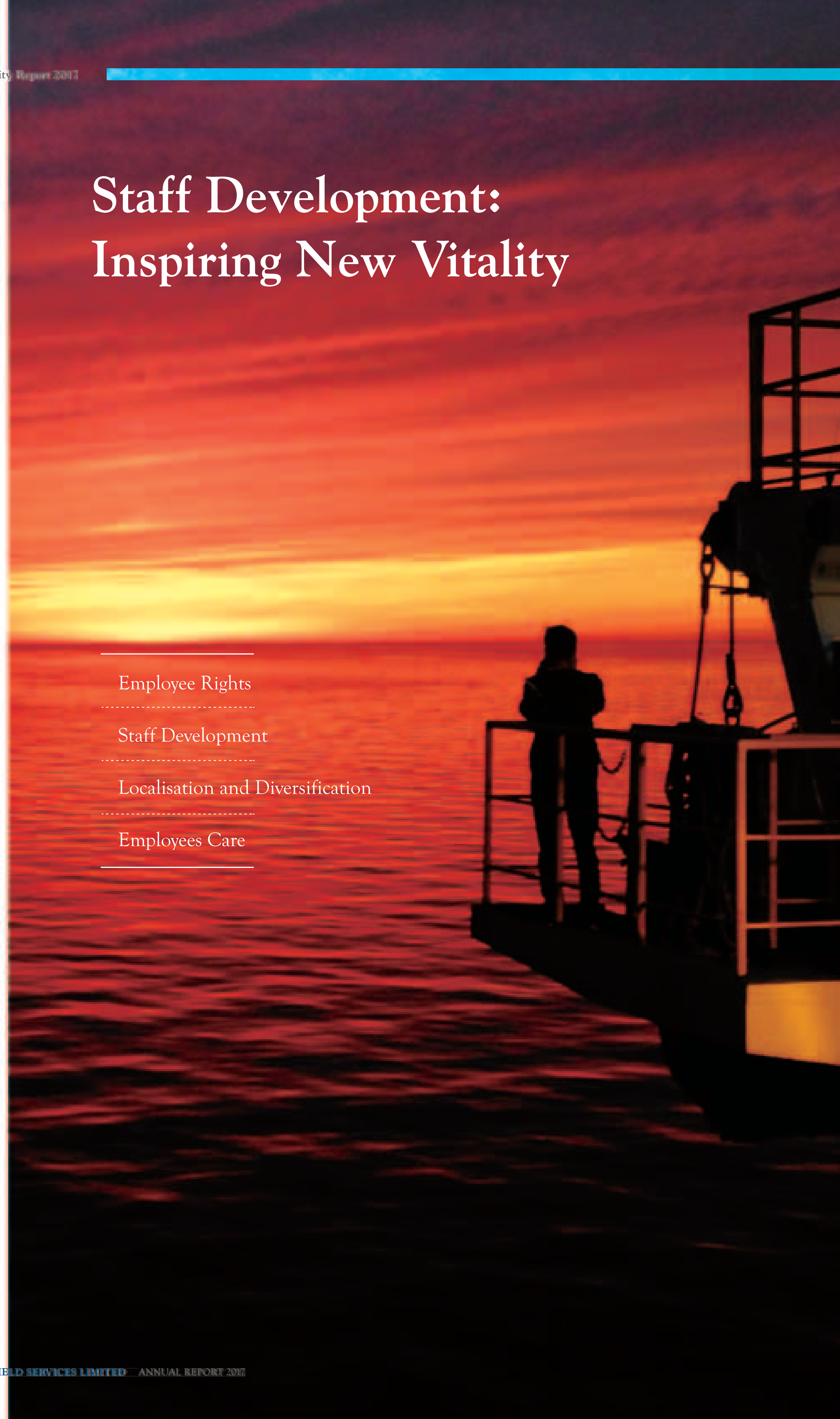
Case

Crew on the "HYSY688" spotted a rare river dolphin trapped by fishing net nearby. A rescue action was quickly organised which brought the live animal on deck. Teams of crewmembers watered the dolphin, removed the fishing net and treated the animal's wounds. The dolphin was subsequently released into the sea, little the worse for wear after its lucky escape.

◎ Conservation of biological diversity

The Company always abides by animal protection laws around the world, values the conservation of biodiversity, carefully analyses the possible impact of its work on marine organisms, and takes preventive measures to reduce their effect. For geophysical operations, the Company has developed "Soft Start" instructions to eliminate or greatly reduce negative impacts on biodiversity and ecosystems and preserve healthy environments for marine organisms.

Staff Development: Inspiring New Vitality



Employee Rights

Employment Policy

The Company is a "people-oriented, staff caring" organisation which values and cares for its talent, provides fair employment opportunities, protects the rights and interests of employees, and respects diversity. The Company pays attention to the actual needs of employees during the different stages of their development, helping to improve their career paths by optimising the mechanism for talent development and utilisation. Our goal as a Company is to grow hand-in-hand with our employees.

The Company strictly abides by the "Labour Law of the PRC", the "Labour Contract Law of the PRC", and all relevant laws, rules and regulations of countries related to the Company's business. The Company's labour contracts are founded on the principles of "Legality, Equality, Voluntary, Consensus, Honest and Trustworthy". We treat all employees fairly and equally, regardless of nationality, race, gender, religion and cultural background. Child labour is completely prohibited, as is all forms of forced and compulsory labour. We also implement the national "Special Labour Protection Regulations for Female Workers". During the period of pregnancy, childbirth and breast-feeding, women employees' wages will not be reduced, and nor will they be dismissed or terminated from employment during such period. Furthermore, the Company complies with all relevant requirements of the paid leave system to protect staff entitlement to paid leave. The Company implements the relevant requirements of the "Labour Law of the PRC" pertaining to the working hour system, and has applied for the implementation of a general working hours system in view of the nature of front-line operation positions. Violations of discipline by employees are handled in accordance with national laws.

Compensation and Welfare

The Company strictly complies with domestic and local laws and policies on employee compensation. To this end, a competitive remuneration system and performance appraisal system are in operation. The Company pays a basic social insurance and housing fund for employees, implements an enterprise annuity system and a supplementary medical insurance system, and provides personal accident insurance and corporate supplementary pension insurance. The Company furthermore provides various welfare measures including health checks, paid vacations, assistance to those with difficulties or major diseases.

Employee statistics (2015-2017)

Indicator	Unit	2017	2016	2015
Number of employees	Person	14,279	14,927	16,074
Number of PRC employees	Person	13,380	13,979	14,962
Number of foreign employees	Person	899	948	1,112
Number of new employees during the employees during the reporting period	Person	55	13	688
Percentage of female employees	%	8.1	8.0	8.5
Social insurance coverage	%	100	100	100
Percentage of labor contract signed	%	100	100	100

Employee Involvement

Employee engagement is highly important to the Company. Through labour union membership, employees can participate in negotiations and communications with the Company, help the Company to protect their benefits and rights, and participate in decisions regarding corporate development. The Company strives to explain its policies in detail and responds as far as reasonably possible to employees' opinions and queries.

In November 2017, the Company held the third meeting in the first session of its labour union and the fourth meeting in the first session of its employee representative committee, at which the employee representative committee lawfully exercised its power and conscientiously implemented the proposal system. Nine proposals were collected, files were opened for seven, and follow-up work is currently in progress. At the meeting, additional members of the labour union and of special committees were elected. At present, all 12 of the Company's subsidiary entities have formulated procedures for their employee representative meetings.

Staff Development

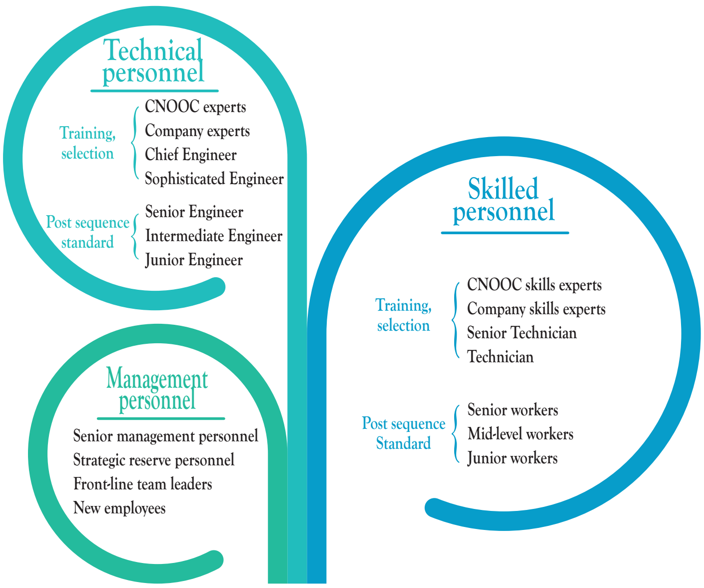
Case

Chen Zhiwei, an employee of the Company, was recognized among "Top 10 Most Beautiful Geologists in the PRC"

Broadening the Channels of Development

The Company values and respects the role of its human talent in realising shareholder value. It has accordingly established career development paths for management, technical, skilled and international personnel so that all employees enjoy the opportunity to share in the Company's development.

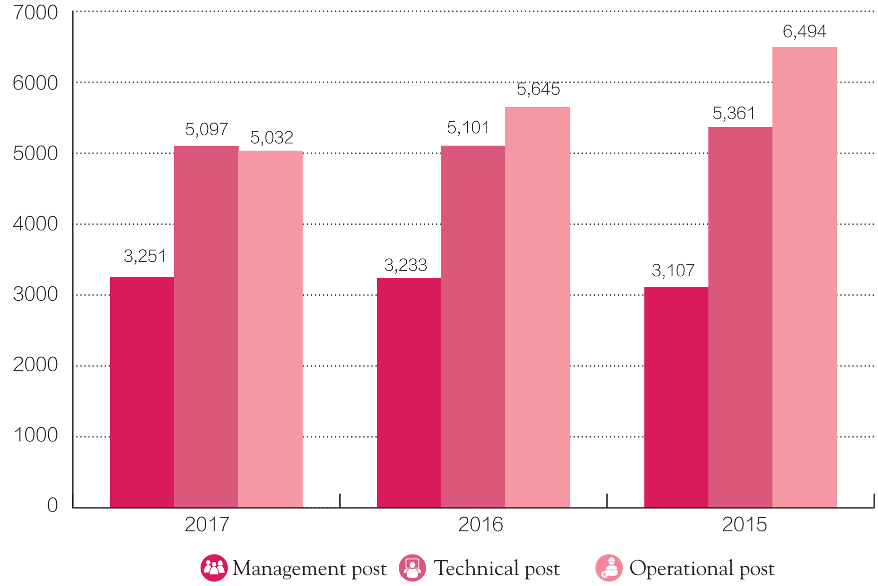
In 2017, over 1,500 production and research and development staff and more than 700 management staff were promoted in position or rank. The Company vigorously promoted internationalisation and enhanced its talent pool system by focusing on the training and career paths of reserve cadres, especially young officers. In 2017, the average age of a Company's reserve cadre member was 39, and the team and structure of reserve cadres continued to be optimised.



On 28 September, the second session of the "Seeking Most Beautiful Geologists" contest and commendation meeting was held in Beijing by the Chinese Society on Economics of Geology & Mineral Resources under the guidance of the Ministry of Land and Resources. Chen Zhiwei, a fleet manager on the Company's "HYSY720" geophysical vessel, was named as one of "Top 10 Most Beautiful Geologists".

On "HYSY720", the first and most advanced self-developed 12-cable deep-water seismic vessel in Asia, Chen led a team that completed a 45,640.88 square-kilometre 3D seismic collection operation in less than six years. During the project, the vessel travelled more than 120,000 kilometres – a distance equal to three times the perimeter of the Earth – and created output in excess of RMB2 billion.

Statistics of PRC employees classified by postion (2015-2017) (Unit: person)



Statistics of PRC employees by the qualification (2015-2017) (Unit: person)			
Academic qualification	2017	2016	2015
Doctor	36	36	40
Master	630	627	679
Bachelor	6,062	6,245	6,629
Below	6,652	7,071	7,614

Statistics of PRC employees by age (2015-2017) (Unit: person)			
Age	2017	2016	2015
30 or under	3,323	4,572	6,146
31-40	6,130	5,584	4,915
41-50	2,465	2,371	2,433
Over 51	1,462	1,452	1,468

Career Training

The Company continues to increase investment in staff training and employee development. We also carry out vocational training with content based on staff requirements. As well as continuously improving the talent training mechanism, these initiatives encourage employees to learn, improve their skills, and grow with our business through promotion. In 2017, the Company trained 7,256 person-times management personnel, 14,056 person-times professional and technical personnel, and 10,898 person-times operationally skilled personnel.

01 New Employee Training

- Corporate Strategy
- Corporate culture
- Management philosophy
- Professionalism

02 Technical and Skills Personnel Training

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

03 Management Personnel Training

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

04 International Talents Training

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

Localisation and Diversification

The Company's service area covers Chinese waters and six major areas comprising Asia-Pacific, the Middle East, the Americas, Europe, Africa and the Far East, covering over 30 countries and regions around the globe. In the course of its fast internationalisation, the Company actively promotes the localisation and diversification of staff, adheres an employment policy of equality, freedom and non-discrimination, and promotes employee respect for different cultures, religions, customs, personal hobbies, etc.

Statistics of Local Employees in Overseas Offices (2015-2017)

Indicator	Unit	2017	2016	2015
Number of local employees recruited by the Company	Person	899	948	1,112
Percentage of local employees	%	56	55	62.6

Case: Tara, mud engineer

At barely over 20 years of age, Tara works as a project engineer at the drilling and completion fluids division's EDCO E&P project in Indonesia operation. Despite her age, Tara is exceptionally skilled as she carries out work including mud design, technical communications and staffing arrangements. Amazingly, just a year ago, she was fresh out of school and knew nothing about drilling and completion fluids.

Tara joined COSL in 2015 as a project assistant with simple tasks such as ordering tickets and sorting documents. Unexpectedly, she developed a strong interest in drilling and completion fluids and began asking questions to project engineers. The engineers gradually allocated some project management work to Tara, and over time, she gained such proficiency that the business division formally appointed her as a project engineer.

Employee Care

Helping employees in financial difficulty

As a "people-oriented, staff caring" enterprise, the Company is committed to aiding employees wherever possible and appropriate to promote their health, happiness and harmonious development. One avenue by which this is achieved is through the Company's work in accordance with the "Poverty Alleviation Management Measures of China Oilfield Services Limited". In 2017, the Company created a RMB1,367,000 special relief fund for poverty-alleviation. During Chinese New Year, the Company commenced its "Caring Staff with Poverty-stricken Family" activity, visiting 50 employees in grave difficulty and providing RMB502,000 of consolation money. The Company routinely aids employees in financial difficulty by providing a subsistence allowance of RMB66,000; medical assistance for major diseases valued at RMB470,000; and a relief fund for the disabled of RMB244,000. In 2017, the Company responded to property losses due to serious flooding with RMB85,000 in relief funds given to 50 affected employees and their families. The Company visits employees on major holidays to ensure their holiday benefits. Visits were also made to families in hardship and hospitalised employees, with RMB2,300,000 of consolation money disbursed.

Work-life Balance

COSL recognises the important "bridge and link" function of group organisations, especially in the "cold winter" for the industry. It organises popular cultural and sports activities for employees to motivate teams and boost morale, and encourages the formation of employee cultural and sports associations. A total of 26 employee associations from badminton to table tennis to tai ji have thus far been established. They hold regular, diverse spare-time activities for employees, helping them to socialise, keep fit, pursue personal interests, and maintain a satisfying work-life balance.

Case

The geophysical division held a parent-child activity themed as "A Harmonious Family of COSL" to enhance employees' sense of belonging and their morale during wintertime.

The shipping division conducted reading and sharing activities at its front-line fleets. The delivery of books to the fleet helped maintain the high morale of front-line employees.

The production optimisation division organised a series of games under the theme "Small Families and Big Families to Build the Future of COSL". The games encouraged employees to socialise, learn together, and work as a team.

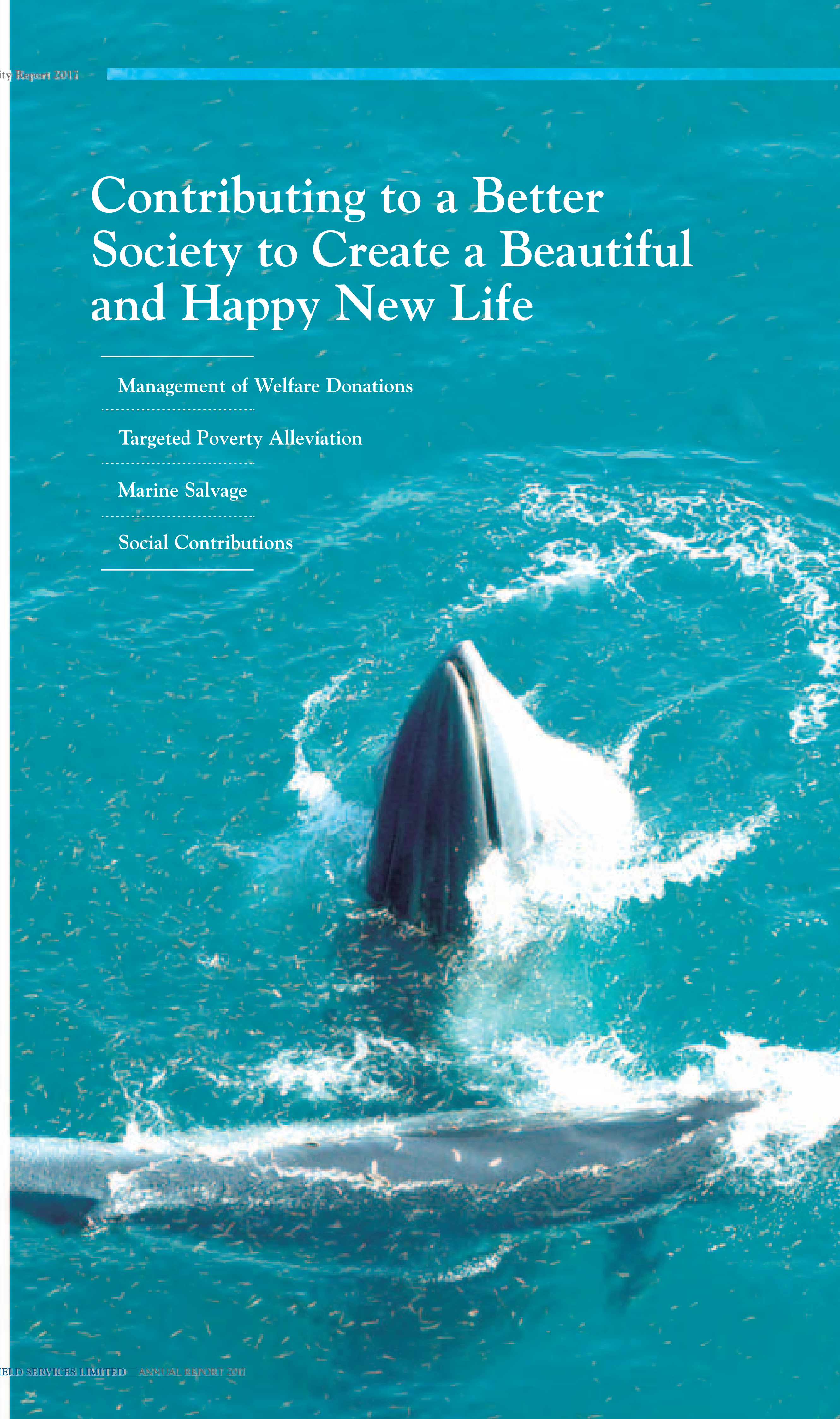
Contributing to a Better Society to Create a Beautiful and Happy New Life

Management of Welfare Donations

Targeted Poverty Alleviation

Marine Salvage

Social Contributions



Management of Welfare Donations

As a result of a "cold winter" of low oil prices, COSL suffered an operational loss for the first time during 2016. Despite this, the Company still took an active interest in the construction of the Hope Primary School. Company staff conducted on-site investigations into Xunkou Primary School in Mancheng, Hebei Province, obtaining information on the challenges the school faces in respect to infrastructure construction and supplying heat to teachers and students in winter. The difficult condition faced by the school was timely reported to CNOOC Marine Environment and Ecology Protection Foundation and financial assistance in the amount of RMB110,000 were granted to relieve the situation.

Case

Before the "6.1" International Children's Day, the Company gave condolences to the teachers and students of Hainan Hope Primary School. Also, 500 books and various sporting equipment were donated by the Company's local Party member employees.

Targeted Poverty Alleviation

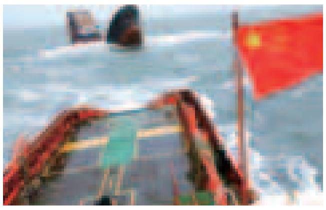
COSL carefully implemented the Party's overall requirements for completing the building of a moderately prosperous society in all respects and assisted the Poverty Alleviation Office of the State Council in participating in the designated poverty alleviation project in Leishan County, Guizhou Province. After investing RMB1.9 million into a relief fund in 2016, in April 2017 the Company visited Nanmeng Village in Langde Township and Qiaowang Village in Datang Township in Leishan, Guizhou Province, to investigate the progress of relief projects there. As well as finding good progress being made, the Company noted how relief funds had been devoted largely to the building of production roads, renovation of solid vegetable gardens, the construction of cold chain logistics, and to Chinese herbal medicine demonstration projects.

Marine Salvage

Over the years, the Company has leveraged its resource advantage to actively but safely participate in marine salvage.

In 2017, the Company dispatched 35 vessels, took part in 26 marine salvage operations, and rescued 13 vessels and 72 persons in distress. It has been praised or recognised in writing by the China Marine Salvage Centre and local governments on 15 occasions for contributing to marine transport safety and social stability. The Company's 10 vessels, including "HYSY688", and 12 captains including Li Hanming, were included in the list of "Vessels of Safety and Integrity" and "Captains of Safety and Integrity" for 2017, published by the China Maritime Safety Administration.

On 21 July, "Binhai 264" and "HYSY615" successfully rescued "Ningbo 5", a sinking vessel in distress, and four drowning persons in the Jingtang sea area. The Tianjin Maritime Safety Administration issued the Company with a timely rescue reward in the maximum amount allowed by the China Maritime Safety Administration.



On 29 May, the Company's "HYSY654" vessel successfully rescued five crewmembers in distress in Caofeidian mine area.

Social Contributions

Volunteering Services

The Company's young volunteer service team is known as "Blue Power". Inspired by the culture of "Blue Power", all units of the Company explored innovative methods and platforms to guide employees in establishing socialist core values in volunteer services and enhancing their sense of social responsibility and spirit of innovation. The resulting volunteer services and charity activities took many forms, including monetary donations, blood donation, riverbank cleaning and free repair work. In 2017, the Company organised 41 volunteer activities, attracting nearly 1,043 person-times participants.

Youth volunteer service activities

41 times

1043 person-times

Case

The Youth League of the Company held a charity event for "Repair and Replacement, Low Carbon-emission and Environmental Protection" in the Yanjiao area. Services included providing consultation and free repair for the use of electronic products, a goods bartering event. The youth volunteer team leveraged new media channels to establish a Blue Power barter QQ group and COSL Blue Power youth volunteer and COSL E-barter Wechat groups, which attracted more people to join in providing volunteer services and reducing carbon emissions.

The geophysical division organised a "Blue Power" team of young volunteers at five teaching points in Caijiayu Township, Yi County, Hebei Province. The team brought the donated materials and gave schoolchildren lectures on the science of offshore oil.

The Company's Shenzhen branch held a "Healthy Earth, Healthy Ocean" beach-cleaning activity in Huizhou

The Zhanjiang branch called on the public to pay attention to the protection of the marine environment and the mangrove system, and to contribute to "Green Zhanjiang" through Blue Power volunteer activities.

Community Care

The Company followed China's "belt and road" initiative by extending its social responsibilities as a state-owned enterprise overseas, and solemnly undertaking to "serve the society and people and perform its social responsibility" while promoting its own growth and local economic growth. The Company engaged with local cultures through charity events and other activities aimed at expanding Company influence in local areas and creating a solid foundation for "win-win between enterprises and local people".

Case: Mexican Employees Donate Money and Goods to an Earthquake Area

On 19 September, a 7.1 magnitude earthquake hit Morelos, Mexico. Several blocks of the city experienced power outages, and all flights from its airport were suspended. In all, more than 300 people died. After learning of the disaster, COSL employees in Mexico immediately collected donations of money and goods, as well as purchasing materials and medicines in short supply in Morelos. Their quick response and action demonstrates the Company's commitment of "serving the society, caring for people and fulfilling social responsibility", laying a solid foundation for the Company in its contribution to the local community.

Case: "Love Without Borders, Care for the Growth of Orphans"

On 1 June, on International Children's Day, Company employees in Mexico visited the San Pedro Church Orphanage during the "Love Without Borders, Care for the Growth of Orphans" charity event. Ms Morales Maricos, dean of the orphanage, praised the Company's participation in local social public welfare activities and expressed hope that its Mexico employees would visit more often.

Case: A volunteer teacher in Kenya

I'm Wang Xiaohong, employee of COSL. In 2016, I travelled to Kenya as a volunteer teacher at a school named "UPENDO Relief Centre Primary School". The roads from the volunteer dormitory to the school were almost all dirt, and it took almost an hour of walking, bussing and more walking to commute between them. In rainy weather, one would be covered with mud. Along the road are rows of rusty metal houses, right next to open sewage ditches. You can smell the stench from far away.

The school's only concrete classroom was divided into two parts for younger children. The older students had their classes in a metal room with a leaky roof.

I was responsible for teaching mathematics, English and sports to the pre-school class. I became keenly aware of the local scarcity of even basic education resources. Textbooks were handed down from one grade to another, and the school's few crayons had been washed away long ago in a heavy rain. I gave my own crayons to several children, who acted as if they'd gained the most precious of treasures. Many children brought boiled beans for lunch, but usually in insufficient volume to fully satisfy their hunger. I sometimes gave sweets to the most deprived children. They would bite them in half and immediately and give me the other half.

Despite the tough conditions, the children are eager to go to school, both to gain an education and to enjoy its shelter. After a while, children would whisper to me in their local language, without considering whether I could understand them. After school, the children would invariably tug at my sleeve and ask whether I would return tomorrow.

Now I have returned to China. When I look back on my period of volunteer teaching, my impression of Africa is no longer of a boundless primitive prairie, but of the clear, bright, knowledge-seeking eyes of the children.

▲ Wang Xiaohong teaches a child how to write the newly learned English words

▲ Children happily make the face after receiving candies

▲ Children excitedly wave and cheer after receiving the crayons

▲ Children hold and count the fingers of Wang Xiaohong

Prospects

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

Developing Overseas Markets. We will intensify engagement with and responsiveness to our customers, reducing costs and improving efficiency to meet their needs. We will leverage on China's "one belt, one road" strategy to develop and expand our overseas markets. We will improve the integrated turnkey business and take the advantage of the Company's "low cost, good service, high efficiency" to enhance its influence and brand reputation.

Enhancing Service Quality. The Company will continue to provide professional services for customers all over the world, innovate in our services, comprehensively improve our working standards, highly promote our integrated turnkey business, reduce customer costs, and enhance our service quality to meet or even exceed customer expectations.

Boost Construction of an Environment-Friendly Enterprise. The Company will strictly comply with the "Environmental Protection Law" and increase its promotion of and training toward meeting environmental laws and regulations. It will continue to promote clean production, to develop low carbon operations, and to establish an ecologically friendly culture.

Serve the Harmonious Society. The Company will place greater focus on its people-oriented philosophy and encourage staff career development, improve staff relationships, facilitate the common development of the Company and staff, strive for the development of a responsible supply chain, make further progress in mutually beneficial strategic cooperation, and increase efforts to promote the public welfare through our business.

Directors, Supervisors, Senior Management and Employees

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

Unit: Shares

Name	Position (Note)	Sex	Age	Commencement date of term	Expiry date of term	Number shareholding at the beginning of the year	Number shareholding at the end of the year	change of shareholding during the year	Reason of change	Total remuneration before tax received from the Company during the reporting period (RMB10,000)	Whether received remuneration from the connected party of the Company
Lv Bo	Chairman Non-executive director	Male	55	2016-12-16 2016-12-15	2018-3-27 2018-3-27					–	Yes
Qi Meisheng	Executive director CEO and President Chairman	Male	49	2016-7-22 2016-6-15 2018-3-28	2019-7-21 2018-3-27					111.40	No
Cao Shujie	Executive vice president CEO and President	Male	53	2017-1 2018-3-28	2018-3-27					99.52	No
Liu Yifeng	Executive director	Male	53	2017-12-13	2020-12-12					0	No
Zheng Yonggang	CFO	Male	44	2018-2-28						0	No
Li Zhi	Employee Supervisor	Male	53	2013-5-16	2019-5-15					92.97	No
Yu Feng	Vice prescient	Male	53	2017-1						90.34	No
Yu Guimin	Vice prescient	Male	48	2017-1						92.28	No
Meng Jun	Non-executive director	Male	57	2017-12-13	2020-12-12					–	Yes
Law Hong Ping, Lawrence	Independet non-executive director	Male	63	2014-5-23	2020-5-31					40.00	No
Fong Chung, Mark	Independet non-executive director	Male	66	2015-6-2	2018-6-1					40.00	No
Wong Kwai Huen, Albert	Independet non-executive director	Male	66	2016-5-31	2019-5-30					40.00	No
Wei Junchao	Chairman of Supervisory Committee	Male	59	2015-12-29	2018-5-30					–	Yes
Cheng Xinsheng	Independent Supervisor	Male	54	2015-6-2	2018-6-1					8.00	No
Jiang Ping	Secretary of the Board	Female	42	2017-3-22						71.54	No
Li Feilong	Original executive director, executive vice president and CFO	Male	53	2010-12-22	2018-2-28	60,000	60,000	0	Nil	114.23	No
Dong Weiliang	Original executive director	Male	60	2016-7-22	2017-12-13					83.40	No
Xie Weizhi	Original non-executive director	Male	53	2016-7-22	2017-8-23					–	Yes
Wang Baojun	Original secretary of the Board	Male	41	2015-8	2017-3-21					9.65	No
Total	/	/	/	/	/	60,000	60,000		/	893.33	/

Note: 1. The total remuneration of the above directors, supervisors and senior management was the remuneration before tax of the directors, supervisors and senior management of the company obtained from the Company during the reporting period.

2. Details of the changes is set out in "Changes Of Directors, Supervisors And Senior Management" of Chapter "Directors, Supervisors, Senior Management and Employees" of the annual report.

BOARD OF DIRECTORS:

Lv Bo

Mr. Lv Bo, Chinese, born in 1962. He graduated from China University of Mining and Technology with a Bachelor of Science degree in Management, and later obtained an MBA degree from China Europe International Business School. He is a senior economist. Since 1985, he served in the Ministry of Coal Industry, the Ministry of Energy, and the Organization Department of the Communist Party of China Central Committee. He served in a number of positions including a Vice-Director-level official in the Personnel and Labor Department of the Ministry of Energy, Vice Director and Director of Economic and Technology Cadre Bureau of the Organization Department of the Communist Party of China Central Committee, and Director of the Fourth and Fifth Cadre Bureaus of the Organization Department of the Communist Party of China Central Committee. He joined China National Offshore Oil Corporation ("CNOOC") in 2002 as the Director of the Human Resources Department of CNOOC. In November 2006, he served as Assistant President of CNOOC. From April 2010 to November 2017, he served as Vice President of CNOOC; in November 2017, he served as the Assistant President of China National Offshore Oil Corporation. Since December 2012, he has also served as the Chairman of the Board of CNOOC Energy Technology and Services Limited, a subsidiary of CNOOC. Since January 2014, he served as a Non-executive Director of CNOOC Limited. In November 2016, he served as the Chairman of the Board of Offshore Oil Engineering Co., Ltd. From December 2016 to March 2018, he served as the Chairman of the Board and a Non-Executive Director of COSL.

Qi Meisheng

Mr. Qi Meisheng, Chinese, born in 1968. He graduated from China University of Petroleum (East China) with bachelor degree of drilling engineering and was granted EMBA of CEIBS in 2013. He served variety positions such as Roustabout, Floorman, Derrickman, Assistant Driller, Driller, Toolpusher and Senior Toolpusher in Nanhai West Oil Company and China Offshore Oil Southern Drilling Company from July 1991 to August 2000. From August 2000 to January 2002, he served as Rig Manager of NH2. From January 2002 to December 2004, he served as Rig Manager of NH6. From December 2004 to March 2006, he served as Safety Director of COSL Drilling. From March 2006 to July 2006, he served as Assistant of GM in COSL Drilling. From July 2006 to September 2008, he served as Vice GM of COSL Drilling. From September 2008 to May 2009, he served as Vice GM of COSL Drilling and Director Assistant of CDE. From May 2009 to June 2010, he served as Vice GM of COSL Drilling and CEO of CDE. From June 2010 to December 2013, he served as GM of COSL Drilling. He served as Vice President of COSL from December 2013 to June 2016. From June 2016 to July 2016, he served as CEO and President of COSL. From July 2016 to March 2018, Mr. Qi served as an Executive Director, Chief Executive Officer and President of China Oilfield Services Limited. Since March 2018, Mr. Qi served as Chairman and an Executive Director of COSL. Mr. Qi has over 26 years of experience in the oil and natural gas industry.

Liu Yifeng

Mr. Liu Yifeng, Chinese, born in 1964, an executive director of COSL. He graduated from Changchun Institute of Geology with a major in Applied Geophysics under the Department of Geophysics. There, he received a bachelor's degree in Engineering. He later received an MBA from Tsinghua University, and a Ph.D in Geophysics in Institute of Geology and Geophysics, Chinese Academy of Sciences. He is a senior engineer at the professor level. From August 1985 to February 1994, he served as the assistant engineer, engineer and deputy project manager of the CNOOC Exploration Research Center. From February 1994 to February 1995, he was the assistant general manager of the Quartet Geophysical Software Co., Ltd. From February 1995 to October 1999, he served as the deputy manager and manager of the Technology Development Department of Offshore Oil Exploration and Development Research Center. From October 1999 to July 2006, he served as the deputy manager of the Operation Department of China Oilfield Petroleum Research Center, the dean of Exploration Research Institute and the production manager and the technical support manager. From July 2006 to June 2008, he served for China Oilfield Petroleum (China) Co., Ltd. as the technical support manager of its Beijing Research Center. From June 2008 to December 2011, he served as the deputy general manager of the Science and Technology Department of the CNOOC. From December 2011 to July 2017, he served as the deputy general manager of the CNOOC, Ltd.'s Technology Development Department. Since July 2017, he is serving as the deputy party secretary of the COSL. Since December 2017, he has served as an executive director of the Company.

Meng Jun

Mr. Meng Jun, Chinese, born in 1960, obtained an EMBA from Sun Yat-sen University and an MBA from the Open University of Hong Kong. He is a Senior Accountant. In April 1978, he joined CNOOC Nanhai West Corporation, served as the Accountant, Leader of the Finance Group, Deputy Section Chief, Section Chief and Chief Accountant of the Finance Department of the Company. In January 1997, he joined CNOOC Chemical Limited ("CNOOC Chemical"), acted as the Manager of the Planning and Finance Department of CNOOC Chemical, the Chief Accountant of CNOOC Fudao Limited. From 2001 to October 2005, he was the CFO of CNOOC Fudao Limited. From October 2005 to April 2006, he was the CFO of CNOOC Chemical. From April 2006 to April 2007, he served as the Vice President of China BlueChemical Ltd., Secretary of the Board of Directors and Secretary of the Company. From April 2007 to December 2011, he served as the Deputy General Manager in the financial management department of CNOOC. From December 2011 to July 2017, he served as the Deputy General Manager in the financial and assets management department of CNOOC. From January 2014, he served as the director of Offshore Oil Engineering Co., Ltd.. From July 2017 to November 2017, he served as the General Manager in the financial and assets department of CNOOC. Since November 2017, he has served as the General Manager in the financial and assets department of China National Offshore Oil Corporation. Since October 2017, he has served as a non-executive director of China BlueChemical Ltd.. Since December 2017, he has served as a non-executive director of the Company.

Law Hong Ping, Lawrence

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

Fong Chung, Mark

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

Wong Kwai Huen, Albert

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

BOARD OF SUPERVISORS:

Wei Junchao

Mr. Wei Junchao, Chinese, born in 1958, Chairman of Supervisory Committee of COSL. He graduated from Program of Economics and Management at CNPC Managers Training Institute in 1989. He worked in the oil production company under the CNOOC Bohai Corporation from November 1975 to July 1989; worked successively in the Party Committee Office, Youth League Committee, Administration Office and Labour Union serving as Chief of Secretary Section of Party Committee Office, Secretary of Youth League Committee, Director of Administration Office and Chairman of Labour Union of the Bohai Oil Company from July 1989 to October 2004; as Office Director of CNOOC from October 2004 to December 2013; and as Chairman of the Supervisory Committee of CNOOC from December 2013 to January 2018. Mr. Wei is the Chairman of the Supervisory Committee of Offshore Oil Engineering Co., Ltd since April 2014 and is the Chairman of the Supervisory Committee of COSL since December 2015.

Li Zhi

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

Cheng Xinsheng

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

SENIOR MANAGEMENT:

Qi Meisheng

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

Cao Shujie

Mr. Cao Shujie, Chinese, born in 1964. He graduated from the East China Petroleum Institute in 1987 and received his MBA and EMBA degree from Tianjin University and China Europe International Business School respectively. He has been the drilling team leader, deputy superintendent, vice Rig manager, Rig manager, head of general contracting office and manager of operation department in Bohai Oil Drilling Corporation and China Offshore Oil Northern Drilling Company during the period from July 1987 to November 2001. From November 2001 to April 2006, he was the deputy general manager of the Drilling Division of COSL. Between April 2006 and March 2010, he was the general manager of the Drilling Division of COSL. He was appointed as Vice President of COSL from March 2010 to December 2016. Mr. Cao has been Executive Vice President of COSL from January 2017 to March 2018. Since March 2018, he has served as the CEO and President of COSL.

Zheng Yonggang

Mr. Zheng Yonggang, Chinese, born in 1973, CFO of COSL, graduated from Capital University of Economics and Business in 1996 with a Bachelor's degree in Accounting and graduated from The University of New South Wales in 2001 with a Master's degree in Professional Accounting. From July 1996 to January 1999, he worked as a senior auditor of Deloitte Touche Tohmatsu. From January 1999 to May 2000, he served as a corporate budget manager of China Network Communications Co. From December 2001 to February 2004, he served as an Accouting Manager in GP Accounting Firm. From February 2004 to May 2005, he served as an investment manager of Wanxiang Communications Co. From September 2005 to October 2007, he served as a senior economic analysis director of the assets acquisition division of the finance department of CNOOC Limited. From October 2007 to September 2011, he served as a manager of the overseas financial management division of the financial department of CNOOC Limited. From September 2011 to July 2012, he served as a manager of the financial capital department of CNOOC Iraq Co., Ltd. From July 2012 to October 2016, he served as a chief financial officer of CNOOC Iraq Co., Ltd. From October 2016 to February 2018, he served as a deputy general manager and chief financial officer of CNOOC International Limited. Mr. Zheng was appointed as the CFO of the Company on 28 February 2018.

Yu Feng

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

Yu Guimin

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

Jiang Ping

Ms. Jiang Ping, Chinese, born in 1975,the board secretary of COSL. She obtained a Bachelor of Economics degree in 1998 and a Master of Economics degree in 2001 from Dongbei University of Finance & Economics. Ms. Jiang has obtained the qualification of UK Chartered Certified Accountant (ACCA, promoted to FCCA in 2014) and Hong Kong Certified Public Accountant (HKICPA) since 2009, Certified Management Accountant (CMA) in United States of America since 2012. She has also obtained the Qualification of Board Secretary of Listed Company issued by Shanghai Stock Exchange since 2017. From 2001 and 2005, she worked subsequently with Global 500 companies such as Bank of China and Daimler Chrysler (China) Investment Co., Ltd. She joined CNOOC Limited in 2006. She served as the Executive Secretary of CNOOC Limited from 2006 to 2007, Senior Officer of Hong Kong and the US Standards of Finance Management Department of CNOOC Limited from 2008 to 2011, and the head of Management Report and Business Analysis Division of Finance Department of CNOOC Limited from 2011 to February 2017. On 22 March 2017, Ms. Jiang Ping was appointed as the secretary of COSL. Since 23 January 2018, Ms. Jiang Ping was authorized to manage the overall work of Financial Department of COSL.

The directors and senior management resigned during 2017 and as at the date of preparation of this report:

Mr. Dong Weiliang, Chinese, born in 1957, an original executive director of COSL. He resigned as executive director of COSL on 13 December 2017.

Mr. Li Feilong, Chinese. Born in 1964, an original executive director, Executive Vice President and CFO of COSL. He resigned as executive director, Executive Vice President and CFO of COSL on 28 February 2018.

Mr. Xie Weizhi, Chinese, born in 1964, an original non-executive director. He resigned as non-executive director of COSL on 23 August 2017.

Mr. Wang Baojun, Chinese, born in 1976, an original board secretary and General Counsel of COSL. He resigned as board secretary and General Counsel of COSL on 21 March 2017.

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

☐ Applicable √ Not applicable

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

(1) Work Positions in the Shareholding Company

√ Applicable ☐ Not applicable

Name	Name of shareholder company	Position held	Starting date of term of office	Expiry date of term of office
Lv Bo	CNOOC	Vice President	April 2010	Until now
Meng Jun	CNOOC	General manager of financial assets department	July 2017	Until now
Xie Weizhi	CNOOC	General manager of financial assets department	June 2016	July 2017

(2) Work Positions in Other Units

√ Applicable ☐ Not applicable

Name	Name of company	Position held	Starting date of term of office	Expiry date of term of office
Law Hong Ping, Lawrence	Vincera Consulting Limited	Chairman of the Board	2012	2017
Fong Chung, Mark	Grant Thornton Hong Kong Limited	Honorary advisor	2014	Until now
Wong Kwai Huen, Albert	Fried, Frank, Harris, Shriver & Jacobson LLP	Principal of Hong Kong branch	2015	Until now

4. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

√ Applicable ☐ Not applicable

Decision-making procedures of remuneration of Directors, Supervisors and Senior Management	Remuneration of Directors and Supervisors are subject to shareholders' approval at the general meetings. Remuneration of senior management shall be determined by the Board.
Reference for determining remunerations of Directors, Supervisors and Senior Management	Depends mainly on the duties and responsibilities of Directors, Supervisors and Senior Management and the results of the Company.
Actual remuneration payable to Directors, Supervisors and Senior Management	RMB8,933.3 thousand
Total actual remuneration of Directors, Supervisors and Senior Management at the end of the reporting period	RMB8,933.3 thousand

5. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Change of Directors

(1) AGM 2016 of the Company was held on 1 June 2017, at which Mr. Law Hong Ping, Lawrence was re-elected as an independent non-executive director of the Company for a term of 3 years with effect from the date when the resolution was approved at the general meeting.

(2) Third Meeting of Board of Directors of the Company of 2017 was held on 23 August 2017, at which Mr. Xie Weizhi has resigned as non-executive director of the Company due to the change of work.

(3) 2017 First EGM of the Company was held on 13 December 2017, at which Mr. Liu Yifeng was elected as an executive director of the Company (Mr. Dong Weiliang has retired as an executive director of the Company) and Mr. Meng Jun was elected as a non-executive director of the Company, for a term of 3 years with effect from the date when the resolutions were approved at the general meeting.

(4) On 28 February 2018, Mr. Li Feilong has resigned as an executive director, Executive Vice President and CFO of the Company due to the change of personal work.

(5) First Meeting of Board of Directors of the Company of 2018 was held on 27 March 2018, at which Mr. Lv Bo has resigned as Chairman of the Board and a non-executive director of the Company due to the change of work and took effect from 28 March 2018.

(6) First Meeting of Board of Directors of the Company of 2018 was held on 27 March 2018, at which Mr. Qi Meisheng has resigned as CEO and President of the Company due to the change of work. Mr. Qi Meisheng would continue as an executive director of the Company. On 27 March 2018, the Board appointed Mr. Qi Meisheng as the Chairman of the Board of Directors, with effect on 28 March 2018.

2. Change of Supervisors

(1) First Meeting of the Supervisory Committee of the Company of 2018 was held on 27 March 2018, at which, Mr. Wei Junchao has applied to resign as the supervisor and the chairman of the Supervisory Committee of the Company due to retirement, with effect from the election of the new supervisor at the general meeting.

3. Change of Senior Management

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

(2) First Meeting of Board of Directors of the Company of 2017 was held on 21 March 2017, at which, Ms. Jiang Ping was appointed as the board secretary of the Company, with effect from 22 March 2017 and Mr. Wang Baojun has resigned as the secretary of the Company due to the change of work.

(3) On 28 February 2018, upon passing by the Board, Mr. Zheng Yonggang was appointed as the CFO of the Company, with effect from 28 February 2018.

(4) On 27 March 2018, the Board appointed Mr. Cao Shujie as the CEO and President of the Company, with effect on 28 March 2018.

6. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(1) Employees

Number of in-service employees of the Company	13,375
Number of in-service employees of the major subsidiaries	899
Total number of in-service employees	14,274
The number of retired employees whose expenses are borne by the Company and its major subsidiaries	5

Composition of professions

Type of profession	*Number of employees in the profession (Headcount)*
Operation Management	3,439
Technical Expertise	5,333
Skills Operating	5,502
Total	14,274

Educational level

Type of educational level	*Number of employees (Headcount)*
Master degree or above	698
Bachelor degree	6,380
College graduates	3,507
Below college graduates	3,689
Total	14,274

(2) Remuneration Policy

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

(3) Training Programme

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

Report of the Directors

The directors present the report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ended 31 December 2017.

DIRECTOR'S WORK

The particulars of work of the Directors of the Company and their professional committees during the year are set out in the Corporate Governance Report of this annual report.

PRINCIPAL ACTIVITIES

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

RISKS AND MEASURES

(1) Major Potential Risks

1) Although the tendering and bidding activities of the oilfield service industry might be active along with the gradual recovery of international oil prices, there were not significant changes in overall market competition conditions. In addition, due to political, economic and other factors, the international oil price trend remained uncertain. Given that the protection measures for local oilfield service industries implemented in certain countries or regions, the market competition was still keen and the overall oilfield service industry was suffered from operation pressure. Therefore, the Company is still exposed to market risks.

2) The Company is an offshore oilfield service company with its production and operation environment mainly in the ocean. As both domestic and overseas governmental institutions have strengthened the environmental protection requirements for marine environment, the Company's expenditure on environmental protection may increase accordingly. In the meantime, the oilfield service industry is vulnerable to high risks such as natural disasters and polluted marine environment, as a result, the Company may be vulnerable to risks of health, safety and environment.

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

4) With the Company's overseas businesses covering various countries and regions and the foreign currency liabilities and expenses from the overseas markets, fluctuation of foreign exchange rates and exchanges between currencies may affect the Company's operating costs, and the operation of Company is therefore exposed to foreign exchange risks. Details are set out in the Note 43 to financial statements in this annual report.

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

6) As the international oil and gas industry has not fully recovery, when the Company expand the overseas market, individual clients may not be able to perform the payment obligation on time which may cause a risk of collection of trade receivables.

(2) Risk Management Measures

The Company reviewed risk appetite and tolerance of different regions based on the changes in operation environment, continued to optimize the risk management system and establish a comprehensive and effective risk management mechanism so as to objectively identify, analyze and assess risks. The Company conducted a warning for risks management and strengthened its dynamic management and control over risks. The Company followed the principle of the combination of preventive, handling and remedial measures for the management of risk incidents. For instance, we put greater effort in expanding markets, increased our international management strengths and tackled risks related to market competition. Also we enhanced our domestic QHSE management, accelerated the internationalization and industrialization of QHSE management and overcame risks related to health and environmental protection.

RESULTS AND DIVIDENDS

The Group's profit prepared under Hong Kong Financial Reporting Standards for the year ended 31 December 2017 and the statement of financial position of the Group at that date are set out in the financial statements of this annual report on pages 121 to 127.

The directors recommend the payment of a final dividend of RMB6 cents (tax inclusive) per ordinary share in respect of the year to shareholders who are entitled to dividends. This recommendation has been incorporated as proposed cash dividends within the retained profits section of the consolidated statement of financial position. The total dividend amounts to approximately RMB286,295,520 (tax inclusive). Further details of this accounting treatment are set out in the Note 15 to financial statements in this annual report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2017 are set out in Note 21 to the financial statements in this annual report.

GEARING RATIO

The details of gearing ratio of the Group as at 31 December 2017 are set out in Note 43 to the financial statements in this annual report.

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES OF THE COMPANY

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

BONDS

In 2016, the Company successfully issued corporate bonds with an aggregate amount of RMB10 billion by two tranches. The first tranche of the bonds was issued on 26 May 2016, with the actual issue size of RMB5 billion. The first tranche of the corporate bonds comprises two types: corporate bonds type I has a term of 3 years and has an actual issue size of RMB2 billion with final coupon rate of 3.14%; corporate bonds type II has a term of 10 years and has an actual issue size of RMB3 billion with final coupon rate of 4.10%.

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

The above two tranches of bonds were traded on the SSE on 29 June 2016 and 3 November 2016 respectively. The proceeds from the issuance of bonds are proposed to fully repay the Company's debts and replenish working capital after deducting the issuance expenses. As at 31 December 2017, accumulated expenses of two tranches of bonds amounted to RMB9,318,006,247.25 and balance amounted to RMB667,418,752.75.

The details of bonds issued of the Company during the reporting period are set out in Note 35 to the financial statements in this annual report.

PLACING OF H SHARES

On 15 January 2014, the Company completed the placing of an aggregate of 276,272,000 H shares, representing approximately 5.79% of the total number of issued shares (as enlarged by the allotment and issue of the placing shares) and approximately 15.25% of the total number of H shares in issue (as enlarged by the allotment and issue of the placing shares). After the placing, the total number of issued shares of the Company increased from 4,495,320,000 shares to 4,771,592,000 shares. The total number of issued H shares increased from 1,534,852,000 H shares to 1,811,124,000 H shares. For further details, please refer to the Company's announcements dated 7 January 2014 and 15 January 2014, respectively. The net proceeds from the placing amounted to approximately HK$5,819,392,302.91 (after deduction of the commissions and estimated expense). Approximately US$397,114.18 was not yet utilized as at 31 December 2017.

SUMMARY OF FINANCIAL INFORMATION

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

Unit: RMB'000

	2017	2016	2015	2014	2013
Revenue	17,379,433	15,085,545	23,174,248	32,993,239	27,363,812
Other revenues	323,054	153,207	242,495	223,721	163,306
	17,702,487	15,238,752	23,416,743	33,216,960	27,527,118
Depreciation of property, plant and equipment and amortisation of intangible assets	(4,468,117)	(4,520,118)	(4,213,421)	(3,769,586)	(3,310,618)
Employee compensation costs	(4,001,622)	(3,890,143)	(3,792,454)	(4,380,705)	(4,080,092)
Repair and maintenance costs	(363,777)	(500,093)	(799,297)	(1,094,907)	(930,115)
Consumption of supplies, materials, fuel, services and others	(3,064,065)	(4,116,437)	(4,569,260)	(5,955,000)	(4,897,780)
Subcontracting expenses	(2,362,721)	(2,364,588)	(3,474,789)	(5,445,405)	(3,913,722)
Operating lease expenses	(594,245)	(1,206,111)	(1,547,610)	(1,605,992)	(1,093,744)
Other operating expenses	(1,415,482)	(2,865,175)	(2,185,096)	(2,165,245)	(1,652,789)
Impairment of goodwill	–	(3,455,378)	(923,154)	–	–
Impairment of property, plant and equipment	(4,942)	(3,688,408)	(280,116)	(374,185)	–
Total operating expenses	(16,274,971)	(26,606,451)	(21,785,197)	(24,791,025)	(19,878,860)
Profit/(loss) from operations	1,427,516	(11,367,699)	1,631,546	8,425,935	7,648,258
Exchange (loss)/gain, net	(388,094)	268,710	87,726	(5,690)	(6,403)
Finance costs	(1,100,941)	(1,047,667)	(700,259)	(587,535)	(638,328)
Interest income	99,575	130,519	105,248	155,033	124,555
Investment income	187,545	191,933	102,345	193,795	94,302
Share of profits of joint ventures, net of tax	106,867	16,849	169,748	340,954	297,221
Profit/(loss) before tax	332,468	(11,807,355)	1,396,354	8,522,492	7,519,605
Income tax (expense)/credit	(261,257)	347,899	(287,648)	(1,002,309)	(793,171)
Profit/(loss) for the year	71,211	(11,459,456)	1,108,706	7,520,183	6,726,434

ASSETS AND LIABILITIES

Unit: RMB'000

	2017	2016	2015	2014	2013
Total assets	73,857,272	80,544,057	93,525,051	86,874,307	79,262,283
Total liabilities	39,179,491	45,247,679	46,696,381	39,552,208	42,002,480

PROPERTY, PLANT AND EQUIPMENT

The details of the movements in property, plant and equipment of the Group are set out in Note 17 to the financial statements in this annual report.

DIVIDEND

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

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

In 2017, based on a net profit of RMB71,210,798 achieved by the Group (of which net profit attributable to the owners of the Company amounted to RMB33,067,087) plus the retained profits of RMB15,450,440,854 as at the beginning of the year and deducted the dividend of 2016 of RMB238,579,600 declared and paid in 2017, the total distributable profit would be RMB15,244,928,341 at the end of 2017. The Group recommended a cash dividend of RMB0.06 per share (tax inclusive) on the basis that the total share capital was 4,771,592,000 shares as at 31 December 2017. The total dividend amounts to RMB286,295,520 and the balance of retained profits of RMB14,958,632,821 will be carried forward to the following years.

According to the Company Law and the Articles of Association of the Company, the accumulated statutory common reserve fund of the Company for 2016 has reached more than 50% of the registered capital of the Company, no further provision of such fund is required for this year.

Such distribution proposal will be proposed at the AGM of 2017 of the Company for approval.

Dividend of the Group in the recent three years:

Unit: RMB'000

Dividend year	Cash dividend per 10 shares (yuan) (tax inclusive)	Cash dividend (tax inclusive)	Net profit attributable to equity holders of the Company in the consolidated financial statement	Percentage of net profit attributable to equity holders of the Company in the consolidated financial statement (%)
2017	0.60	286,296	33,067	866
2016	0.50	238,580	(11,456,186)	(2)
2015	0.68	324,468	1,073,907	30

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make charitable donations.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, sales to the Group's five largest customers accounted for approximately 87% of the total sales for the year and sales to the largest customer included therein accounted for approximately 75%. Purchases from the Group's five largest suppliers accounted for approximately 18% of the total purchases for the year; and purchases from the Group's largest supplier accounted for approximately 7% of the total purchases for the year.

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

ASSETS MEASURED AT FAIR VALUE

The majority of the assets of the Group were measured at historical cost, except for available-for-sale investments which have been measured at fair value. Internal control and review procedures have been taken by our audit department on works of finance department. For details of fair value changes in available-for-sale assets of the Group during the reporting period, please see Note 42 to the financial statements in this annual report.

OUTLOOK OF THE COMPANY

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

CHARGE ON ASSETS

As at 31 December 2017, the Group had no large scale material charges against its assets.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any contingent liabilities.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company as at 31 December 2017 were:

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

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

Pursuant to the Rule 3.13 of the Listing Rules of the Hong Kong Stock Exchange, the Company had received annual confirmations of independence from Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert, and as at the date of this report, still considers them to be independent.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors, supervisors and the senior management of the Company are set out in "Directors, Supervisors, Senior Management and Employees" of the annual report.

DIRECTORS' SERVICE CONTRACTS

The newly appointed directors and supervisors are required to enter into a service contract with the Company for a term of three years, renewable upon re-election. Details of the directors remunerations for the year 2017 are set out in "Directors, Supervisors, Senior Management and Employees" of the annual report.

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

INSURANCE FOR DIRECTORS

The Company has renewed its Directors Liability Insurance Policy of RMB200,000,000 in 2017.

DIRECTORS' REMUNERATION

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

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

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

None of the Directors and Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

SIGNIFICANT CONTRACTS

The Company has entered into several agreements with CNOOC Limited, a related company, and other companies within China National Offshore Oil Corporation ("CNOOC"), other than CNOOC Limited ("CNOOC Group"), for the provision of oilfield services by the Company to CNOOC Limited and CNOOC Group, and for the provision of various services by CNOOC Group to the Company. Further details of the transactions undertaken in connection with these contracts during the year are included in Note 41 to the financial statements in this annual report.

Save as disclosed, no significant contract in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which the controlling Shareholder of the Company had a material interest, whether directly or indirectly, subsisted at year end or at any time during the year.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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

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

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive and supervisors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

So far as is known to any Director or chief executive of the Company, as at 31 December 2017, other than the Directors or the chief executive of the Company as disclosed above, the following persons have interests or short positions in the H Shares or underlying H Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO or were otherwise notified to the Company and the Hong Kong Stock Exchange.

Name of shareholder	Shares held	Number of shares interest (share)	Approximate percentage of the interests (H) in COSL (%)
BlackRock, Inc.	Interest in controlled corporation	186,221,502 (L) 2,302,000 (S)	10.28 (L) 0.13 (S)
Allianz SE	Interest in controlled corporation	108,337,000 (L)	5.98 (L)
Platinum Investment Management Limited	Interest in controlled corporation	90,803,000 (L)	5.01 (L)

Notes:

(a) "L" means long position.

(b) "S" means short position.

(c) "P" means lending pool.

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

CONNECTED TRANSACTIONS

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

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

The Company has entered into a new Deposit and Settlement Agreement with CNOOC Finance Corporation Ltd. ("CNOOC Finance") on 8 May 2017. Pursuant to the Deposit and Settlement Agreement, CNOOC Finance has agreed to continue to provide the Cash Depository Services as well as the Settlement Services to the Group. For details, please refer to the announcements of the Company dated 27 April 2017.

During the year ended 31 December 2017, the Group had the following continuing connected transactions:

a. Included in revenue

		2017 RMB'000	2016 RMB'000
i	**CNOOC Limited Group**		
	– Provision of drilling services	3,529,447	2,730,362
	– Provision of well services	6,213,446	5,275,040
	– Provision of marine support services	2,284,597	1,773,992
	– Provision of geophysical and surveying services	976,085	664,001
		13,003,575	10,443,395
ii	**CNOOC Group**		
	– Provision of drilling services	148,414	12,682
	– Provision of well services	190,708	103,454
	– Provision of marine support services	47,476	19,244
	– Provision of geophysical and surveying services	149,646	18,444
		536,244	153,824

b. Included in operating expenses

	2017 RMB'000	2016 RMB'000
i CNOOC Limited Group		
Materials, utilities and other ancillary services	86,249	36,621
Transportation services	63	–
	86,312	36,621
Property services	3,723	1,827
	90,035	38,448
ii CNOOC Group		
Labour services	1,836	1,271
Materials, utilities and other ancillary services	607,245	663,751
Transportation services	20,525	22,035
Leasing of equipment	110,373	220,860
Repair and maintenance services	6,463	6,562
Management services	43,949	2,021
	790,391	916,500
Property services	126,227	162,249
	916,618	1,078,749

c. Included in interest income

	2017 RMB'000	2016 RMB'000
CNOOC Finance (a subsidiary of CNOOC)		
Interest income	19,523	35,608

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

	2017 RMB'000	2016 RMB'000
Dividend income from joint ventures	120,595	113,877

e. **Included in finance costs**

During the current year, the finance costs on the loan from a related party are US$5,610,000, which is equivalent to approximately RMB37,879,000.

f. **Deposits**

	31 December 2017 RMB'000	31 December 2016 RMB'000
Deposits placed with CNOOC Finance as at the end of the reporting period	1,497,422	1,801,400

g. With the approval of the Board on 26 October 2017, in order to improving the resource allocation and assets' structure, the Company disposed two vessels, being "HYSY701" and "HYSY702", which were under the Group's geophysical and surveying services segment previously, to Shenzhen COOEC Subsea Technology Co., Ltd., a subsidiary of CNOOC. In accordance with the principle of fairness, and with reference to the net assets valuation, both parties agreed on the consideration of the vessels transferred to be RMB1,060,000,000(including VAT). The Group has recognized a loss of RMB2,183,000 arising from the disposal. The considerations were fully received by the Group during the current year.

The independent shareholders of the Company have approved the connected transactions set out in items (a) and (b) above on 15 December 2016. For items (c) to (g) above, the transactions were exempted from the independent shareholders' approval requirement and was approved by the Independent Directors.

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

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

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

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

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

Deloitte Touche Tohmatsu, the Company's auditors, were engaged by the Board of Directors to report on the Group's continuing connected transactions, including items (a) and (b) above, and the actual maximum daily balance of deposits (including interest receipts in respect of these deposits) placed by the Group with CNOOC Finance Corporation Ltd. as referred to in items (c) and (e) above, in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu have issued their unqualified auditor's letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

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

The final results of the Group have been reviewed by the audit committee of the Board which consists of three independent non-executive directors. The committee has reviewed the accounting principles and practices adopted by the Company, and has also discussed auditing, risk management, internal control and financial reporting matters including the review of audited 2017 annual results with the management.

BUSINESS PLAN

The recent oil price has rebounded from the low level in the previous two years, and the overall exploration and development expenditure of the oil and gas industry has increased, which facilitate the slow recovery of the oilfield services market and improve the workload of various sectors of the Company in varying degrees. However, due to the uncertainties over the subsequent trend of oil price, and that the oversupply in the oilfield services industry has not been radically improved, the Company is still under the competitive pressure in the oilfield services industry. The Company will closely monitor and track the changes in the investment of domestic and overseas clients and the market demand, and continue to promote its market development as well as industrialization and seriation of technology, striving to achieve its target of "dual 50%" for the medium term.

CORPORATE GOVERNANCE CODE AND MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDITORS

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

EXECUTION OF THE INSIDER INFORMATION MANAGEMENT SYSTEM

In 2017, the Company continuously worked on the regular registration of insiders. The Company actively organised trainings, in order to enhance the sense of confidentiality of information insiders, and to prevent insider dealing, the effect is as expected.

All directors and supervisors of the Company confirmed that they had not traded the Company's securities in violation of rules in the reporting period. Furthermore, pursuant to requirements of Provisions for the Establishment of Management Systems for the Registration of Persons Who Have Knowledge of Insider Information by Listed Companies issued by the China Securities Regulatory Commission, the Company also conducted self-assessment on whether there have been share transactions by any insider of the Company other than directors and supervisors during the reporting period, and did not find any insider trading of the Company's securities in violation of rules in 2017.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company established and adhered to the concept of "environmental protection, energy saving and efficiency improvement and green development", which is a management scheme for environmental protection and energy saving and emission reduction. It upheld the policies of energy saving and environmental protection, and strived to provide green services and set up green businesses in the PRC so as to embed ecological civilization construction into operation and continuously promote green development and lifestyle to enterprises and its employees. In our production and operation process, the Company strictly abided by each requirement of laws, regulations, relevant standards and international convention, provided environmental protection equipment in operation sites, classified and recycled various pollutants for compliant treatment, formulated a contingency plan for potential risks such as oil spill pollution on operation sites and conducted regular drills to enhance the Company's emergency response and its staff's on-site problem solving capacity, so as to minimize the impacts on the environment. The Company actively introduced leading environmental protection ideas and concepts, learnt from other environmental protection schemes and practices and continued to upgrade its management on environmental protection. It strictly implemented effective management measures such as optimization of facilities, technological innovation and use of new materials to ensure harmonious development of its production and operation as well as environmental protection.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

MANAGEMENT CONTRACTS

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

EQUITY-LINKED AGREEMENTS

As at 31 December 2017, the Company did not enter into any equity-linked agreement.

BUSINESS COMPETITION WITH CONTROLLING SHAREHOLDERS

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

OTHER DISCLOSURE

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

On behalf of the Board

Lv Bo
Chairman
27 March 2018

Supervisory Committee Report

The Supervisory Committee of the Company for the year 2017 has diligently performed its responsibilities in accordance with the requirements of the Company Law of the People's Republic of China, Articles of Association and the Rules of Procedure for the Supervisory Committee of the Company, supervised and examined the procedures for decision making, the operating situation according to the law, financial reports disclosure and the construction and operation of the internal control system of the Company, and provided necessary protection for the legal benefits of the shareholders, the Company and the staff.

In 2017, five Supervisory Committee's meetings were convened. Members of the Supervisory Committee attended the general meetings, Board meetings of the Company and the important management meetings of the Company to keep abreast of the issues of our daily production and operating activities, so as to further improve our supervision and inspection on compliance and risk control from procedures to content.

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

I. CHANGES OF MEMBERS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

As at the date of this report, Mr. Wei Junchao acts as the chairman of the Supervisory Committee, Mr. Li Zhi acts as the employee supervisor and Mr. Cheng Xinsheng acts as the independent supervisor. There was no change on the member of the supervisory committee during the reporting period. On the Meeting of the Supervisory Committee held on 27 March 2018, Mr. Wei Junchao retired from his posts of supervisor and the chairman of the Supervisory Committee, which will take effect after the appointment of a new supervisor is approved at the a general meeting of the Company.

II. OPERATION OF THE SUPERVISORY COMMITTEE

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

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

3) The Supervisory Committee had given its professional audit advice in respect of the 2016 Annual Report, the 1st quarterly report for the year 2017, the 2017 Interim Report and the 3rd quarterly report for the year 2017 in compliance with the regulatory requirements of A shares.

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

5) Supervisor Wei Junchao, supervisor Li Zhi and supervisor Cheng Xinsheng attended all five regular Board meetings (among which, supervisor Li Zhi did not attend the second meeting of the Board of Directors due to other business). Supervisor Wei Junchao attended the AGM, 2017 First A Share Class Meeting and 2017 First H Share Class Meeting and 2017 First EGM.

III. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE

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

After supervising and examining the performance of duties by the Board of Directors of the Company and the senior management, and the construction and operation of internal control system of the Company, the Supervisory Committee of the Company is of the opinion that the procedures for calling the General Meeting and Board meetings and the relevant resolutions made during the reporting period were in compliance with the requirements of the laws, regulations and the Articles of Association. Directors and the senior management have not been found violating any laws, regulations or the Articles of Association when performing duties of the Company and have not been found behaving in such a way that would damage the interests of the Company and the shareholders.

(2) Financial Situation of the Company

The Supervisory Committee has supervised and examined the financial management system and financial situation of the Company by participating the Board meetings and the meetings of the Audit Committee under the Board of Directors and has reviewed relevant financial information of the Company. After such examination, the Supervisory Committee is of the opinion that the Company is in strict compliance with the financial laws and regulations and the financial system. The financial management system of the Company is healthy and effective, the accounting treatment are consistent while the financial statements are true and reliable. Based on the domestic and international audit standards, Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu have audited the financial statements of the Company for year 2017 and have issued standard unqualified audit opinions on the financial statements. The Supervisory Committee considered the financial statements were objective and fairly reflected the financial position and the results of operation of the Company.

(3) Connected Transactions

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

(4) Management Situation and Internal Control of the Company

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

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

The Supervisory Committee is of the view that the Board of Directors, both collectively and individually, have earnestly performed their duties with integrity and diligence, and each Director has earnestly understood the operating situation of the Company and thoroughly discussed the Company's affairs before making decisions. Facing with the harsh and complicated market environment, the management has actively taken challenges and earnestly performed their duties according to their terms of reference and implemented the decisions of the Board in a scientific way.

(6) Execution of the Insiders' Information Management System

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

(7) External Guarantee

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

(8) Other Information

Through the annual assessment on the management of the Company, the Supervisory Committee is of the opinion that the annual assessment on the management is conducted in strict compliance with the Articles of Association and procedures approved at the general meetings and the Supervisory Committee has no disagreement over the result of the assessment.

For and on behalf
of Supervisory Committee

Wei Junchao
Chairman of the Supervisory Committee
27 March 2018

I. SIGNIFICANT RELATED PARTY TRANSACTIONS

Further details on related party transactions are given in Note 41 to the financial statements of this annual report.

II. GUARANTEE

Unit: RMB'000

External guarantee provided by the Company (excluding guarantee to subsidiaries)	
Total amount of guarantee occurred during the reporting period (excluding guarantee to subsidiaries)	–
Total balance of guarantee as at the end of the reporting period (A) (excluding guarantee to subsidiaries)	–
Guarantee provided by the Company and its subsidiaries to its subsidiaries	
Total amount of guarantee occurred by the Company to its subsidiaries during the reporting period	14,747,720.3
Total balance of guarantee provided by the Company to its subsidiaries at the end of the reporting period (B)	14,441,867.5
Total guarantee provided by the Company (including guarantee to subsidiaries)	
Total amount of guarantee (A+B)	14,441,867.5
Total amount of guarantee as a percentage of the Group's net assets (%)	41.65
Including:	
Amount of guarantee provided to shareholders, the actual controller and its related parties (C)	–
Debt guarantee directly or indirectly provided to parties with gearing ratio over 70% (D)	14,585,535.0
The excess of total amount of guarantee over 50% of the net assets (E)	–
Total amount of the 3 guarantees above (C+D+E)	14,585,535.0
Guarantee details	(1) Guarantee provided by the Company includes the guarantee to its subsidiaries in favour of US$1 billion bond issued by a subsidiary in 2012 and US$1 billion Euro medium term notes issued by a subsidiary in 2015. (2) Subject parties with gearing ratio over 70% under debt guarantee are wholly-owned subsidiaries of the Company.

III. ENGAGEMENT AND DISMISSAL OF AUDITORS OF THE COMPANY

Unit: RMB million

	Currently appointed
Name of domestic audit firm	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration of domestic audit firm	–
The service period of domestic audit firm	4 years
Name of international audit firm	Deloitte Touche Tohmatsu
Remuneration of international audit firm	–
The service period of international audit firm	4 years
Remuneration of domestic and international audit firm	14.5

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

Note: On 1 June 2017, the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors for 2017 respectively was approved at the AGM 2016.

IV. OTHER MATTERS

On 20 March 2012, the Company disclosed in its announcement a connected transaction in relation to the transfer of land to CNOOC Infrastructure Management Co., Ltd. As at 31 December 2017, the Company is now actively undertaking relevant communication and coordination in respect of the transfer and the transfer procedures of such land transaction were not yet completed.

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

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

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

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA OILFIELD SERVICES LIMITED

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

Opinion

We have audited the consolidated financial statements of China Oilfield Services Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 121 to 192, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment	
Referring to note 17 to the consolidated financial statements, at 31 December 2017, the property, plant and equipment of the Group mainly included drilling rigs and vessels with significant carrying amounts. Due to slower-than-expected recovery of global oilfield services market and oil price, both the services prices and utilisation rates of the Group's drilling rigs and vessels were not resumed to the normal healthy level with reasonably good profit margin. Management has determined that certain drilling rigs and vessels have impairment indicators. The recoverable amount of the relevant assets has been determined based on a value in use calculation through discounting the estimated future cash flows generated from the relevant assets to the present value. In estimating the aforesaid recoverable amount, management is required to consider all relevant factors with reasonable and supportable assumptions to make significant accounting estimations with inherent level of complexity. Details of the related estimation uncertainty are set out in note 4 to the consolidated financial statements. We identified impairment assessment of property, plant and equipment as a key audit matter due to significant accounting estimations involved in estimating the recoverable amounts of the relevant assets.	Our procedures in relation to impairment of property, plant and equipment included: • We tested the Group's key internal controls over valuation and determination of asset impairments; • We understood and evaluated management's assessment of the indicators of impairment on property, plant and equipment with relevant evidence; • We evaluated the appropriateness and consistency of the methodologies of the impairment test; • We evaluated how the external valuer's work were relied on by management and we involved our internal valuation specialists to evaluate the appropriateness of management's key assumptions and judgements in the impairment test; and • We tested the underlying data used by the Group in the impairment test and we verified the mathematical accuracy of the impairment test.
Impairment assessment of accounts receivable	
Referring to note 26 to the consolidated financial statements, at 31 December 2017, the carrying amount of accounts receivable of the Group was RMB6,218,549,000 which is a significant asset in the consolidated financial statements. The recoverability risk of accounts receivable remained significant for the year due to slower-than-expected recovery of global oil price where certain customers are unable to make timely payments. Further, some of the customers of the Group operate in countries facing more difficult political and economic circumstances, which expose the Group to additional recoverability risk of accounts receivable. Management is required to determine the carrying amounts of the impaired accounts receivable with respect to various factors, such as credit risk characteristics, aging analysis and cash collections subsequent to the year end date in which uncertainties existed and are subject to significant management's estimates and judgements. Details of the related estimation uncertainty are set out in note 4 to the consolidated financial statements. We identified impairment assessment of accounts receivable as a key audit matter due to the use of significant estimates and judgments by the Group's management in assessing the recoverability of accounts receivable.	Our procedures in relation to management's impairment assessment of accounts receivable included: • We tested the Group's key internal controls over the accounts receivable for impairment assessment; • We evaluated the objective evidence employed by the management in the impairment assessment on individually assessed accounts receivable, analysed cash collections subsequent to the year end and the historical settlement patterns of the customers, and assessed the reasonableness of the impairment provision that the management estimates on individually assessed accounts receivable; • We analysed historical impairment loss incurred and credit risk characteristics for accounts receivable assessed collectively, and assessed the reasonableness of the impairment provision that the management estimated based on the credit risk characteristics; and • We tested the aging analysis on a sampling basis. We performed recalculation and verified the mathematical accuracy of the impairment provision on accounts receivable assessed collectively.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	7	**17,436,414**	15,152,185
Sales surtaxes		**(56,981)**	(66,640)
Revenue, net of sales surtaxes		**17,379,433**	15,085,545
Other revenues	7	**323,054**	153,207
		17,702,487	15,238,752
Depreciation of property, plant and equipment and amortisation of intangible assets		**(4,468,117)**	(4,520,118)
Employee compensation costs	8	**(4,001,622)**	(3,890,143)
Repair and maintenance costs		**(363,777)**	(500,093)
Consumption of supplies, materials, fuel, services and others		**(3,064,065)**	(4,116,437)
Subcontracting expenses		**(2,362,721)**	(2,364,588)
Operating lease expenses	8	**(594,245)**	(1,206,111)
Other operating expenses		**(1,415,482)**	(2,865,175)
Impairment of goodwill	18	**–**	(3,455,378)
Impairment of property, plant and equipment	17	**(4,942)**	(3,688,408)
Total operating expenses		**(16,274,971)**	(26,606,451)
PROFIT/(LOSS) FROM OPERATIONS		**1,427,516**	(11,367,699)
Exchange (loss)/gain, net		**(388,094)**	268,710
Finance costs	9	**(1,100,941)**	(1,047,667)
Interest income		**99,575**	130,519
Investment income	8	**187,545**	191,933
Share of profits of joint ventures, net of tax	22	**106,867**	16,849
PROFIT/(LOSS) BEFORE TAX	8	**332,468**	(11,807,355)
Income tax (expense)/credit	13	**(261,257)**	347,899
PROFIT/(LOSS) FOR THE YEAR		**71,211**	(11,459,456)
Attributable to:			
Owners of the Company		**33,067**	(11,456,186)
Non-controlling interests		**38,144**	(3,270)
		71,211	(11,459,456)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	16	**0.69 cent**	(240.09) cents

Details of the dividends paid or proposed for the year are disclosed in note 15 to the consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
PROFIT/(LOSS) FOR THE YEAR		**71,211**	(11,459,456)
OTHER COMPREHENSIVE (EXPENSE)/INCOME	*14*		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plan		**(6,845)**	46,836
Income tax relating to items that will not be reclassified subsequently to profit or loss		**1,684**	(11,709)
		(5,161)	35,127
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(401,614)**	259,691
Net fair value loss on available-for-sale investments		**(42,246)**	(64,778)
Share of exchange differences of joint ventures		**(8,559)**	11,848
Income tax relating to items that may be reclassified subsequently to profit or loss		**6,352**	9,717
		(446,067)	216,478
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR, NET OF INCOME TAX		**(451,228)**	251,605
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(380,017)**	(11,207,851)
Attributable to:			
Owners of the Company		**(412,935)**	(11,210,542)
Non-controlling interests		**32,918**	2,691
		(380,017)	(11,207,851)

Consolidated Statement of Financial Position

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	52,599,471	57,457,239
Goodwill	18	–	–
Other intangible assets	19	419,294	427,027
MultiClient library	20	22,821	–
Investments in joint ventures	22	582,702	600,364
Available-for-sale investments	23	–	–
Other non-current assets	28	326,766	439,121
Deferred tax assets	31	70,800	68,514
Total non-current assets		54,021,854	58,992,265
CURRENT ASSETS			
Inventories	24	1,148,507	1,157,617
Prepayments, deposits and other receivables	25	460,401	442,960
Accounts receivable	26	6,218,549	4,795,964
Notes receivable	27	85,533	1,844,306
Other current assets	28	2,843,392	7,216,070
Pledged deposits	29	41,092	23,806
Time deposits with maturity of over three months	29	28,870	–
Cash and cash equivalents	29	9,009,074	6,071,069
Total current assets		19,835,418	21,551,792
CURRENT LIABILITIES			
Trade and other payables	30	8,062,653	9,304,300
Salary and bonus payables		830,873	776,939
Tax payable		121,630	101,124
Loan from a related party	32	2,286,970	693,700
Interest-bearing bank borrowings	33	563,380	5,296,469
Other current liabilities	28	177,180	543,649
Total current liabilities		12,042,686	16,716,181
NET CURRENT ASSETS		7,792,732	4,835,611
TOTAL ASSETS LESS CURRENT LIABILITIES		61,814,586	63,827,876

Consolidated Statement of Financial Position (Continued)

31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	31	**322,858**	234,456
Provisions	34	**–**	14,505
Interest-bearing bank borrowings	33	**1,409,175**	2,057,206
Long term bonds	35	**24,495,769**	25,279,744
Deferred revenue	36	**888,146**	936,804
Employee benefit liabilities	12	**20,857**	8,783
Total non-current liabilities		**27,136,805**	28,531,498
Net assets		**34,677,781**	35,296,378
EQUITY			
Equity attributable to owners of the Company			
Issued capital	37	**4,771,592**	4,771,592
Reserves		**29,783,261**	30,434,776
		34,554,853	35,206,368
Non-controlling interests		**122,928**	90,010
Total equity		**34,677,781**	35,296,378

Qi Meisheng
Director

Liu Yifeng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 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 2016	4,771,592	12,371,737*	2,508,656*	91,065*	(41,505)*	(191,263)*	26,906,628*	324,468*	46,741,378	87,292	46,828,670
Loss for the year	–	–	–	–	–	–	(11,456,186)	–	(11,456,186)	(3,270)	(11,459,456)
Other comprehensive (expense)/income for the year	–	–	–	(55,061)	35,127	265,578	–	–	245,644	5,961	251,605
Total comprehensive (expense)/income for the year	–	–	–	(55,061)	35,127	265,578	(11,456,186)	–	(11,210,542)	2,691	(11,207,851)
Capital contribution by non-controlling interests upon the establishment of a subsidiary	–	–	–	–	–	–	–	–	–	27	27
Final 2015 dividend paid	–	–	–	–	–	–	–	(324,468)	(324,468)	–	(324,468)
Proposed final 2016 dividend (*note 15*)	–	–	–	–	–	–	(238,580)	238,580	–	–	–
At 31 December 2016	4,771,592	12,371,737*	2,508,656*	36,004*	(6,378)*	74,315*	15,211,862*	238,580*	35,206,368	90,010	35,296,378
Profit for the year	–	–	–	–	–	–	33,067	–	33,067	38,144	71,211
Other comprehensive expense for the year	–	–	–	(35,894)	(5,161)	(404,947)	–	–	(446,002)	(5,226)	(451,228)
Total comprehensive (expense)/income for the year	–	–	–	(35,894)	(5,161)	(404,947)	33,067	–	(412,935)	32,918	(380,017)
Final 2016 dividend paid	–	–	–	–	–	–	–	(238,580)	(238,580)	–	(238,580)
Proposed final 2017 dividend (*note 15*)	–	–	–	–	–	–	(286,296)	286,296	–	–	–
At 31 December 2017	4,771,592	12,371,737*	2,508,656*	110*	(11,539)*	(330,632)*	14,958,633*	286,296*	34,554,853	122,928	34,677,781

* These reserve accounts comprise the consolidated reserves of approximately RMB29,783,261,000 (2016: RMB30,434,776,000) in the consolidated statement of financial position as at 31 December 2017.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	40	5,575,204	2,832,626
Taxes (paid)/refund:			
Mainland China corporate income tax refund		183	46,093
Mainland China corporate income tax paid		(3,804)	(16,833)
Overseas income taxes paid		(97,099)	(121,238)
Net cash flows from operating activities		5,474,484	2,740,648
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and other intangible assets		(3,075,877)	(2,052,859)
Investment in MultiClient library		(23,649)	–
Government grant received		14,693	7,500
Purchase of investments in corporate wealth management products, liquidity funds and treasury bond related investments		(7,200,000)	(15,200,000)
Proceeds on disposal/maturity of investments in corporate wealth management products and liquidity funds		11,628,629	12,181,645
Proceeds from disposal of property, plant and equipment		1,050,059	32,434
Placement of time deposits with maturity of over three months		(1,013,670)	–
Withdrawal of time deposits with maturity of over three months		984,800	200,000
(Increase)/decrease in pledged deposits		(17,286)	7,801
Interest received		88,358	142,421
Dividends received from joint ventures		150,595	95,877
Deposits for acquisition of property, plant and equipment		(8,760)	(93,173)
Net cash flows from/(used in) investing activities		2,577,892	(4,678,354)
CASH FLOWS FROM FINANCING ACTIVITIES	40		
Capital contribution from non-controlling interest upon the establishment of a subsidiary		–	27
New loan raised from a related party		1,722,884	666,690
Proceeds from issue of long term bonds		–	10,000,000
Expenses on issue of long term bonds		–	(13,750)
Repayment of bank loans		(5,274,333)	(14,364,478)
Dividends paid		(238,580)	(324,468)
Interest paid		(1,090,126)	(885,531)
Net cash flows used in financing activities		(4,880,155)	(4,921,510)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,172,221**	(6,859,216)
Cash and cash equivalents at the beginning of year		**6,071,069**	12,573,958
Effect of foreign exchange rate changes, net		**(234,216)**	356,327
CASH AND CASH EQUIVALENTS AT END OF YEAR		**9,009,074**	6,071,069
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	29	**9,079,036**	6,094,875
Less: Pledged deposits	29	**(41,092)**	(23,806)
Non-pledged time deposits at banks with maturity of over three months	29	**(28,870)**	–
Cash and cash equivalents as stated in the consolidated statement of cash flows	29	**9,009,074**	6,071,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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 Offshore Oil Corporation ("CNOOC") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "HKSE") in 2002, and pursuant to an approval document obtained from the relevant government authority dated 26 September 2002, the Company was restructured into a joint stock limited liability company.

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*

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

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

Specially, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 40. Consistent with the transition provision of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 40, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to HKAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.2 *New and revised HKFRSs in issue but not yet effective*

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

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[4]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 9 *Financial Instruments*

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

Key requirements of HKFRS 9 which are relevant to the Group are:

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.2 *New and revised HKFRSs in issue but not yet effective (continued)*

HKFRS 9 *Financial Instruments* (continued)

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipated the following potential impact on initial application of HKFRS 9.

Classification and measurement:

- Loan and receivables carried at amortised cost as disclosed in note 42: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9.

- Financial instruments classified as available-for-sale investment carried at fair value as disclosed in note 42: these are held within a business model whose objective is not solely receiving payments of principal and interest on the principal outstanding or selling the financial instruments in open market. Accordingly, the Group will measure these instruments at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, revaluation reserve of RMB110,000 related to these available-for-sale investment will be transferred to retained profits at 1 January 2018.

- All other financial assets and financial liabilities will continue to be measured on the same basis as are currently measured under HKAS 39.

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

HKFRS 15 *Revenue from Contracts with Customers*

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.2 *New and revised HKFRSs in issue but not yet effective (continued)*

HKFRS 15 *Revenue from Contracts with Customers* (continued)

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

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

The Group recognises revenue substantially from day rate contracts, as and when services have been rendered. The Directors have specifically considered HKFRS 15's guidance on contract modifications arising from variation orders, variable considerations, and allocating the transaction price to the identified performance obligations on a relative stand-alone selling price basis. The Directors have assessed that revenue from services rendered should be recognised over time as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs. The Directors are also of the view that the method currently used to measure the progress towards satisfactory completion of these performance obligations will continue to be appropriate under HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognized in opening balance of retained profits at 1 January 2018.

HKFRS 16 *Leases*

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB1,723,151,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.2 *New and revised HKFRSs in issue but not yet effective (continued)*

HKFRS 16 *Leases* (continued)

Based on the definition of lease payments under HKFRS 16, refundable rental deposits paid by the Group are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. As at 31 December 2017, such refundable rental deposits paid is not material, as a result, the Directors do not anticipate that adjusting such deposits to amortised cost will have a material impact on the carrying amount of such deposits.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

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

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

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

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

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to initially measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December of every year. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in joint ventures

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

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

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

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

Interests in joint operations

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

Where a group entity undertakes its activities under joint operations, the Group as a joint operator recognised in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly;

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

(b) from time charters and bareboat charters accounted for as operating leases under HKAS 17 on the straight-line basis over the rental periods of such charters, as service is performed;

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

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

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

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

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

Foreign currencies

The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates of exchange on the first day of the month of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the foreign operation.

The functional currencies of certain overseas subsidiaries and joint ventures are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the rate that approximates the exchange rates at the dates of the transactions.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

Government grants

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

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

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

Other employee benefits

Defined contribution plan

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

Defined benefits plan

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

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

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

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

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability/(assets).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined benefits plan (continued)

- If contributions are linked to services, they reduces services costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related services is rendered.

Income tax

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

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Tankers and vessels (including tanker and vessel components)	10 to 20 years
Drilling rigs (including drilling rig components)	5 to 30 years
Machinery and equipment	5 to 10 years
Motor vehicles	5 years
Buildings	20 to 30 years

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

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

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

Intangible assets (other than goodwill)

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

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

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

Research and development costs

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs (continued)

MultiClient library consist of seismic data surveys which are licensed to customers on a non-exclusive basis. All costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalized into the MultiClient library.

Impairment of tangible and intangible assets other than goodwill

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

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Inventories

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

Provisions

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

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

Onerous contracts

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has a significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

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

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

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Dividends

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the consolidated statement of profit or loss as interest income. The loss arising from impairment is recognised in profit or loss as other operating expenses for loans and receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative loss reclassified from the revaluation reserve to other expenses in the consolidated statement of profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in accordance with the policies set out for "Revenue recognition" above.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intention to hold until the maturity date of the financial asset.

Derecognition of financial assets

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets or the group of financial assets, the estimated future cash flows of the financial assets or the group of financial assets have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
For the financial assets or the group of financial assets, objective evidence of impairment could include:

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

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment unless no similar credit risk characteristic were noted with other group of financial assets. If the Group determines that a financial asset is individually significant and assessed for impairment individually with impairment loss recognised, the aforesaid financial asset will not be included in a collective assessment of impairment due to no similar credit risk characteristic were noted with other group of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the consolidated statement of profit or loss.

Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, deducting any impairment loss on that investment previously recognised in consolidated statement of profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available-for-sale are not reversed through consolidated statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

Subsequent measurement on loans and borrowings

After initial recognition, loan from a related party, interest-bearing bank borrowings and long-term bonds are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in consolidated statement of profit or loss.

Derecognition of financial liabilities

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

Offsetting of financial instruments

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

Derivative financial instruments

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

Embedded derivatives

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Useful life and impairment of property, plant and equipment

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

Where there exists an indication of impairment of an asset, the Group performs the impairment test in relation to the asset (or the cash generating unit (CGU) to which the asset belongs). An impairment loss is recognised only if the carrying amount of an asset or CGU exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In assessing the impairment loss of property, plant and equipment, the management would consider all relevant factors with reasonable and supportable assumptions as well as the latest development and various relevant factors of certain matter mentioned in note 5 in respect of the underlying drilling rig of the respective drilling service contract to make significant accounting estimations. An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs of disposal. This requires management to make assumptions about the future cash flows and discount rate and hence they are subject to uncertainty. Due to slower-than-expected recovery of global oilfield services market and oil price, both the services prices and utilisation rates of the Group's drilling rigs and vessels were not resumed to the normal healthy level with reasonably good profit margin. Management is of the view that certain impairment indicators exist. The provision for impairment of property, plant and equipment recognised during the current year was RMB4,942,000 (2016: 3,688,408,000). As at 31 December 2017, the carrying amount of property, plant and equipment was RMB52,599,471,000 (2016: RMB57,457,239,000). Further details are given in note 17.

Provisions for doubtful debts

The impairment of accounts receivable is determined by management based on available objective evidence, e.g., it becoming probable that a debtor will enter bankruptcy or is having significant financial difficulty due to the further downturn in the global oil price where particular customers are unable to make timely payments. Further, some of the customers of the Group operates in countries facing more difficult political and economic circumstances, which expose the Group to additional risk.

The impairment amount is subject to management's assessment at each reporting date which involves an expectation of estimated collections from customers. Uncertainties exist with respect to evaluating the available evidence by management, such as the credit risk characteristics of the respective accounts receivable, aging analysis, cash collections subsequent to the year end date and impairment amounts that management estimates based on the consideration of the above. At 31 December 2017, impairment losses of approximately RMB2,036,704,000 (2016: RMB2,079,877,000) have been recognised for accounts receivable. As at 31 December 2017, the carrying amount of accounts receivable was RMB6,218,549,000 (2016: RMB4,795,964,000). Further details are given in note 26.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets has been recognised on the tax loss of RMB8,550,219,000 (2016: RMB8,429,917,000) and deductible temporary differences of RMB1,617,918,000 at 31 December 2017 (2016: RMB1,719,266,000). Further details are contained in note 31. In case where there are actual future profits or the actual future profits generated are more than expected, or effective tax rate is changed, a material recognition or change of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition or change takes place.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Taxes

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

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

Provision of onerous contracts

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

The Group conducted an assessment of the non-cancellable operating lease agreements and made provision of RMB22,450,000 as at 31 December 2017 (2016: provision for onerous contracts of RMB356,062,000). Further details are given in note 34. Determination of these provisions would require the use of judgment and estimates. Where the expectation is different from the original estimate, the provision for loss on onerous contracts in the periods in which such estimate is changed will be adjusted accordingly.

5. SIGNIFICANT EVENT IN THE YEAR

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

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

5. SIGNIFICANT EVENT IN THE YEAR (continued)

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 year, certain written pleadings have been submitted by COM to the court. As at the date of approval of these consolidated financial statements, the court hearing of the first instance of the Claim has been completed, while the court ruling has not yet finalized.

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

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

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

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

6. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical and surveying services RMB'000	Total RMB'000
REVENUE:					
Sales to external customers, net of sales surtaxes	6,691,328	6,565,968	2,437,812	1,684,325	17,379,433
Sales surtaxes	16,319	25,965	8,958	5,739	56,981
Sales to external customers, before net of sales surtaxes	6,707,647	6,591,933	2,446,770	1,690,064	17,436,414
Intersegment sales	77,055	82,582	103,995	4,549	268,181
Segment revenue	6,784,702	6,674,515	2,550,765	1,694,613	17,704,595
Elimination	(77,055)	(82,582)	(103,995)	(4,549)	(268,181)
Group revenue	6,707,647	6,591,933	2,446,770	1,690,064	17,436,414
Segment results	(32,881)	1,363,763	294,490	(90,989)	1,534,383
Reconciliation:					
Exchange loss, net					(388,094)
Finance costs					(1,100,941)
Interest income					99,575
Investment income					187,545
Profit before tax					332,468
Income tax expenses					261,257
As at 31 December 2017					
Segment assets	44,623,711	6,433,251	8,216,236	4,216,864	63,490,062
Unallocated assets					10,367,210
Total assets					73,857,272
Segment liabilities	4,177,708	3,344,323	1,130,745	958,914	9,611,690
Unallocated liabilities					29,567,801
Total liabilities					39,179,491
Other segment information:					
Capital expenditure	1,074,604	651,888	466,160	105,761	2,298,413
Depreciation of property, plant and equipment and amortisation of intangible assets	2,693,942	601,338	607,959	564,878	4,468,117
Impairment of accounts receivable	86,521	(12,916)	(2,895)	(2,000)	68,710
Impairment of other receivables	5,730	5,630	2,089	1,443	14,892
Reversal of impairment of inventories	(198)	(194)	(72)	(50)	(514)
Impairment of property, plant and equipment	–	–	4,942	–	4,942
Share of (losses)/profits of joint ventures	(5,657)	96,439	–	16,085	106,867
Investments in joint ventures	–	443,775	–	138,927	582,702

6. OPERATING SEGMENT INFORMATION (continued)

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

6. OPERATING SEGMENT INFORMATION (continued)

Geographical information

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

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

The following table presents revenue and non-current assets (excluding goodwill, investments in joint ventures, financial instruments and deferred tax assets) information for the Group's geographical areas for the years ended 31 December 2017 and 2016.

Year ended/as at 31 December 2017	Domestic	International		Total
		North sea	Others	
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	**13,113,826**	**1,033,859**	**3,288,729**	**17,436,414**
Less: Sales surtaxes	**(56,981)**	**–**	**–**	**(56,981)**
Sales to external customers, net of sales surtaxes	**13,056,845**	**1,033,859**	**3,288,729**	**17,379,433**
Non-current assets:	**31,025,187**	**9,734,108**	**12,609,057**	**53,368,352**

Year ended/as at 31 December 2016	Domestic	International		Total
		North sea	Others	
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	10,333,405	1,389,241	3,429,539	15,152,185
Less: Sales surtaxes	(66,640)	–	–	(66,640)
Sales to external customers, net of sales surtaxes	10,266,765	1,389,241	3,429,539	15,085,545
Non-current assets:	33,992,796	10,629,910	13,700,681	58,323,387

Information about a major customer

Revenue from transactions with a major customer, CNOOC Limited and its subsidiaries (the "CNOOC Limited Group"), including sales to a group of entities which are known to be under common control of CNOOC Limited, accounted for 75% (2016: 69%) of the total sales of the Group for the year ended 31 December 2017, details of the segments with such revenue are given in note 41(A).

7. REVENUE AND OTHER REVENUES

Revenue, which is also the Group's turnover, mainly represents the invoiced value of offshore oilfield services rendered.

An analysis of revenue and other revenues is as follows:

	2017 RMB'000	2016 RMB'000
Revenue:		
Rendering of services (a)	**17,436,414**	15,152,185
Other revenues:		
Insurance claims received	**28,842**	55,419
Government grants (b)	**147,359**	62,297
Compensation income on late delivery of assets (c)	**100,222**	–
Others	**46,631**	35,491
Total other revenues	**323,054**	153,207

(a) Before 1 May 2016, certain of the Group's revenues were subject to business tax levied at 3%. Pursuant to the Cai Shui [2016] No.36 "Notice on Tax Policy Concerning Nationwide Implementation of VAT Pilot Program" jointly issued by the Ministry of Finance of the PRC and the State Administration of Taxation of the PRC, starting from 1 May 2016, the Group's revenue generated from Mainland China is subject to value-added tax.

(b) Including release of deferred revenue of RMB94,356,000 for the year (2016: RMB17,329,000) (note 36).

(c) Due to late delivery of certain vessels from supplier, operation capacity of marine support segment was behind original budget. Actual incremental costs were incurred as extra vessels were chartered by the Group in order to meet the working requirement of customers. The supplier reimbursed the Group of those actual incremental costs incurred which was accounted for as compensation income on late delivery of assets in other revenues.

8. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Employee compensation costs			
(including directors' and chief executive's remuneration):			
Wages, salaries and bonuses		**2,837,961**	2,695,518
Social security costs		**761,707**	781,015
Retirement benefits and pensions		**401,954**	413,610
		4,001,622	3,890,143
Auditor's remuneration		**15,927**	17,478
Loss on disposal of plant and equipment, net		**30,113**	54,785
Lease payments under operating leases in respect of land and buildings, berths and equipment		**594,245**	1,206,111
Provision for impairment of accounts receivable	*26*	**68,710**	1,140,853
Provision for impairment of other receivables	*25*	**14,892**	1,971
Reversal of impairment of inventories	*24*	**(514)**	(13,895)
Income from investments in corporate wealth management products, liquidity funds and treasury bond related investments		**187,545**	191,933
Cost of inventories recognised as an expense		**1,512,619**	2,434,678
Research and development costs, included in:		**450,513**	391,589
Depreciation of property, plant and equipment		**106,604**	91,250
Employee compensation costs		**200,949**	136,704
Consumption of supplies, materials, fuel, services and others		**142,960**	163,635

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on bank borrowings	**114,225**	321,477
Interest on loan from a related party	**37,879**	4,523
Interest on long term bonds	**952,266**	728,001
Total interests	**1,104,370**	1,054,001
Less: Interest capitalised *(note 17)*	**(12,590)**	(14,753)
	1,091,780	1,039,248
Other finance costs:		
Others	**9,161**	8,419
	1,100,941	1,047,667

10. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and the CO, is as follows:

	2017 RMB'000	2016 RMB'000
Fees	**1,280**	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	**1,726**	1,839
Bonuses*	**1,959**	1,794
Pension scheme contributions	**335**	345
	4,020	3,978
	5,300	5,258

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

(a) Independent non-executive directors and independent supervisors

The fees paid/payable to independent non-executive directors and independent supervisors of the Company during the year are as follows:

	2017 RMB'000	2016 RMB'000
Independent non-executive directors:		
Law Hong Ping, Lawrence	**400**	400
Fong Chung, Mark	**400**	400
Fong Wo, Felix *(note)*	**–**	200
Wong Kwai Huen, Albert *(note)*	**400**	200
	1,200	1,200
Independent supervisors:		
Cheng Xinsheng	**80**	80
	1,280	1,280

The independent non-executive directors' and independent supervisors' emoluments shown above were for their services as directors and supervisors of the Company.

There were no other emoluments payable to the independent non-executive directors and the independent supervisors during the year (2016: Nil).

Note: Mr. Fong Wo, Felix, retired as an independent non-executive director on 31 May 2016 and Mr. Wong Kwai Huen, Albert, has been appointed as an independent non-executive director with effect from 31 May 2016.

10. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive

	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2017				
Executive director and chief executive:				
Qi Meisheng (1)	446	576	92	1,114
	446	576	92	1,114
Executive directors:				
Li Feilong (2)	480	565	97	1,142
Liu Yifeng (3)	–	–	–	–
Dong Weiliang (3)	395	377	62	834
	875	942	159	1,976
Non-executive directors:				
Lv Bo (4)*	–	–	–	–
Xie Weizhi (5)*	–	–	–	–
Meng Jun (6)*	–	–	–	–
Supervisors:				
Li Zhi	405	441	84	930
Wei Junchao*	–	–	–	–
	405	441	84	930
Total	1,726	1,959	335	4,020

	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2016				
Executive director and chief executive:				
Qi Meisheng (1)	322	416	74	812
Li Yong (1)	305	189	35	529
	627	605	109	1,341
Executive directors:				
Li Feilong (2)	401	410	81	892
Dong Weiliang (3)	499	403	86	988
	900	813	167	1,880
Non-executive directors:				
Lv Bo (4)*	–	–	–	–
Liu Jian (7)*	–	–	–	–
Xie Weizhi (5)*	–	–	–	–
Cheng Chi (5)*	–	–	–	–
Supervisors:				
Li Zhi	312	376	69	757
Wei Junchao*	–	–	–	–
	312	376	69	757
Total	1,839	1,794	345	3,978

10. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

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

Notes:

(1) Qi Meisheng was appointed and Li Yong resigned as chief executive and executive director on 15 June 2016 and 22 July 2016 respectively. Qi Meisheng resigned and Cao Shujie was appointed as chief executive on 28 March 2018.

(2) Li Feilong resigned as an executive director, executive vice president and chief financial officer, and Zheng Yonggang was appointed as the chief financial officer on 28 February 2018.

(3) Dong Weiliang was appointed as an executive director on 22 July 2016; Dong Weilang resigned and Liu Yifeng was appointed as an executive director on 13 December 2017.

(4) Lv Bo was appointed as a non-executive director and the Chairman on 15 December 2016 and 16 December 2016 respectively. Lv Bo resigned as a non-executive director and the Chairman and Qi Meisheng was appointed as the Chairman on 28 March 2018.

(5) Xie Weizhi was appointed and Cheng Chi resigned as a non-executive director on 22 July 2016. Xie Weizhi resigned as a non-executive director on 23 August 2017.

(6) Meng Jun was appointed as a non-executive director on 13 December 2017.

(7) Liu Jian was resigned as a non-executive director and the Chairman on 16 December 2016.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

There was no arrangement under which a director or a supervisor or the chief executive waived or agreed to waive any remuneration during both years.

* In addition to the directors' remuneration disclosed above, certain Directors are not paid directly by the Company but receive remuneration from CNOOC, the ultimate holding company of the Company, in respect of their service to the larger group which includes the Group. No apportionment has been made as the qualifying services provided by these Directors to the Group are incidental to their responsibilities to the larger group.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year do not include any directors, supervisors and the chief executive (2016: Nil), details of whose remuneration are set out in note 10. Details of the remuneration of the five (2016: Five) non-director, non-supervisor, and non-chief executive highest paid employees for the year are as follows:

	2017 RMB'000	2016 RMB'000
Basic salaries, allowances and benefits in kind	**11,672**	14,827
Bonuses	**6,547**	6,128
Pension scheme contributions	**49**	45
	18,268	21,000

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

	Number of employees 2017	 2016
HK$2,500,001 to HK$3,000,000	**2**	–
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**1**	1
HK$5,000,001 to HK$5,500,000	**1**	2
HK$6,000,001 to HK$6,500,000	**1**	1
	5	5

12. PENSIONS AND DEFINED BENEFIT PLAN

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

In addition, the Group also has a defined benefit plan with a life insurance company to provide pension benefits for certain employees working in overseas subsidiaries.

The retirement expenses of the Group are as follows:

	2017 RMB'000	2016 RMB'000
Contributions to the PRC government-regulated pension scheme	**346,101**	342,690
Contributions to overseas subsidiaries' pension scheme	**55,853**	70,920
	401,954	413,610

At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2016: Nil).

13. INCOME TAX

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it does not have assessable profits currently sourced from Hong Kong.

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

The Company has applied to renew its HNTE certificate and was re-certified as an HNTE in October 2017, which is effective for the period from 2017 to 2019. According to the HNTE certificate, the CIT rate was to be 15% for the period from 2017 to 2019. Therefore, management considers that it is appropriate to use the preferential rate of 15% to provide the income tax provision of the Company for the year ended 31 December 2017 (2016: 15%).

The Group's activities in Indonesia are mainly subject to corporate income tax of 25% (2016: 25%). The Group's activities in Australia are subject to income tax of 30% (2016: 30%) based on its taxable profit generated. The Group's activities in Mexico are subject to income tax of 30% (2016: 30%). The Group's activities in Norway are subject to corporate income tax of 24% (2016: 25%). The Group's activities in the United Kingdom are subject to income tax of 19% (2016: 20%). The Group's activities in Iraq are subject to withholding tax based on 7% (2016: 7%) of revenue generated in Iraq. The Group's activities in Singapore are subject to income tax of 17% (2016: 17%). The Group's activities in the United States are subject to income tax of 34% (2016: 34%). The Group's activities in United Arab Emirates are not subject to any income tax. The Group's activities in Canada are subject to the net federal corporate income tax of 15% (2016: 15%) and provincial income tax ranging from 11% to 16% (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% (2016: 24%). The Group's activities in Saudi Arabia are subject to income tax of 20% (2016: 20%). The Group's taxes pertaining to drilling activities in Oman are subject to income tax of 15% (2016: 12%). The income tax of the Group's activities in the Gabonese Republic commencing in the current year is borne by the customer.

13. INCOME TAX (continued)

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

	2017 RMB'000	2016 RMB'000
Hong Kong profits tax	–	–
Overseas income taxes:		
Current	81,333	67,216
Deferred	(27,583)	(125,469)
PRC corporate income taxes:		
Current	132,143	8,361
Deferred	121,742	(292,137)
Over provision in prior years	(46,378)	(5,870)
Total tax charge/(credit) for the year	261,257	(347,899)

A reconciliation of the income tax expense/(credit) applicable to profit/(loss) before tax at the statutory rate for Mainland China, where the Company and its key joint ventures are domiciled, to the tax expense/(credit) 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:

	2017		2016	
	RMB'000	%	RMB'000	%
Profit/(loss) before tax	332,468		(11,807,355)	
Tax at the statutory tax rate of 25% (2016: 25%)	83,117	25.0	(2,951,839)	25.0
Tax effect as an HNTE	(170,097)	(51.2)	194,266	(1.6)
Tax effect of income not subject to tax	(14,919)	(4.5)	–	–
Tax effect of share of profit of joint ventures	(26,717)	(8.0)	(4,212)	0.1
Tax effect of expense not deductible for tax	37,768	11.3	39,605	(0.3)
Tax effect of impairment of goodwill	–	–	863,844	(7.3)
Tax benefit for qualifying research and development expenses	(60,319)	(18.1)	(48,547)	0.4
Effect of non-deductible expenses and different tax rates for overseas subsidiaries	402,961	121.2	1,025,458	(8.7)
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	(58,315)	(17.5)	(5,432)	0.1
Tax effect of tax losses and deductible temporary differences unrecognised	5,980	1.8	469,113	(4.1)
Translation adjustment (a)	79,210	23.8	46,437	(0.4)
Over provision in respect of prior years	(46,378)	(13.9)	(5,870)	0.1
Others	28,966	8.7	29,278	(0.4)
Total tax charge/(credit) at the Group's effective tax rate	261,257	78.6	(347,899)	2.9

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

The share of tax attributable to joint ventures amounting to approximately RMB24,375,000 (2016: RMB9,581,000) is included in "Share of profits of joint ventures" in the consolidated statement of profit or loss.

14. OTHER COMPREHENSIVE (EXPENSE)/INCOME

	2017 RMB'000	2016 RMB'000
Other comprehensive (expense)/income includes:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension plan	**(6,845)**	46,836
Income tax relating to items that will not be reclassified subsequently to profit or loss	**1,684**	(11,709)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(401,614)**	260,375
Reclassification adjustment for the cumulative gain included in profit or loss upon dissolution of a subsidiary	**–**	(684)
Available-for-sale investments:		
Gains arising during the year	**42,194**	61,987
Reclassification adjustments for the cumulative gain included in profit or loss upon disposal	**(84,440)**	(126,765)
Income tax impact	**6,352**	9,717
	(35,894)	(55,061)
Share of exchange differences of joint ventures	**(8,559)**	11,848
Other comprehensive (expense)/income, net of income tax	**(451,228)**	251,605

15. DIVIDENDS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Proposed final dividend – RMB0.06 per ordinary share (2016: RMB0.05 per ordinary share)	**286,296**	238,580

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

15. DIVIDENDS (continued)

Under the PRC Company Law and the Company's articles of association, net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to the reserves, the profit after tax shall be the amount determined under the PRC accounting principles and financial regulations in the PRC. Transfer to this reserve must be made before any distribution of dividends to shareholders.

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

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

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

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

16. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2017 RMB'000	2016 RMB'000
Earnings/(loss)		
Earnings/(Loss) for the purpose of basic earnings/(loss) per share (profit/(loss) for the year attributable to owners of the Company)	**33,067**	(11,456,186)

	2017	2016
Number of shares		
Number of ordinary shares for the purpose of basic earnings/(loss) per share	**4,771,592,000**	4,771,592,000

No diluted earnings/(loss) per share is presented for the years ended 31 December 2017 and 2016 as the Group had no dilutive potential ordinary shares in issue during those years.

17. PROPERTY, PLANT AND EQUIPMENT

31 December 2017	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2016 and at 1 January 2017							
Cost	15,347,674	61,391,744	15,827,718	118,392	968,722	5,733,983	99,388,233
Accumulated depreciation and impairment	(5,656,635)	(25,396,660)	(10,740,129)	(89,249)	(48,321)	–	(41,930,994)
Carrying amount	9,691,039	35,995,084	5,087,589	29,143	920,401	5,733,983	57,457,239
Carrying amount							
At 1 January 2017	9,691,039	35,995,084	5,087,589	29,143	920,401	5,733,983	57,457,239
Additions	43,579	58,875	351,511	1,317	476	1,762,134	2,217,892
Depreciation provided during the year	(918,218)	(2,095,054)	(1,347,533)	(7,719)	(40,966)	–	(4,409,490)
Disposals/write-offs	(1,060,410)	(2,569)	(14,651)	(2,542)	–	–	(1,080,172)
Transfers from/(to) construction in progress ("CIP")	1,694,630	339,736	618,483	98	–	(2,652,947)	–
Impairment provided	(4,942)	–	–	–	–	–	(4,942)
Exchange realignment	(36,922)	(1,440,819)	(63,844)	–	(19,291)	(20,180)	(1,581,056)
At 31 December 2017	9,408,756	32,855,253	4,631,555	20,297	860,620	4,822,990	52,599,471
At 31 December 2017							
Cost	15,566,508	59,321,937	16,568,599	115,458	948,399	4,822,990	97,343,891
Accumulated depreciation and impairment	(6,157,752)	(26,466,684)	(11,937,044)	(95,161)	(87,779)	–	(44,744,420)
Carrying amount	9,408,756	32,855,253	4,631,555	20,297	860,620	4,822,990	52,599,471

17. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2016	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2015 and at 1 January 2016							
Cost	13,117,494	55,595,648	14,905,429	116,226	329,223	9,771,063	93,835,083
Accumulated depreciation and impairment	(5,314,492)	(18,688,155)	(9,330,517)	(80,662)	(33,213)	–	(33,447,039)
Carrying amount	7,803,002	36,907,493	5,574,912	35,564	296,010	9,771,063	60,388,044
Carrying amount							
At 1 January 2016	7,803,002	36,907,493	5,574,912	35,564	296,010	9,771,063	60,388,044
Additions	11,833	86,824	458,456	2,176	–	2,902,873	3,462,162
Depreciation provided during the year	(783,419)	(2,141,331)	(1,511,661)	(8,851)	(14,117)	–	(4,459,379)
Disposals/write-offs	(42,841)	(10,534)	(33,816)	(28)	–	–	(87,219)
Transfers from/(to) construction in progress ("CIP")	2,701,871	3,128,081	519,421	282	618,330	(6,967,985)	–
Impairment provided	–	(3,688,408)	–	–	–	–	(3,688,408)
Exchange realignment	593	1,712,959	80,277	–	20,178	28,032	1,842,039
At 31 December 2016	9,691,039	35,995,084	5,087,589	29,143	920,401	5,733,983	57,457,239
At 31 December 2016							
Cost	15,347,674	61,391,744	15,827,718	118,392	968,722	5,733,983	99,388,233
Accumulated depreciation and impairment	(5,656,635)	(25,396,660)	(10,740,129)	(89,249)	(48,321)	–	(41,930,994)
Carrying amount	9,691,039	35,995,084	5,087,589	29,143	920,401	5,733,983	57,457,239

Included in the current year's additions was an amount of approximately RMB12,590,000 (2016: RMB14,753,000) in respect of interest capitalised in property, plant and equipment (note 9), with a capitalisation rate of 4.27% (2016: 4.86%) per annum.

Impairment of property, plant and equipment

During the year ended 31 December 2017, due to slower-than-expected recovery of global oilfield services market and oil price, both the services prices and utilisation rates of the Group's drilling rigs and vessels were not resumed to the normal healthy level with reasonably good profit margin. The Directors carried out the review of the recoverable amounts of the Group's plant and machinery as there were impairment indicators of these assets during the year. Those assets are used in the Group's drilling services segment, marine support services segment and geophysical and surveying services segment. The review led to the recognition of an impairment loss of RMB4,942,000 which has been recognised in profit or loss for the year ended 31 December 2017. The impairment losses have been classified under the marine support services segment.

During the year ended 31 December 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 asset, which was identified as CGU within the respective services segments, has been determined based on the higher of fair value less costs of disposal and value in use.

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment of property, plant and equipment (continued)

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% (2016: 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.

18. GOODWILL

Goodwill was generated in the acquisition of COSL Holding AS in 2008, which was combined into COSL Norwegian AS by merger during the year ended 31 December 2016 (collectively referred to as the "CNA").

	2017 RMB'000
COST	
At 1 January	**4,673,777**
Exchange realignment	**(271,385)**
At 31 December	**4,402,392**
IMPAIRMENT	
At 1 January	**4,673,777**
Exchange realignment	**(271,385)**
At 31 December	**4,402,392**
CARRYING VALUE	
At 31 December	**–**

Impairment testing of goodwill

Goodwill generated through the above business combination has been allocated to a group of the drilling services cash-generating units under the drilling services segment as disclosed in note 6, for impairment testing.

During the year ended 31 December 2016, due to the continued deterioration of global oilfield services market and recent low level of oil price, the capital expenditure in global oil exploration and production sectors continuously declined and both the services prices and utilization rates of the plant and machinery decreased. The entire goodwill was fully impaired as to 31 December 2016 based on the impairment assessment review made by the management of the Company.

19. OTHER INTANGIBLE ASSETS

31 December 2017	Trademark RMB'000	Prepaid land lease payments RMB'000 (note)	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Carrying amount at 1 January 2017	202	301,200	125,625	–	427,027
Additions	–	43,504	13,368	–	56,872
Amortisation provided during the year	(41)	(5,315)	(53,271)	–	(58,627)
Exchange realignment	–	(4,764)	(1,214)	–	(5,978)
At 31 December 2017	161	334,625	84,508	–	419,294
At 31 December 2017					
Cost	411	382,408	497,197	117,589	997,605
Accumulated amortisation	(250)	(47,783)	(412,689)	(117,589)	(578,311)
Carrying amount	161	334,625	84,508	–	419,294

31 December 2016	Trademark RMB'000	Prepaid land lease payments RMB'000 (note)	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Carrying amount at 1 January 2016	244	316,806	152,555	–	469,605
Additions	–	145	26,518	–	26,663
Amortisation provided during the year	(42)	(5,235)	(55,462)	–	(60,739)
Disposals	–	(15,761)	–	–	(15,761)
Exchange realignment	–	5,245	2,014	–	7,259
At 31 December 2016	202	301,200	125,625	–	427,027
At 31 December 2016					
Cost	411	343,668	491,973	124,838	960,890
Accumulated amortisation	(209)	(42,468)	(366,348)	(124,838)	(533,863)
Carrying amount	202	301,200	125,625	–	427,027

Note: Pursuant to the announcement of the Company dated 20 March 2012 in respect of connected transaction, land use right with carrying amount of approximately RMB120,364,000 (2016: RMB123,081,000) included in prepaid land lease payments as at 31 December 2017 will be transferred to CNOOC Infrastructure Management Co., Ltd., a wholly-owned subsidiary of CNOOC, with the consideration of RMB157,032,500. Such land use right transfer agreement has already been signed and approved by the board of directors of the Company, and will become effective upon receiving the relevant government body's approval.

At the end of this reporting period, the Directors were uncertain to obtain the government approval for the transfer of the land use right within one year from the end of this reporting period, hence such land use right was not classified as assets held for sale at 31 December 2017.

20. MULTICLIENT LIBRARY

	2017 RMB'000
Carrying amount at 1 January 2017	–
Development cost capitalized in the year	23,649
Exchange realignment	(828)
At 31 December 2017	22,821
At 31 December 2017	
Cost	22,821
Accumulated amortisation	–
Carrying amount	22,821

During the current year, the Group entered into cooperation agreements with Spectrum Geo Inc to invest in certain multi-client data projects. These agreements are accounted for as joint operations where the parties have joint control over the projects and have rights to the assets and liabilities of the investment. Costs directly incurred in acquiring, processing and completing multi-client data projects are capitalized to the MultiClient library.

21. PARTICULARS OF SUBSIDIARIES

Details of the Group's principal subsidiaries at the end of the reporting period are set out below:

Name of entity	Place and date of incorporation/ registration	Principal place of business	Issued and fully paid share capital/ paid-in capital	Percentage of equity attributable to the Group		Principal activities
				2017	2016	
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$") 400,000	100%	100%	Provision of oil & gas exploration services
COSL-HongKong Limited	Hong Kong 1 December 2005	Hong Kong	Hong Kong Dollar ("HK$") 10,000	100%	100%	Investment holding
COSL (Australia) Pty Ltd.	Australia 11 January 2006	Australia	Australian Dollar 10,000	100%	100%	Provision of drilling services
COSL Drilling Strike Pte.Ltd.	Singapore 29 October 2009	Singapore	Singapore Dollar 2	100%	100%	Provision of drilling services
COSL Prospector Pte.Ltd.	Singapore 27 February 2007	Singapore	US$189,779,384	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
CNA	Norway 23 June 2008	Norway	NOK1,541,328,656	100%	100%	Investment holding

21. PARTICULARS OF SUBSIDIARIES (continued)

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 2017	Percentage of equity attributable to the Group 2016	Principal activities
COSL Drilling Pan-Pacific (Labuan) Ltd.	Malaysia 4 April 2009	Malaysia	US$100,000	100%	100%	Management of jack-up drilling rigs
COSL Drilling Pan-Pacific Ltd.	Singapore 13 April 2009	Singapore	US$1,000,000	100%	100%	Management of jack-up drilling rigs
COSL Singapore Capital Ltd.	Singapore 29 October 2009	Singapore	Singapore Dollar 2	100%	100%	Bond issuance
Pt. Samudra Timur Santosa ("PT STS")(a)	Indonesia 27 July 2010	Indonesia	US$250,000	49%	49%	Provision of marine support services
COSL Oil-Tech (Singapore) Ltd.	Singapore 31 January 2011	Singapore	US$100,000	100%	100%	Provision of oilfield services and related activities
COSL Finance (BVI) Limited	British Virgin Islands 12 July 2012	British Virgin Islands	US$1	100%	100%	Bond issuance
COSL Deepwater Technology Co. Ltd.	Shenzhen, PRC 12 September 2013	PRC	RMB 470,000,000	100%	100%	Provision of geophysical and surveying services
COSL Drilling Saudi Ltd.	Saudi Arabia 19 April 2016	Saudi Arabia	Saudi Riyal 375,000	96%	96%	Provision of drilling services

(a) In the opinion of the Directors, the Group has control over PT STS as the Group has 100% voting rights on PT STS that gives it the current ability to direct the relevant activities of PT STS. Accordingly, PT STS had been accounted for as a subsidiary and has been consolidated into the Group's consolidated financial statements for the years ended 31 December 2017 and 31 December 2016 respectively.

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

22. INVESTMENTS IN JOINT VENTURES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Share of net assets	**582,702**	600,364

Particulars of all joint ventures are as follows:

Name	Nominal value of issued ordinary/ registered share capital	Place and date of incorporation/ registration and operations	Percentage of Ownership interest 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
COSL (Malaysia) SDN.BHD. ("COSL Malaysia") (c) (d)	Ringgit Malaysia 150,000	Malaysia 31 July 2017	49	–	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 consolidated financial statements using the equity method.

(b) The Group has 49% of the equity interests in PBS-COSL, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of PBS-COSL, the board of directors of PBS-COSL shall comprise four directors whereby both the Company and the other sole investor shall appoint two directors each. Unanimous approvals by the directors of PBS-COSL are required for decisions on directing the relevant activities of PBS-COSL. In the opinion of the Directors, the Group does not have control over PBS-COSL and the investment in this joint arrangement constitutes interest in a joint venture based on the rights and obligations of the parties to this joint arrangement. Accordingly, PBS-COSL has been accounted for in the Group's consolidated financial statements using the equity method.

22. INVESTMENTS IN JOINT VENTURES (continued)

(c) The Group has 49% of equity interests in COSL Malaysia, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of COSL Malaysia, majority voting rights are required for decisions on directing the relevant activities of this entity. The board of directors of COSL Malaysia shall comprise five directors whereby the Group shall appoint two directors and the other sole investor shall appoint three directors, while the chairman of COSL Malaysia shall be appointed by the Group and the chairman has the right to veto any major decisions. As a result, unanimous consents by the Group and the other investor are required for decisions on directing the relevant activities of COSL Malaysia. In the opinion of the Directors, the Group does not have control over COSL Malaysia 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, COSL Malaysia has been accounted for in the Group's consolidated financial statements using the equity method.

(d) As at 31 December 2017, the Group has yet injected any capital into COSL Malaysia since the capital injection time according to the joint venture agreement has not due yet.

All of the above investments in joint ventures are directly held by the Company except for COSL Malaysia, which is indirectly held through COSL Drilling Pan-Pacific Ltd.

The above joint ventures are accounted for using the equity method in these consolidated financial statements.

The aggregate financial information in respect of the Group's joint ventures is set out below since none of the joint ventures is individually material.

	2017 RMB'000	2016 RMB'000
The Group's share of profit	**106,867**	16,849
The Group's share of other comprehensive (expense)/income	**(8,559)**	11,848
The Group's share of total comprehensive income	**98,308**	28,697

	31 December 2017 RMB'000	31 December 2016 RMB'000
Aggregate carrying amount of the Group's interests in these joint ventures	**582,702**	600,364

23. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Unlisted equity investment, at cost (a)	**134,518**	142,810
Less: Provision for impairment	**(134,518)**	(142,810)
Total net carrying amount at 31 December	**–**	–

(a) As at 31 December 2017 and 2016, the equity investment in an equity's security, Petrojack ASA, was an unlisted investment. Petrojack ASA had withdrawn its listing status from the stock market since March 2010. Full provision against the equity investment in Petrojack ASA had been made.

24. INVENTORIES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Gross inventories	1,180,361	1,190,639
Less: Provisions	(31,854)	(33,022)
	1,148,507	1,157,617

As at 31 December 2017 and 2016, the Group's inventories consisted of materials and supplies.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2017 RMB'000	31 December 2016 RMB'000
Prepayments	58,705	57,234
Deposits	87,492	73,233
Other receivables	344,794	328,293
	490,991	458,760
Less: Provision for impairment of other receivables	(30,590)	(15,800)
	460,401	442,960

An analysis of other receivables is as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Prepaid tax	144,578	115,295
Reimbursable advance to suppliers	27,527	78,041
Dividend receivable	32,000	62,000
Interest receivable	18,141	6,924
Advance to employees	9,654	9,991
Other advance	13,044	10,425
Insurance claim receivables	47,174	11,266
Others	52,676	34,351
	344,794	328,293

26. 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 Group's accounts receivable relate to a large number of diversified customers. Other than the accounts receivable related to CNOOC and its subsidiaries, excluding the CNOOC Limited Group (the "CNOOC Group"), and the CNOOC Limited Group, there was no significant concentration of credit risk of the Group's accounts receivable during the reporting period. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. All accounts receivable are non-interest-bearing.

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Outstanding balances aged:		
Within six months	**5,719,339**	4,226,057
Six months to one year	**185,095**	280,809
One to two years	**235,209**	80,571
Two to three years	**78,906**	208,527
	6,218,549	4,795,964

Included in the Group's accounts receivable balance are debtors with a carrying amount of approximately RMB323,697,000 (2016: RMB569,907,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on past experience, the Directors are of the opinion that no further provision for impairment is necessary in respect of these balances which are considered fully recoverable after taking into consideration of the customer's credit quality, historical behavior of payments and prevailing market conditions. The Group does not hold any collateral or other credit enhancements over these past-due balances.

26. ACCOUNTS RECEIVABLE (continued)

Aging of accounts receivable which are past due but not impaired:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Outstanding balances aged:		
Six months to one year	**9,582**	280,809
One to two years	**235,209**	80,571
Two to three years	**78,906**	208,527
	323,697	569,907

The Group has provided fully for all receivables aged over three years because historical experience shows that those receivables are generally not recoverable.

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

	2017 RMB'000	2016 RMB'000
At 1 January	**2,079,877**	881,530
Impairment losses recognised	**234,285**	1,162,447
Impairment losses reversed *(note)*	**(165,575)**	(21,594)
Impairment losses written-off	**(132)**	(16)
Exchange realignment	**(111,751)**	57,510
At 31 December	**2,036,704**	2,079,877

Note: During the current year, included therein was impairment loss amounting to RMB119,555,000 previously provided due to significant dispute with the respective customer, which was reversed as the Group received full settlement from a counterparty in accordance with the arbitration settlement result released during the current year.

27. NOTES RECEIVABLE

	31 December 2017 RMB'000	31 December 2016 RMB'000
Trade acceptances	**82,986**	1,839,346
Bank acceptances	**2,547**	4,960
	85,533	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.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2017

28. OTHER CURRENT ASSETS/LIABILITIES AND OTHER NON-CURRENT ASSETS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Investments in corporate wealth management products	**1,819,946**	2,808,327
Investments in liquidity funds (a)	**200,110**	1,834,501
Current portion of deferred expenses	**–**	62,743
Value-added tax to be deducted and prepayment	**11,836**	51,379
Value-added tax recoverable	**52,960**	47,221
Treasury bond related investments	**758,540**	2,411,899
Other current assets	**2,843,392**	7,216,070
Current portion of deferred revenue *(note 36)*	**–**	(106,344)
Output value-added tax to be recognised	**(154,730)**	(95,748)
Provision of onerous contracts *(note 34)*	**(22,450)**	(341,557)
Other current liabilities	**(177,180)**	(543,649)
Non-current portion of deferred expenses (b)	**130,924**	126,000
Value-added tax recoverable	**85,706**	75,886
Tax recoverable (b)	**101,376**	144,062
Deposits paid for the acquisition of property, plant and equipment (b)	**8,760**	93,173
Other non-current assets	**326,766**	439,121

(a) The liquidity funds have no fixed maturity date and no coupon rate. Details of fair value measurement are disclosed in note 42.

(b) Other non-current assets mainly consisted of deferred expenses recognised in relation to mobilisation costs incurred by the Group's jack-up and semi-submersible drilling rigs, tax recoverable generated from certain overseas income tax paid which is deductible for PRC corporate income taxes purpose and deposits paid for the acquisition of property, plant and equipment. The deferred expenses are amortised over their respective drilling contracts periods.

29. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND TIME DEPOSITS

	31 December 2017 RMB'000	31 December 2016 RMB'000
Cash and balances with banks	**3,049,199**	2,682,547
Deposits with CNOOC Finance Corporation Ltd. ("CNOOC Finance")	**1,497,422**	1,801,400
Time deposits at banks	**4,532,415**	1,610,928
Cash and balances with banks and financial institutions	**9,079,036**	6,094,875
Less:		
Pledged deposits-current	**(41,092)**	(23,806)
Time deposits with maturity of over three months	**(28,870)**	–
Cash and cash equivalents	**9,009,074**	6,071,069

At the end of the reporting period, the cash and bank balances and time deposits at banks of the Group denominated in RMB amounted to approximately RMB5,333,699,000 (2016: RMB3,635,694,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates.

30. TRADE AND OTHER PAYABLES

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Outstanding balances aged:		
Within one year	**6,610,215**	8,172,037
One to two years	**228,751**	135,473
Two to three years	**76,451**	87,928
Over three years	**82,469**	66,433
	6,997,886	8,461,871

31. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Deferred tax assets	70,800	68,514
Deferred tax liabilities	(322,858)	(234,456)
	(252,058)	(165,942)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Balance at 1 January 2016 RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	Exchange realignment RMB'000	Balance at 31 December 2016 and 1 January 2017 RMB'000	Recognised in profit or loss RMB'000	Recognised in other comprehensive income RMB'000	Exchange realignment RMB'000	Balance at 31 December 2017 RMB'000
Deferred tax assets:									
Provision for staff bonus	108,687	(18,653)	–	–	90,034	(1,270)	–	(1)	88,763
Impairment of assets	54,504	21,969	–	–	76,473	(19,775)	–	–	56,698
Accrued liabilities	9,273	(2,477)	–	–	6,796	23,968	–	–	30,764
Provision for onerous contracts	–	53,409	–	–	53,409	(50,042)	–	–	3,367
Deductible tax loss	30,918	230,362	–	3,202	264,482	(193,128)	–	(3,817)	67,537
Others	10,848	(1,346)	–	616	10,118	(6,013)	–	(367)	3,738
	214,230	283,264	–	3,818	501,312	(246,260)	–	(4,185)	250,867
Deferred tax liabilities:									
Accelerated depreciation of property, plant and equipment	690,667	(74,713)	–	5,622	621,576	(136,593)	–	(4,093)	480,890
Fair value adjustment arising from acquisition of a subsidiary	82,367	(56,484)	–	3,121	29,004	(15,039)	–	(1,200)	12,765
Fair value change in available for sale investment	16,069	–	(9,717)	–	6,352	–	(6,352)	–	–
Others	12,736	(3,145)	–	731	10,322	(469)	–	(583)	9,270
	801,839	(134,342)	(9,717)	9,474	667,254	(152,101)	(6,352)	(5,876)	502,925
	587,609	(417,606)	(9,717)	5,656	165,942	94,159	(6,352)	(1,691)	252,058

31. DEFERRED TAXATION (continued)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of Group's joint ventures for which deferred tax liabilities have not been recognised was RMB783,791,000 (31 December 2016: RMB804,817,000). No liability has been recognised in respect of these differences as the investment company and those joint ventures are all located in the PRC and the applicable tax rate of those joint ventures was the same as or higher than the applicable tax rate of the investment company.

At 31 December 2017, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB95,987,000 (2016: RMB28,342,000). No liability have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 December 2017, accumulated unrecognised tax losses arising in the Group of approximately RMB8,550,219,000 (2016: RMB8,429,917,000) were available for offsetting against future taxable profits of the companies in which the losses arose.

The unrecognised income tax losses which have fixed expiry date, will be expired in the following years:

	31 December 2017 RMB'000	31 December 2016 RMB'000
31 December 2020	**89,469**	94,984
31 December 2021	**150,712**	160,003
31 December 2022	**3,601**	–
31 December 2035	**10,420**	11,062
31 December 2036	**10,422**	11,064
31 December 2037	**9,110**	–
	273,734	277,113

At 31 December 2017, the Group had tax losses arising in Norway of RMB8,276,485,000 (2016: RMB8,152,804,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2017, the Group has deductible temporary differences of RMB1,617,918,000 (2016: RMB1,719,266,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

32. LOAN FROM A RELATED PARTY

	Contractual interest rate (%) per annum	31 December 2017 RMB'000	31 December 2016 RMB'000
Loan from a related party – unsecured	LIBOR+0.5%	**2,286,970**	693,700

During the current year, the Group borrowed new loans with carrying amount of US$250,000,000 (equivalent to approximately RMB1,722,884,000) (2016: US$100,000,000 (equivalent to approximately RMB693,700,000)) from a fellow subsidiary, which is repayable on demand and carries effective interest rate of LIBOR+0.5% per annum (2016: LIBOR+0.5% per annum). The proceeds were used to financing CNA's daily operations.

33. INTEREST-BEARING BANK BORROWINGS

Current:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Current portion of long term bank loans	**563,380**	5,296,469
	563,380	5,296,469

Non-current:

	Contractual interest rate (%) per annum	Year of maturity	31 December 2017 RMB'000	31 December 2016 RMB'000
Export-Import Bank of China-unsecured (a)	LIBOR+1.70%	2020	**1,644,695**	2,324,634
Bank of China-unsecured (b)	LIBOR+1.38%	2017	–	1,798,323
Bank of China-unsecured (c)	LIBOR+0.90%	2017	–	1,664,880
Industrial and Commercial Bank of China-unsecured (c)	LIBOR+0.90%	2017	–	1,248,660
CDB Development Fund (as defined below)-unsecured (d)	1.08%	2035	**231,424**	223,909
CDB Development Fund-unsecured (d)	1.08%	2033	**96,436**	93,269
			1,972,555	7,353,675
Less: Current portion of long term bank loans			**(563,380)**	(5,296,469)
			1,409,175	2,057,206

(a) The Group borrowed a US$800,000,000 loan for the purpose of funding the acquisition of a subsidiary. The repayment started on 2 September 2011 over 19 instalments amounting to US$42,100,000 bi-annually.

(b) The Group entered into a US$2,200,000,000 credit facility agreement with Bank of China on 30 April 2009, of which US$1,700,000,000 was assigned to replace CNA's loans and bonds and US$500,000,000 was assigned to finance CNA's daily operations. The repayment started on 14 May 2012 over 11 instalments bi-annually and the loan was repaid in full by the Group during the current year upon the repayment schedule.

(c) The Group borrowed US$800,000,000 from Bank of China and US$600,000,000 from Industrial and Commercial Bank of China in May 2009 to replace CNA's syndicated bank loan. The repayments started on 25 May 2012 and 22 May 2012, respectively, over 11 instalments bi-annually and the loans were repaid in full by the Group during the current year upon the repayment schedule.

(d) The Group borrowed RMB320,000,000 and RMB130,000,000 loans from China Development Bank Development Fund Co., Ltd. ("CDB Development Fund"), a wholly owned subsidiary of China Development Bank, in December 2015 for the purpose of funding the acquisition of properties, plant and equipment. China Development Bank is a state-owned bank. The repayments will start in December 2018 over 36 and 32 instalments bi-annually, respectively. These loans bear interest at 1.08% per annum which is below prevailing market interest rate. The fair value of the loans measured at prevailing market interest rate of 4.9% per annum at initial recognition was approximately RMB306,995,000. The difference of RMB143,005,000 between the proceeds of the loans received and the fair value of the loans is treated as government grant and recognised in deferred revenue (note 36).

For all bank borrowings as stated above, the weighted average effective interest rate for the year ended 31 December 2017 was 2.58% per annum (2016: 2.51% per annum).

33. INTEREST-BEARING BANK BORROWINGS (continued)

	31 December 2017 RMB'000	31 December 2016 RMB'000
Bank borrowings repayable:		
Within one year	**563,380**	5,296,469
In the second year	**548,265**	565,434
In the third to fifth year, inclusive	**598,480**	1,212,752
Beyond five years	**262,430**	279,020
	1,972,555	7,353,675

34. PROVISIONS

	Provision for onerous contracts RMB'000
As at 1 January 2016	–
Provisions for the year	356,062
As at 31 December 2016	356,062
Decrease during the year	**(333,612)**
At 31 December 2017	**22,450**

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Current portion	**22,450**	341,557
Non-current portion	**–**	14,505
Balance at end of the year	**22,450**	356,062

34. PROVISIONS (continued)

Due to slower-than-expected 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.

35. LONG TERM BONDS

	Year of maturity	31 December 2017 RMB'000	31 December 2016 RMB'000
Corporate bonds (a)	2022	**1,500,000**	1,500,000
2016 Corporate Bonds			
(Type I of the First Tranche Issue as defined below) (b)	2019	**1,998,678**	1,997,744
(Type II of the First Tranche Issue as defined below) (b)	2026	**2,996,465**	2,996,045
(Type I of the Second Tranche Issue as defined below) (b)	2019	**2,098,268**	2,097,323
(Type II of the Second Tranche Issue as defined below) (b)	2021	**2,896,998**	2,896,216
Senior unsecured USD bonds (c)	2022	**6,503,770**	6,897,106
Guaranteed medium term notes			
First Drawdown Note (d)	2020	**3,255,473**	3,449,024
Second Drawdown Note (d)	2025	**3,246,117**	3,446,286
		24,495,769	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 (2016: 4.48% per annum), and the redemption or maturity date is 14 May 2022.

35. LONG TERM BONDS (continued)

(b) On 26 May 2016, the Group issued its first tranche (the "First Tranche Issue") of domestic corporate bonds ("2016 Corporate Bonds") with an aggregate amount of RMB5,000,000,000. The First Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,000,000,000 (the "Type I of the First Tranche Issue") carries effective interest rate of 3.19% per annum and the maturity date is 27 May 2019. The second type of bonds with a principal amount of RMB3,000,000,000 (the "Type II of the First Tranche Issue") carries effective interest rate of 4.12% per annum and the maturity date is 27 May 2026.

On 21 October 2016, the Group issued its second tranche (the "Second Tranche Issue") of 2016 Corporate Bonds with an aggregate amount of RMB5,000,000,000. The Second Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,100,000,000 (the "Type I of the Second Tranche Issue") and is repayable on 24 October 2021. The Group has the right to unadjust or adjust the coupon rate for the fourth and fifth year at the end of the third year on 24 October 2019 by giving a notice to the bondholders. The bondholders may accordingly at their option to require the Group to redeem the Type I of the Second Tranche Issue at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the third year until the maturity date. The effective interest rate of the Type I of the Second Tranche Issue is 3.13% per annum. The second type of bonds with a principal amount of RMB2,900,000,000 (the "Type II of the Second Tranche Issue") is repayable on 24 October 2023. The Group has the right to unadjust or adjust the coupon rate for the sixth and seventh year at the end of the fifth year on 24 October 2021 by giving a notice to the bondholders. The bondholders may accordingly at their option to require the Group to redeem the Type II of the Second Tranche Issue at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the fifth year until the maturity date. The effective interest rate of the Type II of the Second Tranche Issue is 3.38% per annum.

(c) On 6 September 2012, COSL Finance (BVI) Limited, a subsidiary of the Group, issued 10-year senior unsecured bonds, with a US$1,000,000,000 principal amount. The redemption or maturity date is 6 September 2022. The effective interest rate of the senior unsecured bonds was 3.38% per annum.

(d) On 20 July 2015, COSL Singapore Capital Ltd., a wholly-owned subsidiary of the Company, established the Euro medium term note programme (the "EMTN Programme"). Under the EMTN Programme, COSL Singapore Capital Ltd. may issue drawdown notes in tranches up to an aggregate principal amount of US$3,500,000,000.

On 30 July 2015, COSL Singapore Capital Ltd. issued the first tranche of drawdown note under the EMTN Programme with nominal amount of US$500,000,000 (the "First Drawdown Note"). The effective interest rate was 3.61% per annum after taking into consideration of initial transaction costs. The principal of the First Drawdown Note will be repaid on 30 July 2020. On 30 July 2015, COSL Singapore Capital Ltd. issued the second tranche of drawdown note under the EMTN Programme with nominal amount of US$500,000,000 (the "Second Drawdown Note"). The effective interest rate was 4.58% per annum after taking into consideration of initial transaction costs. The principal of the Second Drawdown Note will be repaid on 30 July 2025.

36. DEFERRED REVENUE

Deferred revenue consists of the contract value generated in the process of the acquisition of CNA, the deferred mobilisation revenue, government grants, subsidies received from customers related to acquisition of machinery for provision of drilling services (the "Subsidies"), the compensation fee from customer in respect of the cancellation of service contract and the difference between proceeds received from loans at a below-market rate granted by CDB Development Fund and the fair value of the loans at initial recognition based on the prevailing market interest rate (the "Others"). The deferred revenue generated from contract value, deferred mobilisation revenue and the Subsidies are amortised according to the related drilling contract periods and are credited to revenues of the Group. The deferred revenue generated from the compensation fee arising from the cancellation of service contract are amortised over the remaining service contract period and are credited to revenue of the Group. The deferred revenue generated from government grants and the Others are recognised according to the depreciable periods of the related assets and the periods in which the related costs incurred, respectively, and are credited to other revenue of the Group.

36. DEFERRED REVENUE (continued)

	Contract value RMB'000	Mobilisation revenue RMB'000	Government grant related to assets RMB'000	Government grant related to income RMB'000	Compensation fee RMB'000	Subsidies RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	393,040	147,467	207,203	16,312	326,906	266,155	143,005	1,500,088
Additions	–	20,584	7,500	12,021	–	–	–	40,105
Credited to profit or loss	(79,539)	(57,044)	(15,534)	(1,795)	(334,412)	(53,651)	(10,184)	(552,159)
Exchange realignment	23,217	8,594	–	–	7,506	15,797	–	55,114
At 31 December 2016	336,718	119,601	199,169	26,538	–	228,301	132,821	1,043,148
Additions	–	81,633	14,693	150,523	–	–	–	246,849
Credited to profit or loss	(80,845)	(127,526)	(23,386)	(70,970)	–	(54,532)	(10,682)	(367,941)
Exchange realignment	(16,863)	(5,548)	–	–	–	(11,499)	–	(33,910)
At 31 December 2017	239,010	68,160	190,476	106,091	–	162,270	122,139	888,146

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Current portion	–	106,344
Non-current portion	888,146	936,804
Balance at end of the year	888,146	1,043,148

37. ISSUED CAPITAL

	31 December 2017 RMB'000	31 December 2016 RMB'000
Registered, issued and fully paid:		
H shares of RMB1.00 each	1,811,124	1,811,124
A shares of RMB1.00 each	2,960,468	2,960,468
	4,771,592	4,771,592

38. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties, berths and equipment under operating lease arrangements. Leases for properties, berths and equipment are negotiated for terms ranging from one to five years.

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Within one year	528,694	591,054
In the second to fifth year, inclusive	1,194,457	1,377,171
	1,723,151	1,968,225

39. CAPITAL COMMITMENTS

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Contracted, but not provided for	**640,854**	1,287,341

At the end of the reporting period, the Group's share of joint ventures' own capital commitments were insignificant.

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit/(loss) before tax to cash generated from operations

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**332,468**	(11,807,355)
Adjustments for:			
Finance costs	9	**1,091,780**	1,039,248
Interest income		**(99,575)**	(130,519)
Investment income	8	**(187,545)**	(191,933)
Share of profits of joint ventures	22	**(106,867)**	(16,849)
Exchange loss/(gain), net		**315,437**	(289,392)
Loss on disposal of property, plant and equipment, net	8	**30,113**	54,785
Depreciation of property, plant and equipment and amortisation of intangible assets		**4,468,117**	4,520,118
Impairment of accounts receivable and other receivables	8	**83,602**	1,142,824
Reversal of impairment of inventories	8	**(514)**	(13,895)
(Reversal of)/provision for onerous contracts	34	**(333,612)**	356,062
Impairment of goodwill		**–**	3,455,378
Impairment of property, plant and equipment		**4,942**	3,688,408
		5,598,346	1,806,880
(Increase)/decrease in inventories		**(5,956)**	198,824
(Increase)/decrease in accounts receivable		**(1,470,805)**	946,308
Decrease in notes receivable		**1,758,773**	62,236
Decrease in prepayments, deposits and other receivables		**20,648**	56,348
(Decrease)/increase in trade and other payables, net of payables for purchases of property, plant and equipment		**(263,382)**	506,529
Increase/(decrease) in salary and bonus payables		**59,448**	(224,945)
Decrease in deferred revenue		**(121,868)**	(519,554)
Cash generated from operations		**5,575,204**	2,832,626

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Reconciliation of liabilities arising from financing activities

	31 December 2016 RMB'000	Financing cash flows (a) RMB'000	Non-cash changes: Foreign exchange movement RMB'000	Non-cash changes: Accrued interests RMB'000	Non-cash changes: Other changes (b) RMB'000	31 December 2017 RMB'000
Loan from a related party *(note 32)*	693,700	1,722,884	(129,614)	–	–	2,286,970
Interest-bearing bank borrowings *(note 33)*	7,353,675	(5,274,333)	(123,293)	–	16,506	1,972,555
Long term bonds *(note 35)*	25,279,744	–	(801,323)	–	17,348	24,495,769
Interest payable and dividends payable (included in trade and other payables) *(note 30)*	631,426	(1,328,706)	(11,174)	1,076,474	–	368,020
Total	33,958,545	(4,880,155)	(1,065,404)	1,076,474	33,854	29,123,314

(a) The cash flows from loan from a related party, interest-bearing bank borrowings and long term bonds represented the net amount of certain proceeds and repayments in the consolidated statement of cash flows.

(b) Other changes mainly represent amortisation of up-front fee of interest-bearing bank borrowings and expenses for issuance of long term bonds.

41. RELATED PARTY TRANSACTIONS

As disclosed in note 1, the Company is a subsidiary of CNOOC, which is an SOE subject to the control of the State Council of the PRC Government.

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

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

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

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

		2017 RMB'000	2016 RMB'000
i	**CNOOC Limited Group**		
	– Provision of drilling services	**3,529,447**	2,730,362
	– Provision of well services	**6,213,446**	5,275,040
	– Provision of marine support services	**2,284,597**	1,773,992
	– Provision of geophysical and surveying services	**976,085**	664,001
		13,003,575	10,443,395
ii	**CNOOC Group**		
	– Provision of drilling services	**148,414**	12,682
	– Provision of well services	**190,708**	103,454
	– Provision of marine support services	**47,476**	19,244
	– Provision of geophysical and surveying services	**149,646**	18,444
		536,244	153,824
iii	**Joint ventures**		
	– Provision of drilling services	**9**	53
	– Provision of well services	**14,969**	3,618
	– Provision of geophysical and surveying services	**3,889**	6,412
		18,867	10,083

41. RELATED PARTY TRANSACTIONS (continued)

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

b. Included in operating expenses

	2017 RMB'000	2016 RMB'000
i CNOOC Limited Group		
Materials, utilities and other ancillary services	86,249	36,621
Transportation services	63	–
	86,312	36,621
Property services	3,723	1,827
	90,035	38,448
ii CNOOC Group		
Labour services	1,836	1,271
Materials, utilities and other ancillary services	607,245	663,751
Transportation services	20,525	22,035
Leasing of equipment	110,373	220,860
Repair and maintenance services	6,463	6,562
Management services	43,949	2,021
	790,391	916,500
Property services	126,227	162,249
	916,618	1,078,749
iii Joint ventures		
Materials, utilities and other ancillary services	188,695	148,166
Leasing of equipment	36,197	15,968
	224,892	164,134

c. Included in interest income

	2017 RMB'000	2016 RMB'000
CNOOC Finance (a subsidiary of CNOOC)		
Interest income	19,523	35,608

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

	2017 RMB'000	2016 RMB'000
Dividend income from joint ventures	120,595	113,877

41. RELATED PARTY TRANSACTIONS (continued)

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

e. Included in finance costs

During the current year, the finance costs on the loan from a related party (note 32) are US$5,610,000 (2016: US$681,000), which is equivalent to approximately RMB37,879,000 (2016: RMB4,523,000).

f. Deposits

	31 December 2017 RMB'000	31 December 2016 RMB'000
Deposits placed with CNOOC Finance as at the end of the reporting period	**1,497,422**	1,801,400

g. During the current year, in order to improving the resource allocation and assets' structure, the Group disposed two vessels, which were under the Group's geophysical and surveying services segment previously, to Shenzhen Offshore Oil Engineering Co., Ltd, a fellow subsidiary of the Group with a consideration of RMB1,060,000,000 (including VAT). The Group has recognized a loss of RMB2,183,000 arising from the disposal. The considerations were fully received by the Group during the current year.

Except for items a(iii), b(iii) and d in note 41 (A) above, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

h. Commitments with related parties

(a) Operating lease commitments

The Group has the following significant operating lease commitments with related parties principally for leasing of certain properties and equipment, which have been included in note 38:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Within one year	**118,800**	112,505
In the second to fifth year, inclusive	**94,320**	213,480
	213,120	325,985

(b) Capital commitments

The Group has no capital commitments with related parties as of 31 December 2017 and 2016.

i. Outstanding balances with related parties

Accounts receivable

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Due from CNOOC Limited Group	**3,923,969**	2,869,109
Due from CNOOC Group	**246,492**	77,857
Due from joint ventures	**4,313**	1,144
	4,174,774	2,948,110

41. RELATED PARTY TRANSACTIONS (continued)

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

i. Outstanding balances with related parties (continued)

Prepayments, deposits and other receivables

	31 December 2017 RMB'000	31 December 2016 RMB'000
Due from CNOOC Limited Group	5,174	8,104
Due from CNOOC Group	500	1,438
Due from joint ventures	7,201	13,706
	12,875	23,248
Less: Provision for impairment of other receivables	(500)	(500)
	12,375	22,748

Dividend receivable

	31 December 2017 RMB'000	31 December 2016 RMB'000
Dividend receivable from joint ventures	32,000	62,000

Notes receivable

	31 December 2017 RMB'000	31 December 2016 RMB'000
Due from CNOOC Limited Group	64,507	1,831,076

Trade and other payables

	31 December 2017 RMB'000	31 December 2016 RMB'000
Due to CNOOC Limited Group	68,261	51,601
Due to CNOOC Group	800,778	855,867
Due to joint ventures	196,080	169,371
	1,065,119	1,076,839

Loan from a related party

	31 December 2017 RMB'000	31 December 2016 RMB'000
An unsecured loan *(note 32)*	2,286,970	693,700

41. RELATED PARTY TRANSACTIONS (continued)

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

i. Outstanding balances with related parties (continued)

The Group and the above related parties are within the CNOOC Group and CNOOC Limited Group and are under common control (except for the joint ventures of the Group) by the same ultimate holding company.

The balances with related parties at 31 December 2017 included in accounts receivables, prepayments, deposits and other receivables, notes receivable, dividend receivable and trade and other payables of the Group are unsecured, interest-free, and have no fixed terms of repayment. Loan from a related party is charged at LIBOR+0.5% and repayable on demand.

In connection with the Reorganisation of CNOOC in preparation for the listing of the Company's shares on the HKSE, the Company entered into several agreements with the CNOOC Group and CNOOC Limited Group which govern the employee benefit arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the leasing of properties and various other commercial arrangements.

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

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

j. Transactions with other SOEs in the PRC

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services of vessels and drilling rigs, purchases of goods, services or property, plant and equipment in the PRC, other than the CNOOC Group and CNOOC Limited Group, in the normal course of business at terms comparable to those with other non-SOEs. None of these transactions are material related party transactions, individually or collectively, that require separate disclosure.

In addition, the Group has certain of its cash and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2017, as summarised below:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Cash and cash equivalents	**590,774**	901,134
Time deposits with financial institutions	**1,850,125**	1,610,928
	2,440,899	2,512,062
Long-term bank loans (*note 33*)	**1,409,175**	2,057,206
Current portion of long term bank loans (*note 33*)	**563,380**	5,296,469
	1,972,555	7,353,675

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

	2017 RMB'000	2016 RMB'000
Finance costs	**114,225**	306,466

41. RELATED PARTY TRANSACTIONS (continued)

(B) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	6,974	4,999
Post-employment benefits	679	487
Total compensation paid to key management personnel	7,653	5,486

Further details of Directors', supervisors and the chief executive's emoluments are included in note 10.

42. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

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

Financial assets

	31 December 2017			31 December 2016		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets included in deposits and other receivables *(note 25)*	247,464	–	247,464	260,440	–	260,440
Accounts receivable *(note 26)*	6,218,549	–	6,218,549	4,795,964	–	4,795,964
Notes receivable *(note 27)*	85,533	–	85,533	1,844,306	–	1,844,306
Pledged deposits *(note 29)*	41,092	–	41,092	23,806	–	23,806
Time deposits with maturity of over three months *(note 29)*	28,870	–	28,870	–	–	–
Cash and cash equivalents *(note 29)*	9,009,074	–	9,009,074	6,071,069	–	6,071,069
Financial assets included in other current assets *(note 28)*	2,578,486	200,110	2,778,596	5,220,226	1,834,501	7,054,727
Total	18,209,068	200,110	18,409,178	18,215,811	1,834,501	20,050,312

42. FINANCIAL INSTRUMENTS (continued)

(a) Financial instruments by category (continued)

Financial liabilities

	31 December 2017 RMB'000	31 December 2016 RMB'000
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	**7,607,344**	9,060,757
Salary and bonus payables	**830,873**	776,939
Interest-bearing bank borrowings – current portion *(note 33)*	**563,380**	5,296,469
Loan from a related party *(note 32)*	**2,286,970**	693,700
Subtotal	**11,288,567**	15,827,865
Non-current		
Interest-bearing bank borrowings *(note 33)*	**1,409,175**	2,057,206
Long term bonds *(note 35)*	**24,495,769**	25,279,744
Subtotal	**25,904,944**	27,336,950
Total	**37,193,511**	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).

Financial assets	Fair value as at 31/12/2017 RMB'000	Fair value as at 31/12/2016 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Available-for-sale investments – money market fund	200,110	1,834,501	Level 1	Quoted bid prices in an active market

(c) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

	Carrying amounts		Fair values	
	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000
Financial liabilities				
Non-current				
Long term bonds *(note 35)*	**24,495,769**	25,279,744	**24,695,758**	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.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, loan from a related party, long term bonds, cash and short term deposits and investments in corporate wealth management products, liquidity funds and treasury bond related investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB and USD, the aforesaid currency is defined as the functional currency of the Company and some subsidiaries respectively. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has foreign currency sales, purchases, bank borrowings, loan from a related party, long term bonds, pledged deposits, time deposits with maturity of over three months and cash and cash equivalents denominated in foreign currency, which expose the Group to foreign currency risk. The management monitors foreign exchange exposure and will consider hedging other foreign currency exposure should the need arise.

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 31 December 2017 and 2016. 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% (2016: 5%) appreciation or depreciation of US dollars.

	Increase/(decrease) in profit (2016: decrease/(increase) in loss)		Increase/(decrease) in other comprehensive income	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
US$	296,272	405,779	295,210	–

Interest rate risk

The fair value interest rate risk relates primarily to the Group's fixed-rate long-term bonds (see note 35) and fixed-rate bank borrowings (see note 33). The cash flow interest rate risk of the Group relates primarily to variable-rate loan from a related party (see note 32) and variable-rate bank borrowings (see note 33 for details of these borrowings) and certain cash and cash equivalent (see note 29). The Group currently does not have an interest rate policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on time deposits is insignificant as the fixed deposits are short-term.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. No sensitivity analysis has been presented for cash and cash equivalent as the Directors consider that the fluctuation in interest rates on cash and cash equivalent is minimal. For variable-rate bank borrowings, the analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (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 profit would (decrease) increase by approximately RMB18,717,000 for the year ended 31 December 2017 (2016: the Group's post-tax loss would increase (decrease) by RMB32,901,000) without considering the effect of capitalisation of borrowing costs.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

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 63% (2016: 60%) and 77% (2016: 82%) of the total trade receivables respectively.

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

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings, loan from a related party and long term bonds and ensures compliance with loan covenants.

The Group's objective is to maintain a balance between continuity of funding and flexibility through long term bonds and interest-bearing loans.10% of the Group's borrowings would mature in less than one year as at 31 December 2017 (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.

	31 December 2017						
	Weighted average interest rate %	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	1.82%-4.90%	625,647	619,550	657,683	375,690	2,278,570	1,972,555
Loan from a related party	1.27%-1.99%	2,286,970	–	–	–	2,286,970	2,286,970
Long term bonds	3.13%-4.58%	888,560	4,988,560	16,158,692	7,323,159	29,358,971	24,495,769
Financial liabilities included in trade and other payables	N/A	7,607,344	–	–	–	7,607,344	7,607,344
Salary and bonus payables	N/A	830,873	–	–	–	830,873	830,873
		12,239,394	5,608,110	16,816,375	7,698,849	42,362,728	37,193,511

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	31 December 2016						
	Weighted average interest rate%	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	1.52%-4.90%	5,412,112	654,873	1,323,753	409,481	7,800,219	7,353,675
Loan from a related party	1.50%	700,536	–	–	–	700,536	693,700
Long term bonds	3.13%-4.58%	917,763	917,763	12,845,430	16,560,483	31,241,439	25,279,744
Financial liabilities included in trade and other payables	N/A	9,060,757	–	–	–	9,060,757	9,060,757
Salary and bonus payables	N/A	776,939	–	–	–	776,939	776,939
		16,868,107	**1,572,636**	**14,169,183**	**16,969,964**	**49,579,890**	**43,164,815**

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 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:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Interest-bearing bank borrowings *(note 33)*	**1,972,555**	7,353,675
Trade and other payables *(note 30)*	**8,062,653**	9,304,300
Loan from a related party *(note 32)*	**2,286,970**	693,700
Long term bonds *(note 35)*	**24,495,769**	25,279,744
Less: Cash and cash equivalents and time deposit with maturity of over three months *(note 29)*	**(9,037,944)**	(6,071,069)
Net debt	**27,780,003**	36,560,350
Equity attributable to owners of the Company	**34,554,853**	35,206,368
Non-controlling interests	**122,928**	90,010
Total capital	**34,677,781**	35,296,378
Capital and net debt	**62,457,784**	71,856,728
Gearing ratio	**44%**	51%

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**28,039,845**	29,850,501
Other intangible assets	**285,498**	316,459
Investments in subsidiaries	**7,773,474**	7,773,474
Investments in joint ventures	**582,702**	600,364
Other long term receivables	**4,902,887**	7,090,716
Other non-current assets	**89,201**	225,211
Total non-current assets	**41,673,607**	45,856,725
CURRENT ASSETS		
Inventories	**612,502**	617,046
Prepayments, deposits and other receivables	**1,389,921**	1,182,187
Accounts receivable	**6,033,222**	4,636,542
Notes receivable	**85,533**	1,843,406
Other current assets	**2,779,276**	7,106,097
Pledged deposits	**5,287**	5,723
Cash and cash equivalents	**7,473,516**	3,881,176
Total current assets	**18,379,257**	19,272,177
CURRENT LIABILITIES		
Trade and other payables	**7,736,901**	8,647,005
Salary and bonus payables	**716,398**	670,580
Tax payable	**81,307**	980
Interest-bearing bank borrowings	**563,380**	5,296,469
Other current liability	**176,915**	448,513
Total current liabilities	**9,274,901**	15,063,547
NET CURRENT ASSETS	**9,104,356**	4,208,630
TOTAL ASSETS LESS CURRENT LIABILITIES	**50,777,963**	50,065,355
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**238,176**	123,239
Provisions	**–**	14,505
Interest-bearing bank borrowings	**1,409,175**	2,057,206
Long term bonds	**11,490,409**	11,487,328
Deferred revenue	**418,645**	358,323
Total non-current liabilities	**13,556,405**	14,040,601
Net assets	**37,221,558**	36,024,754

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

	31 December 2017 RMB'000	31 December 2016 RMB'000
EQUITY		
Issued capital	**4,771,592**	4,771,592
Reserves	**32,449,966**	31,253,162
Total equity	**37,221,558**	36,024,754

The following subsidiaries had outstanding issued long-term bonds amounting to RMB13,005,360,000 at the end of the year:

	Held by third party RMB'000
COSL Finance (BVI) Limited	6,503,770
COSL Singapore Capital Ltd.	6,501,590

Movements in the Company's reserves

	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note (ii))	Revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2016 (Restated) *(note i)*	12,371,737	2,508,656	91,065	8,447	24,967,455	324,468	40,271,828
Loss for the year	–	–	–	–	(8,755,425)	–	(8,755,425)
Other comprehensive (expense)/ income for the year	–	–	(55,061)	116,288	–	–	61,227
Total comprehensive (expense)/ income for the year	–	–	(55,061)	116,288	(8,755,425)	–	(8,694,198)
Final 2015 dividend paid	–	–	–	–	–	(324,468)	(324,468)
Proposed final 2016 dividend	–	–	–	–	(238,580)	238,580	–
At 31 December 2016	12,371,737	2,508,656	36,004	124,735	15,973,450	238,580	31,253,162
Profit for the year	**–**	**–**	**–**	**–**	**1,581,368**	**–**	**1,581,368**
Other comprehensive (expense)/ income for the year	**–**	**–**	**(35,894)**	**(110,090)**	**–**	**–**	**(145,984)**
Total comprehensive (expense)/ income for the year	**–**	**–**	**(35,894)**	**(110,090)**	**1,581,368**	**–**	**1,435,384**
Final 2016 dividend paid	**–**	**–**	**–**	**–**	**–**	**(238,580)**	**(238,580)**
Proposed final 2017 dividend	**–**	**–**	**–**	**–**	**(286,296)**	**286,296**	**–**
At 31 December 2017	**12,371,737**	**2,508,656**	**110**	**14,645**	**17,268,522**	**286,296**	**32,449,966**

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movements in the Company's reserves (continued)

Notes:

(i) The Company has applied amendments to HKAS 27 Equity Method in Separate Financial Statements for the first time in the year ended 31 December 2016 and the investment in joint ventures were accounted for using the equity method in its separate financial statements. The Company adjusted retrospectively the above amendments in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(ii) As detailed in note 15, the Company is required to transfer a minimum percentage of after-tax profit, if any, to the statutory common reserve fund, until the fund aggregates 50% of the Company's registered capital. As the aggregate amount of the statutory reserve funds as at 31 December 2017 and 2016 were in excess of 50% of the Company's registered capital, the Directors are of the view that no further provision of these funds is required for both years.

(iii) As at 31 December 2017, in accordance with the PRC Company Law, an amount of approximately RMB12,371,737,000 (2016: RMB12,371,737,000) standing to the credit of the Company's capital reserve account and an amount of approximately RMB2,508,656,000 (2016: RMB2,508,656,000) standing to the credit of the Company's statutory reserve funds, as determined under the PRC accounting principles and financial regulations in the PRC, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained profits of approximately RMB17,554,818,000 (2016: RMB16,212,030,000) available for distribution as dividends. Save as the aforesaid, the Company did not have any reserves available for distribution to its shareholders at 31 December 2017.

The retained profits of the Company determined under the relevant PRC accounting principles and financial regulations in the PRC amounted to approximately RMB17,554,818,000 as at 31 December 2017 (2016: RMB16,212,030,000).

45. EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

(i) On 29 January 2018, The Company and CNOOC Energy Technology & Services Limited ("CNOOC Energy"), a fellow subsidiary of the Group, entered into a business restructuring contract, pursuant to which the Company agreed to purchase and CNOOC Energy agreed to sell certain seismic data processing business of CNOOC Ener Tech – Drilling & Production Co. Data Processing Co. (the "Acquired Business") with a total consideration of RMB63,553,800.

The Company and CNOOC Energy completed the formalities of acquiring and disposing business on 31 January 2018 (the "Delivery Date"), on the Delivery Date, the control over the Acquired Business has been obtained by the Company.

The above business restructuring shall be accounted for as a combination of business under common control since the Directors consider that the Company and CNOOC Energy are under the common control of CNOOC.

(ii) On 1 March 2018, in order to improve the assets' structure, the Company entered into a sales agreement with an unrelated third party, pursuant to which the Company agreed to sell and the unrelated third party agreed to purchase a drilling rig for a consideration of approximately RMB330 million which was determined with reference to the valuation result. Concurrent with the sales, by considering the market situation as well as work requirement, the Company agreed to lease the drilling rig over lease term of three years.

46. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2018.

Company Information

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Newspapers for Disclosure of Information
Shanghai Securities News
Securities Times
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Place of Listing of Shares, Stock Name and Stock Code
Place of Listing of H Share
The Stock Exchange of
Hong Kong Limited
H Share abbreviation:
CHINA OILFIELD
Stock Code of H Share: 2883

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

Unified Social Credit Code
9112011671092921XD

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Documents for Inspection

1. Financial statements signed and sealed by legal representative, the person in charge of accounting work and the person in-charge of accounting department.
2. Original copy of auditors' report (PRC) with seals of audit firm and signed by certified public accountants.
3. Original copy of auditors' report (Hong Kong) signed by certified public accountants.
4. Original copy of all documents of the Company and Announcements disclosed on the newspaper designated by CSRC during the reporting period.
5. 2017 Annual Report published in the Hong Kong Stock Exchange.

China Oilfield Services Limited

Lv Bo

Chairman

27 March 2018

Glossary

COSL, the Company or the Group	China Oilfield Services Limited
CNOOC	China National Offshore Oil Corporation
CNOOC Limited	CNOOC Limited
2D	Seismic data collected in two dimensional form, by utilizing a single sound source and one or more collection points; typically 2D is used to map geographical structures for initial analysis.
3D	Seismic data collected in three-dimensional form, by utilizing two sound sources and two or more collection points; typically 3D is used to acquire refined seismic data and to raise the probability of successful exploration well drilling
COSL Holding AS	Formerly COSL Drilling Europe AS or CDE, the subsidiary of the Company in Norway
ELIS	Enhanced Logging Imaging System
OSHA	Statistical standard for occupational injuries and diseases
QHSE	Quality, health, safety and environment management system
HTHP	High temperature and high pressure
WTI	West Texas Intermediate crude oil
IPM	Integrated Project Management
LWD	Logging-while-drilling, generally means the measuring of physical parameters of rock formation during the process of drilling, and transmitting the real time measured results by data telemetry system to the ground surface for processing.
Cementing	The technique of filling of cement slurries into the ring-shaped space formed between the inner well hole casing and the well wall to cement them together.
Well completion	Services and installation of equipment that are necessary to prepare a well for production, including casing and well treatment, such as acidizing and fracking
Well workover	Any work on a completed well designed to maintain, restore or improve production from a currently producing petroleum reservoir, this may include replacement of casing and well treatment, such as sand control, fracking and acidizing
Available day utilization rate	Operating days/(calendar days-days of repairs and maintenance)
Calendar day utilization rate	Operating days/calendar days
Integrated marine surveying vessels	Vessels providing marine surveying, marine geological coring, CPT in-situ testing, marine environment observation/sampling and marine supporting services.

Geophysical vessels	Vessels carrying out marine seismic survey. Equipped with seismic survey equipment, streamers towed behind vessel, collecting seismic data by generating and receiving seismic waves during continuous sailing.
RSS	Rotary Steerable System
Seismic data	Data recorded in either two dimensional (2D) or three dimensional (3D) form from sound wave reflections off of subsurface geology. This data is used to understand and map geological structures for exploratory purposes to predict the location of undiscovered reserves.
Streamers	Clear flexible tubing containing numerous hydrophones used for marine seismic surveys; streamers are towed behind seismic vessels at controlled shallow water depths to collect seismic data
Jack-up rigs	Jack-up rigs are so named because they are self-elevating—with three or four movable legs that can be extended ("jacked") above or below the drilling deck. During towing, the legs of a jack-up rig are elevated. When the rig reaches the drill site, the crew jacks the legs downward through the water and into the sea floor (or onto the sea floor with mat supported jack-ups). This anchors the rig and holds the drilling deck well above the waves.
Semi-submersibles	Semi-submersibles do not rest on the sea floor as jackup rigs. Instead, the working deck sits atop giant pontoons and hollow columns. These afloat above the water when the rig moves. At the drill site, the crew pumps seawater into the pontoons and columns to partially submerge the rig, hence the name semisubmersible. With much of its bulk below the water's surface, the semi-submersible becomes a stable platform for drilling, moving only slightly with wind and currents. Like jack-ups, most semi-submersibles are towed to the drill site. Because of their exceptional stability, "semis" are well suited for drilling in rough waters. Semisubmersibles can drill in water as deep as 10,000 feet Drillships are specially built seagoing vessels that also drill in water as deep as 10,000 feet.
Module rigs	Complete rig installation fixed on offshore jacket which is immovable as a whole.
bbl	A barrel, which is equivalent to approximately 158.988 liters or 0.134 tons of oil (at a API gravity of 33 degrees).
foot	Measuring unit of length, which is equivalent to approximately 0.305 meter.
Standard coal	The uniform standard of thermal value, China required the thermal value of 1 kg standard coal to be 7,000 kilocalorie.
Recordable incidents	Injury incident caused by work or impact of the work environment leading to death or occupational diseases or loss of consciousness, restricted working ability or mobility, or job transfer or injury incident which requires more than a simple medical treatment.

CHINA OILFIELD SERVICES LIMITED
(STOCK CODE H-share : 2883 ; A-share : 601808)

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