CHINA OILFIELD SERVICES LIMITED

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

NEVIGATION FOR BETTER

ANNUAL REPORT 2018

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 oil and gas exploration, development and production.

OUR PERFORMANCE

In 2018, 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 acquisition 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 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 market, and strict risk management policy, we believe that we will seize the opportunities and overcome the challenges.

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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 oilfield services market and provides services in drilling, well, marine support and geophysical acquisition and surveying.

INTERNATIONAL

In 2018, the Company achieved breakthroughs in exploring new businesses, markets and customers on the basis of the traditional international operation markets.

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 drilling services and related services.

2018 PERFORMANCE

Total revenue for the year: **RMB21,886.6 million**

Profit from operations: **RMB643.5 million**

Profit for the year: **RMB88.7 million**

Basic earnings per share: **RMB1.48 cents/share**

Total assets: **RMB74,687.0 million**

Total equity: **RMB34,677.4 million**

Financial Highlights

Unit: RMB million

	2018	2017 (Restated)	Change %
Revenue			
Domestic revenue	16,225.5	13,136.0	23.5
International revenue	5,661.1	4,322.6	31.0
Total	21,886.6	17,458.6	25.4
Operating expenses	(21,527.2)	(16,314.6)	32.0
Profit from operations	643.5	1,468.0	(56.2)
Profit before tax	706.3	342.3	106.3
Income tax expense	(617.7)	(261.4)	136.3
Profit for the year	88.7	80.9	9.6
Basic earnings per share (cent/share)	1.48	0.90	64.4
Net assets per share (RMB/share)	7.3	7.3	–
Ratio			
Return on equity (%)	0.3	0.2	
Return on asset (%)	0.1	0.1	
Gearing ratio (%)	49.8	44.9	
Price/Earnings ratio	398.4	706.8	
Dividend yield (%)	1.2	0.9	
Dividend payout ratio (%)	471.8	669.4	

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	2018	2017 (Restated)	Change over the same period last year (%)	2016	2015	2014
Revenue	21,886.6	17,458.6	25.4	15,085.5	23,174.2	32,993.2
Profit/(loss) from operations	643.5	1,468.0	(56.2)	(11,367.7)	1,631.5	8,425.9
Profit/(loss) for the year	88.7	80.9	9.6	(11,459.5)	1,108.7	7,520.2
Basic earnings/(loss) per share (cent/share)	1.48	0.90	64.4	(240.09)	22.51	157.36
	As at the end of 2018	As at the end of 2017 (Restated)	Change over the end of the same period last year (%)	As at the end of 2016	As at the end of 2015	As at the end of 2014
Total equity	34,677.4	34,687.5	(0.0)	35,296.4	46,828.7	47,322.1
Total assets	74,687.0	73,941.3	1.0	80,544.1	93,525.1	86,874.3

Note: On 31 January 2018, the Company has complete the purchase of the seismic data processing business of CNOOC Ener Tech – Drilling & Production Co. Data Processing Co. This transaction is accounted for as a combination of business under common control and affected by the amended new standards. The financial data of 2017 in the annual report has been restated.

Chairman's Statement

"After experiencing volatility in 2018, the international oil price has been increased. In recent years, the competitive landscape of the global oilfield service market has undergone profound changes, which sets higher requirements on the development of oilfield service companies. Against such fierce industrial competition, the Board appointed me as the chairman in March 2018. In this regard, I was grateful for the trust and support by our shareholders, the Board and the management to me, and I realized my responsibilities inherent in that role. During 2018, the Company deepened the implementation of its strategies in the medium to long term, adhered to overseas development and technical innovation and continued to enhance its core competitiveness in order to inject new impetus to its high quality development."

Qi Meisheng
Chairman

Dear shareholders,

After experiencing volatility in 2018, the international oil price has been increased. In recent years, the competitive landscape of the global oilfield service market has undergone profound changes, which sets higher requirements on the development of oilfield service companies. Against such fierce industrial competition, the Board appointed me as the chairman in March 2018. In this regard, I was grateful for the trust and support by our shareholders, the Board and the management to me, and I realized my responsibilities inherent in that role. During 2018, the Company deepened the implementation of its strategies in the medium to long term, adhered to overseas development and technical innovation and continued to enhance its core competitiveness in order to inject new impetus to its high quality development.

1. CORPORATE GOVERNANCE AND RISK CONTROL

In 2018, based on the improved risk assessment matrix, the Board conducted risk trend analysis for comprehensive assessment of the possibility of occurrence and influence level of the risks on the production and operation and monitoring dynamic changes. By optimizing the internal control management system and standards, it continued to satisfy the domestic and overseas regulations and regulatory requirements, and it promoted and guaranteed the efficient commencement of the Company's domestic and overseas businesses through continuous improvement of its systems for internal control and QHSE management. During the year, the Company amended the rules of procedure for the board of directors in view of the changes in regulatory environment and management needs for operation, so as to improve the management system for the Company's Board. The Company also optimized its internal function organizations for enhancing the efficiency of decision-making. In 2018, due to retirement of directors and supervisors and change of work, our directors and supervisors 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, which give due consideration of the decision-making on significant matters, and the Board is operated in high efficient. Three independent directors serve as the chairman in several professional committees which ensures effective corporate governance and makes important contribution for the compliance operation of the Board.

2. SUSTAINABLE DEVELOPMENT AND FULFILLING SOCIAL RESPONSIBILITIES

Sustainable development has always been the target of the Company, 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 2018, the Company accelerated the promotion of the internationalization and industrialization of QHSE management, thus resulting better control of major safety and production risks and constantly improvement of the safety standard of the Company. In particular, it should be pointed out that the Company achieved a record of zero-death and zero instance of significant accident for the first time during the year. The Company valued the community and strived to build a pleasant living environment for its operational locales and harmonious relations in the community. During the year, the Company was included as a constituent stock in the Hang Seng (China A) Corporate Sustainability Benchmark Index for the seventh consecutive year and became a constituent stock in the Hang Seng Corporate Sustainability Benchmark Index for the fifth year at the same time, which fully demonstrated the Company's efforts on achieving sustainable development and a recognition of its sustainable development strategy by the capital market.

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

In 2018, the Company deepened its implementation of medium to long-term strategy with a focus on improving profitability, promoted overseas market expansion and technical development, and made great progress in both overseas market expansion and technical seriation and industrialization. During the period, the Company had 29 new overseas customers and newly explored 15 overseas markets, successfully entering the strategic markets in Saudi Arabia, Malaysia, New Zealand, United Kingdom and Brazil, etc., which laid a solid foundation for COSL to accelerate international development. In 2019, the Company will continue to carry out the strategy of technical and international development, insist on innovation and development and further increase its core competitiveness. First, for overseas markets, the Company will emphasize on coordinating the global strategic layout planning, exploring markets through various business models and improving its overall profitability. Second, for technical development, the Company will focus on gathering of high-end technical products, expanding the scope of application of its products in the industry and increasing the profitability of its products, so as to satisfy its needs of market competition and high quality development. Third, the Company will absorb talents for scientific research, further improve its system for technical research and development, speed up the establishment of quality management system and optimize its logistical support system for its technical system.

With the slow recovery of international crude oil price and increase of investment in exploration and development, the operation volume of the oilfield service market picked up. However, due to the characteristic lag in the industry's recovery as affected by oil price, market competition remained fierce. The Board and the management will closely monitor the changes in the industry, adhere to following the market and customers' demand, enhance the profitability through systematic cost reduction measures such as cost control and safety management, and further build technical products with strategic advantages. The Company will put the strategy of international and technical development into practice by grasping the opportunity arising from the industrial recovery. The members of the Board and I firmly believe that the Company will be able to gain fruitful development results with its extensive experience in the industry and core competitiveness.

Qi Meisheng
Chairman
27 March 2019

Chief Executive Officer's Report

Cao Shujie
Chief Executive Officer and President of COSL

Dear shareholders,

In 2018, the international oil price volatility continued, and the capital expenditure of upstream exploration and development around the world increased significantly, driving the overall recovery of the oilfield service market. However, due to the characteristic lag in the industry's recovery as affected by oil price, market competition remained fierce. Against such fierce industrial competition, the Board appointed me as the chief executive officer and president of the Company on 27 March 2018. In this regard, I was grateful for the trust by our shareholders and the Board in me. During the period, under the leadership of the Board, the management and all of the staff followed the Company's new period development strategy and reforming measures and endeavoured to advance. The Company demonstrated improvement in respect of market expansion, technical research and development and international development, and its core competitiveness was constantly enhanced.

MAINTAINING STABILITY IN SAFETY AND ENVIRONMENTAL PROTECTION AND SIGNIFICANT IMPROVEMENT OF QHSE MANAGEMENT

In 2018, the Company continued to improve safety management and increase efforts on promoting the internationalization and industrialization of QHSE management. During the period, the Company had significantly improved its QHSE management. For instance, COSLGIFT passed the strict examination of customers with its outstanding QHSE management level, while COSLSTRIKE saved costs for its customers with its excellent performance. The Company continued to promote the creation of safety culture. During the period, the Company's safety and production situation remained stable and under control, with OSHA recordable incident occurrence rate of 0.081 and an equipment availability of 99.51%.

CONSOLIDATING THE DOMESTIC MARKET AND ENHANCING GLOBAL MARKET CAPABILITIES WITH OVERSEAS EXPANSION

The Company continued to consolidate its leading position in China offshore oilfield services market. In line with customer demand, the Company actively explored new service models. The Company strived to satisfy the demand of growth in reserve and production volume of domestic market, arranged human and equipment resources and sped up the seriation and industrialization of its technical products, so as to provide solid support for CNOOC Limited to complete the task of exploration, development and production, thus constantly consolidating and strengthening its domestic market. Meanwhile, the Company also performed well in the cooperative block market.

For international market, the Company continued to implement its strategy of international development. By reforming overseas institutions, optimizing management models and enhancing market expansion, the six major overseas output contribution areas achieved varying degrees of advancement during the period.

CONSTANTLY INCREASE OF TECHNICAL PRODUCTION AND SPEEDING THE SERIALIZATION AND INDUSTRIALIZATION OF TECHNICAL PRODUCTS

In 2018, the Company's technical development kept speeding up, and several key scientific technologies made progress. The core competitiveness of the Company gained the industrial recognition from the global market, which showed economic and strategic importance. For example, ESCOOL high-temperature and high-speed logging system gained a leading position in the industry, and such system completed logging operation for a hot dry rock well with 190 degrees Celsius, which set a new record for operation in high temperature wells. The cementing technology formed high-temperature and ultra-high-temperature cement slurries at 120-260°C and built good reputation among international customers. With their continuous increase in the application, new stimulation technique including high-efficient complex acid and non-acid chelation gained remarkable results. The Company's self-developed surveying streamers equipment completed the 2D broadband specific acquisition operation for the first time. The Company actively explored opportunities for close cooperation with domestic outstanding colleges and universities in respect of oilfield production, geophysics and oilfield chemistry.

OUTLOOK

Looking ahead to 2019, the oilfield service industry is still full of challenges. The Company will continue to put the strategy of "technical and international development" into practice and work on profitability improvement. Also, the Company will strive to achieve high quality development through systematic cost reduction measures such as safety management enhancement and institutional reforms.

Cao Shujie
CEO and President
27 March 2019

Management Discussion and Analysis

Drilling Services

INDUSTRY DEVELOPMENT OVERVIEW FOR 2018

In 2018, the structure of world energy continued to optimized. As international oil prices picked up which drove revitalization of new energy development, the consumption growth of natural gas had the highest record in 5 years. Due to the demand and supply and geopolitical influence, international oil prices experienced a deep dive after soaring with volatilities. During January to October 2018, the price of Brent crude oil maintained an upward trend with fluctuation and exceeded US$80 per barrel from US$60 per barrel. The price of Brent crude oil started to fall sharply after October 2018, with the lowest record of about US$52 per barrel, and experienced a modest recovery afterwards.

The results of operation of large-scale international oil and gas companies rendered an obvious improvement. With continuous optimization of the business, the oil and gas production volume maintained a steady growth for five consecutive years. As the investment in upstream exploration and development around the world picked up, the technical service market recovered from its trough. The oilfield services industry continued to be on the rise, and the entire operating environment had improved steadily as compared with 2017. The oilfield services industry continued to adopt certain measures for reducing production, service and management costs. With active mergers and acquisitions as well as reorganization within the industry, new changes existed in competitiveness among the industry.

As reflected from the research report of Spears & Associates, an institution for the industry information, in 2018, except for the decrease in a few professional lines of markets including the offshore drilling market, the market size of most of the professional lines showed a trend of increase. In 2018, the size of the global offshore drilling market dropped by 13% to US$23.9 billion as compared to 2017, and the size of the geophysical prospecting market increased by 3% to US$6.9 billion as compared to last year, while the size of the shipping market increased by 5% to US$4.4 billion as compared to last year. The size of the well services market (only including wireline logging, directional well, cementing, slurry, hydraulic fracturing, well completion instruments and well workover) increased by 20.03% to US$86.6 billion as compared to last year.

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 2018, the Group operated and managed a total of 48 drilling rigs (of which 36 are jackup drilling rigs, and 12 are semi-submersible drilling rigs), and 5 module rigs, etc.

In 2018, revenue from drilling services amounted to RMB7,749.9 million, representing an increase of 22.2% as compared with RMB6,340.9 million of 2017.

In 2018, the oilfield service market was generally improving, with fluctuations existed in the price of crude oil amid the unstable external environment. The competition within the industry remained fierce. The Group always adhered to the enhancement of cost management and investment in technologies, and continued to consolidate the relationship with its strategic customers. It brought its advantages into full play and aggressively explored and accelerated its pace in expanding international markets, and obtained various major service contracts over the world including Indonesia and New Zealand, which resulted in the increase in the utilization rate of equipment and operation volume. In the Middle East, 2 rigs obtained long-term drilling service contracts, which explored the high-end market. In Northern Europe and the Far East, the Group completed Norway new customer drilling service with high quality and locked up the operation contract for many times. The construction of semi-submersible drilling rig "HYSY982" was completed and delivered during the period and an overseas operation project was completed for the first time. The Group also added a semi-submersible rig in the sea of Norway to optimize its overseas strategic layout. In Asia-Pacific, the Group obtained drilling and completion service contracts and continued to consolidate the Indonesia market. In Africa, the Group achieved breakthroughs in the Cameroon market. In America, as affected by the recovery of oil prices, the rig in the Gulf of Mexico and modular drilling rigs started operation successively in accordance with the drilling and worker service contract, and the Group obtained letters of award for another two drilling rigs. In Oceania, the Group won the drilling service contracts and returned to the high-end markets of Australia and New Zealand.

At the end of 2018, we had 23 drilling rigs operating in the coastal area of China, 9 rigs operating overseas, 15 were on standby and 1 was under repair in the shipyard.

In 2018, our drilling rigs operated for 11,138 days, representing an increase of 2,141 days as compared with 2017, which is 23.8 percentage points up as compared to last year. Our jack-up drilling rigs operated for 8,271 days, representing an increase of 1,068 days as compared with 2017; our semi-submersible drilling rigs operated for 2,867 days, representing an increase of 1,073 days as compared with 2017. This was mainly due to the increase in operating demand as a result of the recovery of the market, leading to a decrease in standby days.

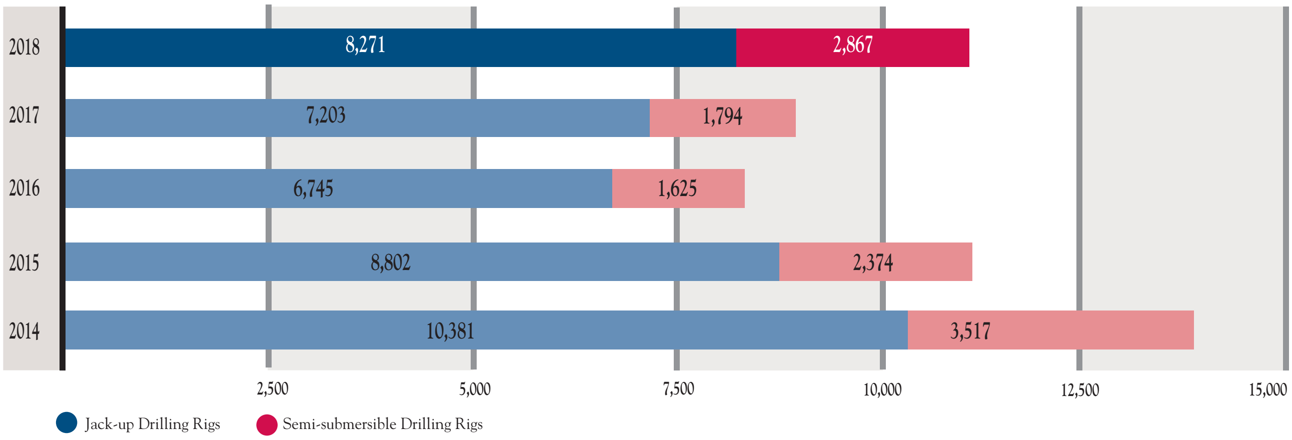
Drilling Services

Operation details of jack-up and semi-submersible drilling rigs of the Group in 2018 are as follows:

	2018	2017	Change	Percentage change
Operating days (day)	11,138	8,997	2,141	23.8%
Jack-up drilling rigs	8,271	7,203	1,068	14.8%
Semi-submersible drilling rigs	2,867	1,794	1,073	59.8%
Available day utilization rate	72.5%	59.6%	Up 12.9 percentage points	
Jack-up drilling rigs	72.0%	62.9%	Up 9.1 percentage points	
Semi-submersible drilling rigs	73.9%	49.1%	Up 24.8 percentage points	
Calendar day utilization rate	66.8%	57.2%	Up 9.6 percentage points	
Jack-up drilling rigs	66.6%	61.4%	Up 5.2 percentage points	
Semi-submersible drilling rigs	67.5%	44.7%	Up 22.8 percentage points	

Five module rigs operated in the Gulf of Mexico for 874 days, representing an increase of 408 days over last year. Utilization rate of the calendar day was 47.9%, representing an increase of 22.4 percentage points over last year.

NUMBER OF OPERATING DAYS FOR DRILLING RIGS IN RECENT YEARS (DAY)



In 2018, the average day income of the drilling rigs of the Group slightly decreased as compared with 2017, details as follows:

Average day income (ten thousand US$/day)	2018	2017	Change	Percentage change
Jack-up drilling rigs	6.5	7.1	(0.6)	(8.5%)
Semi-submersible drilling rigs	17.3	20.4	(3.1)	(15.2%)
Drilling rigs average	9.3	9.8	(0.5)	(5.1%)

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

(2) USD/RMB exchange rate was 1:6.8632 on 28 December 2018 and 1:6.5342 on 29 December 2017, 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 2018, revenue from the well service segment increased by 40.0% from RMB6,995.6 million of 2017 to RMB9,792.6 million.

The Group continued to promote the systematic and industrialization development of its technical products, and its research and development capability and productivity kept strengthening. The Group's wireline logging business accounted for 95% of the technical ability among the top-ranking companies within the industry. ESCOOL high-temperature and high-speed logging system gained a leading position in the industry, and such system completed logging operation for a hot dry rock well with 190 degrees Celsius in Qinghai, which set a new record for operation in high temperature wells. The EFDT formation dynamic tester developed new functions including polar plate type extra-large probe and double-probe hanging, low-speed pump and hydro spectrum analysis of downhole, which satisfied the conditions of application in complex ground with viscous oil and low permeability. The large-diameter

rotating borehole apparatus and the ultrasonic Lamb wave logging tool realized commercialization application in land and sea, and their functions reached the top level amongst the peers in the industry. Directional drilling and logging-while-drilling realized commercialization application in well holes with 8.5-inch and 12.25-inch. The cementing technology formed high-temperature and ultra-high-temperature cement slurries at 120-260°C and built good reputation among international customers. The BIODRILL A drilling & completion fluids system and supporting technique achieved the recycling of water-based drilling and completion fluids and solved the technical problem of emission reduction of drilling and completion fluids. With their continuous increase in the application, new stimulation technique including high-efficient complex acid and non-acid chelation gained remarkable results. Well completion instruments and sieve tube products had rapidly established full-chain capacities which gradually reflected the advantages of self-development. In addition, the joint laboratory in North America had confirmed three cooperative projects for 475-type logging-while-drilling with neutron density, and signed technological development contracts of over tens of millions of U.S. dollars for fully initiating substantive cooperation.

With its high-quality level of service and outstanding capabilities of technological research and development and industrialization, the Group keeps gaining recognition from the global market. The self-developed and multi-functional ultrasonic imaging logging tool is sold to the world-class peer companies which created revenue of over 100 million yuan. In the Middle East, the Group successfully completed the operation in 2 horizontal wells with world-class level of difficulty, which substantially displayed the technical advantages of the Group. In the Southeast Asia, the Group obtained a wireline logging and perforating service contract for 55 development wells in the core oil region, expanded to drilling and completion fluids and cementing services through cooperation for the fourth time, and won a wireline logging service contract with a term of three years. Its contracts of workover, acidizing, perforating and logging services with Pertamina were successfully renewed.

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 2018, the Group continued to improve its QHSE management for its shipping business and enhanced its equipment support ability, and the number of vessels under management and the operation volume recorded varying degrees of growth. By adjusting domestic layout planning, the Group achieved optimal allocation and cross-region sharing of resources for 9 vessels. The Group maintained close cooperation with overseas customers, successfully renewed the contracts for support barges and pontoons in Indonesia and newly obtained the support barges service contracts in the Mexican market. To promote the quality development of its shipping business, the Group exited the non-core oil tanker business and officially commenced the project for constructing 12 LNG dual fuel power vessels with clean energy as the driving force at the same time.

In 2018, revenue of marine support services business grew by 10.7% to RMB2,698.1 million from RMB2,437.8 million in 2017. The chartered vessels operated 9,894 days in total in 2018, increased by 22.2% compared to last year, generating revenue of RMB546.7 million, up by RMB73.4 million from the last year.

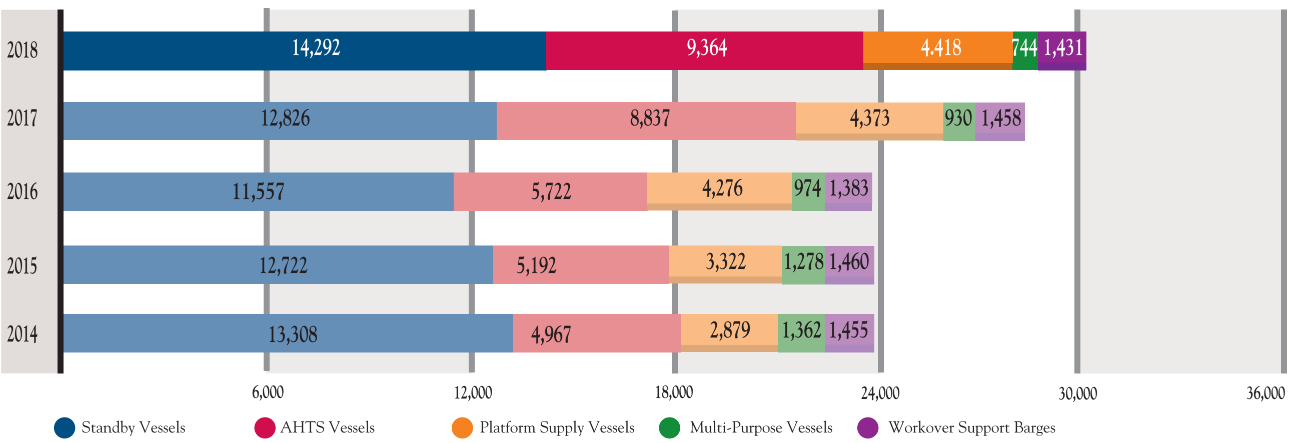
The calendar day utilization rate of self-owned utility vessels was 90.2% in 2018, representing an increase of 3.5 percentage points as compared with last year.

Self-owned utility vessels of the Group operated 30,249 days in 2018, representing an increase of 1,825 days as compared with last year. Details are as follows:

Operating days (day)	2018	2017	Change	Percentage change
Standby vessels	14,292	12,826	1,466	11.4%
AHTS vessels	9,364	8,837	527	6.0%
Platform supply vessels	4,418	4,373	45	1.0%
Multi-purpose vessels	744	930	(186)	(20.0%)
Workover support barges	1,431	1,458	(27)	(1.9%)
Total	30,249	28,424	1,825	6.4%

In 2018, the total transportation volume of oil tankers of the Group amounted to 1,330,000 tonnes, representing a decrease of 6.1% from 1,416,000 tonnes as compared with last year, which was mainly because the Group exited the tanker transportation business at the end of 2018 after considering its strategic development and business layout planning.

NUMBER OF OPERATINGS DAYS FOR SELF-OWNED UTILITY VESSELS IN RECENT YEARS (DAY)



Geophysical Acquisition and Surveying Services

Geophysical Acquisition and Surveying Services Segment

The Group is a major supplier for China offshore geophysical acquisition 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 2018, the Group owns 5 towing streamer seismic vessels, 1 professional source vessel, 2 ocean bottom cable teams, 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 services, and also integrated offshore surveying services.

In 2018, revenue of geophysical acquisition and surveying services segment decreased to RMB1,646.0 million, representing a decrease of 2.3% compared with RMB1,684.3 million of 2017, of which, the surveying services recorded revenue of RMB379.2 million, representing a decrease of 17.6% as compared with RMB460.1 million over 2017. With the increase in multi-client operations for the year, the revenue under such model would be recognized at the time of acquiring sales data.

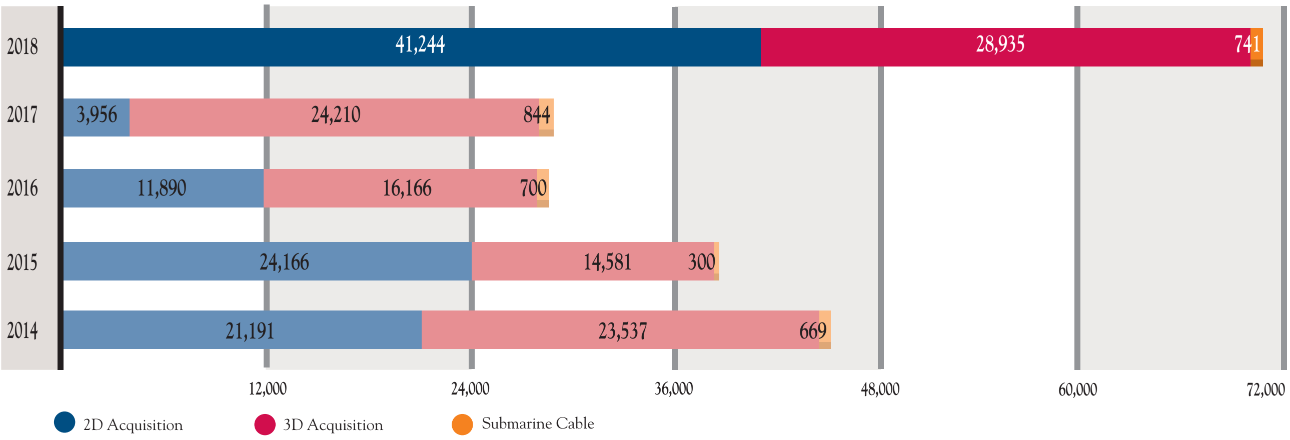
In 2018, the geophysical acquisition and surveying services business continued to followed the strategy of maintaining the Group's position in the domestic market and expanding to the overseas market, and maintained the sustained and steady growth of its domestic and overseas market shares. In particular, both the 2D and 3D acquisition and operation volume had a substantial growth. This year, the Group expanded to the marine geophysical and acquisition market of Argentina, Canada and Brazil for the first time and obtained 2 new multi-client projects. With its outstanding operation results, the service contracts in respect of the market of the Middle East were renewed for four consecutive years. For the market of Southeast Asia, the local operation was completed successfully. Meanwhile, the Group kept expanding to emerging markets including wind power segment, extended the scope of surveying service and successfully won 7 service projects for domestic wind power segment. In respect of the equipment research and development, the Group completed the construction of a production base and achieved the commercialization of its self-developed wireline and industrialised sales of its navigation system for the first time.

In 2018, as affected by the market demand, the Group intensively promoted multi-client acquisition and operation, and both the 2D and 3D acquisition and operation volume had a substantial growth.

The details of operation volume are as follows:

Businesses	2018	2017	Change	Percentage change
2D acquisition (km)	41,244	3,956	37,288	942.6%
of which: multi-client	16,091	–	16,091	100.0%
3D acquisition (km^2)	28,935	24,210	4,725	19.5%
of which: multi-client	5,593	–	5,593	100.0%
Submarine cable (km^2)	741	844	(103)	(12.2%)

THE OPERATING VOLUME OF GEOPHYSICAL SERVICE FLEET IN RECENT YEARS (KM/KM²)



The above mentioned operating data related to 2017 has been restated.

MAJOR SUBSIDIARIES

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

As at 31 December 2018, the total assets of COSL Chemicals (Tianjin), Ltd. amounted to RMB549.9 million and equity was RMB315.2 million. COSL Chemicals (Tianjin), Ltd. realized revenue of RMB600.7 million in 2018, representing an increase of RMB221.3 million or 58.3% as compared with last year. Revenue from principal operations amounted to RMB600.7 million and operating profit amounted to RMB84.6 million. The net profit amounted to RMB71.7 million, representing an increase of RMB35.5 million as compared with last year.

As at 31 December 2018, the total assets of AME amounted to RMB1,035.7 million and equity was RMB-147.9 million. The Company had provided financial support for AME in order to make sure it will be able to continue as a going concern. AME realized revenue of RMB537.8 million in 2018, representing a decrease of RMB12.1 million or 2.2% as compared with last year. Revenue from principal operations amounted to RMB537.8 million and operating profit amounted to RMB-70.2 million. The net profit amounted to RMB-79.9 million, representing an increase in loss of RMB36.9 million as compared with last year.

As at 31 December 2018, the total assets of China Oilfield Services (BVI) Limited amounted to RMB2,832.0 million and equity was RMB273.7 million. China Oilfield Services (BVI) Limited realized revenue of RMB2,103.7 million in 2018, representing an increase of RMB968.2 million or 85.3% as compared with last year. Revenue from principal operations amounted to RMB2,094.5 million and operating profit amounted to RMB257.2 million. The net profit amounted to RMB128.4 million, representing an increase of RMB60.8 million or 89.9% as compared with last year.

As at 31 December 2018, the total assets of CNA amounted to RMB13,472.1 million and equity was RMB-579.5 million. CNA realized revenue of RMB1,928.0 million in 2018, representing an increase of RMB794.4 million or 70.1% as compared with last year. The major reason of revenue improvement was that operation volume increased. Revenue from principal operations amounted to RMB1,928.0 million and operating profit amounted to RMB-608.2 million. The net profit amounted to RMB-591.8 million, representing an increase in loss of RMB128.0 million as compared with last year. The reason of the increase in loss was that the operation volume and the investment in human resources and materials increased during the period.

As at 31 December 2018, the total assets of COSL Singapore Limited amounted to RMB27,241.3 million and equity was RMB1,191.6 million. COSL Singapore Limited realized revenue of RMB1,703.6 million in 2018, representing an increase of RMB26.1 million or 1.6% as compared with last year. Revenue from principal operations amounted to RMB1,598.6 million and operating profit amounted to RMB-2,306.7 million. The net profit amounted to RMB-2,379.4 million, representing an increase in loss of RMB1,027.8 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 2018, the total assets of COSL DRILLING STRIKE PTE.LTD. amounted to RMB4,664.8 million and equity was RMB-2,193.8 million. The Company had provided 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 RMB368.3 million in 2018, representing a decrease of RMB56.8 million or 13.4% as compared with last year. The net profit amounted to RMB-927.4 million, representing an increase in loss of RMB379.2 million as compared with last year. The total amount of the impairment loss of equipment and accounts receivable during the year is RMB458.2 million.

As at 31 December 2018, the total assets of COSL PROSPECTOR PTE.LTD. amounted to RMB9,512.9 million and equity was RMB-2,844.4 million. The Company had provided 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 RMB243.2 million in 2018, representing an increase of RMB107.0 million or 78.6% as compared with last year. The net profit amounted to RMB-1,304.7 million, representing an increase in loss of RMB438.3 million as compared with last year. The amount of the impairment loss of equipment during the year is RMB92.4 million.

FINANCIAL REVIEW

1. Analysis on Consolidated Statement of Profit or Loss

1.1 Revenue

For the year 2018, revenue of the Group amounted to RMB21,886.6 million, representing an increase of RMB4,428.1 million or 25.4% as compared with last year. The detailed analysis is set out below:

Analysis by business segment

Unit: RMB million

Business segments	2018	2017 (Restated)	Change	Percentage change
Drilling services	7,749.9	6,340.9	1,409.0	22.2%
Well services	9,792.6	6,995.6	2,797.0	40.0%
Marine support services	2,698.1	2,437.8	260.3	10.7%
Geophysical acquisition and surveying services	1,646.0	1,684.3	(38.3)	(2.3%)
Total	21,886.6	17,458.6	4,428.0	25.4%

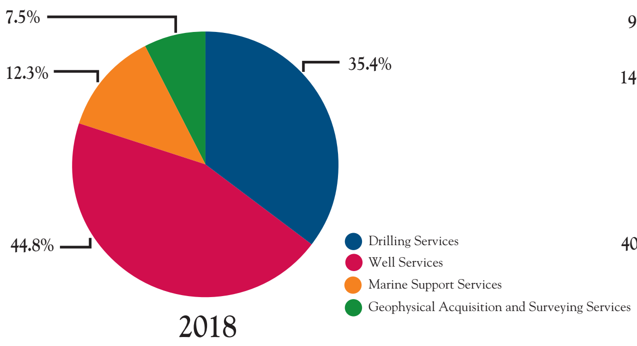
- Revenue generated from drilling services increased by 22.2% as compared with last year. The main reason was that both utilization rate and operation volume of drilling rigs increased.

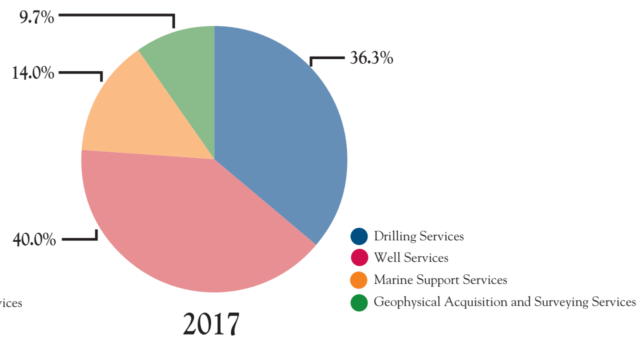
- Revenue of well services increased by 40.0% as compared with last year, which was mainly due to the increase in operation volume of technical services.

- Revenue from marine support services increased by 10.7% as compared with last year, which was mainly due to the fact that the operation days of self-owned vessels and chartered vessels increased by 3,625 days during the year.

- Revenue from geophysical acquisition and surveying services decreased by 2.3% as compared with last year, which was mainly due to the decrease of the revenue from the surveying services.

REVENUE ANALYSIS – BY BUSINESS





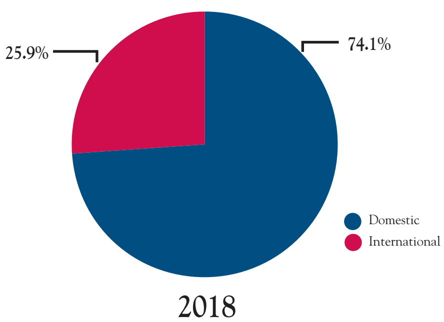
Analysis by operation area

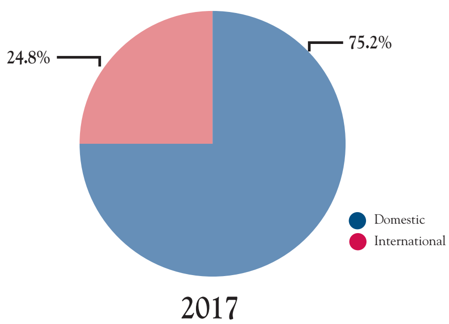
Unit: RMB million

Region	2018	2017 (Restated)	Change	Percentage change
Domestic	16,225.5	13,136.0	3,089.5	23.5%
International	5,661.1	4,322.6	1,338.5	31.0%
Total	21,886.6	17,458.6	4,428.0	25.4%

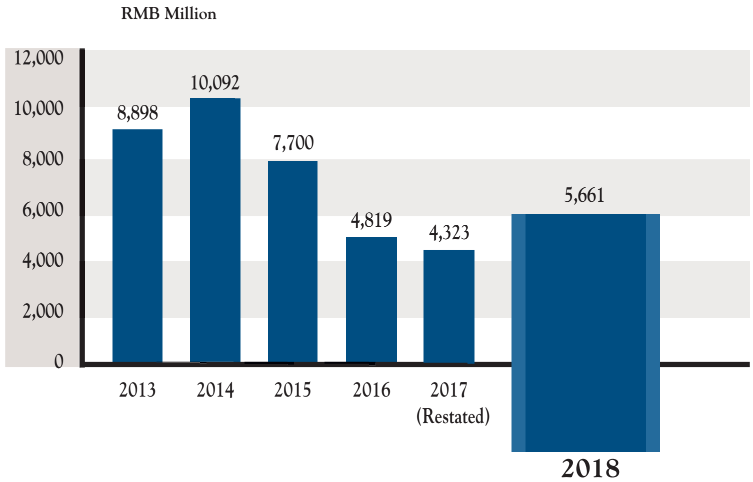
In terms of operation area, the Group's main source of revenue was from offshore China, accounting for 74.1% of the Group's total income. In 2018, the Group's international business recorded revenue of RMB5,661.1 million (compared with RMB4,322.6 million over last year), accounting for 25.9% of the Group's revenue for the year, representing an increase of 1.1 percentage point.

THE LATEST FIVE YEARS' REVENUE FROM INTERNATIONAL BUSINESS





INTERNATIONAL REVENUE



1.2 Operating expenses

For the year 2018, operating expenses of the Group amounted to RMB21,527.2 million, representing an increase of RMB5,212.6 million or 32.0% as compared with RMB16,314.6 million of last year.

The table below shows the operating expenses of the Group in 2018 and 2017:

Unit: RMB million

	2018	2017 (Restated)	Change	Percentage change
Depreciation of property, plant and equipment and amortisation of intangible assets	4,262.8	4,488.9	(226.1)	(5.0%)
Employee compensation costs	5,026.1	4,032.0	994.1	24.7%
Repair and maintenance costs	523.8	364.1	159.7	43.9%
Consumption of supplies, materials, fuel, services and others	4,954.2	3,069.5	1,884.7	61.4%
Subcontracting expenses	3,578.9	2,367.9	1,211.0	51.1%
Operating lease expenses	1,126.2	594.7	531.5	89.4%
Other operating expenses	1,516.8	1,309.0	207.8	15.9%
Impairment of property, plant and equipment	123.0	4.9	118.1	2,410.2%
Impairment losses of amounts receivable and other receivables, net of reversal	415.4	83.6	331.8	396.9%
Total operating expenses	21,527.2	16,314.6	5,212.6	32.0%

Repair and maintenance costs amounted to RMB523.8 million during the year, representing a growth of 43.9% as compared with last year, which was mainly due to the increase of the maintenance days of drilling and shipping services during the year.

Consumption of supplies, materials, fuel, services and others amounted to RMB4,954.2 million during the year, representing a growth of 61.4% as compared with last year, which was mainly due to the fact that the operation volume increased as the market was in slow recovery, which resulted in the increase of consumption of supplies. Meanwhile, the price of raw materials increased.

Subcontracting expenses amounted to RMB3,578.9 million during the year, and operating lease expenses amounted to RMB1,126.2 million. Affected by the recovery of the market and the increase of the operation volume, subcontracting expenses increased by 51.1% as compared with last year and operating lease expenses increased by 89.4% as compared with last year.

Impairment of property, plant and equipment amounted to RMB123.0 million during the year, representing an increase of RMB118.1 million as compared with last year, which was mainly due to the fact that the utilization rate and service price of the large-scale equipment have not returned to normal levels as affected by downturn in global oilfield market, and the impairment recognised for the period was RMB123.0 million.

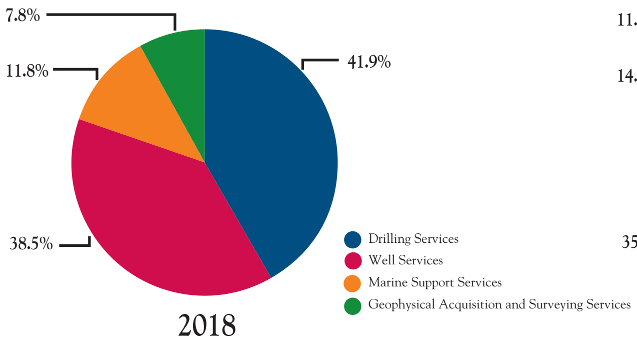
Impairment losses of accounts receivable and other receivables, net of reversal amounted to RMB415.4 million for the year, representing an increase of RMB331.8 million as compared with last year, which was mainly due to the recognition of impairment loss of accounts receivable.

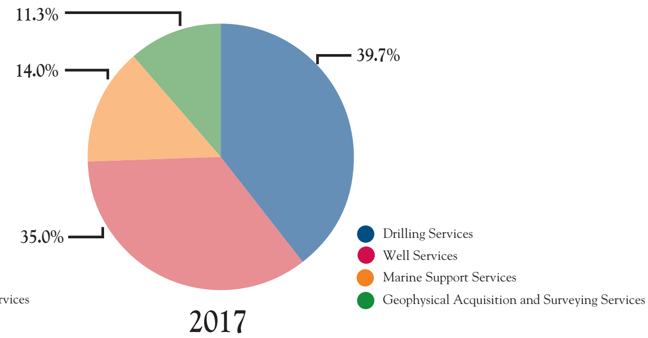
The operating expenses for each segment are shown in the table below:

Unit: RMB million

Business segments	**2018**	2017 (Restated)	**Change**	**Percentage change**
Drilling services	**9,023.5**	6,468.2	**2,555.3**	**39.5%**
Well services	**8,283.7**	5,745.9	**2,537.8**	**44.2%**
Marine support services	**2,543.8**	2,256.0	**287.8**	**12.8%**
Geophysical acquisition and surveying services	**1,676.2**	1,844.5	**(168.3)**	**(9.1%)**
Total	**21,527.2**	16,314.6	**5,212.6**	**32.0%**

ANALYSIS OF OPERATING EXPENSES – BY BUSINESS





1.3 Profit from operations

For the year 2018, the Group's profit from operations amounted to RMB643.5 million, representing a decrease of RMB824.5 million or 56.2% as compared with RMB1,468.0 million of the same period of last year.

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

Unit: RMB million

Business segments	2018	2017 (Restated)	Change
Drilling services	(1,255.4)	(111.7)	(1,143.7)
Well services	1,635.9	1,370.3	265.6
Marine support services	226.0	313.8	(87.8)
Geophysical acquisition and surveying services	37.0	(104.4)	141.4
Total	643.5	1,468.0	(824.5)

1.4 Financial expenses, net

Unit: RMB million

	2018	2017 (Restated)	Change	Percentage change
Exchange (gain)/loss net	(358.6)	388.1	(746.7)	(192.4%)
Finance costs	1,082.5	1,100.9	(18.4)	(1.7%)
Interest income	(107.6)	(99.6)	(8.0)	8.0%
Financial expenses, net	616.3	1,389.4	(773.1)	(55.6%)

The exchange loss decreased by RMB746.7 million as affected by the change of exchange rates during the year.

1.5 Share of profits of joint ventures, net of tax

For the year 2018, the Group's share of profits of joint ventures amounted to RMB184.3 million, representing an increase of RMB77.4 million or 72.4% as compared with RMB106.9 million of last year. This was mainly attributable to the improvement of profitability of joint ventures.

1.6 Profit before tax

The profit before tax generated by the Group was RMB706.3 million in 2018, representing an increase of RMB364.0 million or 106.3% as compared with RMB342.3 million of last year.

1.7 Income tax expense

The income tax expense of the Group in 2018 was RMB617.7 million, representing an increase of RMB356.3 million as compared with RMB261.4 million of 2017, which was mainly due to the increase of the profits of the Company during the year.

1.8 Profit for the year

For the year 2018, profit of the Group was RMB88.7 million, representing an increase of RMB7.8 million or 9.6% as compared with RMB80.9 million of last year.

1.9 Basic earnings per share

For the year 2018, the Group's basic earnings per share were approximately RMB1.48 cents, representing an increase of approximately RMB0.58 cent as compared with approximately RMB0.90 cent of last year.

1.10 Dividend

For the year 2018, the Board of the Company proposed a final dividend of RMB0.07 per share (tax inclusive), totaling RMB334.0 million. If approved by the general meeting, the final dividends are expected to be paid on or before 30 June 2019.

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 2018, the total assets of the Group amounted to RMB74,687.0 million, representing an increase of RMB745.7 million or 1.0% as compared with RMB73,941.3 million as at the end of 2017. The total liabilities amounted to RMB40,009.6 million, representing an increase of RMB755.8 million or 1.9% as compared with RMB39,253.8 million as at the end of 2017. Total equity amounted to RMB34,677.4 million, representing a decrease of RMB10.1 million or 0.03% as compared with RMB34,687.5 million as at the end of 2017.

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		2018	2017 (Restated)	Change	Percentage change	Reasons
Assets						
1	Other intangible assets	289.5	429.7	(140.2)	(32.6%)	Mainly due to the transfer of land use rights during the period.
2	Multi-client library	139.7	22.8	116.9	512.7%	Mainly due to the increase of capitalised amount of multi-client library during the period.
3	Contract costs (non-current)	172.9	-	172.9	100.0%	Due to application of new standards, mobilisation cost for the amortisation period over one year under the contract cost was adjusted to this item.
4	Other non-current assets	97.8	326.8	(229.0)	(70.1%)	Mainly because mobilisation costs and agency fees of rigs were newly included in the contract cost during the period.
5	Notes receivable	232.9	85.5	147.4	172.4%	Mainly due to the increase of notes receivable as a result of the increase of operation revenue during the period.
6	Financial assets at fair value through profit or loss	1,749.7	-	1,749.7	100.0%	Due to application of new standards, the principal and gain on fair value changes of wealth management products with floating income and monetary funds were included in this item.
7	Contract costs (current)	53.0	-	53.0	100.0%	Due to application of new standards, mobilisation cost for the amortisation period within one year under the contract cost was adjusted to this item.
8	Other current assets	6,601.2	2,843.4	3,757.8	132.2%	Mainly due to the increase of investment in the return guaranteed wealth management products during the period.
9	Pledged deposits	27.7	41.1	(13.4)	(32.6%)	Mainly due to the decrease of pledged deposits held by the Group at the end of 2018.

Items		2018	2017 (Restated)	Change	Percentage change	Reasons
10	Time deposits with maturity of over three months	143.2	28.9	114.3	395.5%	Mainly because the time deposits with maturity of over three months held by the Group increased at the end of 2018.
11	Cash and cash equivalents	3,169.0	9,009.1	(5,840.1)	(64.8%)	Mainly due to the repayment of borrowings, payment of interests and distribution of dividends as well as the increase of investment in wealth management during the period.
Liabilities						
1	Notes payable	50.3	-	50.3	100.0%	Mainly due to the increase of bank acceptance bills issued by the Group at the end of the period.
2	Tax payable	373.6	121.6	252.0	207.2%	Mainly due to income tax payable increased during the period.
3	Loan from a related party	1,372.6	2,287.0	(914.4)	(40.0%)	Mainly due to no borrowings from a related party and the repayment of US$150 million during the period.
4	Long term bonds (current liabilities)	4,098.8	-	4,098.8	100.0%	The three-year corporate bonds issued in 2016 will be due within one year.
5	Contract liabilities (current liabilities)	154.4	-	154.4	100.0%	Due to application of new standards, advances received from equipment, advances received from operation and mobilisation revenue for the amortisation period within one year were adjusted to this item.
6	Interest-bearing bank borrowings	787.6	1,409.2	(621.6)	(44.1%)	Mainly due to no bank borrowings and the repayment of borrowings of approximately US$80 million and RMB130 million respectively during the period.
7	Contract liabilities (non-current liabilities)	308.0	-	308.0	100.0%	Due to application of new standards, mobilisation revenue and equipment compensation for amortisation period over one year were adjusted to this item.
8	Deferred income	522.8	888.4	(365.6)	(41.2%)	The equipment subsidies and mobilisation revenue under the deferred revenue were adjusted to contract liabilities during the period.

3. Analysis of consolidated statement of cash flows

At the beginning of 2018, the Group held cash and cash equivalents of RMB9,009.1 million, during 2018, the net cash inflows from operating activities amounted to RMB4,150.3 million; net cash outflows from investing activities amounted to RMB7,036.4 million; net cash outflows from financing activities amounted to RMB3,060.5 million and the impact of foreign exchange fluctuations resulted in an increase of cash of RMB106.5 million. As at 31 December 2018, the Group's cash and cash equivalents amounted to RMB3,169.0 million.

3.1 Cash flows from operating activities

As at 31 December 2018, net cash inflows from operating activities of the Group amounted to RMB4,150.3 million, representing a decrease of 24.2% as compared with last year. This was mainly attributed to an increase of accounts receivable and notes receivable during the year.

3.2 Cash flows from investing activities

As at 31 December 2018, net cash outflows generated from investing activities of the Group amounted to RMB7,036.4 million, representing an increase of RMB9,611.8 million as compared with last year, which was mainly attributed to the decrease of RMB672.1 million in the cash outflows of the acquisition of property, plant and equipment as compared with last year, the increase of RMB7,100.0 million in the cash outflows of the purchase of corporate wealth management products, monetary funds and treasury bond related repurchase as compared with last year, the decrease of RMB2,612.5 million in the cash inflows received from the disposal of matured corporate wealth management products and monetary fund related investments as compared with last year, the decrease of RMB643.0 million in the cash inflows received from the disposal of property, plant and equipment as compared with last year, and the total increase of cash inflows of RMB71.6 million in other investment activities.

3.3 Cash flows from financing activities

As at 31 December 2018, net cash outflows from financing activities of the Group amounted to RMB3,060.5 million, representing a decrease of outflows of RMB1,819.7 million as compared with last year. This was mainly attributable to no loans were received from related parties in 2018, which resulted in the decrease of RMB1,722.9 million in the cash inflows arising from financing activities as compared with last year, the increase of RMB1,032.8 million in the cash outflows as compared with last year due to the repayment of loans to related parties, the decrease of RMB4,581.6 million in the cash outflows as compared with last year due to the repayment of bank borrowings, and the total increase of cash outflows of RMB6.2 million in other financing activities.

3.4 The effect of foreign exchange fluctuations on cash during the year was an increase of cash of RMB106.5 million.

4. Capital expenditure

In 2018, the capital expenditure of the Group amounted to RMB2,397.9 million, representing an increase of RMB98.2 million or 4.3% as compared with last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segments	2018	2017 (Restated)	Change	Percentage change
Drilling services	1,252.4	1,074.6	177.8	16.5%
Well services	642.1	653.2	(11.1)	(1.7%)
Marine support services	200.6	466.2	(265.6)	(57.0%)
Geophysical acquisition and surveying services	302.8	105.7	197.1	186.5%
Total	2,397.9	2,299.7	98.2	4.3%

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 acquisition and surveying services segment was mainly used for the establishment of a multi-client database.

BUSINESS PLAN

As the recent international oil prices fluctuated at a medium-to-high level, the investment of global oil and gas in development will continue to increase, and the workload of various sectors of the Company is expected to improve in varying degrees. However, affected by factors including global trade frictions, reverse globalization trend and geopolitical risks, the recovery progress of the oilfield services industry is still full of challenges. The Company will continue to spare no effort in expanding markets and promote the development of the well services segment and overseas business so as to enhance the profitability of the Company.

2019 BUSINESS OUTLOOK

According to the estimated data of IHS Markit, an institution for international information services, it is estimated that in 2019, the investment in upstream exploration and development around the world will increase by 15.63% from US$408.3 billion in 2018 to US$472.1 billion in 2019; while the investment in the offshore exploration and development in 2019 will increase by 15.69% from US$104.5 billion in 2018 to US$120.9 billion in 2019. In general, the oilfield services industry will continue to pick up in view of the gradual recovery trend of capital expenditure of global oil and gas in 2019, together with the growing activeness of the market, the overall operating environment will be further improved as compared with 2018. As oil companies will continue to focus on cost control and efficiency improvement, the services prices will be in slow recovery. Meanwhile, the competition in the market will remain fierce in view of the excessive resources of the services companies, and the overall profitability of the industry cannot be enhanced rapidly.

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 2018, 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 2018 was mainly reflected in the following aspects:

1. According to the improved risk assessment matrix, the Company has adopted risk criteria as assessment criteria and conducted risk trend analysis for comprehensive risk assessment of the likelihood of occurrences and the severity of potential impact of risks identified to monitor dynamic changes.

2. The Company continued to enhance its QHSE management for achieving the international and industrial level, and constantly strengthened its intrinsically safe management and created advanced safety culture for improving its QHSE management level. The Company kept improving its risk management system to ensure that its QHSE control covers all parts of operations in order to satisfy the operational needs of different regions inside and outside the country with targeted measures.

3. According to the changing regulatory environment and the management needs of the Company's operation, the Company improved its management system for the board of directors, optimized its internal functional authorities and accelerated the implementation of its development strategies. The Company amended the Rules of the Procedure of the board of directors to further define the responsibilities of directors. The Company also optimized its human resources authority and improved the human resources system for senior management to improve the efficiency of the decision-making process. The Company determined the authorization for formulating strategies and management in order to accelerate the promotion and implementation of strategies.

4. The Company optimized its internal control management system and management standards. As the Company timely identified the deficiencies of its internal control management, it enhanced its internal control management system and QHSE management system in accordance with domestic and overseas regulations and regulatory requirements in order to promote and guarantee the efficient commencement of the Company's domestic and overseas businesses.

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 2018, the stock of the Company was included in the Hang Seng (China A) Corporate Sustainability Benchmark Index for seven consecutive years and was included in the Hang Seng Corporate Sustainability Benchmark Index for five consecutive years. During the year, the Company was awarded the "Crystal Award for Top 100 International Energy Resources Enterprises". The Company won the honour of "Best New Media Operation" on the campaign of "Tianma Award" held by Securities Times and was awarded the "Honour of Investor Relations" by Hong Kong Investor Relations Association. The stock of the Company was included in the "2018 China ESG50 Index". The Company gained the name of "Innovative Enterprise in China" at the Eighteenth Session of Summit Forum of Top 100 Listed Companies in China and was awarded the "Award of Best Company Listed on the Main Board" on the campaign held by Chinese Securities Journal and was included in the List of Top 100 for 2018 Innovation Index of Chinese A Shares Listed Companies. The Company also awarded the "Best Investor Relations Management Listed Companies" in the China Securities Golden Bauhinia Award organized by Ta Kung Po of Hong Kong. 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 2018, 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. In addition, directors, supervisors and senior management of the Company confirmed that during the 12 months ended 31 December 2018, 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 2018 and on the date of this report is as follows:

Chairman:	Qi Meisheng
Executive directors:	Qi Meisheng Cao Shujie (appointed at the 2017 AGM)
Non-executive directors:	Meng Jun Zhang Wukui (appointed at the 2017 AGM)
Independent non-executive directors:	Law Hong Ping, Lawrence Fong Chung, Mark (reappointed at the 2017 AGM) Wong Kwai Huen, Albert
Remark 1:	
Executive directors who resigned during the reporting period:	Li Feilong (resigned on 28 February 2018) Liu Yifeng (resigned on 30 May 2018)
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, with 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, 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 2017 (for details, please search our website for Articles of Association of the Company or Annual Report 2017).

The duty and authority of the Board in the Articles of Association of the Company are consistent with those disclosed in the Corporate Governance Report 2017 (for details, please search our website for Articles of Association of the Company or Annual Report 2017).

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 2018, 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 making decisions 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 2018.

4. Performance of Independent 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 directors of listed companies. During the reporting period, the independent directors effectively performed their due diligent and attentive responsibilities as directors, and provided various professional advices to the Company, especially in the review of financial reports, the review of connected transactions, the management of risks, among which, please see section VII of this 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 2018, the independent directors also reviewed the resolution on the connected transactions in relation to asset transfer and relevant business and expressed their independent opinions. 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 directors 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 regards to the diversification policy of Board composition, and considered it could play a positive role for the Company in recruiting different types of talents, improving corporate governance level and achieving sustainable development to the largest extent. The Board considered that the Company should have different perspectives at the time of selecting directors (measurable objectives include but not confined to factors of educational background, professional experience, 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. Each year, the Nomination Committee of the Company 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 2018 (Mr. Cao Shujie joined the Board of Directors to succeed Mr. Liu Yifeng, Mr. Zhang Wukui was appointed as non-executive Director of the Company, Mr. Fong Chung, Mark was re-appointed as independent non-executive Director of the Company), 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 Meetings 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 Stock Exchange of Hong Kong Limited and the independence of the current independent non-executive directors of the Company is in compliance with the requirements set out in 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. Qi Meisheng as the Chairman and Mr. Cao Shujie as the Chief Executive Officer.

(IV) TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

The term of office of Meng Jun is three years since the 2017 first EGM. The term of office of Zhang Wukui is three years since the 2017 AGM. The terms of office of Law Hong Ping, Lawrence is three years since the 2016 AGM. The term of office of Fong Chung, Mark is three years since the 2017 AGM. The term of office of Wong Kwai Huen, Albert is three years since the 2015 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, Law Hong Ping, Lawrence, Fong Chung, Mark (re-appointed at the 2017 AGM) and Meng Jun. 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 of 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 of the management of the Company for the year 2017, review and approve the Key Performance Indicators for the management of the Company in 2018 and the remuneration of directors, supervisors and senior management for the year 2017 as disclosed in the 2017 annual report of the Company.

(VI) NOMINATION OF DIRECTORS

1. The Composition and Functions of the Nomination Committee

(1) To ensure that the members of the Board possess of the professional experience and educational background as required for the business development of the Company and achieve and maintain the diversity of the Board, the Company established the Nomination Committee which would assess the implementation of policies and provide advices to the Board in due course. The Nomination Committee of the Company consists of three members, namely Law Hong Ping, Lawrence, 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 of Corporate Governance on the Company's website).

2. The work of the Nomination Committee during the year

During the reporting period, the Nomination Committee held one meeting (for details of the meeting, please see Table I), during which the nomination of directors was discussed, the nomination of Chief Executive Officer (CEO) and President was discussed, the nomination of candidates to Chairman was discussed, the independence of the independent 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 (re-appointed at the 2017 AGM), Law Hong Ping, Lawrence and Wong Kwai Huen, Albert. All of them are independent non-executive directors, and Fong Chung, Mark acts as Chairman.

(2) The functions of the Audit 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 of 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 four meetings, for details of the meetings, please see Table I. The major work of the Audit Committee for the year is as follows:

(1) Reviewed the annual operating results of 2017, the first quarterly operating results, the interim operating results and the third quarterly operating results of 2018 of the Company. During the review process, the members performed sufficient and necessary communication with the Company's external auditors and the management of the Company and fulfilled the committee's duties in ensuring the Company's compliance with regulations, completeness and accuracy of the operating results disclosed by the Company.

(2) Reviewed, discussed and optimized the work for internal audit and risk management of the Company and considered and approved the 2018 internal audit proposal of the Company. During the reporting period, the committee adopted the internal audit working report, required to strengthen the supervision and prevention of overseas risks, and emphasized on the cooperation with the financial system. The committee focused on the earlier establishment of internal control system and strengthened internal control compliance. The focus of internal control was the identification of risks with low probability of occurrence and significant losses.

(3) Reviewed the connected transactions of the Company. Enquired about the progress of the 2018 daily connected transactions and the arrangement of connected transactions in relation to asset transfer and related businesses and approved unanimously the report on 2017 connected transactions of the Company.

(4) Regarding the re-appointment of the auditors, the committee unanimously approved the recommendations on re-appointing Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2018.

(VIII) TRAINING FOR DIRECTORS

The trainings of Directors during the year 2018 were as follows: In July, Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert (all of them are Independent Non-Executive Directors) participated in the subsequent training for independent directors of the listed companies organized by the Shanghai Stock Exchange in Chengdu; in August, all Directors of the Company participated in the training on the performance of duties and information disclosure by directors of listed companies in Shenzhen.

(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 2018 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 2018, 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 its shareholders. 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. For details of which, please refer to the Articles of Association published on the Company's website.

(XI) THE REMUNERATION OF AUDITORS

In 2018, the Company re-appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2018, and authorized the Board to fix their remuneration. The fees for the audit and non-audit work provided by the auditors to the Company during the reporting period were as follows:

Auditing – The audit fees totaled RMB14,810,000 for audit/review of the annual and interim financial statements in 2018 and internal control. Non-auditing – The charges for agreed-upon procedures totaled RMB250,000.

(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 annual 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	27 March 2018	Shenzhen	Lv Bo, Qi Meisheng, Liu Yifeng, Meng Jun, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Lv Bo	Three supervisors attended as non-voting delegates
Second Meeting of Board of Directors	27 April 2018	Shanghai	Qi Meisheng, Liu Yifeng, Meng Jun, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Two supervisors attended as non-voting delegates
Third Meeting of Board of Directors	22 August 2018	Shenzhen	Qi Meisheng, Cao Shujie, Meng Jun, Zhang Wukui, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Three supervisors attended as non-voting delegates
Fourth Meeting of Board of Directors	30 October 2018	Beijing	Qi Meisheng, Cao Shujie, Meng Jun, Zhang Wukui, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Three supervisors attended as non-voting delegates
Fifth Meeting of Board of Directors	12 December 2018	Shenzhen	Qi Meisheng, Cao Shujie, Meng Jun, Zhang Wukui, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Three supervisors attended as non-voting delegates
First Meeting of Audit Committee	26 March 2018	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 2018	Shanghai	Fong Chung, Mark, Law Hong Ping, Lawrence,Wong Kwai Huen, Albert	Fong Chung, Mark	Two supervisors attended as non-voting delegates
Third Meeting of Audit Committee	21 August 2018	Shenzhen	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	29 October 2018	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	26 March 2018	Shenzhen	Wong Kwai Huen, Albert, Fong Chung, Mark, Law Hong Ping, Lawrence, Meng Jun	Wong Kwai Huen, Albert	
First Meeting of Nomination Committee	26 March 2018	Shenzhen	Law Hong Ping, Lawrence, Qi Meisheng, Wong Kwai Huen, Albert	Law Hong Ping, Lawrence	

Table II: Particulars of the Board resolutions

Meeting	Matters considered
First Meeting of Board of Directors	1. Approving the resolution of the audited 2017 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 to authorize the Board of Directors to approve their remunerations 3. Approving the resolution of the dividend distribution plan of the Company for the year 2017 4. Approving the proposal for the Directors' Report and Corporate Governance Report of the Company for the year 2017 5. Approving the resolution of the Sustainability Report of the Company for the year 2017 6. Approving the resolution of the 2017 Assessment Report on Internal Control of the Company 7. Approving the resolution of disclosure of results of the Company for the year 2017 8. Approving the proposal to authorize the Board to further issue 20% of H shares at the general meeting 9. Approving the proposal to authorize the Board to repurchase 10% of A shares and 10% of H shares at the general meeting 10. Approving the Management Performance Assessment 11. Approving the resolution of the provision of guarantees for other parties 12. Approving the proposal to adjust the 2018 entrusted wealth management amount of the Company 13. Approving the proposal to amend the Articles of Association 14. Approving the proposal to amend the Rules of the Procedure of the Board of Directors 15. Approving the resolution of nominating Mr. Fong Chung, Mark as candidate for independent non-executive director 16. Approving the resolution of nominating Mr. Cao Shujie as candidate for executive director of the Company and appointing him as Chief Executive Officer (CEO) and President of the Company 17. Approving the resolution of nominating Mr. Zhang Wukui as candidate for non-executive director of the Company 18. Approving the proposal for convening Annual General Meeting and Class Meeting 19. Approving the resolution of electing Mr. Qi Meisheng as Chairman of the Company
Second Meeting of Board of Directors	1. Approving the 2018 First Quarterly Report of the Company, and authorizing the Secretary to the Board to disclose according to regulation
Third Meeting of Board of Directors	1. Approving the 2018 Interim Report of the Company 2. Approving the disclosure of the 2018 Interim Results of the Company
Fourth Meeting of Board of Directors	1. Approving the 2018 Third Quarterly Report of the Company, and authorizing the Secretary to the Board to disclose according to regulation
Fifth Meeting of Board of Directors	1. Approving the resolution of the 2019 wealth management amount of the Company
Written Resolutions approved in 2018	1. Resolution on approving the connected transaction in relation to the purchase of related assets of DPGC Company (29 January) 2. Resolution on approving the connected transaction in relation to the purchase of related assets of drilling and workover rigs business (29 January) 3. Resolution on appointment of Chief Financial Officer (CFO) (28 February) 4. Resolution on approving the connected transaction in relation to the tankers and related business (28 November)

Summary of General Meetings

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which resolutions were published
AGM 2017	30 May 2018	**As ordinary resolutions:** 1. The audited financial statements and the auditor's report for the year ended 31 December 2017 were approved; 2. The profit distribution and declaration of dividends for the year ended 31 December 2017 was approved; 3. The Report of Directors of the Company for the year ended 31 December 2017 was approved; 4. The Supervisory Committee Report of the Company for the year ended 31 December 2017 was approved; 5. The appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors for 2018 respectively was approved and the Board was authorised to determine their remunerations; 6. The resolution of amendment of the Rules of the Procedure of the Board of Directors was approved; 7. The resolution of the provision of guarantees for other parties as set out in the section headed "Letter from the Board-Proposed Provision of Guarantees for Other Parties" in the circular of the Company dated 12 April 2018 was approved;	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There were 12 shareholders in attendance either in person or by proxy at the AGM, representing 3,327,583,431 shares or 69.74% of the voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. Non-executive director, Mr. Meng Jun, independent non-executive director, Mr. Fong Chung, Mark, chairman of the Supervisory Committee, Mr. Wei Junchao 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
		8. The resolution of the election of directors (1) Approving the appointment of Mr. Cao Shujie as executive director of the Company; (2) Approving the appointment of Mr. Zhang Wukui as non-executive director of the Company; 9. Approving the re-appointment of Mr. Fong Chung, Mark as independent non-executive director of the Company; 10. The resolution of the election of supervisors (1) Approving the re-appointment of Mr. Cheng Xinsheng as independent supervisor of the Company; (2) Approving the appointment of Mr. Wu Hanming as supervisor of the Company. **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.		

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which resolutions were published
2018 First A Share Class Meeting	30 May 2018	**As special resolution:** 1. The resolution of granting the repurchase rights on 10% of A shares and 10% of H shares to the Board was approved.	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There were 10 shareholders (including online voting) in attendance either in person or by proxy at the meeting, representing 2,411,214,177 shares or 81.45% of the A voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. Non-executive director, Mr. Meng Jun, independent non-executive director, Mr. Fong Chung, Mark, chairman of the Supervisory Committee, Mr. Wei Junchao 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
2018 First H Share Class Meeting	30 May 2018	**As special resolution:** 1. The resolution of granting the repurchase rights on 10% of A shares and 10% of H shares to the Board was approved.	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There was 1 shareholder in attendance either in person or by proxy at the meeting, representing 781,764,254 shares or 43.16% of the H voting shares. The aforesaid resolutions were approved by way of on-site voting by poll. Non-executive director, Mr. Meng Jun, independent non-executive director, Mr. Fong Chung, Mark, chairman of the Supervisory Committee, Mr. Wei Junchao and 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

About This Report

This is the 13th 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 2018 to 31 December 2018. 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 Global 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-CSR4.0)" 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, consistent, true and transparent, as substantiated by analysis of domestic and international business standards for sustainable development, comparison with other enterprises' sustainability reports, and review and approval by the Management and Board of Directors.

● Report Improvement

The 2018 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". 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 2018 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 more than 50 years of experience 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. As well as providing single-operation services to customers, COSL 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 40 countries and regions around the globe.

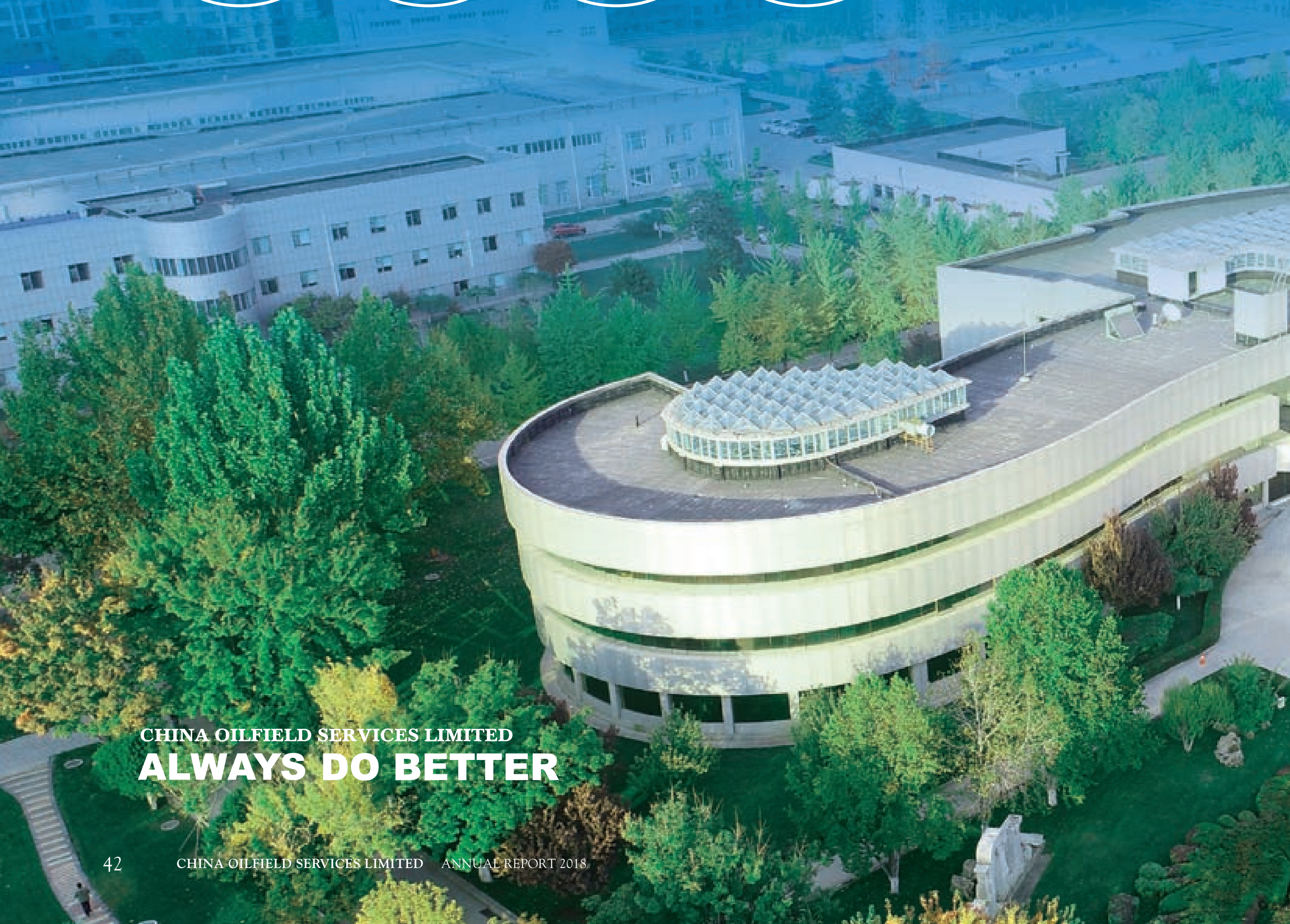
Corporate Culture

Corporate Spirit
Always Do Better

Performance Guideline
Do Everything with Diligence

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

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



Honours in 2018

In January 2018,

the Company received the "Crystal Award for Top 100 International Energy Enterprises".

In January 2018,

the Company won "Shanghai-Hong Kong Stock Connect Best Investment Value Award" by "China Financial Market".

In May 2018,

the Company was awarded a Certificate of Excellence on Investor Relations by the Hong Kong Investor Relations Association.

In September 2018,

the Company was admitted as a constituent company of the "Hang Seng (China A) Corporate Sustainability Benchmark Index" and "Hang Seng Corporate Sustainability Benchmark Index" for the seventh and fifth consecutive years, respectively.

In November 2018,

the Company was admitted to the "2018 China ESG50 Index" as one of the top 50 companies listed in A-share market with solid environmental, social and corporate governance (ESG) performance.

In November 2018,

the Company was awarded the "China Innovative Enterprise Award" at the 18th China Business Top 100 Summit.

In December 2018,

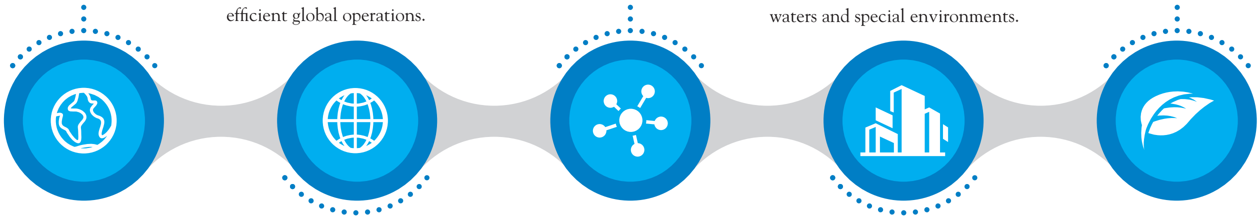
the Company won the "Prize for Best Listed Company on the Main Board" by the Chinese Securities Journal and ranked in the top 100 in the Innovation Index of China A-Share Listed Companies in 2018.

In December 2018,

the Company was honoured with the title "Listed Company with Best Investor Relations Management" in the China Securities Golden Bauhinia Awards issued by the Hong Kong Ta Kung Pao.

Company Development Vision

The Company has maintained a rapid pace of development since its reorganisation and listing in 2002, and withstood the test of two cold winters for the industry in 2009 and 2014. In 2018, based on current constraints and with reference to advanced world-wide operation and management experience, the Company studied and evaluated industry development trends, comprehensively analysed current operational and management conditions, and determined two major strategies: technological development and international development. To this end, it has created a clear vision for a technological transfer from heavy to light assets, and has given great emphasis to the transfer from the domestic market to domestic and overseas markets.



Development of domestic business

As one of the foundational entities of CNOOC Limited, the Company continued to guarantee the supply of high-quality equipment and technology and made more efforts to introduce innovations to further improve the efficiency of oilfield exploration and development. It seized development opportunities in onshore markets and focused on exploration and development in northwestern regions and on unconventional businesses in China.

Expansion of overseas business

The Company thoroughly considered the maturity of regional development and implemented differentiated management and control models consistent with the operation of entities and project systems. It also focused on building the capacity of five ancillary systems, namely business, operations, finance, technological development and overall management. It fully leveraged on investment, mergers, joint ventures, partnerships, cooperation, strategic alliances and other means to consolidate and rapidly expand overseas businesses and achieve efficient global operations.

Technological development

The Company allocated research and development resources around the world, further improved its technological research and development platform, expanded its channels and means of obtaining technology, and enhanced the efficiency of its research and development. It focused on developing soft strength in geology and oil deposits, project design, comprehensive data processing and interpretation. It also promoted the deep integration of informationisation, digitalisation and artificial intelligence with industry to develop new drivers for economic growth.

Development of large equipment

By focusing on light assets and fully leveraging on social resources through leasing, cooperation and custody, the Company further optimised the equipment structure, enhanced the quality of its design and operation, and focused on developing integrated service abilities for deep waters and special environments.

Promoting environmental protection and new energy services

The Company promoted new and environmentally friendly drilling technology and vigorously expanded to wind power, hydrate and other clean energy industries to bring new drivers to economic growth.

Business Development

Business Presence

Asia-Pacific: Singapore, Indonesia, Malaysia, Myanmar, Bangladesh, Timor-Leste, Cambodia, Brunei, Papua New Guinea, Australia, New Zealand, Korea

Middle East: Iraq, United Arab Emirates, Qatar, Saudi Arabia, Kuwait

Africa: Gabon, Nigeria, Cameroon, Ethiopia, Uganda

Americas: Canada, Mexico, Brazil, Argentina

Northern Europe: Norway, UK, Ireland

Far East: Far East

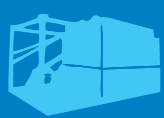
Business Scope

Geophysical and Surveying Services

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

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

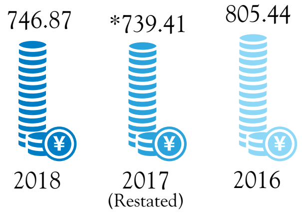
Marine Support Services

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

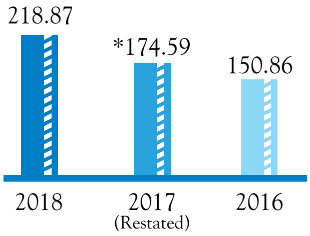
Key Performance

Market Performance

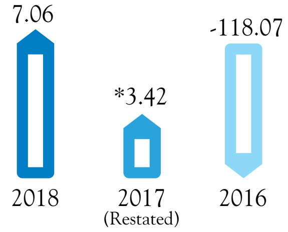
Total assets
Unit: RMB100 million



Operating revenue
Unit: RMB100 million



Profit before tax
Unit: RMB100 million

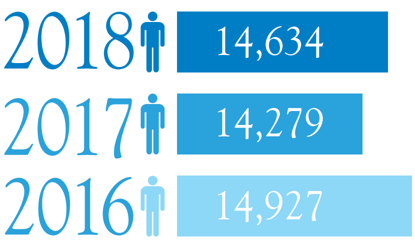


Market Performance	Unit	2018	2017 (Restated)	2016
Total equity	RMB100 million	346.77	*346.87	352.96
Revenue from international business	RMB100 million	56.61	43.23	48.19
Percentage of revenue from international business	%	26	25	32
Total taxation	RMB100 million	13.78	10.76	13.06
Number of new patents	Item	91	74	134

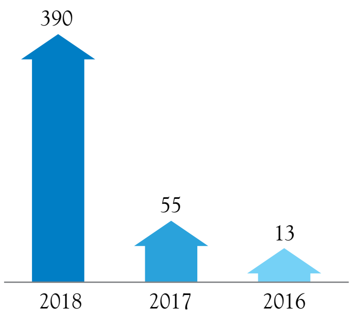
* On 31 January 2018, the Company has complete the purchase of the seismic data processing business of CNOOC Ener Tech – Drilling & Production Co. Data Processing Co. This transaction is accounted for as a combination of business under common control and affected by the amended new standards. The financial data of 2017 in the table has been restated.

Social Performance

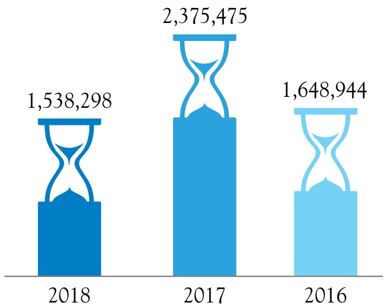
Total number of employees
Unit: Person



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



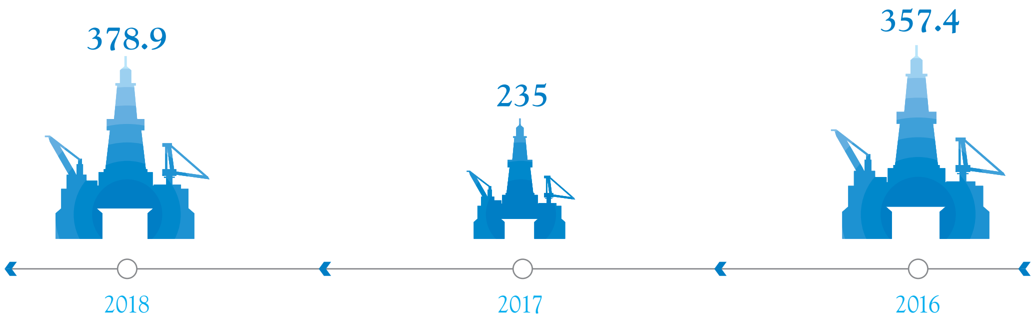
Total time of employees' training
Unit: Hours



Social Performance	Unit	2018	2017	2016
Percentage of female employees	%	8.2	8.1	8.0
Social insurance coverage	%	100	100	100
Percentage of labour contracts signed	%	100	100	100
Staff turnover rate	%	2.6	2.2	2.9
Total donation & employee relief fund	RMB10,000	441.4	356.7	257.1
Number of maritime rescues and salvages	Times	25	26	22
Number of employees participating in volunteer activities	Person-times	883	1,043	2,425

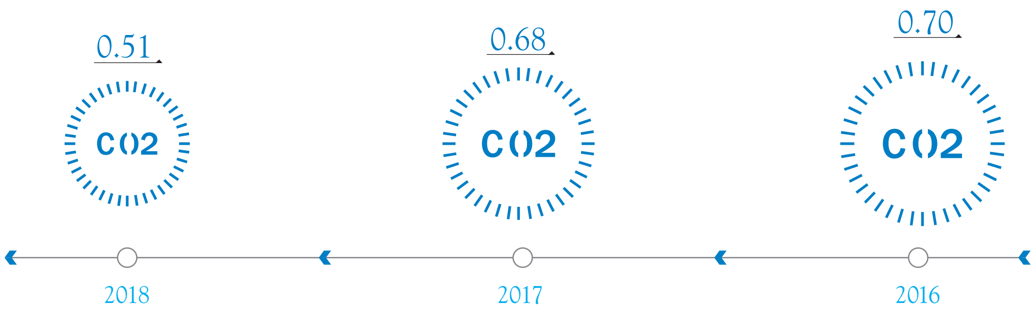
Environmental Performance

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

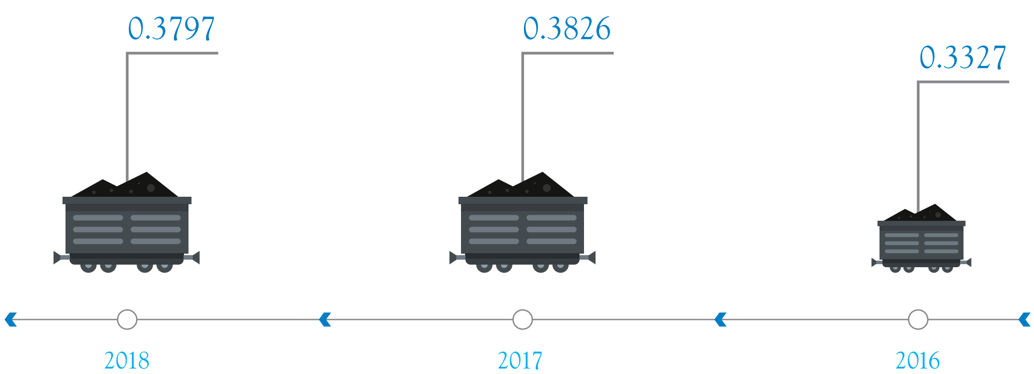


Note: The investment in energy saving and emission reduction excludes the Company's increase of investment in the construction of large-scale equipment for energy savings and emissions reduction.

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



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



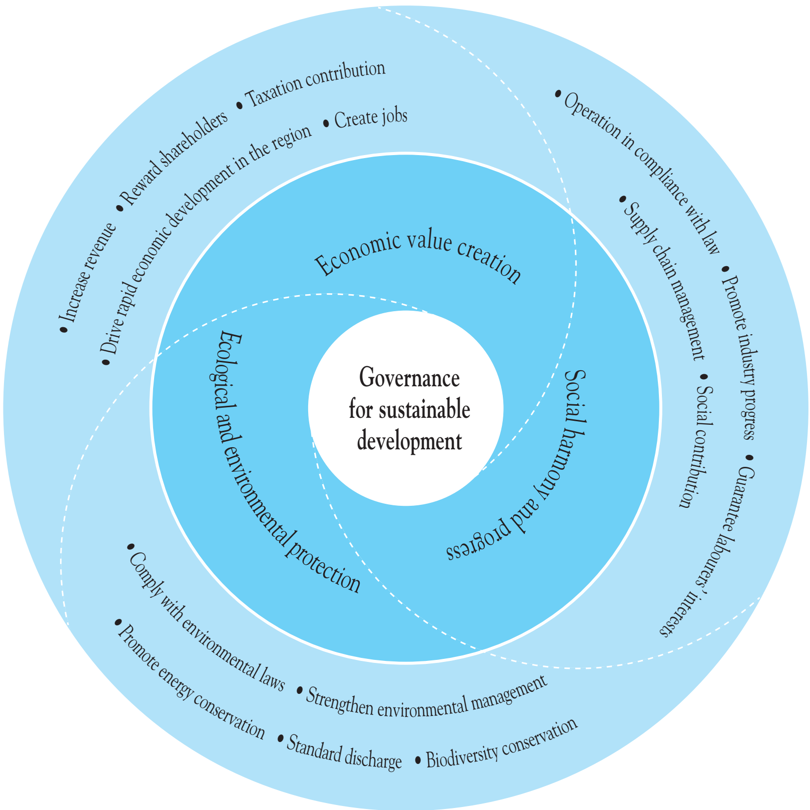
Standard coal is also known as coal equivalent, which has a uniform standard of thermal value. China requires a thermal value of 1kg standard coal to be 7,000 kilocalories. Different types and amounts of energy, in accordance with their different thermal values, are transferred to 7,000 kilocalories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

Sustainable Development Governance

Sustainable Development Governance

It is here that the Company's philosophy of "always do better" takes on a practical meaning, and particularly with respect to enterprise development strategy and daily operations. The Company appoints a specific department to prepare and publish sustainability reports and carry out sustainable development training and exchanges. All departments and business units participate in promoting systematic and standardised management of sustainable development, combining its functions and responsibilities to achieve a combined governance for sustainable development and business management.

In 2018, relevant departments from the Company attended special training organised by CNOOC on theoretical and practical knowledge of sustainable development. The training improved the work ability of the personnel involved and ultimately made implementation of the Company's sustainable development work more effective.



Case

The Company has been admitted to the "2018 China ESG50 Index" as one of the top 50 companies listed in A-share market with solid environmental, social and corporate governance (ESG) performance. The "2018 China ESG50 Index" was jointly launched by leading green finance advisory institution SynTao Green Finance and Caixin Media, and is the first index in China based on the ESG performance. The ESG50 Index gives consideration to the stocks in the CSI 300 Index, a representative index family for A shares. Using an advanced rating system, the ESG performance of the listed companies in the CSI 300 Index is reviewed, and the top 50 listed companies are then selected and ranked in a scientific manner.

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 stakeholder concerns, and adopting their relevant demands as Company objectives and incorporating them into plans for sustainable development. Through a variety of channels and platforms, the Company maintains ongoing communications on new developments of its capabilities and on its performance in meeting 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
Customer	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 Targeted poverty alleviation 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

Risk Management
A Comprehensive New System of Prevention and Control

Lawful Compliance

Internal Control and Risk Management

Anti-fraud Initiatives

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, promotes fair competition, and complies with environmental protection laws and regulations. The Company 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 control systems and continuing to improve its scientific, targeted and timely prevention, control and management of legal risks.

Internal Control and Risk Management

Internal Control Management

Based on ISO standards and the concept of standard international control and integrated processes, the Company developed a global integrated comprehensive management system in line with its international development. Meanwhile, with a focus on processes, the Company rationalised systems and procedures, improved management efficiency, and explored the system establishment across processes.

Developing a global integrated comprehensive management system

The Company adopted approaches for reducing costs and enhancing efficiency in the spirit of the "year of quality and efficiency". It rectified all issues identified during inspections and auditing at all levels to consolidate the management system, management processes and operation mechanism of the Company.

Consolidating operation management and control results and continued to optimise the establishment of the internal control system

The Company strengthened risk control management training and system publicity and implementation through various means, and promoted the exchange of advanced management experience at all levels to improve internal control ability and facilitate systems implementation. It intensified the rectification of audit problems, performed rectification responsibilities and optimised the application of rectification results to facilitate the continuous improvement of internal control systems and control risks from the source.

Promoting system publicity and implementation and rectification of problems

With risks and problems as the orientation, the Company determined the process of annual appraisal and widely obtained appraisal samples to continuously promote the coverage of the internal control self-appraisal to all entities of the Company at all levels across the world. It formulated the "Appraisal Standards on the Quality of Self-appraisal on Internal Control" to improve the quality of internal control appraisal and consistently optimise and improve the internal control system.

Deepening internal control appraisal and promoting system optimisation

Risk Management

Improving early warning and focusing on management and control of significant and key risks

The Company collects a wide array of information to strengthen its early detection of risks and enable fully coordinated management and control of "three defence lines". It continuously improves the management and control of significant and key risks, and closely follows "grey rhino" risks with a high probability, predictability and wide impact. It has intensified tracking and evaluation of changes to the external environment and of industry trends, and works to prevent "black swan" incidents (those with a low possibility, great unpredictability and significant influence). In 2018, the Company's various risks were stable and satisfactorily under control.

Enhancing risk management and control awareness, improving risk response

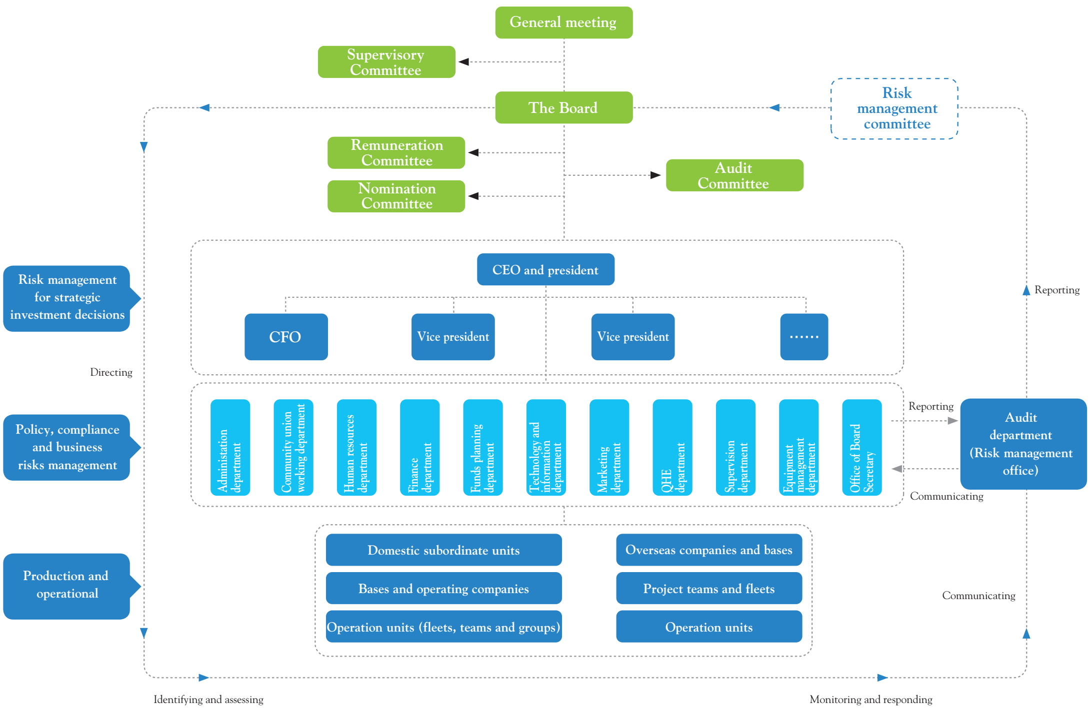
The Company has collected and categorised risk management and control cases from within and outside the Company and organised risk control training to enhance employees' risk awareness and ability to respond to risks. Based on the quarterly report on overall risk management, it continued to optimise channels for the sharing and reporting of risk information, and strengthen coordination at all levels to control annual significant and key risks in a timely manner.

Managing and controlling risks at different levels, categories and grades, and improving the "three defence lines" operational mechanism

The Company has consistently optimised its risk management and control resources in ways that are commensurate to different levels, categories and grades within its corporate structure. Thus it has enhanced its capacity at all levels to identify and evaluate risks in advance, and coordinate the management and control of the Company's response. Problems are identified and eliminated in advance through enhanced risk inspection.

Internal control and risk management training performance table (2016-2018)

Indicator	Unit	2018	2017	2016
Number of internal control management training	Times	166	162	156
Number of participants in internal control management training	Person-times	2,512	2,362	2,257
Number of risk management training	Times	45	49	46
Number of participants in risk management training	Person-times	1,598	1,743	1,635



Risk Management Organization Chart

Anti-fraud Initiatives

Preventing commercial corruption and bribery

The Company continued to execute anti-corruption and anti-fraud work which concentrated on issues identified through whistleblowing and/or revealed through complaints, inspections, internal audits and special inspections. It organised and conducted risk inspection in important and key businesses, improved the corruption risk database, and appraised the implementation of measures for preventing and controlling corruption risk and their effects on management and control, all of which enhanced the accuracy of its corruption risk control. It strengthened accountability in supervision and discipline implementation as effective measures to thwart corruption, bribery and insider trading. In 2018, no instances of corruption, fraud or money laundering were detected by the Company.

Preventing and controlling corruption and fraud risks on overseas institutes

The Company has implemented overseas ethics compliance management systems and developed training courses for implementation by overseas institutions. Based on a "six major output contributors" management model, it selected supervisors for ethics compliance at direct overseas subsidiaries in the Americas, the Far East, Asia-Pacific, the Middle East, Europe and Africa. It enabled overseas employees to enter the Letter of Commitment on Following Ethics and Code of Conduct to strengthen awareness of ethics compliance. Overseas institutions duly created tip-off email addresses and telephone numbers and opened channels for reporting ethics compliance problems. The Company completed the acceptance and investigation of reported problems and punished employees found to have acted in violation of code.

Intensified anti-fraud and warning education.

The Company organised educational activities for "identifiable" and "tolerant" anti-corruption and issued six relevant cases, including Focusing on Interwoven Problems on "Hunting" and Willing to Be "Hunted". The Company and its direct subsidiaries organised 379 educational activities with a fraud deterrent theme, for which there were 16,507 participants. Over 250 leaders, cadres and employees at sensitive positions visited anti-corruption and integrity education bases and prisons to receive fraud deterrent education at first-hand. It further consolidated the ideological defence line and created an excellent atmosphere for the compliance operation of the Company.

379
deterrence education activities

16,507
participants in education

Over
250 staff
from sensitive positions received first-hand deterrence education

Performance of internal control and risk management trainings (2016-2018)

Indicator	Unit	2018	2017	2016
Number of anti-fraud trainings	Times	397	496	467
Number of participants in anti-fraud training	Person-times	16,507	19,403	17,272

Improved Capacity Opens A New Chapter in Sustainable Development

Quality Management

Professional Services

Technological Innovations

Supply Chain Management

Quality Management

Through adherence to its policy of "impeccable credibility, equipment in good condition and quality assurance", the Company continuously improves the effectiveness of its management, the quality of its products and services, and its ultimate customer satisfaction.

Improving the Quality Management Organisation

The Company and its 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 efforts to continuously improve its quality management, all departments 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 continuous 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 of the Company.

Conducting Quality Training

The Company supported market exploration and the establishment of the API Q2 system to consistently enhance the capacity of the product quality review team. In 2018, it organised training for internal API Q2 reviewers with English materials on API standards. Eight certificates have been obtained to date.

Enhancing Quality Control on Key Products

The Company organised special examinations at manufacturing departments to manage and control quality risks for key products. The examinations covered raw material quality, warehousing of raw materials, pre-production materials collection, the production process, product quality examination and product warehousing, rectification of disqualified products, and other production processes. The Company subsequently developed rectification plans for the irregularities identified by the examinations and required their completion within a prescribed period.

Advancing Laboratory CNAS Certification

In 2018, the Company continued to advance its ISO/IEC 17025 laboratory certification for international market access. After the experimental centre at the Oilfield Chemicals Department's oilfield chemicals research institute obtained the CNAS certificate, the Company pressed ahead with work on the laboratory certification for the Oilfield Production Department's experimental centre.

Carrying out QC Team Activities

During 2018, COSL carried out 221 QC team activities. The Geophysical Department's "Offshore Cable QC Group" was awarded first prize for its outstanding results during activities organized by the Quality Management Group on National Petroleum and Chemical Industry in 2018.

Professional Services

Provision of Professional Services

COSL is dedicated to providing efficient, effective high quality services to its customers. The Company's high standard of professionalism and good operational performance have enabled it to make considerable progress in developing overseas markets amid intense competition.

Asia-Pacific

- **Indonesia:** The Company's semi-submersible drilling rigs returned to the Indonesian rigs market after a 12-year absence. The jack-up drilling rigs COSL Power and HYSY943 won the bidding for an Indonesian rig services contract. The Company has successively won various service contracts for drilling fluid, cementing, cable logging, directional drilling, acidising, coiled tubing, wireline operation and filtration and production increase. The cementing business covers all offshore blocks of customers in Indonesia and further consolidated its status in the Indonesian market.
- **Myanmar:** The Company achieved breakthroughs in key markets and with target customers in the geophysical and cementing businesses. It won the bidding for onshore cable logging and perforation services contracts in Myanmar.
- **Malaysia:** The Company made new market inroads, winning the bid for a five-year drilling fluid and cementing services contracts jointly tendered by Petronas and PACS, and was on the list of relevant services contractors.
- **Bangladesh:** The Company made its first entry to the Bangladesh market. It provides geophysical three-dimensional seismic survey services in the country.
- **New Zealand:** The Company entered into the COSL Boss drilling services contract with Shell and won a semi-submersible drilling services contract for Tamarind Energy at the same time.

On 15 October, NH9's SIO-02 well at the Kangean Programme in Indonesia was successfully ignited for release.

Far East

Drilling and relevant services.

Middle East

The Company achieved a significant breakthrough in the high-end Saudi Arabia market. The COSL Gift and COSL Strike drilling rigs won bids for a 5+2-year services contract with Saudi Aramco.

The Company returned to the western African market and cooperated with Addax for the first time. COSLSeeker began implementing drilling service contracts in Cameroon and Gabon.

The HYSY720 geophysical vessel completed a three-dimensional seismic survey over a 5,597.69 square-kilometre area, and HYSY760 was granted a seismic survey over a 10,000 kilometre area.

The Company won significant footholds in new markets. In Ethiopia it won contracts for onshore cable logging and perforation services for 1.5 to two years.

Africa

COSLInnovator began implementing a drilling services contract with Lundin, a new customer in Norway. COSLPioneer was granted a drilling services contract on Buzzard Phase II in Great Britain.

Europe

- COSL Confidence reinitiated a drilling services contract with Petroleos Mexicanos (PEMEX) and was awarded a prize for no recordable events for 2,000 consecutive days.
- HYSY760 completed offshore two-dimensional seismic surveys of 11,600 kilometres and 12,000 kilometres in Canada and Argentina, setting a new daily production record of 234.45 kilometres for Chinese geophysical vessels. HYSY720 obtained the Company's biggest overseas seismic survey programme in Santos Basin, Brazil.
- The Company won its first-ever overseas sales contract for mass well completion products. It obtained an order for a total of 33,000 metres of slotted pipes for 66 wells in Canada.
- HYSY614 won a platform support services contract in Mexico.

Americas

Strengthening Communication with Customers

In 2018, the Company concentrated on its international development strategy and accelerated construction and development in six overseas regions. It focused on strengthening communications with core customers in key markets, actively launched promotional activities for new customers in new markets, and closely monitored customer demands and provided custom solutions, all of which enhanced the Company's brand influence.

Attending Major International Petroleum Events

14-19 October

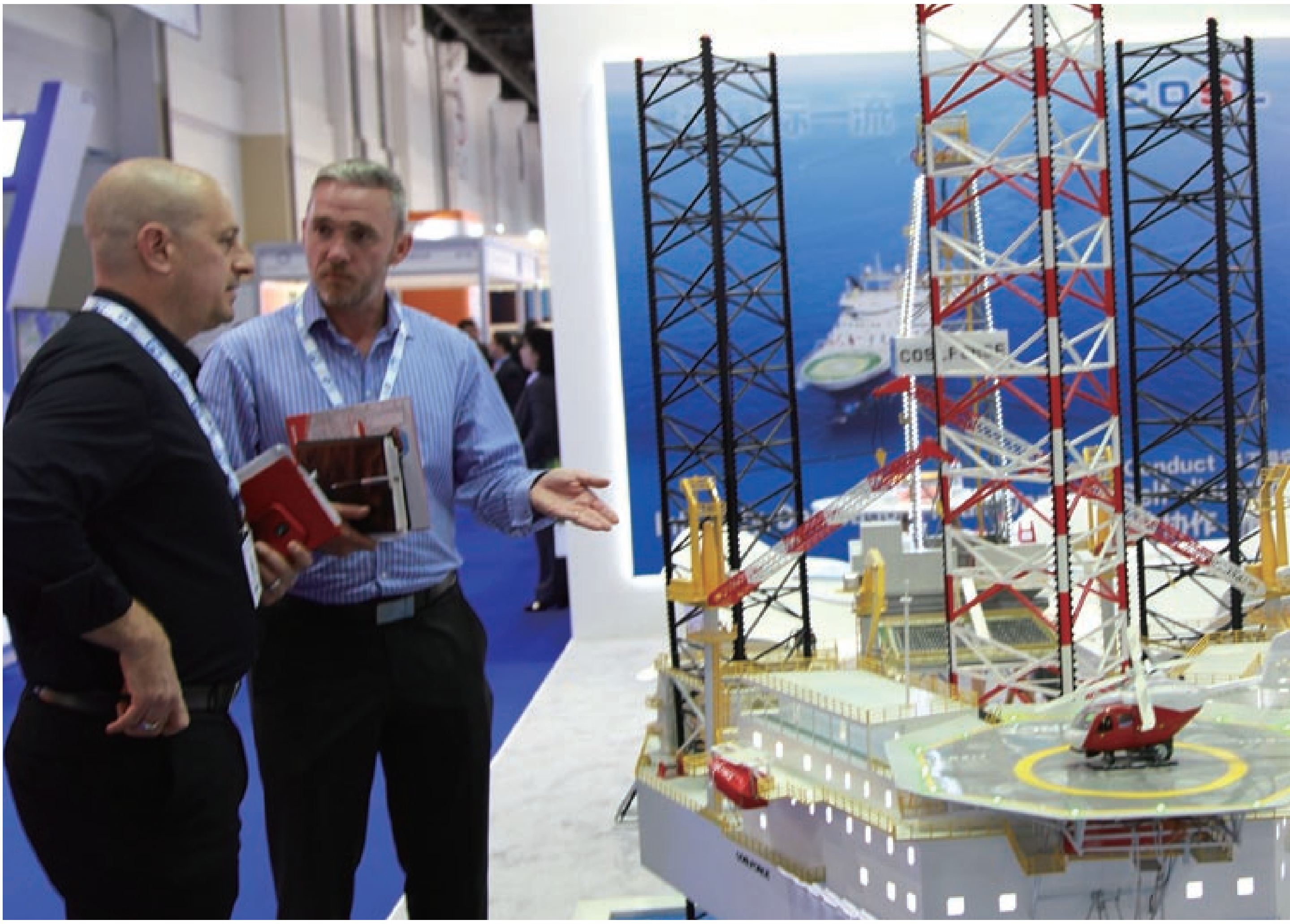
Attended the Society of Exploration Geophysicists Annual International Meeting and Exposition (SEG) in the USA, highlighting the Company's geophysical operations and development plans.

26-28 September

Attended the 2018 Congreso Mexicanodel Petróleo to display COSL's industrial chain.

12-15 November

Attended the 2018 Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC) and conducted exchanges with customers regarding regional and international cooperation and new cooperative models.



Case

Themed workshop activities

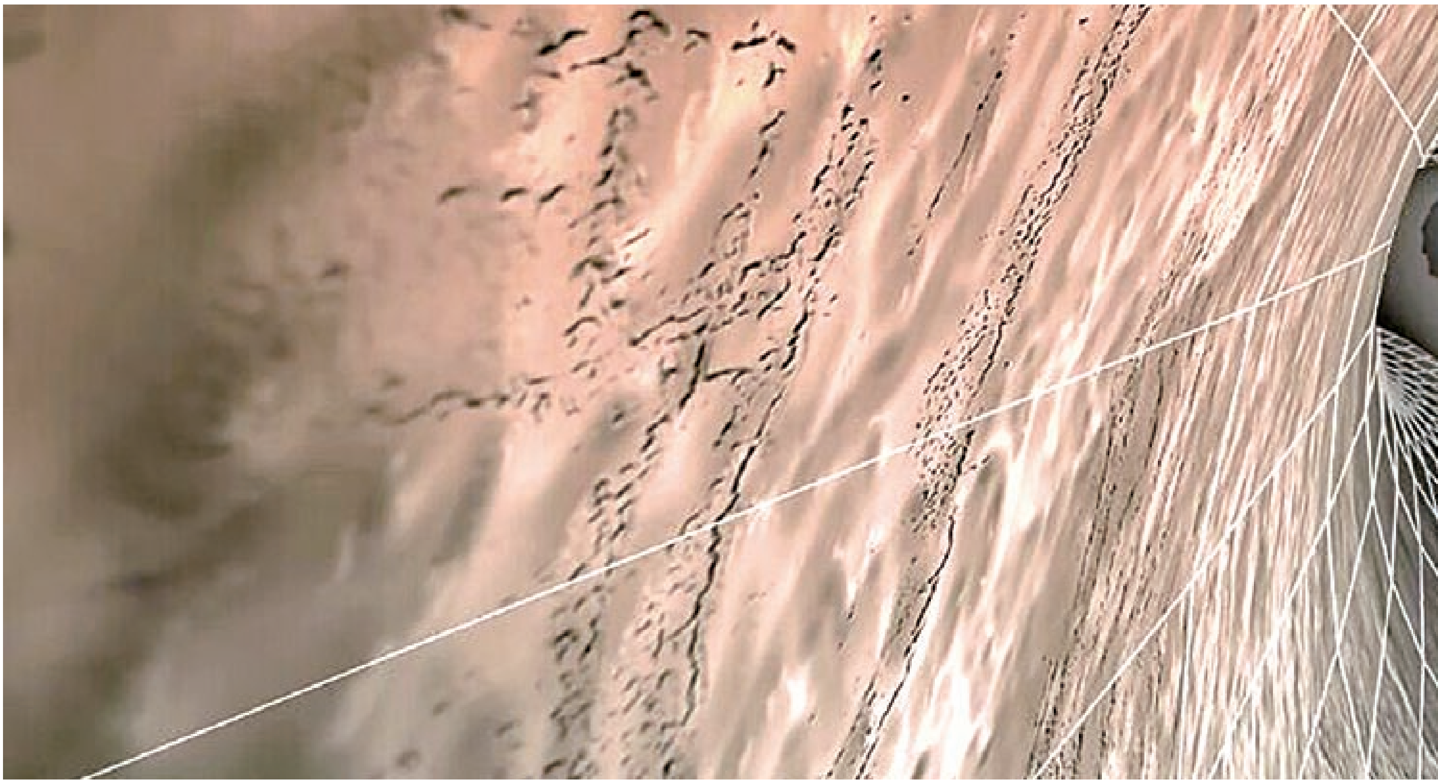
Based on the demands of key markets and customers, the Company held a workshop on the business capacity of COSL. It also invited customers to its headquarters for technology exchanges and to help enhance the understanding of the customers on the Company, achieved positive effects and laid foundation for expanding cooperation.

Industrial technology seminar

The 4th COSL Annual Meeting on International Market and Petroleum and Natural Gas Exploration and Development Technology Seminar with the theme of "Inspiring Innovation and Integration" was successfully held in Shenzhen on 22 November 2018. The seminar was upgraded into an industry technology seminar for the first time and transformed from "self-promotion" to "sharing by customers" for the first time. It firstly adopted the "seminar plus exhibition" form and focused on the display of the Company's latest services and products ad facilitated knowledge exchange with customers. In all, more than 100 representatives from more than 50 companies attended, setting a new record for the number of participants. Customers highly recognized and considered the seminar as "a valuable international platform for communications, cooperation and win-win results with multi-layered discussions on current hotspots in the industry and views on the future development orientation, innovation and consolidation of the industry from various parties".

Technological Innovation

COSL has named technological development one of its two major development strategies. The Company continuously innovates to provide high-quality, efficient technical products and services that respond to market demands for oil and gas exploration, development and production. These have improved the efficiency of oil and gas exploration and expanded the world supply of sustainable energy.



91
Patents granted during the year

42
Invention patents

9
Prizes on technology above the provincial and ministerial level

Continuing to increase scientific research inputs and consistently improving the quality of supply

In 2018, the Company invested RMB794 million into scientific research and development and undertook 197 scientific research programmes at all levels. It was granted 91 patents during the year, of which 42 were invention patents. It was also granted nine prizes for technology above the provincial and ministerial level. 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. For example, experiments on various LWD and actual drilling with directional new technologies including LWD near-bit drillers achieved success. The performance of the "Gluttonous Snake" system has been further enhanced. Three PCT applications, including for a rotary sidewall sampler, were granted by the Patent and Trademark Office.

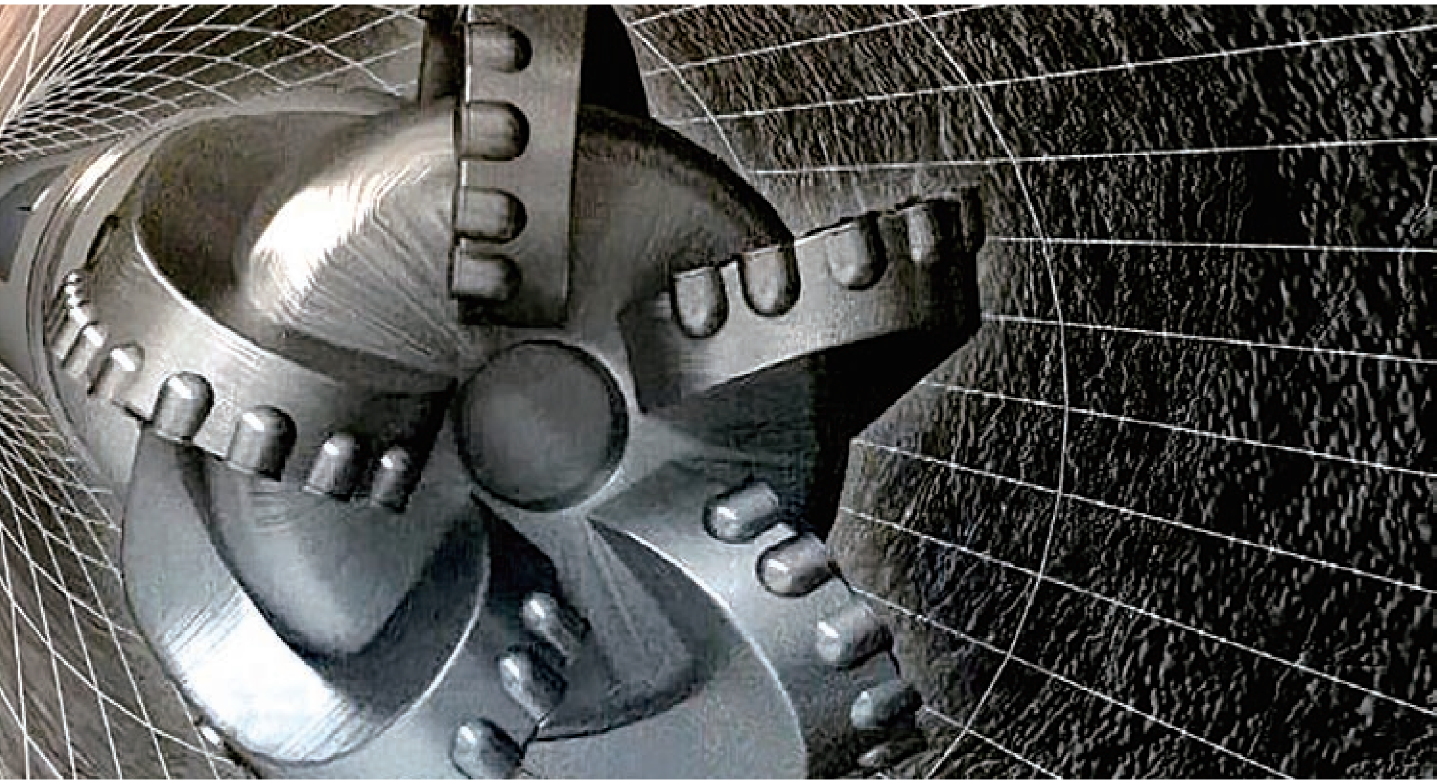
Key Performance Table for Technical Innovation (2016-2018)

Indicator	Unit	2018	2017	2016
Research and development expenses	RMB10,000	79,375	*63,415	56,710
Number of new patents	Item	91	74	134
Number of new invention patents	Item	42	53	60

* Note on the changes to research and development expenses in 2017: The research and development expenses disclosed in the 2017 Sustainability Report only included direct expenses on research and development programmes, excluding indirect expenses. It also excluded the research and development expenses of Ener Tech, acquired in early 2018. It restated the research and development expenses in 2017 to maintain the consistency and integrity of the disclosure calibre.

Initiating reform of technical systems and mechanisms, optimising technology management processes

In 2018, the Company re-emphasised the strategic leadership, organisation, guidance, supervision and support role of technology management work in advancing significant technology programmes. It focused on the profitability improvement of technical products, established and improved the management model for product lines, improved the decision-making process for the filing of scientific research programmes, and opened green channels for purchase for scientific research, significantly improving the efficiency and quality of research and development.



Focusing on cutting-edge technologies and participating in the construction of foundation platforms for scientific research programmes at the provincial and ministerial levels

Enhancing fundamental research

Improving technology

The "Southern Marine Sciences and Engineering Guangdong Laboratory (Zhanjiang)", which was invested and prepared by the Company, was officially established with the approval of the provincial CPC committee and government of Guangdong Province. The Company will use platform for deep-water, high-temperature and high-pressure exploration, drilling and well completion as well as development and production, with the goal of building a forward-looking fundamental research capacity. It will enhance fundamental research on high-temperature, high-pressure and deep-water drilling technologies, high-temperature and high-pressure reservoir geophysics and other industries for technology improvement.

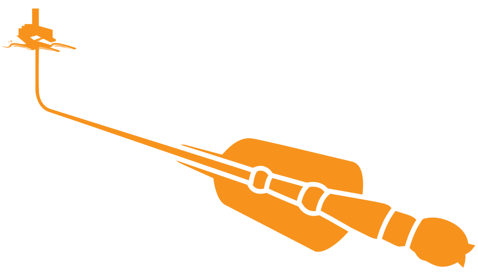
Accelerating research and development of key core technologies and working to ensure domestic offshore oil and gas exploration and development

Based on demand for technologies related to increasing reserve and production at offshore oilfields, the Company took the initiative to overcome technical bottlenecks by developing new tools and methods for reservoir evaluation, optimising innovative oil stabilising and water control technology systems for old oilfields, implementing integrated solutions for low-edge thickened oilfield development, and providing high-quality oilfield services and technical products for the exploration and development of offshore oilfields.

Case ▶ Promoting a high-quality guarantee of offshore oil and gas exploration and development with high-level technical services

On 31 October, the Company's self-developed constant rheological synthetic base drilling fluid technology was successfully applied for the first time in the ultra-deep-water well operation in the eastern part of the South China Sea, supporting the completion of the deepest well drilling in the area.

To increase exploration, development and production of offshore oil and gas and overcome the difficulties it involves, the Company provides high-level technical support services. To ensure continuous, environmentally friendly production of 30 million tonnes at Bohai Oilfield, the Company strengthened communications with customers in order to collect and integrate technical resources from all parties, and reachedreached more than 10 joint research agreements. The Company also accelerated the serialisation and industrialisation of core technical products, made a series of scientific and technological achievements with independent intellectual property rights, and provided a high-level technical supply guarantee for promoting domestic offshore oil and gas reserve and production increase.



Logging directional well field

The Company's self-developed, high-end multi-function ultrasonic imaging logging tool made its first sales to leading international oil service companies. Drilling experiments on the many new technologies used by the self-developed "Gluttonous Snake" system were successful, and led to the system's application in four sea and onshore oilfields in China with a total footage of over 100,000 metres. Three new functions were added to the Company's formation dynamic tester EFDT, including a double-hanging probe for complex formation applications such as low porosity and permeability.

Case

Drilling fluid and cementing

The Company's independently developed high-temperature resistance cementing cement paste COCEM system has exceeded the ultra-high temperature environment restriction with 232°C. The BIODRILL A drilling fluid system and supporting technology enable the recycling of drilling fluid and have contributed to the green development of Bohai Oilfield. In another step toward the replacement of imported products with self-developed equivalents, the Company's remote-controlled top-driven deep-water cementing cement head has been used successfully in operations in the western South China Sea.

Completion and production increase

The Company's FSG sand control and water shutoff technology debuted in Bohai with outstanding results in sand control, precipitation and oil increase. The chelating anti-blocking technology solved the demulsification of conventional acidified crude oil and increased the cumulative oil for Bohai Oilfield by more than 140,000 square metres with excellent reservoir protection. 7-5/8" one trip of multilayer fracturing and filling sand control tool test was successful, filling the blankness of sand control technology of this size and specification in China.

Geophysical survey

The Company's self-developed towline equipment has completed a special two-dimensional broadband acquisition operation in the west lake area of the East China Sea, opening up huge potential for the replacement of imported equipment. The dual-source high-efficiency acquisition technology of submarine cable advanced the secondary exploration of Penglai Oilfield to the substantive implementation stage. A new floating underwater support system for deep-sea seabed CPT has been developed, improving the operation's efficiency by 30%.

Supply Chain Management

The Company works continuously to optimise its supply chain management. Using the Company's organisational structure and operational characteristics as a basis, it completed the initial establishment of a global supply chain network in line with its future development strategy. In 2018, the Company continued to deepen the global supply chain's application in accordance with its international development strategy. It adopted a differentiated guarantee strategy for mature and emerging markets which markedly improved its service guarantee capacity and resource network construction, and effectively guaranteed the development of the Company's overseas businesses.

Resource support for the Company's procurement centres in Singapore, Houston, the Middle East and Norway in the core overseas business areas has achieved remarkable results, making useful explorations in promoting the integration of strategic resources, giving play to centralised and strategic procurement, and concentrating on solving current regional resource support issues – and cross-regional support service in particular.

In terms of expanding its logistics network guarantee, the Company has utilised the regional advantages of procurement centres in Singapore and elsewhere to establish over 30 cross-border transportation lines covering over 30 countries in Europe, North and South America, Africa, Asia and Oceania. It has also expanded logistics support for Papua New Guinea, Cameroon, New Zealand and other new business markets. In 2018, the Company implemented over 800 logistic transports, which effectively improved its ability to respond to global resource guarantees.

The Company has established a complete daily dynamic management mechanism for suppliers throughout the life cycle, covering access, use, review, information feedback and exit. For processes including supplier access approval, preliminary examination on bidding qualification and performance appraisal, it strengthened qualification review and incorporated the HSE system certification, tax payment, bank credit rating, development prospects and the performance of social responsibility into the evaluation indicators. It also considered suppliers' compliance with laws and regulations regarding child labour, wages and working hours, required them to meet high standards of honesty and trustworthiness, and to operate in compliance with laws and requirements for health, safety and environmental protection.

Over 30 cross-border transportation lines were established.

In the process of reviewing suppliers, the Company not only scrutinises their product quality, prices, service capability, business ethics and corporate reputation, but also performance of social responsibilities. In 2018, from a core perspective of cost control, the Company explored quality suppliers globally and conducted intensive supplier reviews with the aim of expanding procurement channels. It directed qualified personnel to carry out audit activities on the basis of 100% coverage of annual review. The Company has completed the ISO audit on 192 high-quality suppliers to date.

The Company publishes its supplier compliance requirements in its business activities and launches compliance background investigations into suppliers at the preliminary examination phase. It also conducts risk assessments of the business environment in countries and regions where suppliers are located in order to understand the potential impact on the Company in terms of compliance, product quality, delivery cycle and QHSE of suppliers, and takes appropriate measures in its procurement activities to prevent risks.

Number of suppliers by region (2016-2018)

Year	Total number of suppliers at the end of the year	Overseas	Domestic	Major cities				
				Tianjin	Beijing	Guangdong	Shanghai	Others
2016	2,461	261	2,200	518	404	382	151	745
2017	4,720	2,293	2,427	593	444	403	168	819
2018	6,653	3,569	3,084	682	497	448	185	1,272

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

Operational Safety

Occupational Health

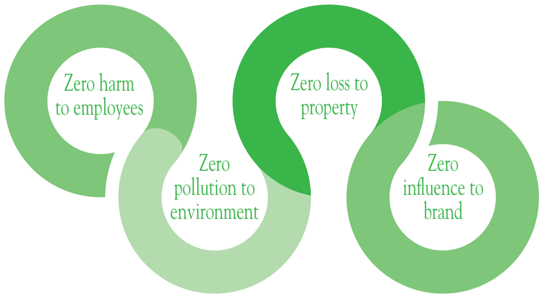
Environmental protection

Operational Safety

QHSE policies:

- Safety First, Prevention Foremost, Comprehensive Control;
- People-oriented, Care for Health, Cherish Life;
- Protect the Environment, Boosting Energy Savings and Efficiency, Green Development;
- Reputation First, Complete Equipment, Quality Assurance.

HSE strategic objectives:



The Company is committed to complying with applicable laws and regulations, and implementing industry standards and best practices in all aspects of its operation. By implementing a comprehensive management system with integral quality, health, safety and environmental protections, the Company provides quality products and efficient services in a sustainable manner. Its fundamental goal is to inflict zero harm to employees, zero pollution to the environment, and cause zero accidents leading to property losses.

The Company focuses on the following key aspects:

- Effective management commitment with visible leadership;
- Continuously improvement to the Company's quality, health, safety and environmental protection management systems;
- Effective consideration given by all businesses to protecting quality, health, safety, the environment and security;
- Strengthening staff training;
- Instilling a culture of "stopping work" as the employee's personal obligation as well as a Company responsibility;
- Protecting the environment, reducing emissions and pollution;
- Implementing effective management on quality, health, safety, environmental protection and security;
- Continuous improvement to emergency management and reduced accidents and losses;
- Cultivating a culture of safety, and making safety a core staff value;
- Requirement that contractors manage quality, health, safety and environmental protections in accordance with this policy.

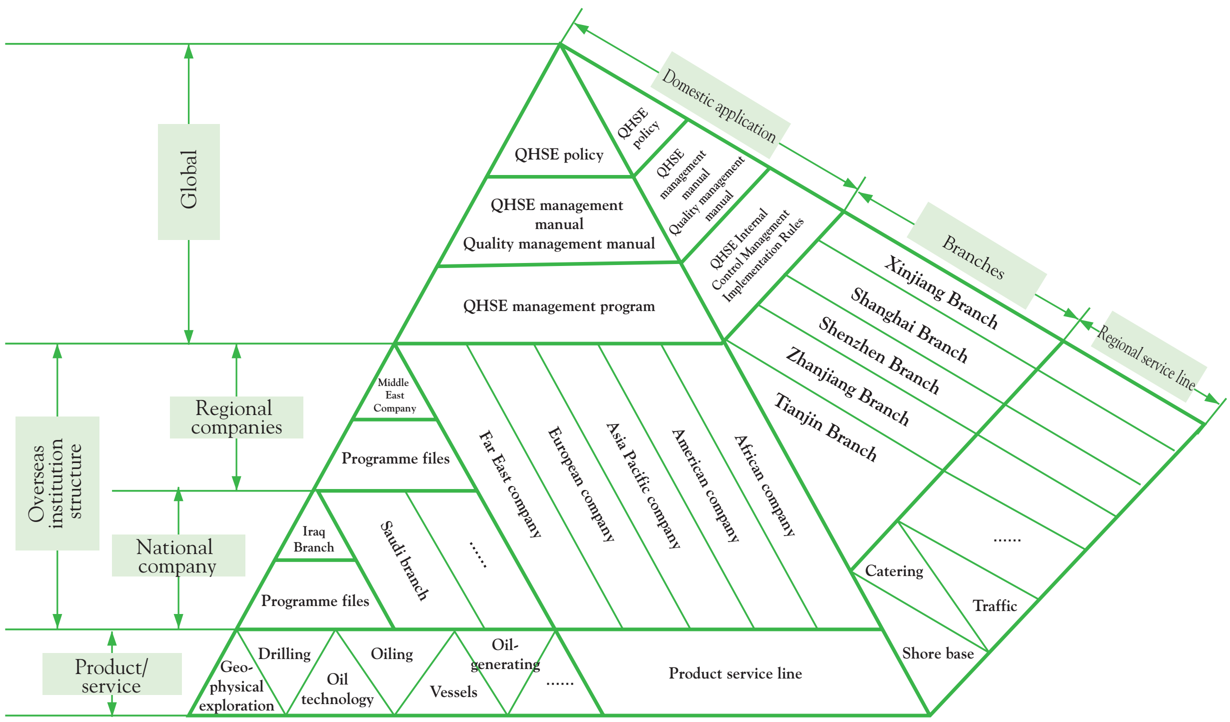
This policy applies to employees, customers, contractors, suppliers, and the public.

QHSE Management

In 2018, the Company continued to improve its QHSE management system 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 vessels safety and anti-pollution rules), fully and effectively implemented SMS/QHSE systems and continued in their improvement. Through comparison and 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 list of QHSE laws and regulations, prepared a system document revision plan based on QHSE responsibilities interface and comparison and analysis results, and carried out planned formulations and revisions. In 2018, the Company introduced Detailed Implementation Rules on Safety Culture Establishment Management and revised a total of 19 documents including the Management System for Quality, Health, Safety and Environmental Protection and other management measures and detailed implementation rules.

To match the Company's international development strategy and accelerate the internationalisation and industrialisation of QHSE management, the Company formulated a "special enhancement plan for QHSE internationalisation and industrialisation", created a global QHSE comprehensive management system, improved the system structure, and compiled HSE management manuals and quality management manuals. It standardised QHSE management elements and the framework of overseas institutions, guaranteed the preliminary examination on bidding and HSE in overseas markets, and met the requirements of international high-end customers. In 2018, the Company established its first comprehensive integrated management system overseas in the Middle East on the trial basis, providing a blueprint for other overseas institutions to establish a comprehensive, reproducible and modular management system.

The Company's QHSE system structure



Operation Safety Management

Following its policy of "safety first, prevention foremost, and comprehensive control" and the continuous optimization of the top design of the QHSE system, the Company 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. Through advancing internationalisation and industrialisation, the Company accordingly engaged in special activities for the safety production responsibility system, international benchmarking improvement and safety culture establishment, implemented the safety production responsibility of enterprises, fostered a Company culture of safety, strengthened the inspection and treatment of hidden dangers, and conducted 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 (2016-2018)

Indicator	Unit	2018	2017	2016
Number of production safety accidents	Case	21	9	25
Number of recordable injury incidents	Case	21	12	23
OSHA ratio	%	0.08	0.06	0.10
Accumulated lost working days ratio	%	1.6	1.08	3.83
Number of employee deaths	Person	0	0	2
Number of contractor deaths	Person	2	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

◎ A Safe Production Responsibility System for All Staff

In 2018, under the guidance of the "Notice on Comprehensively Strengthening Safety Production Responsibility System for All Staff Members" (Work Safety Commission [2017] No. 29) issued by the Office of the Work Safety Commission of the State Council, the Company organised special "safe production responsibility system as the foundation of safe production responsibility" activities. These were tailored to the specific needs of different positions. Currently, the Company's departments have completed the preparation for 4,154 post safety production responsibility systems, 15,271 person-times of training, and evaluating 6,862 person-times.

◎ Significant Improvement in QHSE Management

The Company carries out benchmarking with international oil companies, service companies and other organisations to help it identify gaps and develop plans to improve its safety management practices.

Using an "onion peeling" method and starting with the key elements of "people, machine, materials, rules and environment", the Company focuses on solving management problems at their weakest points. It identifies and develops annual improvement measures on a layer-by-layer basis, strengthening its basic management progressively and systematically.

Case

On 20 September 2018, the Ministry of Energy in Indonesia and SAKA management held a ceremony to award the HYSY 937 drilling rigs the "SAKA Safety Production for 700,000 Man-hours" prize.

On 31 October 2018, COSL Indonesia Branch was invited to participate in the [Contractor HSE Forum] organised by Medco to introduce the visible safety leadership of PT.COSL INDO and the Company's service capabilities.

Trained
15,271 person-time

Evaluated
6,862 person-time

◎ Strengthened Risk Management and Control

The Company continued to strengthen safety and risk management controls and fully implemented the "double prevention" mechanism. Safety and risk controls already implemented including those utilised 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 developed risk identification and evaluation methods which led it to subsequently identify annual unacceptable risks and develop appropriate 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 operational 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, with all employees participating.

◎ Identifying and Addressing Hidden Dangers

The company further promoted the identification and addressing of hidden dangers, carried out reporting and analysis thereof, investigated their causes, conducted a year-on-year and quarter-on-quarter analyses to reveal associated trends, and adopted targeted management measures to eliminate and control hidden dangers. It implemented the management network application for hidden dangers, conducted big data management, and further implemented network monitoring on the scheduled rectification of hidden dangers in the interest of retaining control of their management. It investigated hidden dangers that had not been rectified as scheduled and held responsible persons accountable, and implemented a mechanism for treating major risks and hidden dangers as accidents.

◎ Strengthening Safety Education and Training

Using a variety of platforms including internet and video, the Company conducted QHSE training, imposed stricter requirements for the safety training of all employees, and continued to advance safety training for all employees in relation to operational conditions. The Company required all employees to master common safety skills through its "remote safety education platform". A total of 12,256 employees learned online. In 2018, the Company carried out 18,564 safety training sessions in various forms, with 248,376 employees participating.

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 2018, the Company carried out a total of 13,557 ship-shore joint exercises and on-site exercises involving rigs, ships and shore facilities. These included 1,911 general exercises and 11,646 special exercises with a total of 315,449 participants.

Occupational Health

Occupational Health Management

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 Company comprehensively integrated health education and promotion, formulated and implemented health improvement and occupational health management plans and hearing protection plans for all staff. It launched a series of occupational health management programmes as planned. At the same time, the Company worked to make continuous improvements to employee working conditions, with reference to relevant laws, regulations and standards, to provide a safer and more comfortable work environment.

Health certificate examinations for offshore and outside working employees,
with a health certificate holding rate of
100%
in 2018

Occupational health checks for employees in contact with dangerous factors of occupational diseases,
with a check completion rate of
100%
in 2018

Routine physical examinations for onshore employees,
with coverage rate of
99.23%
in 2018

◎ Medical Equipment in the Workplace

The Company maintains infirmaries on and assigns general practitioners to rigs, vessels and field operation bases with staffs/crews of more than 25 persons. For vessels to which no medical practitioner is assigned, the Company provides medicines, 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.

◎ Public Epidemic Prevention Measures

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

◎ Employee Food Safety

The Company established a safety management system to prevent food poisoning accidents. The canteen management division and the catering company work together to promote staff nutrition.

◎ Occupational Health Management

In accordance with national laws and regulations on occupational disease prevention and control, the Company carried out occupational health examinations, detection of factors leading to occupational diseases in the workplace, occupational health training and other occupational health management tasks.

Health Checks for Chinese Employees (2016-2018)

Indicator	Unit	2018	2017	2016
Coverage of all staff health check and health records	%	99.23	98.73	98.81
Number of persons attending occupational health checks	Person	5,047	5,155	5,138
Completion rate of occupational health checks	%	100	99.92	99.88
Proportion of completion in inspection of occupational hazard factors	%	100	100	96.3

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

Health Examinations of Employees Exposed to Occupational Hazards (2018)

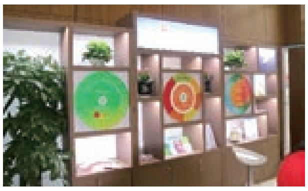
Health examination types	Actual examination person-time (Unit: person-time)	Completion rate of examination (Unit: %)
Pre-employment occupational health examination	251	100
On-the-job occupational health examination	4,648	100
Post-employment occupational health examination	152	100

Case: Creating a healthy branch and a healthy canteen

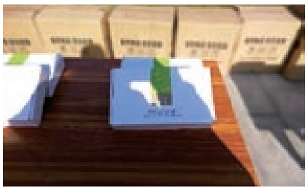
Taking the opportunity to build "a healthy branch and a healthy canteen", COSL Tianjin Branch sought guidance from the Chinese Center for Disease Control and Prevention and participated in an evaluation activity organised by the National Action Office of China Healthy Lifestyle for All to improve employee health through effective health management measures. It passed the evaluation activity with full marks and won the honour of "healthy branch and healthy canteen."

1. Provided a health and safety bulletin boards.

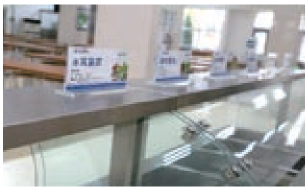
2. Established a "healthy cabin" to provide employees with access to scientific health information.



3. Distributed support tools to promote a healthy diet.



4. Provided employees with a nutritious diet.



Health Training

The Company comprehensively enforced occupational disease prevention laws, regulations and rules, aided employees in understanding occupational hazards, and promoted knowledge of prevention and control of occupational diseases. A major element of these efforts comprised of expert-led seminars on health and first aid. They were complemented by the posting of health promotion posters, issue of electronic health magazines, and by health blogs on the Company website. In 2018, the Company carried out 978 occupational health training sessions with 4,753 employees participating and a completion rate of 100%.

Themed Day Publicity Campaign (2018)

Period of launch	Publicity Campaign for Themed Day
First quarter	World Leprosy Day, Ear Care Day, World Kidney Day, World Tuberculosis Day, World Sleep Day
Second quarter	World Malaria Day, World Day for Iodine Deficiency Disease, World No Tobacco Day
Third quarter	World Hepatitis Day
Fourth quarter	World Diabetes Day, World COPD Day

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. With workloads surging in 2018, the mental health of employees became a matter of even greater importance. In response, the Company frequently held counselling and training activities designed to reduce strain and stress.

Environmental Protection

Environmental Management

◎ Building an Environmentally Friendly System

The Company operates in full compliance with the Environmental Protection Law of the PRC and with laws, regulations and regulatory documents relating to the atmosphere and water. It has established and implemented rules such as "Management Measures for Environmental Protection", and "Implementation Rules for Environmental Protection Management", and strengthened environmental protections in its production and operations. The Company manages and regulates pollution created by its production and operations to minimise its impact on the ecology and preserve natural resources. The Company benchmarks, revises and updates its environmental management system on an ongoing basis to ensure its lawful compliance and effectiveness. The Company completed the revision and improvement of six systems, including "Detailed Implementation Rules for Management of New and Renovated Environmental Protection Projects" and "Detailed Implementation Rules for Environmental Factors Evaluation Management", in 2018.

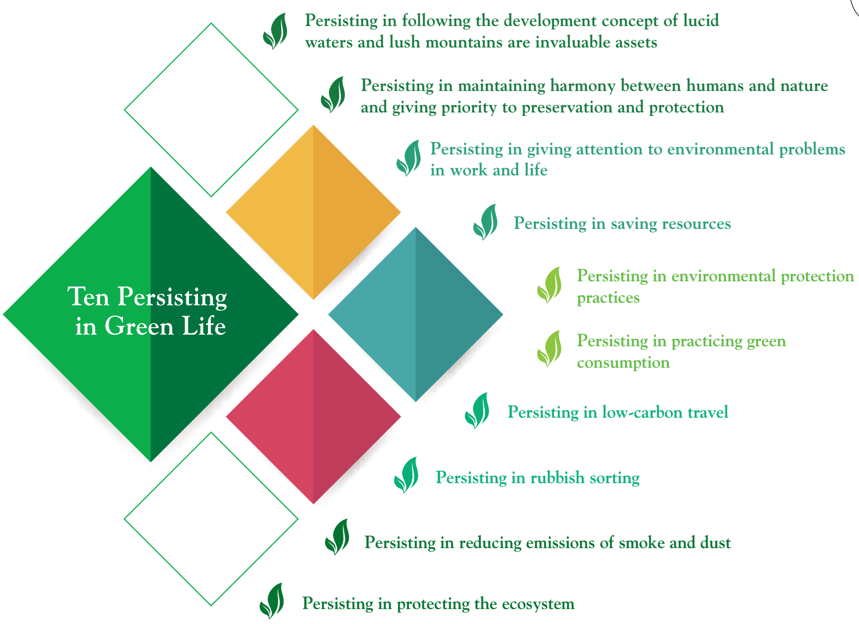
◎ Environmental Impact Assessment

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.

◎ 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 on the requirements of the latest laws and regulations, rubbish sorting, and the use of anti-pollution facilities and oil leakage emergency equipment. It further enhanced field employees' awareness of environmental protection and improved their environmental work skills.

Ten persisting proposals on green and low-carbon life with full participation



Case ▶

The Company organised a "Blue Sea Guarding Home" parent-child volunteer activity for "1 June" International Children's Day and "8 June" World Oceans Day. Employees and their families joined together to clean beaches and participate in activities like "how much I know about Dad's job" and marine environmental protection quizzes,enhancing the marine environmental protection awareness of employees and their families, especially children.

Saving Energy and Reducing Emissions

◎ Energy Management

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 in which it operates. To this end, the Company has established an energy management internal control system, prepared and implemented "Energy Saving Management Measures", and manages energy usage via an internal control system. The Company established "Low Carbon Management Measures" and completed the revision and improvement of six systems such as "Detailed Implementation Rules for Energy Saving Management" and "Detailed Implementation Rules for Water Saving and Power Saving Management" in 2018. Additionally, the Company promotes "green office" and "green operation" concepts by strictly controlling the consumption of office supplies and exploiting automation. The widespread use of videoconferencing has sharply reduced the costs incurred by 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 2018, the Company invested RMB3.789 million in energy saving and emissions reduction measures. The Company's total energy consumption was 427,155 tonnes of standard coal, representing a savings of 1,826 tonnes. The Company consumed just 0.3797 tonnes of standard coal per RMB10,000 of production output.

To maintain full compliance with national laws, regulations and regulatory documents relating to water, the Company 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 2018, the Company achieved a water saving volume of 18,765 tonnes.

Energy and Water Consumption (2016-2018)

Indicator	Unit	2018	2017	2016
Electricity	10,000 kWh	2,114.09	1,702.85	1,604.20
Diesel fuel	Tonnes	288,732.29	272,430.94	229,176.89
Natural gas	Cubic meters	377,315.00	284,690.00	259,051.00
Oil fuel	Tonnes	795.22	782.15	1,132.14
Gasoline	Tonnes	461.88	466.96	520.94
Engine oil	Tonnes	1,023.91	1,049.33	946.02
Water	Tonnes	923,776.18	884,765.00	905,344.27

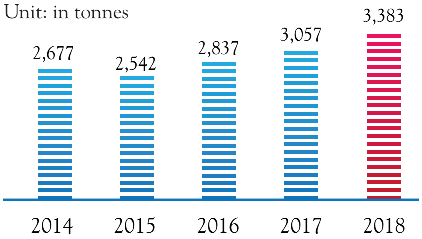
Environmental protection investment of

RMB82.17 million

Case ▶

Continuously promoting the mooring buoy fuel saving mode of the vessels, and the fuel saving of the vessels operation increasing year by year

Morring buoy fuel saving



Case ▶

By implementing a "customised menu" for energy savings based on the various power modes of new vessels, sea conditions and different working hours, the power mode is reasonably adopted, and the vessels' overall fuel consumption is at the lowest state while still ensuring safe operation.

Operation stage	Fishing stage	Hinge stage	Weigh anchor stage	Anchoring stage	Mooring and anchor storage stage
	01	02	03	04	05
Customised power mode	Single host + Double bow push + Stern Z push +1#Auxiliary engine	1#Auxiliary engine + Stern Z push	1#Auxiliary engine +2 Auxiliary engine +Bow Z push +Stern Z push	1#Auxiliary engine +Stern Z push +Mooring anchor	1#Auxiliary engine +Stern Z push +Mooring anchor

Environmental Protection

◎ Managing Discharged Gas

The Company complies with all 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 in which they are located are used to minimise exhaust of such materials as nitrogen oxides and sulphur oxides.

◎ Sewage Management

The Company has provided 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", "Discharge Standard for Water Pollutants from Ships", the relevant emissions standards of countries in which it operates, and international treaties. It maintains 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 ▶

When HYSY 921 rigs operate in an ecological protection area, they used a "zero emissions" system to recover daily domestic and industrial wastewater. These substances are regularly transported to tugboats for subsequent treatment. In total, more than 1,500 square metres of wastewater from was prevented from entering the sea, reducing potential environmental pollution and protecting the marine environment.

◎ Waste Management

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

Discharged Volume by the Company in Chinese Waters (2016-2018)

Indicator	Unit	2018	2017	2016
Qualified discharge of oil polluted water	Cubic metres	216.637	421.45	795.86
Discharge of crushed domestic waste	Tonnes	253.321	283.44	215.94
Qualified discharge of drilling slurry	Tonnes	47,216.45	33,711.38	35,246.70
Carbon dioxide	Tonnes	900,675.68	849,890.00	716,874.00
Emission of carbon dioxide for an output value of ten thousand	Tonnes RMB10,000	0.51	0.68	0.70

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 operations is within the approved discharge standard, and the discharge 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 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 leakage.

The Company has also established practical 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 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 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 follow the unified command of the operator and work closely to carry out emergent treatment.

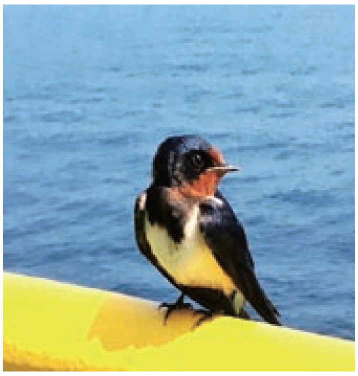
The Company carries out annual oil spill contingency drills to continuously improve on-site response and treatment capabilities. The Company has also purchased oil pollution liability insurance for every rig and vessel, which would make cash compensation for potential oil leakage accidents. Through the strict implementation of various management systems and measures, the Company did not experience any oil leakage accidents during 2018.

◎ Prevention of Groundwater Pollution

The Company protects groundwater resources with consistent investment into research and development of new technologies and new techniques for pollution-reducing on-site operations.

◎ Conservation of biological diversity

The Company 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, and eliminates or greatly reduces its negative impacts on biodiversity and ecosystems and preserves healthy environments for marine organisms wherever possible.



Case ▶

While the vessel HYSY720 carried out three-dimensional seismic exploration and survey operations in the waters off Gabon in West Africa, mammals such as dolphins, sea whales and sea turtles were active in its work area. To protect them, two PAM (Passive Acoustic Monitoring Systems) personnel and two MMO (Marine Mammal Observers) conducted 24-hour observation and monitoring.

Staff Development
Inspiring New Vitality

Employee Rights

Staff Development

Localisation and Diversification

Employee Care

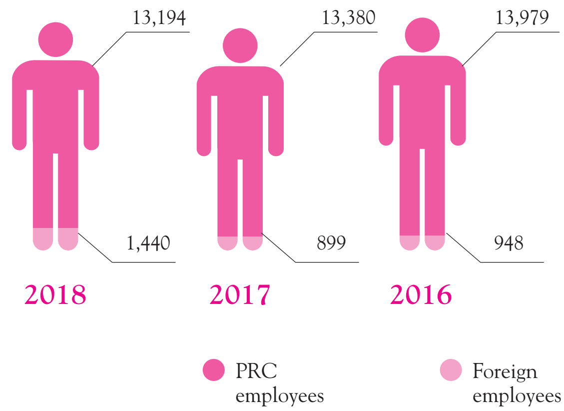
Employee statistics (2016-2018)

Number of employees

(Unit: person)

PRC/foreign employees

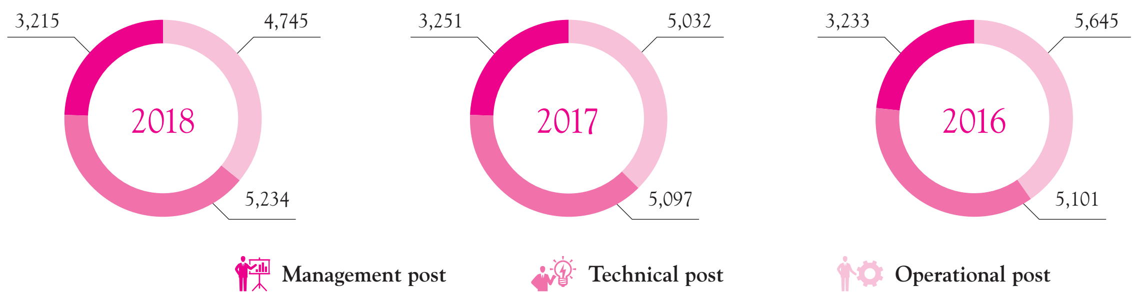
(Unit: person)



Indicator	Unit	2018	2017	2016
Number of new employees during the reporting period	Person	390	55	13
Percentage of female employees	%	8.2	8.1	8.0
Social insurance coverage	%	100	100	100
Percentage of labour contracts signed	%	100	100	100

PRC Employees Categorised by Position (2016-2018)

(Unit: person)



PRC Employees by Qualification (2016-2018) (Unit: person)			
Academic qualification	2018	2017	2016
Doctor	37	36	36
Master	674	630	627
Bachelor	6,017	6,062	6,245
Below	6,466	6,652	7,071

PRC Employees by Age (2016-2018) (Unit: person)			
Age	2018	2017	2016
30 or under	2,520	3,323	4,572
31-40	6,557	6,130	5,584
41-50	2,617	2,465	2,371
Over 51	1,500	1,462	1,452

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.

Equal employment

◎ 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, Honesty and Trust". We treat all employees fairly and equally, regardless of nationality, race, gender, religion and cultural background. Child labour is completely prohibited, as are all forms of forced and compulsory labour. We also implement the national "Special Labour Protection Regulations for Female Workers". During periods of pregnancy, childbirth and breast-feeding, female employees' wages will not be reduced, and nor will they be dismissed or terminated from employment during such periods.

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.

Occupational Health

◎ The Company has established and improved its occupational health and safety management system and carries out occupational health examinations, provides medical equipment in the workplace, and regulates employee food safety.

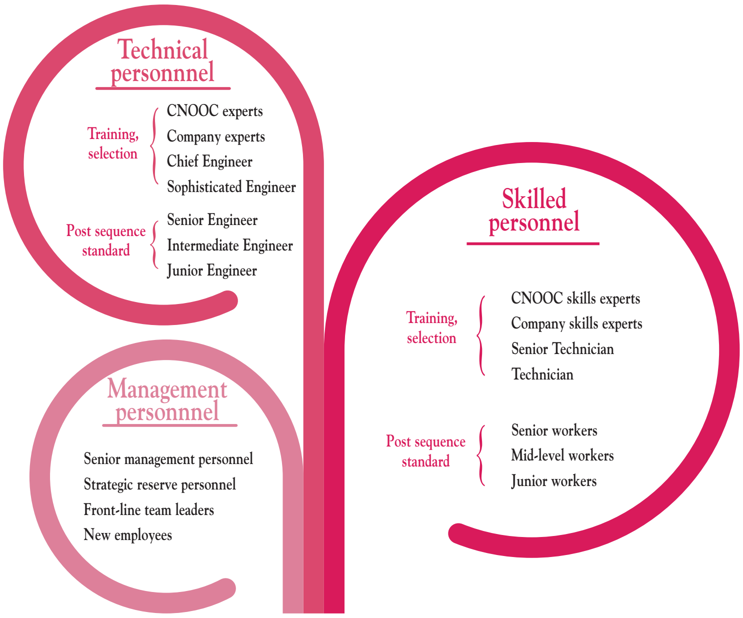
Employee Involvement

◎ 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.

Staff Development

Broadening the Channels of Development

The Company values and respects the role of its talent. The Company provides smooth promotion channels for employees and has established a dimensional demand-oriented training model with different layers and differentiation. It has accordingly created 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 2018, over 1,400 production and research and development staff and more than 700 management staff were promoted in position or rank.



Career Training

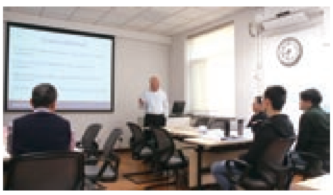
In 2018, the Company was committed to transforming employees' competency from meeting domestic standards to international standards. It provided employee training in concepts ranging from planning tasks to capacity assurance systems, with methods from passive acceptance to active training and evaluation, and single project evaluation to systematic post evaluation. 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 2018, the Company trained 8,279 person-times management personnel, 15,462 person-times professional and technical personnel, and 11,988 person-times operationally skilled personnel.

The Company also vigorously promoted internationalisation and enhanced its talent pool system by focusing on the training and career paths of outstanding young talents. For example, GE Oil and Gas University designed customised special training for national managers, building a strategic reserve talent training system, selecting and training outstanding young cadres of overseas human resource and continuously optimising the team and structure of outstanding young cadres of the Company.

Case: International Well Control Training

The Company obtained international well control certification in 2018. The Yanjiao Training and Development Centre applied for certification as a mobile school and duly obtained training authorisation and qualification. So far, it has organised 17 international well control training sessions, with 184 participants obtaining international well control certificates, and six lecturers obtaining qualification as well control operation evaluators.

The Company developed management system documents in strict compliance with IWCF official management regulations, formulated specific measures for implementation, sorted out the process, divided job responsibilities based on the Company management regulations. These measures ensured that standardised operation of the international well control training was officially documented and the quality and efficiency of its training assured.



Cases

Further education and training for strategic reserve talent

The Company launched eight training courses for strategic reserve talents. So far, a total of 404 employees have attended and 203 have been promoted, providing an excellent pool of know-how for the Company's further development.

A total of 70 employees participated in the eighth course, and two classes were opened for rotary training. Besides management courses, the Company also carried out a variety of practical activities and integrated management knowledge with practice, therefore improving its long-term management.

Training for overseas company managers

To effectively implement the Company's internationalised development strategy and train talent for overseas development, the Company set up training for overseas company managers and conducted targeted training for the selected personnel in 2017. The training was based on the competence model of overseas team members, which comprehensively enhanced the professional level and international vision of the participants to meet the new needs in international operation in the new era. This is the first time that the Company has cooperated with BHGE. The Company is committed to building a bridge for the development and communication of two companies through training.

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 more than 40 countries and regions around the globe. In the course of its internationalisation, the Company is promoting the localisation and diversification of staff, adheres to an employment policy of equality and non-discrimination, and respect for different cultures, religions, customs, personal hobbies, etc. As of the end of December 2018, the Company had 2,807 overseas employees, representing a year-on-year increase of over 740.

Local Employees in Overseas Offices (2016-2018)

Indicator	Unit	2018	2017	2016
Number of local employees recruited by the Company	Person	1,440	899	948
Percentage of local employees	%	64	56	55

Employee Care

Helping employees in financial difficulty

The Company is deeply concerned for the well-being of its employees and their families. To this end, it regularly performs the "three must-visits" as prescribed by the labour union; the Company visits employees in case of sickness and hospitalisation, domestic calamities and festival greetings. The labour union also strives to improve the prospects of employees' families who are experiencing financial difficulties. It does so by carrying out inspections and making thorough investigations, and dynamically managing the records of employees to ensure that the figures are accurate. On the eve of the Spring Festival in 2018, a total of 301 party employees and employees in financial difficulties were visited, and financial aid totalling RMB2,058,000 was issued. During the Spring Festival, the Company visited 7,769 employees on the production line as well as sick and hospitalized employees, and issued financial aid totalling RMB1,485,000. The Company also provided critical illness relief for 104 employees and their families, with the aid amounting to RMB1,363,000. It organised 319 forums to better understand the concerns and feedback of employees.

● Art Performance Dance "Azalea" on Women's Day

Balancing work and life

The Company recognises the important "bridge and link" function of group organisations, and therefore provides a variety of activities including the "employees' basketball game", "employees' sports meeting", "brisk walking with a thousand people", "employees' chorus", "parent-child party on 1 June", "blue sea reading party" to enhance employees' work-life balance and help team building.

● Chorus Competition Commemorating the 40th Anniversary of the Reform and Opening-up

● Blue Sea Reading Party

● Employee Basketball Game

● Brisk Walking Event

Contributing to a Better Society and Better Living

Management of Welfare Donations

Targeted Poverty Alleviation

Marine Salvage

Social Contributions

Targeted Poverty Alleviation

The Company participates in public welfare programmes and fulfills social responsibilities as required of central enterprises. The Company's labour union formulated "Articles of Association of COSL Charity and Public Welfare Working Committee", compiled a public welfare charity budget and performed a range of practical social responsibility actions. The Yanjiao Labour Union of implemented "Poverty Alleviation with Consumption with Full Involvement" work requirements issued by the central government, and organised the purchase of agricultural and sideline products from targeted poverty alleviation areas of CNOOC. The Company continued to follow up the targeted poverty alleviation projects in Leishan of Guizhou to ensure the projects were proceeded on schedule.

COSL focuses on "targeted poverty alleviation", participates in targeted assistance and performs social responsibilities required of central enterprises.

Marine Salvage

Over the years, the Company has leveraged its resource advantage to actively but safely participate in marine salvage. In 2018, the Company dispatched 31 vessels, took part in 25 marine salvage operations, and rescued 118 persons in distress during the course of such activities. It has been praised or recognised in writing by the China Marine Salvage Centre and local governments on several occasions for contributing to marine transport safety and social stability. The Company's 15 vessels and 14 captains were included in the list of "Vessels of Safety and Integrity" and "Captains of Safety and Integrity" for two years, published by the China Maritime Safety Administration.

COSL "BH 254" vessels rescued seriously injured fishermen

COSL "HYSY 656" vessel successfully rescued a Singaporean tanker in rough seas

Volunteer Service

Company employees participated in volunteer services through various campaigns such as "Blue Power Volunteering Activity" and "Lei Feng Day Activity". The geophysical division carried out a "Blue Power into the Mountains" volunteering service activity, and sent the care to five schools in Caijiayu Township, Yi County, Hebei Province. The Zhanjiang Branch visited four COSL Hope Primary Schools in Hainan and delivered urgently needed books and sports equipment to the teachers and students. The drilling division's Zhanjiang Operation Company held a "Contributing Voluntary Blood Donation and Spending Together with Love on May Day" for 10 consecutive years. More than 700 employees have donated more than 160,000 millilitres of blood.

Sharing offshore oil knowledge in COSL Hope Primary School

Volunteers from COSL visit welfare houses and nursing homes

Company Blue Power volunteers depicted the inscription for the martyrs

Employees and their families help clean a beach during the "Blue Sea Guarding Home" volunteer activity.

Social responsibility overseas

The Company promises to "serve society and fulfil social responsibilities" everywhere it operates. It acts to integrate into local cultures and carries out public welfare activities with local communities. These activities expand the Company's brand influence while creating "win-win" outcomes for the enterprise and the community.

Case ▶ Overseas Employees Experience Chinese Culture

Studying the Chinese Zodiac

Learning to tie Chinese knots

Experiencing Chinese tea culture

Experiencing Chinese calligraphy

PRC and foreign employees teamed up to tie the couplet and enjoy New Year's Eve dinner in celebration of Chinese Spring Festival

Case: ▶ Employees in Mexico fulfil social responsibilities

On World Environment Day, employees of the Mexican Branch carried out an "everybody is responsible for environmental protection, protecting nature together" activity in cooperation with the Carmen Municipal Environmental Protection Bureau at Carmen South Beach to let the image of Mexico Branch of "focusing on the local environmental protection, and striving to become an international oil services company" enjoy popular support from local residents.

In the run-up to Mexico's Children's Day on 30 April, four volunteers from the Mexican Branch visited Carmen Soecial Education School on 24 April to offer festive greetings and donations to the children.

The Mexican Branch carried out the social public welfare activity of "loving and caring for the growth of orphans without interruption".

Prospects

Facilitating Sustainable Development

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

Developing Overseas Markets

We will intensify our engagement with and responsiveness to our customers, improve service quality and strive to reduce the cost of oil. 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 improve customer satisfaction and enhance its influence and brand reputation.

Strengthening Technical Innovation

We will increase investment in scientific research, accelerate the processes of serialisation and industrialisation of technical products, make innovations based on market demand, increase incentives for major projects and researchers to achieve breakthroughs in core technologies, provide high quality technical support for safeguarding oil and gas energy exploration and development, and serve the sustainable energy supply for society.

Boosting Construction of an Environmentally-Friendly Enterprise

The Company will thoroughly 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 and develop low carbon operations, and work toward establishing an ecologically friendly culture.

Serving the Harmonious Society

The Company will place greater focus on its people-oriented philosophy and encourage staff career development, improve staff relationships, facilitate the mutual 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.

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
Qi Meisheng	Chairman Executive director Original CEO and President	Male	50	2018-3-28 2016-7-22 2016-6-15	 2019-7-21 2018-3-27					153.08	No
Cao Shujie	Executive director CEO and President Original Executive vice president	Male	54	2018-5-30 2018-3-28 2017-1	2021-5-29 2018-3-27					145.74	No
Liu Yifeng	Deputy party secretary, Chairman of Labour Union Original executive director	Male	54	2017-8 2017-12-13	 2018-5-30					114.96	No
Zheng Yonggang	CFO	Male	45	2018-2-28		0	5,200	5,200	Acquired from the secondary market	97.07	No
Li Zhi	Employee Supervisor	Male	54	2013-5-16	2019-5-15					114.23	No
Yu Feng	Vice president	Male	54	2017-1						108.57	No
Yu Guimin	Vice president	Male	49	2017-1						112.75	No
Meng Jun	Non-executive director	Male	58	2017-12-13	2020-12-12					–	Yes
Zhang Wukui	Non-executive director	Male	59	2018-5-30	2021-5-29					–	Yes
Law Hong Ping, Lawrence	Independent non-executive director	Male	64	2014-5-23	2020-5-31					40.00	No
Fong Chung, Mark	Independent non-executive director	Male	67	2015-6-2	2021-5-29					40.00	No
Wong Kwai Huen, Albert	Independent non-executive director	Male	67	2016-5-31	2019-5-30					40.00	No
Wu Hanming	Chairman of Supervisory Committee	Male	59	2018-5-30	2021-5-29					–	Yes
Cheng Xinsheng	Independent Supervisor	Male	55	2015-6-2	2021-5-29					8.00	No
Jiang Ping	Secretary of the Company	Female	43	2017-3-22						45.46	Yes
Lv Bo	Original Chairman Original non-executive director	Male	56	2016-12-16 2016-12-15	2018-3-27 2018-3-27					–	Yes
Li Feilong	Original executive director, original executive vice president and CFO	Male	54	2010-12-22	2018-2-28	60,000	60,000	0	Nil	24.28	No
Wei Junchao	Original Chairman of Supervisory Committee	Male	60	2015-12-29	2018-5-30					–	Yes
Total	/	/	/	/	/	60,000	65,200	5,200	/	1,044.14	/

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. 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. On 30 January 2018, Mr. Zheng Yonggang acquired from the secondary market and held 5,200 A Shares of the Company. After serving as the CFO, the shareholding of Mr. Zheng Yonggang had no change as at the end of the reporting period.

3. 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:

Qi Meisheng

Mr. Qi Meisheng, Chinese, born in 1968, the Chairman of the Board and an Executive Director of COSL. He graduated from China University of Petroleum (East China) with bachelor degree of drilling engineering and was granted EMBA of CEIBS in 2013. 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 has served as Chairman and an Executive Director of COSL. Mr. Qi has over 27 years of experience in the oil and natural gas industry.

Cao Shujie

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

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.

Zhang Wukui

Mr. Zhang Wukui, Chinese, born in 1959, he obtained a bachelor degree in business administration from Jianghan Institute of Petroleum in 1998 and a master's degree in management science and engineering from Southwest Petroleum Institute in 2004. He joined CNOOC in 1982. From January 2005 to June 2008, he served as the General Manager of Oil Production Service Branch of CNOOC Oil Base Group Ltd.. From July 2008 to April 2009, he served as the General Manager of Oil Production Service Branch of CNOOC Energy Technology & Services Ltd.. From April 2009 to April 2012, he served as the General Manager Assistant of CNOOC Energy Technology & Services Ltd. and the General Manager of its Oil Production Service Branch. From April 2012 to December 2016, he served as the Deputy General Manager of CNOOC Energy Technology & Services Ltd.. From April 2012 to December 2012, he served as the General Manager of Oil Production Service Branch of CNOOC Energy Technology & Services Ltd.. Since January 2014, he has served as a director of CNOOC Energy Technology & Services Ltd.. From August 2016 to August 2018, he has served as the deputy secretary of the Party Committee of CNOOC Energy Technology & Services Ltd.. Since April 2018, he has served as the director of Offshore Oil Engineering Co., Ltd.. Since May 2018, 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 later joined Sino Land Company Limited as an Associate Director for leasing matters. 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 from February 2016 to January 2019 and the council member of the Institute of Chartered Accountants in England and Wales from June 2016 to June 2018. 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) Ltd., Vinda International Holdings Limited, Hua Hong Semiconductor Limited and NWS Holdings Limited. He had been the managing partner of the China region for 15 years in two international law fi rms. 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 during the period from 2011 to 2018. 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 Inter-Pacific Bar Association. 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:

Wu Hanming

Mr. Wu Hanming, Chinese, born in December 1959. He obtained a bachelor degree of Accounting at Renmin University of China and obtained a Master degree of EMBA at School of Economics and Management of Tsinghua University in July 2009. He is a senior accountant. He worked at a platform company of CNOOC Bohai Corporation in 1983. From August 1987 to November 2001, he served as the Manager of Planning and Financial Department of China Offshore Oil Northern Shipping Co.. From November 2001 to October 2002, he served as the Manager of Planning and Financial Department of CNOOC Shipping Co., Ltd.. From October 2002 to November 2005, he served as the General Manager of Planning and Accounting Department of China Oilfield Services Limited. From November 2005 to April 2007, he served as the Chief Economist of China Oilfield Services Limited. From April 2007 to July 2012, he served as the Chief Financial Officer of Offshore Oil Engineering Co., Ltd.. From July 2012 to March 2014, he was the Deputy General Manager of CNOOC Finance Corporation Limited. From March 2014 to April 2014, he was the president of CNOOC International Financial Leasing Limited and the Deputy General Manager of CNOOC Finance Corporation Limited. From April 2014 to February 2016, he was the president of CNOOC International Financial Leasing Limited. From February 2016 to July 2017, he was the president of CNOOC International Financial Leasing Limited and the General Manager of CNOOC Investment Holding Co., Ltd.. From July 2017 to March 2018, he has been the deputy leader of the inspection team of the Party group of CNOOC. He has been the chairman of supervisory committee of Offshore Oil Engineering Co., Ltd. since April 2018. He has been the Chairman of Supervisory Committee of the Company since May 2018.

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-Pacifi c 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. (Formerly known as Li Tijun and Li Jincai)

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, please refer to the Section of Board of Directors.

Liu Yifeng

Mr. Liu Yifeng, Chinese, born in 1964, the deputy party secretary and Chairman of Labour Union 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. From December 2017 to May 2018, he served as an executive director of the Company. Since August 2017, he is serving as the deputy party secretary and Chairman of Labour Union 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 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 general manager assistant (in charge of the finance and accounting department) of Logging Company of CNOOC from December 2000 to December 2001 and a general manager of the marketing department of China Oilfield Services Limited from December 2001 to September 2002. He also served as a vice general manager of the Well Tech Division of China Oilfield Services Limited from September 2002 to March 2006 and a general manager of the Well Tech Division of China Oilfield Services Limited from March 2006 to January 2016. From January 2016 to January 2017, 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. He holds a concurrent position as the general legal counsel since November 2018.

Jiang Ping

Ms. Jiang Ping, Chinese, born in 1975, the company 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. During January to September 2018, Ms. Jiang Ping was authorized to manage the overall work of Financial Department of COSL. Since March 2017, Ms. Jiang Ping has served as the company secretary of COSL.

The directors, supervisors and senior management resigned during 2018 and as at the date of preparation of this report:

Mr. Lv Bo, Chinese, born in 1962, an original Chairman and non-executive director of COSL. He resigned as Chairman and non-executive director of COSL on 28 March 2018.

Mr. Liu Yifeng, Chinese, born in 1964, an original executive director of COSL. He resigned as executive director of COSL on 30 May 2018.

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. Wei Junchao, Chinese, born in 1958, an original Chairman of Supervisory Committee of COSL. He resigned as Chairman of Supervisory Committee of COSL on 30 May 2018.

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
Wu Hanming	CNOOC	Chairman of the Supervisory Committee	May 2018	Until now

Please refer to the resume for the specific conditions of work positions in the Shareholding Company.

(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
Zhang Wukui	Offshore Oil Engineering Co., Ltd.	Director	April 2018	Until now
Cheng Xinsheng	Nankai University	Professor	December 2005	Until now

Please refer to the resume for the specific conditions of work positions in Other Units.

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	RMB10,441.4 thousand
Total actual remuneration of Directors, Supervisors and Senior Management at the end of the reporting period	RMB10,441.4 thousand

5. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Change of Directors

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

(2) First Meeting of Board of Directors of the Company of 2018 was held on 27 March 2018, at which Mr. Lv Bo had 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. Mr. Qi Meisheng had 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.

(3) On 28 May 2018, Mr. Liu Yifeng had resigned as an executive director due to the adjustment of his work arrangement and took effect after the appointment of a new director at the annual general meeting (the "AGM") of the Company on 30 May 2018.

(4) AGM 2017 of the Company was held on 30 May 2018, at which Mr. Cao Shujie was elected as an executive director of the Company (Mr. Liu Yifeng had resigned as an executive director of the Company), Mr. Zhang Wukui was elected as a non-executive director of the Company, and Mr. Fong Chung, Mark 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 resolutions were approved at the general meeting.

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 had 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 AGM 2017.

(2) AGM 2017 of the Company was held on 30 May 2018, at which Mr. Wu Hanming was elected as a supervisor of the Company (Mr. Wei Junchao had retired as a supervisor of the Company), Mr. Cheng Xinsheng was re-elected as a supervisor of the Company, for a term of 3 years with effect from the date when the resolutions were approved at the general meeting. On 30 May 2018, Mr. Wu Hanming was elected as the Chairman of the Supervisory Committee of the Company by the Supervisory Committee, with effect on 30 May 2018.

3. Change of Senior Management

(1) 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.

(2) On 27 March 2018, Mr. Cao Shujie was appointed as the CEO and President of the Company by the Board and he resigned as the Executive Vice President of the Company, with effect from 28 March 2018.

6. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(1) Employees

Number of in-service employees of the Company	13,147
Number of in-service employees of the major subsidiaries	1,440
Total number of in-service employees	14,587
The number of retired employees whose expenses are borne by the Company and its major subsidiaries	47

Composition of professions

Type of profession	*Number of employees in the profession (Headcount)*
Operation Management	3,425
Technical Expertise	5,770
Skills Operating	5,392
Total	14,587

Educational level

Type of educational level	*Number of employees (Headcount)*
Master degree or above	730
Bachelor degree	6,343
College graduates	3,471
Below college graduates	4,043
Total	14,587

(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 are 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 2018.

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 acquisition 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

In the course of its production and operations, the Company will actively take various measures to circumvent operational risks. However, in practice, it may not be possible to prevent the occurrence of all risks and uncertainties below.

(1) Risk of market competition. 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) Risk of health, safety and environment. The Company is an 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. Shortage of key frontline staff in the short term may exist following the increase in business volume and continuous increase in production difficulty and volume, thus increasing the occurrence of accidents in relation to safety production and accidental injury.

(3) Risks of overseas business development and operation. The Company operates in various countries and regions and its communication with local governments, enterprises and personnel increased. As it is affected by the factors including geopolitics, economies, religions, humanity and changes in policies, laws and regulatory environments in which it is domiciled and operated, such as political instability, unstable

fiscal and taxation policies, entry barriers, breach of contracts, disputes over tax and legal disputes, etc., the Company may expose to more risks in relation to the external business expansion and operation.

(4) Risk of foreign exchange. 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 the Company is therefore exposed to foreign exchange risks. Details are set out in the Note 48 to financial statements in this annual report.

(5) Risk of impairment of fixed assets. 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 their carrying amount which may cause a risk of impairment of fixed assets.

(6) Risk of collection of trade receivables. 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

Considering the changes in the internal and external environment, the Company brought the coordination and control function of "Three Lines of Defence" into full play, continued to strengthen the control on major and significant risks and closely monitored predictable risks with high probability of existence and large affected area, and also strengthened the tracking and judgment of external environmental changes and development situation of the industry so as to prevent the occurrence of events which are hard to predict, with low probability of existence and large impact. The Company conducted trainings on risk control knowledge through various channels to enhance the risk awareness and risk response capability of all employees. It continued to optimize channels for risk information sharing and reporting based on the quarterly comprehensive risk management report, strengthened collaboration between departments at all levels and timely arranged them to jointly control major and significantly risks. The Company kept increasing resources for risk control based on different hierarchies, classes and levels so as to improve the capability of pre-study, pre-judge and joint control of risks of departments at each level. It prioritized parts which issues are identified and eliminated risks in advance through strengthening risk screening procedures.

RESULTS AND DIVIDENDS

The Group's profit prepared under Hong Kong Financial Reporting Standards for the year ended 31 December 2018 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 129 to 135.

The directors recommend the payment of a final dividend of RMB7 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 RMB334,011,440 (tax inclusive). Further details of this accounting treatment are set out in the Note 17 to financial statements in this annual report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 are set out in Note 23 to the financial statements in this annual report.

GEARING RATIO

The details of gearing ratio of the Group as at 31 December 2018 are set out in Note 48 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 would be used according to the agreed use in the prospectus and are proposed to fully repay the Company's debts and replenish working capital after deducting the issuance expenses. As at 31 December 2018, accumulated expenses of two tranches of bonds amounted to RMB9,985,425,000.00. The proceeds were utilized in full.

The details of bonds issued by the Company during the reporting period are set out in Note 38 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$397,493.67 was not yet utilized as at 31 December 2018.

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

	2018	2017 (Restated)	2016	2015	2014
Revenue, net of sales surtaxes	21,886,628	17,458,554	15,085,545	23,174,248	32,993,239
Other income	284,090	324,056	153,207	242,495	223,721
Depreciation of property, plant and equipment and amortisation of intangible assets	(4,262,776)	(4,488,936)	(4,520,118)	(4,213,421)	(3,769,586)
Employee compensation costs	(5,026,085)	(4,031,973)	(3,890,143)	(3,792,454)	(4,380,705)
Repair and maintenance costs	(523,764)	(364,063)	(500,093)	(799,297)	(1,094,907)
Consumption of supplies, materials, fuel, services and others	(4,954,252)	(3,069,432)	(4,116,437)	(4,569,260)	(5,955,000)
Subcontracting expenses	(3,578,949)	(2,367,934)	(2,364,588)	(3,474,789)	(5,445,405)
Operating lease expenses	(1,126,191)	(594,735)	(1,206,111)	(1,547,610)	(1,605,992)
Other operating expenses	(1,516,863)	(1,309,038)	(2,865,175)	(2,185,096)	(2,165,245)
Impairment of goodwill	–	–	(3,455,378)	(923,154)	–
Impairment of property, plant and equipment	(122,962)	(4,942)	(3,688,408)	(280,116)	(374,185)
Impairment losses of accounts receivable and other receivables, net of reversal	(415,364)	(83,602)	–	–	–
Total operating expenses	(21,527,206)	(16,314,655)	(26,606,451)	(21,785,197)	(24,791,025)
Profit/(loss) from operations	643,512	1,467,955	(11,367,699)	1,631,546	8,425,935
Exchange gain/(loss), net	358,647	(388,092)	268,710	87,726	(5,690)
Finance costs	(1,082,501)	(1,100,941)	(1,047,667)	(700,259)	(587,535)
Interest income	107,552	99,575	130,519	105,248	155,033
Investment income	164,730	187,545	191,933	102,345	193,795
Gains arising from financial assets at fair value through profit or loss	49,441	–	–	–	–
Share of profits of joint ventures, net of tax	184,288	106,867	16,849	169,748	340,954
Other gains and losses	280,660	(30,644)	–	–	–
Profit/(loss) before tax	706,329	342,265	(11,807,355)	1,396,354	8,522,492
Income tax (expense)/credit	(617,657)	(261,350)	347,899	(287,648)	(1,002,309)
Profit/(loss) for the year	88,672	80,915	(11,459,456)	1,108,706	7,520,183

Note: On 31 January 2018, the Company has complete the purchase of the seismic data processing business of CNOOC Ener Tech – Drilling & Production Co. Data Processing Co. This transaction is accounted for as a combination of business under common control and affected by the amended new standards. The financial data of 2017 in the annual report has been restated.

ASSETS AND LIABILITIES

Unit: RMB'000

	2018	2017 (Restated)	2016	2015	2014
Total assets	74,687,004	73,941,296	80,544,057	93,525,051	86,874,307
Total liabilities	40,009,598	39,253,811	45,247,679	46,696,381	39,552,208

PROPERTY, PLANT AND EQUIPMENT

The details of the movements in property, plant and equipment of the Group are set out in Note 19 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 2018, based on a net profit of RMB88,671,982 achieved by the Group (of which net profit attributable to the owners of the Company amounted to RMB70,802,324) plus the retained profits of RMB15,249,328,236 as at the beginning of the year and deducted the dividend of 2017 of RMB286,295,520 declared and paid in 2018, the total distributable profit would be RMB15,033,835,040 at the end of 2018. The Group recommended a cash dividend of RMB0.07 per share (tax inclusive) on the basis that the total share capital was 4,771,592,000 shares as at 31 December 2018. The total dividend amounts to RMB334,011,440 and the balance of retained profits of RMB14,699,823,600 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 2017 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 2018 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 (%)
2018	0.70	334,011	70,802	472
2017 (Restated)	0.60	286,296	42,771	669
2016	0.50	238,580	(11,456,186)	(2)

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable donations totaling RMB15,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, sales to the Group's five largest customers accounted for approximately 85.6% of the total sales for the year and sales to the largest customer included therein accounted for approximately 75.9%. Purchases from the Group's five largest suppliers accounted for approximately 18.3% of the total purchases for the year; and purchases from the Group's largest supplier accounted for approximately 6.9% 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, 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 financial assets at fair value through profit or loss and bank acceptances included in notes receivable 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 aforesaid financial assets of the Group during the reporting period, please see Note 47 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 2018, the Group had no material charges against its assets.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any contingent liabilities.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company as at 31 December 2018 were:

Non-executive directors	**Executive directors**	**Independent Non-Executive directors**	**Supervisors**
Meng Jun	Qi Meisheng *(Chairman)*	Law Hong Ping, Lawrence	Wu Hanming *(Chairman of Supervisory Committee)*
Zhang Wukui	Cao Shujie	Fong Chung, Mark	Li Zhi *(Employee Supervisor)*
		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 2018 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 2018.

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, its holding 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 46 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 Directors 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 2018, 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 (A) in COSL (%)
Zheng Yonggang	Directly Beneficial Owner	5,200	0.0002

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 2018, 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 (%)
Citigroup Inc.	Interest in controlled corporation	261,451,897(L) 3,949,700(S) 253,493,568(P)	14.43(L) 0.21(S) 13.99(P)
GIC Private Limited	Interest in controlled corporation	199,890,000(L)	11.04(L)
BlackRock, Inc	Interest in controlled corporation	177,875,875(L) 2,768,000(S)	9.82(L) 0.15(S)
Allianz SE	Interest in controlled corporation	108,337,000(L)	5.98(L)
FMR LLC	Interest in controlled corporation	108,202,000(L)	5.97(L)
The Capital Group Companies, Inc.	Interest in controlled corporation	90,718,000(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 Services Framework 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 announcement of the Company dated 27 April 2017.

During the year ended 31 December 2018, the Group had the following continuing connected transactions:

a. Included in revenue

		2018 RMB'000	2017 RMB'000 (Restated)
i	**CNOOC Limited Group**		
	– Provision of drilling services	4,124,740	3,529,447
	– Provision of well services	8,901,508	6,292,723
	– Provision of marine support services	2,461,746	2,284,597
	– Provision of geophysical acquisition and surveying services	1,168,780	976,085
		16,656,774	13,082,852
ii	**CNOOC Group**		
	– Provision of drilling services	117,782	148,414
	– Provision of well services	107,426	190,708
	– Provision of marine support services	42,582	47,476
	– Provision of geophysical acquisition and surveying services	24,567	149,646
		292,357	536,244

b. Included in operating expenses

	2018 RMB'000	2017 RMB'000 (Restated)
i CNOOC Limited Group		
Materials, utilities and other ancillary services	103,921	86,249
Transportation services	–	63
	103,921	86,312
Property services	4,904	3,723
	108,825	90,035
ii CNOOC Group		
Labour services	–	1,836
Materials, utilities and other ancillary services	930,512	613,737
Transportation services	52,311	20,525
Leasing of equipment	184,517	110,373
Repair and maintenance services	6,121	6,463
Management services	9,755	43,949
	1,183,216	796,883
Property services	170,286	126,227
	1,353,502	923,110

c. Included in interest income

	2018 RMB'000	2017 RMB'000
CNOOC Finance (a subsidiary of CNOOC)		
Interest income	25,248	19,523

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

	2018 RMB'000	2017 RMB'000
Dividend income from joint ventures	96,258	120,595

e. **Included in finance costs**

During the current year, the finance costs on the loan from a related party are US$8,671,000, which is equivalent to approximately RMB57,382,000.

f. **Deposits**

	31 December 2018 RMB'000	31 December 2017 RMB'000
Deposits placed with CNOOC Finance as at the end of the reporting period	1,471,715	1,497,422

g. (i) During the current year, the Group transferred its land use right with carrying amount of RMB118,896,000 to CNOOC Infrastructure Management Co., Ltd., a wholly-owned subsidiary of CNOOC, with a consideration of RMB157,033,000. The Group recognized a profit of RMB34,420,000 arising from the transfer. The considerations were fully received by the Group as of 31 December 2018.

(ii) With the approval of the Board on 28 November 2018, the Group proposed to enter into the Sale and Purchase Agreement of Tankers and Related Business (the "Business") with an indirect subsidiary of CNOOC, Shanghai Northsea Shipping Company Limited ("Northsea Shipping"). The Group transferred the Business to Northsea Shipping, which comprised of two crude oil transportation vessels named "Binhai 607" and "Binhai 608" respectively, and all offshore platform crude oil transportation services in Bohai Bay and nearby areas currently provided by the Group for the related units of CNOOC Limited Group. The Group has disposed the Business under the sale and purchase agreement to Northsea Shipping and completed the registration of the transfer on 20 December 2018, with a consideration of RMB82,337,700. The Group recognized a profit of RMB62,448,000 arising from the disposal of the Business.

h. During the current year, the Group purchased the drilling and workover rigs from CNOOC Energy Technology & Services Limited ("CNOOC Development"), a subsidiary of CNOOC, and CNOOC Energy Technology & Services Equipment Technology Company ("Equipment Company"), a wholly-owned subsidiary of CNOOC Development, with a consideration of RMB6,243,000. The transaction has completed on 31 January 2018.

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 (h) 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 are 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 2018 annual results with the management.

BUSINESS PLAN

As the recent international oil prices fluctuated at a medium-to-high level, the investment of global oil and gas companies in development will continue to increase, and the workload of various sectors of the Company is expected to improve in varying degrees. However, affected by factors including global trade frictions, reverse globalization trend and geopolitical risks, the recovery progress of the oilfield services industry is still full of challenges. The Company will continue to spare no effort in expanding markets and promote the development of the well services segment and overseas business so as to enhance the profitability of the Company.

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 re-appointing it as the auditor of the Company will be proposed.

EXECUTION OF THE INSIDER INFORMATION MANAGEMENT SYSTEM

In 2018, 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 2018.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

MANAGEMENT CONTRACTS

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

EQUITY-LINKED AGREEMENTS

As at 31 December 2018, 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
Qi Meisheng
Chairman
27 March 2019

Supervisory Committee Report

The Supervisory Committee of the Company for the year 2018 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 2018, 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

At the Supervisory Committee meeting held on 27 March 2018, Mr. Wei Junchao resigned from his posts of supervisor and chairman of the Supervisory Committee of the Company due to his retirement, which will take effect after the appointment of a new supervisor is approved at the general meeting of the Company. Pursuant to the Articles of Association, the Supervisory Committee nominated and proposed to elect Mr. Wu Hanming as the candidate of the supervisor of the Company at the general meeting. The three-year term of office of Mr. Cheng Xinsheng was expired at the date of the 2017 AGM. Pursuant to the Articles of Association, the Supervisory Committee nominated and proposed to elect Mr. Cheng Xinsheng as the candidate of the independent supervisor of the Company at the general meeting.

The resolutions of electing Mr. Cheng Xinsheng as the independent supervisor of the Company and Mr. Wu Hanming as the supervisor of the Company were considered and approved at the AGM of the Company held on 30 May 2018. The Supervisory Committee meeting was held by way of written resolutions on 30 May 2018, and the resolution in relation to the election of Mr. Wu Hanming as the chairman of the Supervisory Committee of the Company was considered and passed by all supervisors at the meeting. Mr. Wu Hanming served as the supervisor and chairman of the Supervisory Committee of the Company since 30 May 2018. Mr. Cheng Xinsheng was re-appointed as the independent supervisor of the Company since 30 May 2018. During the reporting period, Mr. Li Zhi served as the employee supervisor.

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 reports 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 2017 Annual Report, the 1st quarterly report for the year 2018, the 2018 Interim Report and the 3rd quarterly report for the year 2018 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) In September 2018, Wu Hanming, the chairman of the Supervisory Committee, attended the Training of Chairman of the Supervisory Committee of Tianjin Listed Companies, and supervised the directors, supervisors and senior management for strengthening their awareness of self-discipline, compliance and integrity so as to focus on performing the requirements of compliant and legitimate operation of the Company. Under his supervision, the directors, supervisors and senior management took the leading roles in observing laws and disciplines, eschewing insider dealings and performing social responsibility in order to further promote the standardization of the Company's operation and its healthy development and keep improving the operational practice of the directors, supervisors and senior management, which advocated the spirit of the meeting.

6) Supervisor Wei Junchao attended the 2018 first Board meeting and was unable to attend the second Board meeting due to health reasons. Supervisor Wu Hanming attended the third, fourth and fifth Board meetings. Supervisor Li Zhi and supervisor Cheng Xinsheng attended all five regular Board meetings. Supervisor Li Zhi attended the AGM, 2018 First A Share Class Meeting and 2018 First H Share Class Meeting.

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 in 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 China Standards on Auditing, Deloitte Touche Tohmatsu Certified Public Accountants LLP has audited the financial statements of the Company for year 2018 and has 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 its 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 of the Company 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 by the directors of the Company 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 the Supervisory Committee
Wu Hanming
Chairman of the Supervisory Committee
27 March 2019

Significant Events

I. SIGNIFICANT RELATED PARTY TRANSACTIONS

Further details on related party transactions are given in Note 46 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)	396.41
Total balance of guarantee as at the end of the reporting period (A) (excluding guarantee to subsidiaries)	396.41
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	19,709,108.89
Total balance of guarantee provided by the Company to its subsidiaries at the end of the reporting period (B)	18,749,969.70
Total guarantee provided by the Company (including guarantee to subsidiaries)	
Total amount of guarantee (A+B)	18,750,366.11
Total amount of guarantee as a percentage of the Group's net assets (%)	54.07
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)	19,020,508.55
The excess of total amount of guarantee over 50% of the net assets (E)	1,411,663.18
Total amount of the 3 guarantees above (C+D+E)	20,432,171.73
Unexpired guarantee may be jointly and severally liable	N/A

Guarantee provided to third parties by the Company

Guarantor	Relationship between the guarantor and the Company	Guaranteed party	Guaranteed amount	Date of the guarantee (date of execution of the agreement)	Starting date of the guarantee	Expiry date of the guarantee	Type of guarantee	Whether the guarantee is performed or not	Whether the guarantee is overdue	Overdue amount of the guatantee	Whether a counter guarantee is existed or not	Whether it is a guarantee provided to related parties
COSL	Headquarter of the Company	Oceancare Corporation Sdn Bhd	396.41	2018-09-18	2018-09-18	2019	Joint liability guarantee	No	No	0	No	No

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	5 years
Name of international audit firm	Deloitte Touche Tohmatsu
Remuneration of international audit firm	–
The service period of international audit firm	5 years
Remuneration of domestic and international audit firm	15.1

	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 30 May 2018, the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors for 2018 respectively was approved at the AGM 2017.

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. (the "CNOOC Infrastructure"). During the reporting period, the Company has completed the transfer of the land use right with CNOOC Infrastructure and CNOOC Infrastructure has completed the registration of land use right. 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).

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. Oslo City Court entered into a judgement on 15 May 2018. The judgement may be appealed by either party within one month following the date of legal notice of the judgement was served. Statoil has recently changed its corporate name to Equinor Petroleum AS (hereinafter "Equinor"). On 14 June 2018, Equinor appealed to Borgarting Court of Appeal being the relevant appeal court in Norway. On 14 June 2018, COM has subsequently filed an independent appeal concerning the cancellation for convenience, since COM is of the view that the cancellation for convenience is unlawful and COM should accordingly be entitled to damages for the loss suffered. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www. hkex.com.hk) and website of the Company (http://www. cosl.com.cn).

In January 2017, COM, a subsidiary of the Company as a plaintiff filed a Statement of Claim (the "Claim") against Statoil with the Court through WIKBORG REIN ADVOKATFIRMA AS, an international law firm based in Norway, as litigation agent. COM is of the view that Statoil shall pay the Claim for cost reimbursement and rate reductions happened in the period of year 2016 in an 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).

In January 2018, the Company entered into the assets and personnel transfer contract (the "Assets and Personnel Transfer Contract") with CNOOC Energy Technology & Services Limited (the "CNOOC Development"). Pursuant to the Assets and Personnel Transfer Contract, the Company agreed to purchase assets, credits and debts, and receive the personnel related to seismic data processing business of CNOOC Ener Tech-Drilling & Production Co. Data Processing Co., from CNOOC Development. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

In January 2018, the Company entered into the drilling and workover rigs business and related assets transfer contract (the "Drilling and Workover Rigs Transfer Contract") with CNOOC Development and CNOOC Energy Technology & Services Equipment Technology Company (the "Equipment Company"). Pursuant to the Drilling and Workover Rigs Transfer Contract, the Company agreed to purchase the drilling and workover rigs business and related assets which are owned and operated by CNOOC Development and Equipment Company, and receive the personnel related to the business and assets to be transferred. 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 November 2018, the Company entered into the sale and purchase agreement of tankers and related business with Shanghai Northsea Shipping Company Limited ("Northsea Shipping"). Pursuant to the sale and purchase agreement of tankers and related business, the Company agrees to transfer and Northsea Shipping agrees to receive the Tankers and Related Business for a consideration of RMB84,807,831.00 (3% value-added tax included). For details, please refer to relevant announcement 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 129 to 224, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 19 to the consolidated financial statements at 31 December 2018, the carrying amount of property, plant and equipment of the Group, including drilling rigs and vessels, was RMB51,533,128,000, which is material to the consolidated financial statements. Due to slower recovery of oil price and global oilfield services market, both the services prices and utilisation rates of the Group's drilling rigs and vessels have contributed to thin profit margin. Management has determined that certain drilling rigs and vessels have impairment indications. 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 about the future cash flows and discount rate with reasonable and supportable assumptions to make significant accounting estimations. Details of the related estimation uncertainty are set out in note 4 to the consolidated financial statements. This was considered a key audit matter due to the significance of the carrying amounts of the relevant assets and that it requires significant estimations to determine the recoverable amounts of these relevant assets.	Our procedures in relation to impairment assessment of property, plant and equipment, including drilling rigs and vessels, included: • We assessed the design and tested operating effectiveness of 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 tested the mathematical accuracy of the impairment test.
Impairment assessment of accounts receivable Referring to note 27 to the consolidated financial statements at 31 December 2018, the carrying amount of the Group's accounts receivable, net of the allowance for credit losses, was RMB8,015,313,000, which is material to the consolidated financial statements. Management is required to determine the impairment allowance based on the lifetime credit losses of the accounts receivable. For expected credit losses assessed individually, the recoverable amounts of the accounts receivable are determined by management based on the historical settlement patterns of the customers, management's judgement about credit risk changes and forward-looking information. For expected credit losses assessed using provision matrix, management is required to determine the credit loss rate based on the Group's historical default rates that are representative of the economic condition the accounts receivable are exposed to, which is then duly adjusted by the relevant forward-looking information. These involve estimation uncertainty and significant judgement. Details of the related estimation uncertainty are set out in note 4 to the consolidated financial statements. This was considered a key audit matter due to the significance of the carrying amounts of the relevant accounts receivable and that it requires significant estimations to determine the expected credit loss of the accounts receivable.	Our procedures in relation to management's impairment assessment of accounts receivable included: • We assessed the design and tested the operating effectiveness of the Group's key internal controls over data as well as expected credit loss model used to determine impairment allowance; • We tested the key data sources used in the Group's expected credit loss model; • For expected credit loss assessed individually, we obtained and assessed the reasonableness of evidences supporting the recoverable amounts, such as the historical settlement patterns of the customers, management's judgement about credit risk changes, subsequent settlements and forward-looking information; and • When a provision matrix is applied, we assessed the appropriateness of groupings of accounts receivable by different credit risk characteristics; assessed the reasonableness as well as the supporting evidences of the expected credit loss rates of the said accounts receivable groupings.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Mok Sau Fan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
REVENUE	7	**21,945,877**	17,516,288
Sales surtaxes		**(59,249)**	(57,734)
Revenue, net of sales surtaxes		**21,886,628**	17,458,554
Other income	8	**284,090**	324,056
Depreciation of property, plant and equipment and amortisation of intangible assets		**(4,262,776)**	(4,488,936)
Employee compensation costs	9	**(5,026,085)**	(4,031,973)
Repair and maintenance costs		**(523,764)**	(364,063)
Consumption of supplies, materials, fuel, services and others		**(4,954,252)**	(3,069,432)
Subcontracting expenses		**(3,578,949)**	(2,367,934)
Operating lease expenses	9	**(1,126,191)**	(594,735)
Other operating expenses		**(1,516,863)**	(1,309,038)
Impairment of property, plant and equipment	19	**(122,962)**	(4,942)
Impairment losses of accounts receivable and other receivables, net of reversal	11	**(415,364)**	(83,602)
Total operating expenses		**(21,527,206)**	(16,314,655)
PROFIT FROM OPERATIONS		**643,512**	1,467,955
Exchange gain/(loss), net		**358,647**	(388,092)
Finance costs	10	**(1,082,501)**	(1,100,941)
Interest income		**107,552**	99,575
Investment income	9	**164,730**	187,545
Gains arising from financial assets at fair value through profit or loss	9	**49,441**	–
Share of profits of joint ventures, net of tax	24	**184,288**	106,867
Other gains and losses	9	**280,660**	(30,644)
PROFIT BEFORE TAX	9	**706,329**	342,265
Income tax expense	15	**(617,657)**	(261,350)
PROFIT FOR THE YEAR		**88,672**	80,915
Attributable to:			
Owners of the Company		**70,802**	42,771
Non-controlling interests		**17,870**	38,144
		88,672	80,915
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	18	**1.48 cents**	0.90 cent

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Restated)
PROFIT FOR THE YEAR		**88,672**	80,915
OTHER COMPREHENSIVE INCOME/(EXPENSE)	*16*		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plan		**(4,265)**	(6,845)
Income tax relating to item that will not be reclassified subsequently to profit or loss		**981**	1,684
		(3,284)	(5,161)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**185,846**	(401,614)
Net fair value loss on available-for-sale investment		**–**	(42,246)
Share of other comprehensive income/(expense) of joint ventures, net of related income tax		**4,564**	(8,559)
Income tax relating to item that may be reclassified subsequently to profit or loss		**11,296**	6,352
		201,706	(446,067)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF INCOME TAX		**198,422**	(451,228)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**287,094**	(370,313)
Attributable to:			
Owners of the Company		**262,492**	(403,231)
Non-controlling interests		**24,602**	32,918
		287,094	(370,313)

Consolidated Statement of Financial Position

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	19	**51,533,128**	52,631,646
Goodwill	20	**–**	–
Other intangible assets	21	**289,502**	429,723
MultiClient library	22	**139,707**	22,821
Investments in joint ventures	24	**679,162**	582,702
Available-for-sale investment	31	**–**	–
Financial assets at fair value through profit or loss	29	**–**	–
Contract costs	30	**172,893**	–
Other non-current assets	32	**97,816**	326,766
Deferred tax assets	35	**65,869**	70,800
Total non-current assets		**52,978,077**	54,064,458
CURRENT ASSETS			
Inventories	25	**1,326,755**	1,148,507
Prepayments, deposits and other receivables	26	**390,106**	461,998
Accounts receivable	27	**8,015,313**	6,258,372
Notes receivable	28	**232,904**	85,533
Financial assets at fair value through profit or loss	29	**1,749,723**	–
Contract costs	30	**53,023**	–
Other current assets	32	**6,601,235**	2,843,392
Pledged deposits	33	**27,657**	41,092
Time deposits with maturity of over three months	33	**143,242**	28,870
Cash and cash equivalents	33	**3,168,969**	9,009,074
Total current assets		**21,708,927**	19,876,838
CURRENT LIABILITIES			
Trade and other payables	34	**9,272,434**	8,133,509
Notes payable		**50,266**	–
Salary and bonus payables		**909,174**	834,110
Tax payable		**373,566**	121,630
Loan from a related party	36	**1,372,640**	2,286,970
Interest-bearing bank borrowings	37	**596,081**	563,380
Long term bonds	38	**4,098,824**	–
Contract liabilities	39	**154,410**	–
Other current liabilities	32	**183,648**	177,180
Total current liabilities		**17,011,043**	12,116,779
NET CURRENT ASSETS		**4,697,884**	7,760,059
TOTAL ASSETS LESS CURRENT LIABILITIES		**57,675,961**	61,824,517

Consolidated Statement of Financial Position (Continued)

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*35*	**286,560**	322,858
Interest-bearing bank borrowings	*37*	**787,631**	1,409,175
Long term bonds	*38*	**21,069,892**	24,495,769
Contract liabilities	*39*	**308,000**	–
Deferred income	*40*	**522,839**	888,373
Employee benefit liabilities		**23,633**	20,857
Total non-current liabilities		**22,998,555**	27,137,032
Net assets		**34,677,406**	34,687,485
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*41*	**4,771,592**	4,771,592
Reserves		**29,758,284**	29,792,965
		34,529,876	34,564,557
Non-controlling interests		**147,530**	122,928
Total equity		**34,677,406**	34,687,485

Qi Meisheng
Director

Cao Shujie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Issued capital RMB'000	Capital reserve* RMB'000	Statutory reserve funds* RMB'000	Revaluation reserve* RMB'000	Remeasurement of defined benefit pension plan* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017 (audited)	4,771,592	12,371,737	2,508,656	36,004	(6,378)	74,315	15,211,862	238,580	35,206,368	90,010	35,296,378
Profit for the year (restated) (note 44)	–	–	–	–	–	–	42,771	–	42,771	38,144	80,915
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 (restated) (note 44)	–	–	–	(35,894)	(5,161)	(404,947)	42,771	–	(403,231)	32,918	(370,313)
Final 2016 dividend paid	–	–	–	–	–	–	–	(238,580)	(238,580)	–	(238,580)
Proposed final 2017 dividend (note 17)	–	–	–	–	–	–	(286,296)	286,296	–	–	–
At 31 December 2017 (restated)	4,771,592	12,371,737	2,508,656	110	(11,539)	(330,632)	14,968,337	286,296	34,564,557	122,928	34,687,485
Adjustments (note 2.3)	–	–	–	(110)	–	–	(5,304)	–	(5,414)	–	(5,414)
At 1 January 2018 (restated)	4,771,592	12,371,737	2,508,656	–	(11,539)	(330,632)	14,963,033	286,296	34,559,143	122,928	34,682,071
Profit for the year	–	–	–	–	–	–	70,802	–	70,802	17,870	88,672
Other comprehensive (expense)/income for the year	–	–	–	–	(3,284)	194,974	–	–	191,690	6,732	198,422
Total comprehensive (expense)/income for the year	–	–	–	–	(3,284)	194,974	70,802	–	262,492	24,602	287,094
Deemed contribution by owners (note 44)	–	39,062	–	–	–	–	–	–	39,062	–	39,062
Business combination under common control (note 44)	–	(44,525)	–	–	–	–	–	–	(44,525)	–	(44,525)
Final 2017 dividend paid	–	–	–	–	–	–	–	(286,296)	(286,296)	–	(286,296)
Proposed final 2018 dividend (note 17)	–	–	–	–	–	–	(334,011)	334,011	–	–	–
At 31 December 2018	4,771,592	12,366,274	2,508,656	–	(14,823)	(135,658)	14,699,824	334,011	34,529,876	147,530	34,677,406

* These reserve accounts comprise the consolidated reserves of approximately RMB29,758,284,000 (2017: RMB29,792,965,000) in the consolidated statement of financial position as at 31 December 2018.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	45	**4,512,629**	5,577,748
Taxes refund/(paid):			
Mainland China corporate income tax refund		**170,579**	183
Mainland China corporate income tax paid		**(301,202)**	(3,804)
Overseas income taxes paid		**(231,690)**	(97,099)
Net cash flows from operating activities		**4,150,316**	5,477,028
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and other intangible assets		**(2,406,306)**	(3,078,421)
Investment in MultiClient library		**(89,625)**	(23,649)
Advance payment received in respect of MultiClient Library		**13,726**	–
Government grant received		**22,047**	14,693
Purchase of floating and fixed rate investments in corporate wealth management products, liquidity funds and treasury bond related investments		**(14,300,000)**	(7,200,000)
Proceeds on disposal/maturity of investments in corporate wealth management products, liquidity funds and treasury bond related investments		**9,016,169**	11,628,629
Proceeds from disposal of property, plant and equipment		**407,035**	1,050,059
Proceeds from disposal of intangible assets		**157,033**	–
Placement of time deposits with maturity of over three months		**(1,094,367)**	(1,013,670)
Withdrawal of time deposits with maturity of over three months		**1,026,832**	984,800
Decrease/(increase) in pledged deposits		**13,177**	(17,286)
Interest received		**123,158**	88,358
Dividends received from joint ventures		**98,758**	150,595
Deposits for acquisition of property, plant and equipment		**(24,086)**	(8,760)
Net cash flows (used in)/from investing activities		**(7,036,449)**	2,575,348
CASH FLOWS FROM FINANCING ACTIVITIES			
New loan raised from a related party		**–**	1,722,884
Repayment of loan raised from a related party		**(1,032,802)**	–
Repayment of bank loans		**(692,744)**	(5,274,333)
Dividends paid		**(286,296)**	(238,580)
Interest paid		**(1,004,122)**	(1,090,126)
Business combination under common control		**(44,525)**	–
Net cash flows used in financing activities		**(3,060,489)**	(4,880,155)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(5,946,622)**	3,172,221
Cash and cash equivalents at the beginning of year		**9,009,074**	6,071,069
Effect of foreign exchange rate changes, net		**106,517**	(234,216)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,168,969**	9,009,074
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	*33*	**3,339,868**	9,079,036
Less: Pledged deposits	*33*	**(27,657)**	(41,092)
Non-pledged time deposits at banks with maturity of over three months	*33*	**(143,242)**	(28,870)
Cash and cash equivalents as stated in the consolidated statement of cash flows	*33*	**3,168,969**	9,009,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 acquisition and surveying services.

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

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

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

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration* `
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*
Amendments to HKAS 40	*Transfers of Investment Property*

In addition, the Group has applied Amendments to HKFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

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

2.1 *HKFRS 15 Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources: drilling services, well services, marine support services and geophysical acquisition and surveying services.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 7 and 3 respectively.

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

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

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017* RMB'000 (Restated)	Reclassification RMB'000	Remeasurement RMB'000	Carrying amounts under HKFRS 15 at 1 January 2018** RMB'000
Non-current assets					
Contract costs	b	–	130,924	–	130,924
Other non-current assets		326,766	(130,924)	–	195,842
Current assets					
Accounts receivable		6,258,372	–	(5,667)	6,252,705
Current liabilities					
Trade and other payables		8,133,509	(87,225)	–	8,046,284
Tax payable		121,630	–	(253)	121,377
Contract liabilities	c	–	87,225	–	87,225
Non-current liabilities					
Contract liabilities	d	–	230,430	–	230,430
Deferred income		888,373	(230,430)	–	657,943
Equity					
Reserves	a	29,792,965	–	(5,414)	29,787,551

* The amounts in this column are restated for the business combination involving business under common control (note 44).

** The amounts in this column are before the adjustments from the application of HKFRS 9.

Notes:

(a) The net effect arising from the initial application of HKFRS 15 resulted in a decrease in the revenue from contracts with multiple performance obligations of RMB5,667,000 with corresponding adjustment of RMB5,414,000, net of taxes, to retained profits.

(b) As the date of initial application of HKFRS 15, included in other non-current assets, RMB130,924,000 mainly related to the mobilisation expenses and contract agency fees. These balances were reclassified to contract costs upon application of HKFRS 15.

(c) As at 1 January 2018, advance from customers of RMB87,225,000 previously included in trade and other payables were reclassified to contract liabilities.

(d) As the date of initial application of HKFRS 15, balances of RMB68,160,000 related to the mobilisation fee and RMB162,270,000 related to the subsidies received from customers previously included in the total deferred income were reclassified to contract liabilities upon application of HKFRS 15.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018, its consolidated statement of profit or loss and its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

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

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

Summary of effects arising from initial application of HKFRS 15 (continued)

Impact on the consolidated statement of financial position

	Notes	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Non-current assets				
Contract costs	30	172,893	(172,893)	–
Other non-current assets	32	97,816	172,893	270,709
Current assets				
Contract costs	30	53,023	(53,023)	–
Other current assets	32	6,601,235	53,023	6,654,258
Current liabilities				
Trade and other payables	34	9,272,434	141,348	9,413,782
Contract liabilities	39	154,410	(154,410)	–
Deferred income		–	13,062	13,062
Non-current liabilities				
Contract liabilities	39	308,000	(308,000)	–
Deferred income	40	522,839	308,000	830,839

Impact on the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income

	Note	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Revenue				
Revenue, net of sales surtaxes	a	21,886,628	(5,667)	21,880,961
Profit before taxation		706,329	(5,667)	700,662
Income tax expense		617,657	(253)	617,404
Profit for the year		88,672	(5,414)	83,258
Total comprehensive income for the year		287,094	(5,414)	281,680
Earnings per share attributable to owners of the Company		1.48 cents	(0.11) cent	1.37 cents

Note:

(a) Under HKFRS 15, the Group recognised certain revenue related to contractual performance obligations of RMB 5,667,000 fulfilled in 2018, previously recognised in 2017 before the application of HKFRS 15. The change in accounting policy increased 2018 revenue and profit for the year by RMB5,667,000 and RMB5,414,000, respectively.

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

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

Summary of effects arising from initial application of HKFRS 15 (continued)

Impact on the consolidated statement of cash flows

	Note	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
OPERATING ACTIVITIES				
Profit before taxation		706,329	(5,667)	700,662
Increase in accounts receivable	45	(2,069,956)	5,667	(2,064,289)
Cash generated from operations	45	4,512,629	–	4,512,629

2.2 *HKFRS 9 Financial Instruments*

In the current year, the Group has applied HKFRS 9 Financial Instruments, Amendments to HKFRS 9 Prepayment Features with Negative Compensation and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instrument that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

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

2.2 *HKFRS 9 Financial Instruments (continued)*

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale investment RMB'000	Other current assets RMB'000	Financial assets at fair value through profit or loss ("FVTPL") required by HKAS39/ HKFRS9 RMB'000	Revaluation reserve RMB'000	Retained profits RMB'000
Closing balance at 31 December 2017 HKAS 39 (restated)*		–	2,843,392	–	110	14,968,337
Effect arising from initial application of HKFRS 9:						
Reclassification						
From available-for-sale investment	(a)	–	–	–	–	–
From other current assests	(b)	–	(606,008)	606,008	(110)	110
Opening balance at 1 January 2018		–	2,237,384	606,008	–	14,968,447

* The amounts in this row are restated for the business combination involving business under common control (note 44).

Notes:

(a) At the date of initial application of HKFRS 9, the Group's unlisted equity investment was reclassified from available-for-sale investment to financial assets at FVTPL. The equity investment had been made full provision as at 31 December 2017.

(b) At the date of initial application of HKFRS 9, the Group's investments of RMB200,110,000 in liquidity funds and investments of RMB405,898,000 in floating rate corporate wealth management products were reclassified from other current assets to financial assets at FVTPL. The fair value gains of RMB110,000 relating to those investments previously recognised in revaluation reserve were transferred to retained profits.

(c) The adoption of HKFRS 9 has had no material impact on the Group's impairment under expected credit loss model at 1 January 2018.

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

2.3 *Impacts on opening consolidated statement of financial position arising from the application of all new standards*

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item affected, line items that were not affected by the changes have not been included.

	31 December 2017 RMB'000 (Audited and restated)*	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 RMB'000 (Restated)
Non-current assets				
Available-for-sale investment	–	–	–	–
Contract costs	–	130,924	–	130,924
Other non-current assets	326,766	(130,924)	–	195,842
Others with no adjustments	53,737,692	–	–	53,737,692
Current assets				
Accounts receivable	6,258,372	(5,667)	–	6,252,705
Financial assets at fair value through profit or loss	–	–	606,008	606,008
Other current assets	2,843,392	–	(606,008)	2,237,384
Others with no adjustments	10,775,074	–	–	10,775,074
Current liabilities				
Trade and other payables	8,133,509	(87,225)	–	8,046,284
Tax payable	121,630	(253)	–	121,377
Contract liabilities	–	87,225	–	87,225
Others with no adjustments	3,861,640	–	–	3,861,640
Net Current Assets	**7,760,059**	**(5,414)**	**–**	**7,754,645**
Total Assets less Current Liabilities	**61,824,517**	**(5,414)**	**–**	**61,819,103**
Non-current liabilities				
Contract liabilities	–	230,430	–	230,430
Deferred income	888,373	(230,430)	–	657,943
Others with no adjustments	26,248,659	–	–	26,248,659
Net Assets	**34,687,485**	**(5,414)**	**–**	**34,682,071**
Equity				
Issued capital	4,771,592	–	–	4,771,592
Reserves	29,792,965	(5,414)	–	29,787,551
Non-controlling interests	122,928	–	–	122,928
Total Equity	**34,687,485**	**(5,414)**	**–**	**34,682,071**

* The amounts in this column are restated for the business combination involving business under common control (note 44).

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

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

2.4 New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[5]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs 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 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 lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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

2.4 *New and amendments to HKFRSs in issue but not yet effective (continued)*

HKFRS 16 *Leases* (continued)

Other than certain requirements which are also applicable to lessor, 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 2018, the Group has non-cancellable operating lease commitments of RMB2,048,554,000 as disclosed in note 42. 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.

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 2018, 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.

Upon application of HKFRS 16, the Group will apply the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of HKFRS 9. In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to HKFRS 3 *Definition of a Business*

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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, 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Business combination and goodwill

Business combinations, other than business combination under common control 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)

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargin purchase gain at the time of common control combination.

The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the earliest date presented or when they first came under common control, whichever is shorter.

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 Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, expect for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation using output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depicts most of the Group's performance in transferring control of goods or services detailed in note 7.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract. As almost all of the Group's contracts provide for less than one year credit period after transfer of the associated goods or services, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (continued)

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its drilling services and marine support services. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant Standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Revenue recognition (prior to 1 January 2018)

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.

For sale and leaseback transactions that are accounted for as operating leases, any profit or loss arising from the transactions is recognised immediately when the consideration of the transactions are established at fair value.

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 last day of the last 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, social insurance premiums, housing accumulation fund etc.) after deducting any amount already paid.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

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).
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

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. MultiClient library is amortised on a straight-line basis over 4 years.

Impairment of tangible, intangible assets other than goodwill and contract costs

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). The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, 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.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible, intangible assets other than goodwill and contract costs (continued)

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).

Contingent assets are not recognised, but are disclosed when an inflow of economic benefits is probable. When the realisation of income is virtually certain, the related asset is not a contingent asset and recognised.

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.

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;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's cash and cash equivalents, pledged deposits, time deposits with maturity of over three months, accounts receivable, trade acceptances included in notes receivable, certain other receivables, other current assets-fixed rate corporate wealth management products, other current assets-treasury bond related investments, which meet the above conditions are subsequently measured at amortised cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's bank acceptances included in notes receivable are subsequently measured at FVTOCI.

All other financial assets are subsequently measured at FVTPL.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in other comprehensive income ("OCI") and accumulated under the heading of other reserves. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments/receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments/receivables had been measured at amortised cost. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "Gains/(losses) arising from financial assets at fair value through profit or loss" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises ECL on financial assets which are subject to impairment under HKFRS 9 (including cash and cash equivalents, pledged deposits, time deposits with maturity of over three months, accounts receivable, notes receivable, certain other receivables, other current assets-fixed rate corporate wealth management products, other current assets-treasury bond related investments), lease receivable and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

The Group always recognises lifetime ECL for accounts receivable, lease receivable and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and insignificant balances with specific risks. For the rest assets, the ECL are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's
- financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Since application of HKFRS 9 on 1 January 2018, the Group has measured ECL at the individual instrument level for most of its relevant financial assets, lease receivable and contract assets. Besides, there are insignificant balances where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments;
- Past-due status;
- Type of debtors and economic circumstances facing; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial assets, through a loss allowance account, except for bank acceptance included in notes receivable that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the revaluation reserve without reducing the carrying amount of bank acceptance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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 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 market place.

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 investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale investments 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 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 investments are reported as interest income and dividend income, respectively and are recognised in accordance with the policies set out for “Revenue recognition” above.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale investments

For available-for-sale 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 unlisted 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 investment 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Available-for-sale investments (continued)

In the case of equity investments classified as available-for-sale investments, 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 investments are not reversed through consolidated statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL. The Group's all financial liabilities including trade and other payables, loan from a related party, interest-bearing bank borrowings and long-term bonds are subsequently measured at amortised cost, using the effective interest method.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts 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.

Embedded derivatives (under HKFRS 9 since 1 January 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 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 FVTPL.

Embedded derivatives (before application of HKFRS 9 on 1 January 2018)

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

Useful life and impairment of property, plant and equipment

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

Where there exists an indication of impairment of an asset, 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 slow recovery of oil price and global oilfield services market, both the services prices and utilisation rates of the Group's drilling rigs and vessels have contributed to thin 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 RMB122,962,000 (2017: RMB4,942,000). As at 31 December 2018 the carrying amount of property, plant and equipment was RMB51,533,128,000 (2017: RMB52,631,646,000). Further details are given in note 19.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision of ECL for accounts receivable

Due to slow recovery of oil price, certain customers have been unable to make timely payments. Further, some of the customers of the Group operate in countries facing more difficult political and economic circumstances. These factors expose the Group to recoverability risk of accounts receivable.

Management determine the credit losses of the accounts receivable based on expected credit loss model. Significant judgements and estimations involved include:

For expected credit losses assessed individually, the recoverable amounts of the accounts receivable are determined by management based on the historical settlement patterns of the customers, management's judgement about credit risk changes and forward-looking information. For expected credit losses assessed using provision matrix, management is required to determine the credit loss rate based on the Group's historical default rates that are representative of the economic condition the accounts receivable are exposed to, which is then duly adjusted by the relevant forward-looking information. These involve estimation uncertainty and significant judgement.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable are disclosed in notes 27 and 48.

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 RMB9,277,338,000 (2017: RMB8,550,219,000) and deductible temporary differences of RMB1,701,008,000 at 31 December 2018 (2017: RMB1,617,918,000). Further details are contained in note 35. In case where there are actual future profits or the actual future profits generated are more than expected, or effective tax rate is changed, a material recognition or change of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition or change takes place.

Taxes

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

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

5. SIGNIFICANT EVENT IN THE YEAR

In December 2016, COSL Offshore Management AS ("COM", a subsidiary of the Company) as a plaintiff filed a claim (the "Claim") against Statoil Petroleum AS (hereinafter "Statoil") with a court in Norway, claiming that Statoil's termination of a contract was unlawful and for the contract to be maintained or otherwise Statoil is obliged to cover COM's loss resulting from the unlawful termination. The court delivered a judgement on 15 May 2018 against Equinor Petroleum AS (Statoil's new company name, hereinafter "Equinor") with an award of damages in COM's favor. On 14 June 2018, Equinor appealed and COM filed on the same day for its entitlement to the damages against Equinor's appeal. As of the issuance date of this consolidated financial statements, no further court hearing has taken place.

The Directors consider the award of damages as a contingent asset and has not recognised it as a receivable at 31 December 2018 as receipt of such award of damages is dependent on the outcome of the further court process.

6. OPERATING SEGMENT INFORMATION

The Group is organised into four business units based on the internal structure and management strategy, which is also the basis of information reported to the Group's chief operating decision maker (i.e. the executive directors of the Company) for the purpose of making strategic decisions.

During the year ended 31 December 2018, following the development of business operations, the Group reorganised the reportable segments based on the business units to which the assets service, other than the assets categories. The adjustment does not have material impact on the segment reports except reallocation of some assets among segments.

The four reportable and operating segments are set out 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, the sale of well chemical materials and well workovers, and seismic data processing services;

(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 acquisition and surveying services segment is engaged in the provision of offshore seismic data collection and marine surveying.

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 before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, exchange gains/(losses), investment income and gains arising from financial assets at FVTPL 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, financial assets at FVTPL 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 2018	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical acquisition and surveying services RMB'000	Total RMB'000
REVENUE:					
Sales to external customers, net of sales surtaxes	7,749,875	9,792,596	2,698,148	1,646,009	21,886,628
Sales surtaxes	15,784	29,662	8,343	5,460	59,249
Sales to external customers, before net of sales surtaxes	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877
Intersegment sales	102,271	60,955	202,451	1,654	367,331
Segment revenue	7,867,930	9,883,213	2,908,942	1,653,123	22,313,208
Elimination	(102,271)	(60,955)	(202,451)	(1,654)	(367,331)
Group revenue	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877
Segment results	(1,030,943)	1,765,242	289,324	84,837	1,108,460
Reconciliation:					
Exchange gain, net					358,647
Finance costs					(1,082,501)
Interest income					107,552
Investment income					164,730
Gains arising from financial assets at FVTPL					49,441
Profit before tax					706,329
Income tax expense					617,657
As at 31 December 2018					
Segment assets	44,231,273	8,033,369	7,693,239	4,329,946	64,287,827
Unallocated assets					10,399,177
Total assets					74,687,004
Segment liabilities	4,304,514	4,625,860	1,112,851	1,153,677	11,196,902
Unallocated liabilities					28,812,696
Total liabilities					40,009,598
Other segment information:					
Capital expenditure	1,252,427	642,146	200,619	302,766	2,397,958
Depreciation of property, plant and equipment and amortisation of intangible assets	2,549,661	705,041	642,896	365,178	4,262,776
Impairment of accounts receivable	430,895	1,695	384	368	433,342
Reversal of impairment of other receivables	(5,237)	(8,483)	(2,601)	(1,657)	(17,978)
Impairment of inventories	1,651	2,089	575	351	4,666
Impairment of property, plant and equipment	122,962	–	–	–	122,962
Share of (losses)/profits of joint ventures	(3,073)	138,610	–	48,751	184,288
Investments in joint ventures	–	518,243	–	160,919	679,162

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

6. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017 (restated)	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical acquisition and surveying services RMB'000	Total RMB'000
REVENUE:					
Sales to external customers, net of sales surtaxes	6,340,799	6,995,618	2,437,812	1,684,325	17,458,554
Sales surtaxes	16,039	26,998	8,958	5,739	57,734
Sales to external customers, before net of sales surtaxes	6,356,838	7,022,616	2,446,770	1,690,064	17,516,288
Intersegment sales	77,055	82,582	103,995	4,549	268,181
Segment revenue	6,433,893	7,105,198	2,550,765	1,694,613	17,784,469
Elimination	(77,055)	(82,582)	(103,995)	(4,549)	(268,181)
Group revenue	6,356,838	7,022,616	2,446,770	1,690,064	17,516,288
Segment results	(124,194)	1,464,878	294,486	(90,992)	1,544,178
Reconciliation:					
Exchange loss, net					(388,092)
Finance costs					(1,100,941)
Interest income					99,575
Investment income					187,545
Profit before tax					342,265
Income tax expense					261,350
As at 31 December 2017 (restated)					
Segment assets	43,903,685	7,284,561	8,216,236	4,169,604	63,574,086
Unallocated assets					10,367,210
Total assets					73,941,296
Segment liabilities	3,847,404	3,748,947	1,130,745	958,914	9,686,010
Unallocated liabilities					29,567,801
Total liabilities					39,253,811
Other segment information:					
Capital expenditure	1,074,604	653,195	466,160	105,761	2,299,720
Depreciation of property, plant and equipment and amortisation of intangible assets	2,587,793	728,306	607,959	564,878	4,488,936
Impairment of accounts receivable	86,969	(13,387)	(2,882)	(1,990)	68,710
Impairment of other receivables	5,405	5,971	2,079	1,437	14,892
Reversal of impairment of inventories	(187)	(205)	(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)

Geographical information

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

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 2018 and 2017.

Year ended/as at 31 December 2018	Domestic	International		Total
		North sea	Others	
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	**16,284,807**	**1,446,332**	**4,214,738**	**21,945,877**
Less: Sales surtaxes	**(59,249)**	**–**	**–**	**(59,249)**
Sales to external customers, net of sales surtaxes	**16,225,558**	**1,446,332**	**4,214,738**	**21,886,628**
Non-current assets:	**26,946,913**	**12,469,385**	**12,816,748**	**52,233,046**

Year ended/as at 31 December 2017 (restated)	Domestic	International		Total
		North sea	Others	
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	13,193,700	1,033,859	3,288,729	17,516,288
Less: Sales surtaxes	(57,734)	–	–	(57,734)
Sales to external customers, net of sales surtaxes	13,135,966	1,033,859	3,288,729	17,458,554
Non-current assets:	31,067,791	9,734,108	12,609,057	53,410,956

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 76% (2017: 75%) of the total sales of the Group for the year ended 31 December 2018, details of the segments with such revenue are given in note 46 (A).

7. REVENUE

(A) For the year ended 31 December 2018

(a) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018				
	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical acquisition and surveying services RMB'000	Total RMB'000
Geographical markets					
Domestic	4,226,449	8,223,615	2,553,136	1,281,607	16,284,807
North Sea	1,446,332	–	–	–	1,446,332
Others	2,092,878	1,598,643	153,355	369,862	4,214,738
Total	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877
Timing of revenue recognition					
At a point of time	–	53,349	–	88,292	141,641
Over time	7,765,659	9,768,909	2,706,491	1,563,177	21,804,236
Total	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877
Type of customer					
CNOOC Limited Group	4,124,740	8,901,508	2,461,746	1,168,780	16,656,774
Others	3,640,919	920,750	244,745	482,689	5,289,103
Total	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended 31 December 2018		
	Segment revenue RMB'000	Adjustments and eliminations RMB'000	Consolidated RMB'000
Drilling Services	7,867,930	(102,271)	7,765,659
Well Services	9,883,213	(60,955)	9,822,258
Marine Support Services	2,908,942	(202,451)	2,706,491
Geophysical Acquisition and Surveying Services	1,653,123	(1,654)	1,651,469
Revenue from contracts with customers	22,313,208	(367,331)	21,945,877

7. REVENUE (continued)

(A) For the year ended 31 December 2018 (continued)

(b) Performance obligations for contracts with customers

(i) Drilling Services

The activities that primarily drive the revenue earned in the Group's drilling contracts include (i) mobilizing and demobilizing the rig to and from the drill site, and (ii) performing drilling operation and other activities required for the contract. Consideration received for performing these activities may consist of payment for drilling on a day rate basis, mobilization and demobilization fees, and reimbursement. The Directors consider the activities required under the drilling contracts relating to a single performance obligation satisfied over time as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs.

(ii) Well Services

The activities that primarily drive the revenue earned in the Group's well service contracts include performing logging and downhole services, such as drilling fluids, directional drilling, cementing and well completion and other activities required for the contract. Consideration for the services may consist of payment for logging and downhole services. The Directors identify all distinct performance obligations in the contracts, and recognise revenue over time for most performance obligations as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs. For certain well services contracts for providing relevant materials and equipment to clients, the Directors consider the goods required under the relevant service contracts as a performance obligation satisfied at a point of time, and recognise revenue when control of the goods has transferred.

(iii) Marine Support Services

The activities that primarily drive the revenue earned in the Group's marine support contracts include performing transportation of supplies and personnel to offshore facilities, or moving and positioning drilling structures and other activities required for the contract. Consideration for the services may consist of payment for marine supporting and reimbursement. The Directors identify all distinct performance obligations in the contracts, and recognise revenue over time for each of the performance obligations as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs.

(iv) Geophysical Acquisition and Surveying Services

The activities that primarily drive the revenue earned in the Group's geophysical acquisition and surveying contracts include performing seismic data collection and marine surveying. Consideration for the services may consist of payment for seismic data collection or marine surveying and reimbursement. The Directors identify all distinct performance obligations in the contracts, and recognise revenue over time for most performance obligations as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs. For certain other distinct services required by part of geophysical acquisition and surveying services contracts, the Directors consider the goods and services required under relevant services contract as a performance obligation satisfied at a point of time, and recognise revenue when control of the goods and services has transferred.

7. REVENUE (continued)

(A) For the year ended 31 December 2018 (continued)

(c) Transaction price allocated to the remaining performance obligation for contracts with customers

	As at 31 December 2018				
	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical acquisition and surveying services RMB'000	Total RMB'000
Within one year	117,836	594,884	–	525,060	1,237,780
In the second to fifth year, inclusive	191,953	34,175	–	476	226,604
After five years	1,019	–	–	–	1,019
Total	310,808	629,059	–	525,536	1,465,403

The Group's most contracts with customers generally provide for payment on a day rate or operation volume basis. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not included in the table above.

(B) For the year ended 31 December 2017

An analysis of revenue is as follows:

	2017 RMB'000 (Restated)
Revenue:	
Rendering of services	17,516,288

8. OTHER INCOME

	2018 RMB'000	2017 RMB'000 (Restated)
Insurance claims received	22,081	28,842
Government grants (i)	191,009	156,336
Compensation income on late delivery of assets (ii)	61,450	100,222
Others	9,550	38,656
Total	284,090	324,056

(i) Government grants include release of deferred income of RMB141,372,000 for the year. (2017: RMB95,358,000) (note 40).

(ii) Due to late delivery of certain vessels from suppliers, 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 these actual incremental costs incurred and it was accounted for as compensation income on late delivery of assets in other income upon the agreement reached between the Group and the suppliers.

9. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000 (Restated)
Employee compensation costs		
(including directors' and chief executive's remuneration):		
Wages, salaries and bonuses	**3,686,628**	2,858,033
Social security costs	**866,469**	769,179
Retirement benefits and pensions	**472,988**	404,761
	5,026,085	4,031,973
Auditor's remuneration	**14,266**	15,927
Gain/(loss) on disposal of plant and equipment, net	**246,240**	(30,644)
Gain on disposal of intangible assets	**34,420**	–
Lease expenses under operating leases in respect of land and buildings, berths and equipment	**1,126,191**	594,735
Provision/(reversal) of impairment of inventories	**4,666**	(514)
Income from investments in floating rate corporate wealth management products and liquidity funds related investments	**19,984**	71,802
Income from investments in fixed rate corporate wealth management products and treasury bond related investments	**144,746**	115,743
Gain arising on change in fair value of financial assets at FVTPL	**49,441**	–
Cost of inventories recognised as an expense	**2,672,589**	1,512,922
Research and development costs, included in:	**742,103**	599,033
Depreciation of property, plant and equipment	**102,145**	107,372
Employee compensation costs	**263,562**	210,491
Consumption of supplies, materials, fuel, services and others	**376,396**	281,170

10. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	**60,941**	114,225
Interest on loan from a related party	**57,382**	37,879
Interest on long term bonds	**956,669**	952,266
Total interests	**1,074,992**	1,104,370
Less: Interest capitalised (note 19)	**(2,721)**	(12,590)
	1,072,271	1,091,780
Other finance cost:		
Others	**10,230**	9,161
	1,082,501	1,100,941

11. IMPAIRMENT LOSSES OF ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES, NET OF REVERSAL

	2018 RMB'000	2017 RMB'000
Impairment losses recognised/(reversed) on:		
Accounts receivable	**433,342**	68,710
Other receivables	**(17,978)**	14,892
	415,364	83,602

Details of impairment assessment for the year ended 31 December 2018 are set out in note 48.

12. 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:

	2018 RMB'000	2017 RMB'000
Fees	**1,280**	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	**1,988**	1,726
Bonuses*	**3,119**	1,959
Pension scheme contributions	**415**	335
	5,522	4,020
	6,802	5,300

* 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:

	2018 RMB'000	2017 RMB'000
Independent non-executive directors:		
Law Hong Ping, Lawrence	**400**	400
Fong Chung, Mark	**400**	400
Wong Kwai Huen, Albert	**400**	400
	1,200	1,200
Independent supervisors:		
Cheng Xinsheng	**80**	80
	1,280	1,280

12. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors and independent supervisors (continued)

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 (2017: Nil).

(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
2018				
Executive director and chief executive:				
Cao Shujie [1]	441	919	97	1,457
Executive directors:				
Qi Meisheng [1]	493	938	100	1,531
Liu Yifeng [2]	441	614	94	1,149
Li Feilong [3]	177	34	32	243
	1,111	1,586	226	2,923
Non-executive directors:				
Zhang Wukui [4]*	–	–	–	–
Meng Jun [6]*	–	–	–	–
Supervisors:				
Wu Hanming [7] *	–	–	–	–
Li Zhi	436	614	92	1,142
Wei Junchao*	–	–	–	–
	436	614	92	1,142
Total	1,988	3,119	415	5,522

12. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

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

	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
Executive directors:				
Li Feilong (3)	480	565	97	1,142
Liu Yifeng (2)	–	–	–	–
Dong Weiliang (2)	395	377	62	834
	875	942	159	1,976
Non-executive directors:				
Lv Bo*	–	–	–	–
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

Notes:

(1) Qi Meisheng resigned as chief executive and was appointed as the Chairman of the Board on 28 March 2018. Cao Shujie resigned as executive vice president and was appointed as chief executive on 28 March 2018, and appointed as executive director on 30 May 2018.

(2) Liu Yifeng was appointed and Dong Weiliang resigned as an executive director on 13 December 2017. Liu Yifeng resigned as executive director on 30 May 2018.

(3) 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.

(4) Zhang Wukui was appointed as a non-executive director on 30 May 2018.

(5) 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) Wu Hanming was appointed as chairman of the supervisory board on 30 May 2018.

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 and supervisors 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.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year do not include any directors, supervisors and the chief executive (2017: Nil), details of whose remuneration are set out in note 12. Details of the remuneration of the five (2017: Five) non-director, non-supervisor, and non-chief executive highest paid employees for the year are as follows:

	2018 RMB'000	2017 RMB'000
Basic salaries, allowances and benefits in kind	**10,864**	11,672
Bonuses	**3,444**	6,547
Pension scheme contributions	**481**	49
	14,789	18,268

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 2018	2017
HK$2,500,001 to HK$3,000,000	**1**	2
HK$3,000,001 to HK$3,500,000	**2**	–
HK$4,000,001 to HK$4,500,000	**2**	1
HK$5,000,001 to HK$5,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	1
	5	5

14. 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 to its contribution to government-regulated pension schemes abroad for employees working in overseas subsidiaries, the Group also has a defined benefit plan with a life insurance company to provide pension benefits for them.

The retirement expenses of the Group are as follows:

	2018 RMB'000	2017 RMB'000 (Restated)
Contributions to the PRC government-regulated pension scheme	**390,777**	348,908
Contributions to overseas subsidiaries' pension schemes	**65,789**	45,481
Cost under a defined benefit plan for overseas subsidiaries	**16,422**	10,372
	472,988	404,761

At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2017: Nil).

15. INCOME TAX EXPENSE

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.

Under the Corporate Income Tax Law of the PRC (the "CIT"), the statutory tax rate of the Company, subsidiaries and its key joint ventures in Mainland China is 25%.

According to the HNTE certificate renewed by the Company in October 2017, the CIT rate of the Company is to be 15% for the period from 2017 to 2019.

According to the HNTE certificate renewed by the Group's subsidiary COSL Chemicals (Tianjin), Ltd in October 2017, the CIT rate of COSL Chemicals (Tianjin), Ltd is to be 15% for the period from 2017 to 2019.

According to the HNTE certificate renewed by the Group's subsidiary COSL Deepwater Technology Co. Ltd. in 2016, the CIT rate of COSL Deepwater Technology Co. Ltd is to be 15% for the period from 2016 to 2018.

List of other corporate income tax rates applicable to the Group's activities:

Countries and regions	2018	2017
Indonesia	**25%**	25%
Mexico	**30%**	30%
Norway	**23%**	24%
The United Kingdom	**19%**	19%
Iraq	**Withholding tax based on 7% of revenue generated in Iraq**	Withholding tax based on 7% of revenue generated in Iraq
United Arab Emirates	**Not subject to any income tax**	Not subject to any income tax
Singapore	**17%**	17%
The United States	**21%**	34%
Canada	**Net federal corporate income tax of 15% and provincial income tax ranging from 10% to 16%, depending on the province and the size of the business**	Net federal corporate income tax of 15% and provincial income tax ranging from 11% to 16%, depending on the province and the size of the business
Malaysia	**24%**	24%
Saudi Arabia	**20%**	20%
Myanmar	**Withholding tax based on 2.5% of revenue generated in Myanmar**	Not applicable
Brazil	**34%**	Not applicable
Cameroon	**Withholding tax based on 15% of revenue generated in Cameroon**	Not applicable

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

	2018 RMB'000	2017 RMB'000 (Restated)
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**198,700**	81,426
Deferred	**(13,951)**	(27,583)
PRC corporate income taxes:		
Current	**455,351**	132,143
Deferred	**(17,661)**	121,742
Over provision in prior years	**(4,782)**	(46,378)
Total tax charge for the year	**617,657**	261,350

15. INCOME TAX EXPENSE (continued)

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

	2018		2017	
	RMB'000	%	RMB'000 (Restated)	%
Profit before tax	706,329		342,265	
Tax at the statutory tax rate of 25% (2017: 25%)	176,582	25.0	85,566	25.0
Tax effect as an HNTE	(322,521)	(45.7)	(170,097)	(49.7)
Tax effect of income not subject to tax	(13,320)	(1.9)	(14,919)	(4.4)
Tax effect of share of profit of joint ventures	(46,072)	(6.5)	(26,717)	(7.8)
Tax effect of expense not deductible for tax	17,030	2.3	37,768	11.0
Tax benefit for qualifying research and development expenses	(82,241)	(11.6)	(60,319)	(17.6)
Effect of non-deductible expenses and different tax rates for overseas subsidiaries	815,555	115.5	400,605	117.2
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	(3,295)	(0.5)	(58,315)	(17.0)
Tax effect of tax losses and deductible temporary differences unrecognised	93,641	13.3	5,980	1.7
Utilisation of tax losses previously not recognised	(26,417)	(3.7)	–	–
Tax effect on translation adjustment (a)	(7,080)	(1.0)	79,210	23.1
Over provision in respect of prior years	(4,782)	(0.7)	(46,378)	(13.6)
Others	20,577	2.9	28,966	8.5
Total tax charge at the Group's effective tax rate	617,657	87.4	261,350	76.4

(a) This 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 RMB34,434,000 (2017: RMB24,375,000) is included in "Share of profits of joint ventures" in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

16. OTHER COMPREHENSIVE INCOME/(EXPENSE)

	2018 RMB'000	2017 RMB'000 (Restated)
Other comprehensive income/(expense) includes:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension plan	**(4,265)**	(6,845)
Income tax relating to item that will not be reclassified subsequently to profit or loss	**981**	1,684
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**185,846**	(401,614)
Income tax impact	**11,296**	–
Available-for-sale investment:		
Gains arising during the year	**–**	42,194
Reclassification adjustments for the cumulative gain to profit or loss upon disposal	**–**	(84,440)
Income tax impact	**–**	6,352
Share of other comprehensive income/(expense) of joint ventures, net of related income tax	**4,564**	(8,559)
Other comprehensive income/(expense), net of income tax	**198,422**	(451,228)

17. DIVIDENDS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Proposed final dividend – RMB0.07 per ordinary share (2017: RMB0.06 per ordinary share)	**334,011**	286,296

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year ended 31 December 2018, the dividend paid to the shareholders of the Company is RMB0.06 per ordinary share, in an aggregate amount of RMB286,296,000 (2017: RMB238,530,000).

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

Under the PRC Company Law and the Company's articles of association, net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to the reserves, the profit after tax shall be the amount determined under the PRC accounting principles and financial regulations in the PRC. Transfer to this reserve must be made before any distribution of dividends to shareholders.

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

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

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

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

18. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2018 RMB'000	2017 RMB'000 (Restated)
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**70,802**	42,771

	2018	2017
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**4,771,592,000**	4,771,592,000

No diluted earnings per share is presented for the years ended 31 December 2018 and 2017 as the Group had no dilutive potential ordinary shares in issue during those years.

19. PROPERTY, PLANT AND EQUIPMENT

31 December 2018	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 2017 and at 1 January 2018 (restated)							
Cost	15,566,508	59,321,937	16,700,403	115,595	961,187	4,822,990	97,488,620
Accumulated depreciation and impairment	(6,157,752)	(26,466,684)	(12,037,535)	(95,285)	(99,718)	–	(44,856,974)
Carrying amount	9,408,756	32,855,253	4,662,868	20,310	861,469	4,822,990	52,631,646
Carrying amount							
At 1 January 2018 (restated)	9,408,756	32,855,253	4,662,868	20,310	861,469	4,822,990	52,631,646
Additions	–	59,160	835,874	1,450	–	1,358,011	2,254,495
Depreciation provided during the year	(869,270)	(1,931,912)	(1,396,065)	(5,145)	(39,546)	–	(4,241,938)
Disposals/write-offs	(27,168)	(77,803)	(58,171)	(93)	(848)	–	(164,083)
Transfers from/(to) construction in progress	758,566	3,394,377	525,880	–	–	(4,678,823)	–
Impairment provided	–	(122,962)	–	–	–	–	(122,962)
Exchange realignment	15,274	1,078,753	46,191	–	15,091	20,661	1,175,970
At 31 December 2018	9,286,158	35,254,866	4,616,577	16,522	836,166	1,522,839	51,533,128
At 31 December 2018							
Cost	15,929,153	64,581,379	17,690,304	115,815	965,398	1,522,839	100,804,888
Accumulated depreciation and impairment	(6,642,995)	(29,326,513)	(13,073,727)	(99,293)	(129,232)	–	(49,271,760)
Carrying amount	9,286,158	35,254,866	4,616,577	16,522	836,166	1,522,839	51,533,128

19. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2017 (restated)	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 (restated)							
Cost	15,347,674	61,391,744	15,966,847	118,529	981,510	5,733,983	99,540,287
Accumulated depreciation and impairment (restated)	(5,656,635)	(25,396,660)	(10,838,162)	(89,373)	(60,247)	–	(42,041,077)
Carrying amount (restated)	9,691,039	35,995,084	5,128,685	29,156	921,263	5,733,983	57,499,210
Carrying amount							
At 1 January 2017 (restated)	9,691,039	35,995,084	5,128,685	29,156	921,263	5,733,983	57,499,210
Additions (restated)	43,579	58,875	352,616	1,317	476	1,762,134	2,218,997
Depreciation provided during the year (restated)	(918,218)	(2,095,054)	(1,357,588)	(7,719)	(40,979)	–	(4,419,558)
Disposals/write-offs (restated)	(1,060,410)	(2,569)	(15,484)	(2,542)	–	–	(1,081,005)
Transfers from/(to) construction in progress	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 (restated)	9,408,756	32,855,253	4,662,868	20,310	861,469	4,822,990	52,631,646
At 31 December 2017 (restated)							
Cost	15,566,508	59,321,937	16,700,403	115,595	961,187	4,822,990	97,488,620
Accumulated depreciation and impairment	(6,157,752)	(26,466,684)	(12,037,535)	(95,285)	(99,718)	–	(44,856,974)
Carrying amount	9,408,756	32,855,253	4,662,868	20,310	861,469	4,822,990	52,631,646

Included in the current year's additions was an amount of approximately RMB2,721,000 (2017: RMB12,590,000) in respect of interest capitalised in property, plant and equipment (note 10), with a capitalisation rate of 4.64% (2017: 4.27%) per annum.

Impairment of property, plant and equipment

During the year ended 31 December 2018, due to slow recovery of oil price and global oilfield services market, both the services prices and utilisation rates of the Group's drilling rigs and vessels have contributed to thin profit margin. The Directors carried out the review of the recoverable amounts of certain property, plant and equipment 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 acquisition and surveying services segment. The review led to the recognition of an impairment loss of RMB122,962,000 for drilling rigs in drilling services segment which has been recognised in profit or loss for the year ended 31 December 2018. The impairment losses have been classified under the drilling services segment.

During the year ended 31 December 2017, impairment loss of RMB4,942,000 was recognised which was classified under marine support 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.

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.

19. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment of property, plant and equipment (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value. The cash flow projection was based on financial budgets covering a five-year period approved by senior management. The cash flow beyond the five-year period is estimated based on the market trend and by reference to the relevant market trend report. The discount rate applied to the cash flow projections are in the range of 8.0%~8.9% (2017: 8.0%). 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 based on the past performance of the relevant assets, as well as future industry conditions and operations, including estimated utilisation rates, day rates, cost level and capital requirements.

20. 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"). The entire goodwill was fully impaired as at 31 December 2016.

	2018 RMB'000
COST	
At 1 January	4,402,392
Exchange realignment	221,662
At 31 December	4,624,054
IMPAIRMENT	
At 1 January	4,402,392
Exchange realignment	221,662
At 31 December	4,624,054
CARRYING VALUE	
At 31 December	–

21. OTHER INTANGIBLE ASSETS

31 December 2018	Trademark RMB'000	Prepaid land lease payments RMB'000	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Carrying amount at 1 January 2018 (restated)	161	334,625	94,937	–	429,723
Additions	–	–	31,302	–	31,302
Amortisation provided during the year	(41)	(4,394)	(51,947)	–	(56,382)
Disposals	–	(118,896)	(429)	–	(119,325)
Exchange realignment	–	3,891	293	–	4,184
At 31 December 2018	120	215,226	74,156	–	289,502
At 31 December 2018					
Cost	411	239,513	594,817	123,510	958,251
Accumulated amortisation	(291)	(24,287)	(520,661)	(123,510)	(668,749)
Carrying amount	120	215,226	74,156	–	289,502

21. OTHER INTANGIBLE ASSETS (continued)

31 December 2017 (restated)	Trademark RMB'000	Prepaid land lease payments RMB'000	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Carrying amount at 1 January 2017 (restated)	202	301,200	146,602	–	448,004
Additions (restated)	–	43,504	13,571	–	57,075
Amortisation provided during the year (restated)	(41)	(5,315)	(64,022)	–	(69,378)
Exchange realignment	–	(4,764)	(1,214)	–	(5,978)
At 31 December 2017 (restated)	161	334,625	94,937	–	429,723
At 31 December 2017 (restated)					
Cost	411	382,408	557,641	117,589	1,058,049
Accumulated amortisation	(250)	(47,783)	(462,704)	(117,589)	(628,326)
Carrying amount	161	334,625	94,937	–	429,723

22. MULTICLIENT LIBRARY

	MultiClient Library RMB'000
Carrying amount at 31 December 2017	**22,821**
Development cost capitalised in the year	**112,163**
Amortisation provided during the year	**(719)**
Exchange realignment	**5,442**
At 31 December 2018	**139,707**
At 31 December 2018	
Cost	**140,426**
Accumulated amortisation	**(719)**
Carrying amount	**139,707**

During the year ended 31 December 2017, 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. As at 31 December 2018, certain part of multi-client data project has been completed.

23. PARTICULARS OF SUBSIDIARIES

Details of the Company'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 2018	2017	Principal activities
COSL Chemicals (Tianjin), Ltd.	Tianjin, PRC 7 September 1993	PRC	RMB 20,000,000	100%	100%	Provision of drilling fluids services
PT. COSL INDO	Indonesia 1 August 2005	Indonesia	US Dollar ("US$") 400,000	100%	100%	Provision of oil & gas exploration services
COSL-HongKong Limited	Hong Kong 1 December 2005	Hong Kong	Hong Kong Dollar ("HK$") 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
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 2018 and 31 December 2017 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.

23. PARTICULARS OF SUBSIDIARIES (continued)

The following subsidiaries had outstanding issued long-term bonds amounting to RMB13,675,225,000 at the end of the year:

	Held by third party RMB'000
COSL Finance (BVI) Limited	6,839,001
COSL Singapore Capital Ltd.	6,836,224

24. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Cost of investments in joint ventures	**148,926**	148,926
Share of post-acquisition profits and other comprehensive income, net of dividends received	**508,036**	415,442
Share of post-acquisition excess loss	**22,200**	18,334
End of the year	**679,162**	582,702

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 2018	Ownership interest 2017	Voting rights held 2018	Voting rights held 2017	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	49	50	50	Provision of drilling services

24. INVESTMENTS IN JOINT VENTURES (continued)

(a) The Group has 60% of the equity interests in Magcobar, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of Magcobar, at least two-thirds of the voting rights are required for decisions on directing the relevant activities of this entity. In the opinion of the Directors, the Group does not have control over Magcobar and the investment in this joint arrangement constitutes interest in a joint venture based on the rights and obligations of the parties to this joint arrangement. Accordingly, Magcobar has been accounted for in the Group's consolidated financial statements using the equity method.

(b) The Group has 49% of the equity interests in PBS-COSL, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of PBS-COSL, the board of directors of PBS-COSL shall comprise four directors whereby both the Company and the other sole investor shall appoint two directors each. Unanimous approvals by the directors of PBS-COSL are required for decisions on directing the relevant activities of PBS-COSL. In the opinion of the Directors, the Group does not have control over PBS-COSL and the investment in this joint arrangement constitutes interest in a joint venture based on the rights and obligations of the parties to this joint arrangement. Accordingly, PBS-COSL has been accounted for in the Group's consolidated financial statements using the equity method.

(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 2018, the Group has not 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.

	2018 RMB'000	2017 RMB'000
The Group's share of profit	**184,288**	106,867
The Group's share of other comprehensive income/(expense)	**4,564**	(8,559)
The Group's share of total comprehensive income	**188,852**	98,308

25. INVENTORIES

	31 December 2018 RMB'000	31 December 2017 RMB'000
Raw materials	**1,207,916**	1,077,941
Goods in transit	**79,991**	37,481
Finish goods	**33,876**	13,354
Turnover materials	**4,438**	4,936
Work in progress	**451**	14,717
Others	**83**	78
	1,326,755	1,148,507

The Group wrote down RMB6,965,000 (2017:RMB8,136,000) and reversed write-down of RMB2,299,000 (2017:RMB8,650,000) during the year, both of which were recorded in other operating expenses.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Prepayments	127,705	58,705
Deposits	41,490	89,089
Other receivables	233,523	344,794
	402,718	492,588
Less: Provision for impairment of other receivables	(12,612)	(30,590)
	390,106	461,998

An analysis of other receivables is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Prepaid tax	117,851	144,578
Advance to suppliers	24,920	27,527
Dividend receivable	29,500	32,000
Interest receivable	2,535	18,141
Advance to employees	12,252	9,654
Other advance	4,280	13,044
Insurance claim receivables	24,855	47,174
Others	17,330	52,676
	233,523	344,794

27. ACCOUNTS RECEIVABLE

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Accounts receivable – goods and services	10,579,283	8,295,076
Less: Allowance for credit losses	(2,563,970)	(2,036,704)
	8,015,313	6,258,372

As at 31 December 2018 and 1 January 2018, accounts receivable from contracts with customers amounted to RMB8,015,313 and RMB6,252,705 respectively.

27. ACCOUNTS RECEIVABLE (continued)

The following is an aged analysis of accounts receivable net of allowance for credit losses, as at the end of the reporting period, presented based on the invoice dates.

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Within six months	**7,793,152**	5,759,162
Six months to one year	**128,266**	185,095
One to two years	**91,835**	235,209
Over two years	**2,060**	78,906
	8,015,313	6,258,372

As at 31 December 2018, included in the Group's accounts receivable balance are debtors with aggregate carrying amount of RMB222,161,000 which are past due as at the reporting date. Out of the past due balances, RMB88,426,000 is not considered as in default 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.

As at 31 December 2017, included in the Group's accounts receivable balance are debtors with a carrying amount of approximately RMB323,697,000 which are past due as at the reporting date for which the Group has not provided for impairment loss.

Aging of accounts receivable which are past due but no impaired:

	31 December 2017 RMB'000
Outstanding balances aged:	
Six months to one year	9,582
One to two years	235,209
Two to three years	78,906
	323,697

The Group has provided fully for all receivables aged over three years because historical experience shows that those receivables are generally not recoverable.

27. ACCOUNTS RECEIVABLE (continued)

Movement in the allowance for doubtful debts:

	2017 RMB'000
At 1 January	2,079,877
Impairment losses recognised	234,285
Impairment losses reversed	(165,575)
Impairment losses written-off	(132)
Exchange realignment	(111,751)
At 31 December	2,036,704

Details of impairment assessment of accounts receivable for the year ended 31 December 2018 are set out in note 48.

28. NOTES RECEIVABLE

	31 December 2018 RMB'000	31 December 2017 RMB'000
Trade acceptances at amortised costs	**208,164**	82,986
Bank acceptances at FVTOCI	**24,740**	2,547
	232,904	85,533

As at 31 December 2018, the Group endorsed notes receivable with face value of RMB9,140,000 (31 December 2017: Nil) to suppliers which were still not expired. In the opinion of the Directors of the Company, the Group has transferred substantially all the risks and rewards of ownership relating to these notes receivable, and accordingly derecognised the full carrying amounts of the notes receivable.

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	31 December 2018 RMB'000
Current asset:	
Investments in liquidity funds	**1,246,690**
Investments in floating rate corporate wealth management products	**503,033**
Non-current asset:	
Unlisted equity investment (note 31)	**–**
	1,749,723

30. CONTRACT COSTS

	31 December 2018 RMB'000
Mobilisation cost (a)	**217,009**
Others	**8,907**
	225,916
Current	**53,023**
Non-current	**172,893**
	225,916

(a) Certain direct and incremental costs incurred for initial mobilization are costs of fulfilling a contract and are recoverable. These recoverable costs are capitalised and amortized ratably to contract expense as services are rendered over the initial term of the related contracts.

31. AVAILABLE-FOR-SALE INVESTMENT

	31 December 2017 RMB'000
Unlisted equity investment, at cost (a)	134,518
Less: Provision for impairment	(134,518)
Total net carrying amount at 31 December	–

(a) 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. At the date of initial application of HKFRS 9, the equity investment was reclassified from available-for-sale investment to financial assets at FVTPL (note 29).

32. OTHER CURRENT ASSETS/LIABILITIES AND OTHER NON-CURRENT ASSETS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Investments in corporate wealth management products	**6,536,532**	1,819,946
Investments in liquidity funds	**–**	200,110
Value-added tax to be deducted and prepaid	**29,122**	11,836
Value-added tax recoverable	**35,581**	52,960
Treasury bond related investments	**–**	758,540
Other current assets	**6,601,235**	2,843,392
Output value-added tax to be recognised	**(183,648)**	(154,730)
Provision of onerous contracts	**–**	(22,450)
Other current liabilities	**(183,648)**	(177,180)
Value-added tax recoverable	**33,294**	85,706
Tax recoverable	**40,436**	101,376
Deposits paid for the acquisition of property, plant and equipment	**24,086**	8,760
Non-current portion of deferred expenses	**–**	130,924
Other non-current assets	**97,816**	326,766

33. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND TIME DEPOSITS

	31 December 2018 RMB'000	31 December 2017 RMB'000
Cash and balances with banks	**1,724,911**	3,049,199
Deposits with CNOOC Finance	**1,471,715**	1,497,422
Time deposits at banks	**143,242**	4,532,415
Cash and balances with banks and financial institutions	**3,339,868**	9,079,036
Less:		
Pledged deposits	**(27,657)**	(41,092)
Time deposits with maturity of over three months	**(143,242)**	(28,870)
Cash and cash equivalents	**3,168,969**	9,009,074

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 RMB1,734,637,000 (2017: RMB5,333,699,000). 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.

34. 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 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Outstanding balances aged:		
Within one year	**8,007,466**	6,617,294
One to two years	**125,212**	228,751
Two to three years	**61,491**	76,451
Over three years	**80,883**	82,469
	8,275,052	7,004,965

35. 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 2018 RMB'000	31 December 2017 RMB'000
Deferred tax assets	**65,869**	70,800
Deferred tax liabilities	**(286,560)**	(322,858)
	(220,691)	(252,058)

35. DEFERRED TAXATION (continued)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Balance at 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 and 1 January 2018 RMB'000	Recognised in profit or loss RMB'000	Exchange realignment RMB'000	Balance at 31 December 2018 RMB'000
Deferred tax assets:								
Provision for staff bonus	90,034	(1,270)	–	(1)	88,763	(5,300)	2	83,465
Impairment of assets	76,473	(19,775)	–	–	56,698	(2,078)	–	54,620
Accrued liabilities	6,796	23,968	–	–	30,764	(11,861)	–	18,903
Provision for onerous contracts	53,409	(50,042)	–	–	3,367	(3,367)	–	–
Deductible tax loss	264,482	(193,128)	–	(3,817)	67,537	(8,059)	3,101	62,579
Others	10,118	(6,013)	–	(367)	3,738	(219)	156	3,675
	501,312	(246,260)	–	(4,185)	250,867	(30,884)	3,259	223,242
Deferred tax liabilities:								
Accelerated depreciation of property, plant and equipment	621,576	(136,593)	–	(4,093)	480,890	(49,301)	2,885	434,474
Fair value adjustment arising from acquisition of a subsidiary	29,004	(15,039)	–	(1,200)	12,765	(12,341)	185	609
Fair value change in available for sale investment	6,352	–	(6,352)	–	–	–	–	–
Others	10,322	(469)	–	(583)	9,270	(854)	434	8,850
	667,254	(152,101)	(6,352)	(5,876)	502,925	(62,496)	3,504	443,933
	165,942	94,159	(6,352)	(1,691)	252,058	(31,612)	245	220,691

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 RMB954,121,000 (31 December 2017: RMB783,791,000). 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 2018, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB220,410,000 (2017: RMB95,987,000). 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 2018, accumulated unrecognised tax losses arising in the Group of approximately RMB9,277,338,000 (2017: RMB8,550,219,000) were available for offsetting against future taxable profits of the companies in which the losses arose.

35. DEFERRED TAXATION (continued)

The unrecognised income tax losses which have fixed expiry date, will be expired in the following years:

	31 December 2018 RMB'000	31 December 2017 RMB'000
31 December 2020	–	89,469
31 December 2021	**147,061**	150,712
31 December 2022	**3,601**	3,601
31 December 2023	**6,335**	–
31 December 2035	–	10,420
31 December 2036	**7,835**	10,422
31 December 2037	**9,568**	9,110
	174,400	273,734

At 31 December 2018, the Group had tax losses arising in Norway of RMB9,102,938,000 (2017: RMB8,276,485,000) 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 2018, the Group has deductible temporary differences of RMB1,701,008,000 (2017: RMB1,617,918,000). 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.

36. LOAN FROM A RELATED PARTY

	Contractual interest rate per annum (%)	31 December 2018 RMB'000	31 December 2017 RMB'000
Loan from a related party			
– unsecured	LIBOR+0.5%	**1,372,640**	2,286,970

As of 31 December 2017, the Group borrowed loans with carrying amount of US$250,000,000 (equivalent to approximately RMB1,722,884,000) from a fellow subsidiary, which is repayable on demand and carries effective interest rate of LIBOR+0.5% per annum. The proceeds were used to financing CNA's daily operations. During the current year, the Group repaid loans with carrying amount of US$150,000,000 (equivalent to approximately RMB1,032,802,000) to the fellow subsidiary.

37. INTEREST-BEARING BANK BORROWINGS

	Contractual interest rate (%) per annum	Year of maturity	31 December 2018 RMB'000	31 December 2017 RMB'000
Export-Import Bank of China-unsecured (a)	LIBOR+1.70%	2020	**1,153,504**	1,644,695
CDB Development Fund (as defined below)-unsecured (b)	1.08%	2035	**230,208**	231,424
CDB Development Fund-unsecured (b)	1.08%	2033	**–**	96,436
			1,383,712	1,972,555
Less: Current portion of long term bank loans			**(596,081)**	(563,380)
			787,631	1,409,175

(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 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 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 income (note 40). At the end of this year, the Group repaid RMB130,000,000 to CDB Development Fund ahead of the repayment schedule.

For all bank borrowings as stated above, the weighted average effective interest rate for the year ended 31 December 2018 was 3.63% per annum (2017: 2.58% per annum).

	31 December 2018 RMB'000	31 December 2017 RMB'000
Bank borrowings repayable:		
Within one year	**596,081**	563,380
In the second year	**578,285**	548,265
In the third to fifth year, inclusive	**33,750**	598,480
Beyond five years	**175,596**	262,430
	1,383,712	1,972,555

38. LONG TERM BONDS

	Year of maturity	31 December 2018 RMB'000	31 December 2017 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*	**1,999,611**	1,998,678
(Type II of the First Tranche Issue as defined below) (b)	*2026*	**2,996,885**	2,996,465
(Type I of the Second Tranche Issue as defined below) (b)	*2019*	**2,099,213**	2,098,268
(Type II of the Second Tranche Issue as defined below) (b)	*2021*	**2,897,782**	2,896,998
Senior unsecured USD bonds (c)	*2022*	**6,839,001**	6,503,770
Guaranteed medium term notes			
First Drawdown Note (d)	*2020*	**3,424,140**	3,255,473
Second Drawdown Note (d)	*2025*	**3,412,084**	3,246,117
		25,168,716	24,495,769
Current		**4,098,824**	–
Non-current		**21,069,892**	24,495,769
		25,168,716	24,495,769

(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 (2017: 4.48% per annum), and the redemption or maturity date is 14 May 2022.

(b) On 26 May 2016, the Group issued its first tranche (the "First Tranche Issue") of domestic corporate bonds ("2016 Corporate Bonds") with an aggregate amount of RMB5,000,000,000. The First Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,000,000,000 (the "Type I of the First Tranche Issue") carries effective interest rate of 3.19% per annum and the maturity date is 27 May 2019. The second type of bonds with a principal amount of RMB3,000,000,000 (the "Type II of the First Tranche Issue") carries effective interest rate of 4.12% per annum and the maturity date is 27 May 2026.

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.

38. LONG TERM BONDS (continued)

(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.

39. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018* RMB'000
Contract liabilities		
Current	154,410	87,225
Non-current	308,000	230,430
	462,410	317,655

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The Group's contract liabilities consist of the mobilisation fee, subsidies received from customers related to acquisition of machinery for provision of drilling services (the "Subsidies") and advance from customers relevant to certain operation contracts. The contract liabilities are recognised as revenues on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the liabilities relate.

Changes in contract liabilities are mainly due to the received mobilisation fees for the newly signed contracts during the year.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities:

	Advance from customers RMB'000	Mobilisation fee RMB'000	Subsidies RMB'000	Total RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	29,698	28,620	53,447	111,765

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

40. DEFERRED INCOME

Deferred income consists of the contract value acquired in the process of the acquisition of CNA, government grants, and the difference between proceeds received from loans at a below-market rate granted by a wholly-owned subsidiary of a state-owned bank and the fair value of the loans at initial recognition based on the prevailing market interest rate (the "Others"). The deferred income acquired from contract value are amortised according to the related drilling contract periods and are credited to revenues of the Group. The deferred income acquired 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 income of the Group.

	Contract value RMB'000	Mobilisation revenue RMB'000	Government grant related to assets RMB'000	Government grant related to income RMB'000	Subsidies RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017 (restated)	336,718	119,601	199,169	26,574	228,301	132,821	1,043,184
Additions	–	81,633	14,693	151,716	–	–	248,042
Credited to profit or loss	(80,845)	(127,526)	(23,386)	(71,972)	(54,532)	(10,682)	(368,943)
Exchange realignment	(16,863)	(5,548)	–	–	(11,499)	–	(33,910)
At 31 December 2017 (restated)	239,010	68,160	190,476	106,318	162,270	122,139	888,373
Adjustment (note)	–	(68,160)	–	–	(162,270)	–	(230,430)
At 1 January 2018 (restated)	**239,010**	**–**	**190,476**	**106,318**	**–**	**122,139**	**657,943**
Additions	**–**	**–**	**22,047**	**97,310**	**–**	**–**	**119,357**
Credited to profit or loss	**(80,680)**	**–**	**(18,137)**	**(123,235)**	**–**	**(41,448)**	**(263,500)**
Exchange realignment	**9,039**	**–**	**–**	**–**	**–**	**–**	**9,039**
At 31 December 2018	**167,369**	**–**	**194,386**	**80,393**	**–**	**80,691**	**522,839**

Note: Upon the application of HKFRS 15 effective from 1 January 2018, the balances of subsidies and the mobilisation revenue were reclassified to the contract liabilities in light of their nature.

41. ISSUED CAPITAL

	31 December 2018 RMB'000	31 December 2017 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

42. 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 2018 and 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within one year	**809,449**	528,694
In the second to fifth year, inclusive	**1,239,105**	1,194,457
	2,048,554	1,723,151

43. 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 2018 RMB'000	31 December 2017 RMB'000
Contracted, but not provided for	**392,658**	640,854

At the end of the reporting period, the Group's share of joint ventures' own capital commitments were insignificant.

44. BUSINESS COMBINATION INVOLVING BUSINESSES UNDER COMMON CONTROL

On 31 January 2018, the Company and CNOOC Energy Technology & Services Limited ("CNOOC Energy"), a subsidiary of the CNOOC, completed a transaction whereby the Company purchased certain seismic data processing business of CNOOC Ener Tech – Drilling & Production Co. Data Processing Co. (the "Acquired Business") from CNOOC Energy with a total consideration of RMB44,525,060. In connection with this transaction, a net liability of RMB39,062,000 of the Acquired Business, mainly including property, plant and equipment, trade and other payables that were retained by CNOOC Energy, was regarded as a deemed contribution by owners of the Company. The primary objective of the transaction is to improve the Group's market share in seismic data processing business.

The above transaction was accounted for as a business combination under common control since the Company and CNOOC Energy both were under the common control of CNOOC. The consolidated financial statements of the Group incorporate the financial statements items of the Acquired Business as if it had been combined from the date when the Acquired Business first came under control of the CNOOC Energy. The net assets of the Acquired Business are consolidated using the existing book values from CNOOC Energy's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination. The difference between the carrying amount of the net assets of the Acquired Business at 31 January 2018 and the consideration transferred was recognised in capital reserve. The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income includes the results of the Acquired Business as if it had been combined at the beginning of the previous reporting period. The effects on the results of the Group for the year of 2017 and the financial position of the Group at 31 December 2017 and at 1 January 2017 are summarised below:

44. BUSINESS COMBINATION INVOLVING BUSINESSES UNDER COMMON CONTROL (continued)

Consolidated statement of financial position at 31 December 2017

	31 December 2017 RMB'000 (Previously reported)	Business combination under common control RMB'000	31 December 2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	52,599,471	32,175	52,631,646
Goodwill	–	–	–
Other intangible assets	419,294	10,429	429,723
MultiClient library	22,821	–	22,821
Investments in joint ventures	582,702	–	582,702
Available-for-sale investment	–	–	–
Other non-current assets	326,766	–	326,766
Deferred tax assets	70,800	–	70,800
Total non-current assets	54,021,854	42,604	54,064,458
CURRENT ASSETS			
Inventories	1,148,507	–	1,148,507
Prepayments, deposits and other receivables	460,401	1,597	461,998
Accounts receivable	6,218,549	39,823	6,258,372
Notes receivable	85,533	–	85,533
Other current assets	2,843,392	–	2,843,392
Pledged deposits	41,092	–	41,092
Time deposits with maturity of over three months	28,870	–	28,870
Cash and cash equivalents	9,009,074	–	9,009,074
Total current assets	19,835,418	41,420	19,876,838
CURRENT LIABILITIES			
Trade and other payables	8,062,653	70,856	8,133,509
Salary and bonus payables	830,873	3,237	834,110
Tax payable	121,630	–	121,630
Loan from a related party	2,286,970	–	2,286,970
Interest-bearing bank borrowings	563,380	–	563,380
Other current liabilities	177,180	–	177,180
Total current liabilities	12,042,686	74,093	12,116,779
NET CURRENT ASSETS	7,792,732	(32,673)	7,760,059
TOTAL ASSETS LESS CURRENT LIABILITIES	61,814,586	9,931	61,824,517

44. BUSINESS COMBINATION INVOLVING BUSINESSES UNDER COMMON CONTROL (continued)

Consolidated statement of financial position at 31 December 2017 (continued)

	31 December 2017 RMB'000 (Previously reported)	Business combination under common control RMB'000	31 December 2017 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	322,858	–	322,858
Interest-bearing bank borrowings	1,409,175	–	1,409,175
Long term bonds	24,495,769	–	24,495,769
Deferred income	888,146	227	888,373
Employee benefit liabilities	20,857	–	20,857
Total non-current liabilities	27,136,805	227	27,137,032
Net assets	34,677,781	9,704	34,687,485
EQUITY			
Equity attributable to owners of the Company			
Issued capital	4,771,592	–	4,771,592
Reserves	29,783,261	9,704	29,792,965
	34,554,853	9,704	34,564,557
Non-controlling interests	122,928	–	122,928
Total equity	34,677,781	9,704	34,687,485

44. BUSINESS COMBINATION INVOLVING BUSINESSES UNDER COMMON CONTROL (continued)

Consolidated statement of profit or loss and other comprehensive income for the year of 2017

	2017 RMB'000 (Previously reported)	Business combination under common control RMB'000	2017 RMB'000 (Restated)
REVENUE	17,436,414	79,874	17,516,288
Sales surtaxes	(56,981)	(753)	(57,734)
Revenue, net of sales surtaxes	17,379,433	79,121	17,458,554
Other income	323,054	1,002	324,056
Depreciation of property, plant and equipment and amortisation of intangible assets	(4,468,117)	(20,819)	(4,488,936)
Employee compensation costs	(4,001,622)	(30,351)	(4,031,973)
Repair and maintenance costs	(363,777)	(286)	(364,063)
Consumption of supplies, materials, fuel, services and others	(3,064,065)	(5,367)	(3,069,432)
Subcontracting expenses	(2,362,721)	(5,213)	(2,367,934)
Operating lease expenses	(594,245)	(490)	(594,735)
Other operating expenses	(1,301,767)	(7,271)	(1,309,038)
Impairment of property, plant and equipment	(4,942)	–	(4,942)
Impairment losses of accounts receivable and other receivables, net of reversal	(83,602)	–	(83,602)
Total operating expenses	(16,244,858)	(69,797)	(16,314,655)
PROFIT FROM OPERATIONS	1,457,629	10,326	1,467,955
Exchange (loss)/gain, net	(388,094)	2	(388,092)
Finance costs	(1,100,941)	–	(1,100,941)
Interest income	99,575	–	99,575
Investment income	187,545	–	187,545
Share of profits of joint ventures, net of tax	106,867	–	106,867
Other gains and losses	(30,113)	(531)	(30,644)
PROFIT BEFORE TAX	332,468	9,797	342,265
Income tax expense	(261,257)	(93)	(261,350)
PROFIT FOR THE YEAR	71,211	9,704	80,915
Attributable to:			
Owners of the Company	33,067	9,704	42,771
Non-controlling interests	38,144	–	38,144
	71,211	9,704	80,915
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	0.69 cent		0.90 cent

44. BUSINESS COMBINATION INVOLVING BUSINESSES UNDER COMMON CONTROL (continued)

Consolidated statement of profit or loss and other comprehensive income for the year of 2017 (continued)

	2017 RMB'000 (Previously reported)	Business combination under common control RMB'000	2017 RMB'000 (Restated)
PROFIT FOR THE YEAR	71,211	9,704	80,915
OTHER COMPREHENSIVE (EXPENSE)/INCOME			
Items that may not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit pension plan	(6,845)	–	(6,845)
Income tax relating to item that will not be reclassified subsequently to profit or loss	1,684	–	1,684
	(5,161)	–	(5,161)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations	(401,614)	–	(401,614)
Net fair value loss on available-for-sale investment	(42,246)	–	(42,246)
Share of other comprehensive expense of joint ventures, net of related income tax	(8,559)	–	(8,559)
Income tax relating to item that may be reclassified subsequently to profit or loss	6,352	–	6,352
	(446,067)	–	(446,067)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF INCOME TAX	(451,228)	–	(451,228)
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR	(380,017)	9,704	(370,313)
Attributable to:			
Owners of the Company	(412,935)	9,704	(403,231)
Non-controlling interests	32,918	–	32,918
	(380,017)	9,704	(370,313)

44. BUSINESS COMBINATION INVOLVING BUSINESSES UNDER COMMON CONTROL (continued)

Consolidated statement of financial position at 1 January 2017

	1 January 2017 RMB'000 (Previously reported)	Business combination under common control RMB'000	1 January 2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	57,457,239	41,971	57,499,210
Goodwill	–	–	–
Other intangible assets	427,027	20,977	448,004
Investments in joint ventures	600,364	–	600,364
Available-for-sale investment	–	–	–
Other non-current assets	439,121	–	439,121
Deferred tax assets	68,514	–	68,514
Total non-current assets	58,992,265	62,948	59,055,213
CURRENT ASSETS			
Inventories	1,157,617	–	1,157,617
Prepayments, deposits and other receivables	442,960	1,597	444,557
Accounts receivable	4,795,964	53,020	4,848,984
Notes receivable	1,844,306	–	1,844,306
Other current assets	7,216,070	–	7,216,070
Pledged deposits	23,806	–	23,806
Cash and cash equivalents	6,071,069	–	6,071,069
Total current assets	21,551,792	54,617	21,606,409
CURRENT LIABILITIES			
Trade and other payables	9,304,300	112,118	9,416,418
Salary and bonus payables	776,939	5,411	782,350
Tax payable	101,124	–	101,124
Loan from a related party	693,700	–	693,700
Interest-bearing bank borrowings	5,296,469	–	5,296,469
Other current liabilities	543,649	–	543,649
Total current liabilities	16,716,181	117,529	16,833,710
NET CURRENT ASSETS	4,835,611	(62,912)	4,772,699
TOTAL ASSETS LESS CURRENT LIABILITIES	63,827,876	36	63,827,912

44. BUSINESS COMBINATION INVOLVING BUSINESSES UNDER COMMON CONTROL (continued)

Consolidated statement of financial position at 1 January 2017 (continued)

	1 January 2017 RMB'000 (Previously reported)	Business combination under common control RMB'000	1 January 2017 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	234,456	–	234,456
Provisions	14,505	–	14,505
Interest-bearing bank borrowings	2,057,206	–	2,057,206
Long term bonds	25,279,744	–	25,279,744
Deferred income	936,804	36	936,840
Employee benefit liabilities	8,783	–	8,783
Total non-current liabilities	28,531,498	36	28,531,534
Net assets	35,296,378	–	35,296,378
EQUITY			
Equity attributable to owners of the Company			
Issued capital	4,771,592	–	4,771,592
Reserves	30,434,776	–	30,434,776
	35,206,368	–	35,206,368
Non-controlling interests	90,010	–	90,010
Total equity	35,296,378	–	35,296,378

The effect of the business combination of entities under common control, described above, on the Group's basic loss per share for the year of 2017 is as follows:

	Impact on basic earnings per share RMB cents
Figures before adjustments	0.69
Effect arising from business combination under common control	0.21
Figures after adjustments	0.90

44. BUSINESS COMBINATION INVOLVING BUSINESSES UNDER COMMON CONTROL (continued)

The effect of business combination of entities under common control described above on the Group's net profit for the year of 2017 is as follows:

	Net profit RMB'000
Reported figures before restatement	33,067
Restatement arising from business combination of entities under common control	9,704
Figures after adjustments	42,771

45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**706,329**	342,265
Adjustments for:			
Finance costs	*10*	**1,072,271**	1,091,780
Interest income		**(107,552)**	(99,575)
Investment income	*9*	**(164,730)**	(187,545)
Gains arising from financial assets at FVTPL	*9*	**(49,441)**	–
Share of profits of joint ventures	*24*	**(184,288)**	(106,867)
Exchange (gain)/loss, net		**(370,813)**	315,437
(Gain)/loss on disposal of property, plant and equipment, net	*9*	**(246,240)**	30,644
Gain on disposal of other intangible assets	*9*	**(34,420)**	–
Depreciation of property, plant and equipment and amortisation of intangible assets		**4,262,776**	4,488,936
Impairment losses of accounts receivable and other receivables, net of reversal	*11*	**415,364**	83,602
Provision/(reversal) of impairment of inventories	*9*	**4,666**	(514)
Reversal of provision for onerous contracts		**(22,450)**	(333,612)
Impairment of property, plant and equipment		**122,962**	4,942
		5,404,434	5,629,493
Increase in inventories		**(160,841)**	(5,956)
Increase in accounts receivable		**(2,069,956)**	(1,514,365)
(Increase)/decrease in notes receivable		**(147,371)**	1,758,773
Decrease in prepayments, deposits and other receivables		**93,646**	20,648
Increase/(decrease) in trade and other payables, net of payables for purchases of property, plant and equipment		**1,348,035**	(248,616)
Increase in notes payables		**50,266**	–
Increase in salary and bonus payables		**75,944**	59,448
Decrease in deferred income		**(124,741)**	(121,677)
Increase in contract liabilities		**130,691**	–
Increase in contract costs		**(87,478)**	–
Cash generated from operations		**4,512,629**	5,577,748

45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Reconciliation of liabilities arising from financing activities

	31 December 2017 RMB'000	Financing cash flows (a) RMB'000	Non-cash changes: Foreign exchange movement RMB'000	Non-cash changes: Interests expenses and proposed dividends RMB'000	Non-cash changes: Other changes (b) RMB'000	31 December 2018 RMB'000
Loan from a related party *(note 36)*	2,286,970	(1,032,802)	118,472	–	–	1,372,640
Interest-bearing bank borrowings *(note 37)*	1,972,555	(692,744)	58,713	–	45,188	1,383,712
Long term bonds *(note 38)*	24,495,769	–	654,691	–	18,256	25,168,716
Interest payable and dividends payable (included in trade and other payables)	368,020	(1,290,418)	(40,127)	1,339,292	–	376,767
Total	29,123,314	(3,015,964)	791,749	1,339,292	63,444	28,301,835

(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.

46. 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.

46. RELATED PARTY TRANSACTIONS (continued)

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

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

		2018 RMB'000	2017 RMB'000 (Restated)
i	CNOOC Limited Group		
	– Provision of drilling services	**4,124,740**	3,529,447
	– Provision of well services	**8,901,508**	6,292,723
	– Provision of marine support services	**2,461,746**	2,284,597
	– Provision of geophysical acquisition and surveying services	**1,168,780**	976,085
		16,656,774	13,082,852
ii	CNOOC Group		
	– Provision of drilling services	**117,782**	148,414
	– Provision of well services	**107,426**	190,708
	– Provision of marine support services	**42,582**	47,476
	– Provision of geophysical acquisition and surveying services	**24,567**	149,646
		292,357	536,244
iii	Joint ventures		
	– Provision of drilling services	**–**	9
	– Provision of well services	**16,035**	14,969
	– Provision of geophysical acquisition and surveying services	**–**	3,889
		16,035	18,867

46. RELATED PARTY TRANSACTIONS (continued)

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

b. Included in operating expenses

		2018 RMB'000	2017 RMB'000 (Restated)
i	CNOOC Limited Group		
	Materials, utilities and other ancillary services	103,921	86,249
	Transportation services	–	63
		103,921	86,312
	Property services	4,904	3,723
		108,825	90,035
ii	CNOOC Group		
	Labour services	–	1,836
	Materials, utilities and other ancillary services	930,512	613,737
	Transportation services	52,311	20,525
	Leasing of equipment	184,517	110,373
	Repair and maintenance services	6,121	6,463
	Management services	9,755	43,949
		1,183,216	796,883
	Property services	170,286	126,227
		1,353,502	923,110
iii	Joint ventures		
	Materials, utilities and other ancillary services	261,034	188,695
	Leasing of equipment	25,372	36,197
		286,406	224,892

c. Included in interest income

	2018 RMB'000	2017 RMB'000
CNOOC Finance (a subsidiary of CNOOC)		
Interest income	25,248	19,523

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.

46. RELATED PARTY TRANSACTIONS (continued)

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

d. Dividend income from joint ventures

	2018 RMB'000	2017 RMB'000
Dividend income from joint ventures	**96,258**	120,595

e. Included in finance costs

During the current year, the finance costs on the loan from a related party (note 36) are US$8,671,000 (2017: US$5,610,000), which is equivalent to approximately RMB57,382,000 (2017: RMB37,879,000).

f. Deposits

	31 December 2018 RMB'000	31 December 2017 RMB'000
Deposits placed with CNOOC Finance as at the end of the reporting period	**1,471,715**	1,497,422

g. (i) During the current year, the Group transferred its land use right with carrying amount of RMB118,896,000 to CNOOC Infrastructure Management Co., Ltd., a wholly-owned subsidiary of CNOOC, with a consideration of RMB157,033,000. The Group recognized a profit of RMB34,420,000 arising from the transfer. The considerations were fully received by the Group as of 31 December 2018.

(ii) With the approval of the Board on 28 November 2018, the Group proposed to enter into the Sale and Purchase Agreement of Tankers and Related Business (the "Business") with an indirect subsidiary of CNOOC, Shanghai Northsea Shipping Company Limited ("Northsea Shipping"). The Group transferred the Business to Northsea Shipping, which comprised of two crude oil transportation vessels named "Binhai 607" and "Binhai 608" respectively, and all offshore platform crude oil transportation services in Bohai Bay and nearby areas currently provided by the Group for the related units of CNOOC Limited Group. The Group has disposed the Business under the sale and purchase agreement to Northsea Shipping and completed the registration of the transfer on 20 December 2018, with a consideration of RMB82,337,700. The Group recognized a profit of RMB62,448,000 arising from the disposal of the Business.

h. During the current year, the Group purchased the drilling and workover rigs from CNOOC Energy Technology & Services Limited ("CNOOC Development"), a subsidiary of CNOOC, and CNOOC Energy Technology & Services Equipment Technology Company ("Equipment Company"), a wholly-owned subsidiary of CNOOC Development, with a consideration of RMB 6,243,000. The transaction has completed on 31 January 2018.

Except for items in a(iii), b(iii), d, g and h above, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

46. RELATED PARTY TRANSACTIONS (continued)

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

i. 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 42:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within one year	**97,397**	118,800
In the second to fifth year, inclusive	**27,072**	94,320
	124,469	213,120

(b) Capital commitments

The Group has no capital commitments with related parties as of 31 December 2018 and 2017.

j. 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 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Due from CNOOC Limited Group	**5,669,433**	3,963,563
Due from CNOOC Group	**40,180**	246,493
Due from joint ventures	**3,306**	4,313
	5,712,919	4,214,369

Prepayments, deposits and other receivables

	31 December 2018 RMB'000	31 December 2017 RMB'000
Due from CNOOC Limited Group	**8,708**	5,174
Due from CNOOC Group	**500**	500
Due from joint ventures	**4,525**	7,201
	13,733	12,875
Less: Provision for impairment of other receivables	**(500)**	(500)
	13,233	12,375

46. RELATED PARTY TRANSACTIONS (continued)

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

j. Outstanding balances with related parties (continued)

Dividend receivable

	31 December 2018 RMB'000	31 December 2017 RMB'000
Dividend receivable from joint ventures	**29,500**	32,000

Notes receivable

	31 December 2018 RMB'000	31 December 2017 RMB'000
Due from CNOOC Limited Group	**204,865**	64,507

Trade and other payables

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Due to CNOOC Limited Group	**52,461**	68,261
Due to CNOOC Group	**643,154**	865,018
Due to joint ventures	**313,753**	196,080
	1,009,368	1,129,359

Loan from a related party

	31 December 2018 RMB'000	31 December 2017 RMB'000
An unsecured loan (note 36)	**1,372,640**	2,286,970

Contract liabilities

	31 December 2018 RMB'000	31 December 2017 RMB'000
Due to the CNOOC Limited Group	**52,900**	–

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.

46. RELATED PARTY TRANSACTIONS (continued)

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

j. Outstanding balances with related parties (continued)

The balances with related parties at 31 December 2018 included in accounts receivable, 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.

k. 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 2018, as summarised below:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Cash and cash equivalents	**625,590**	590,774
Time deposits with financial institutions	**74,611**	1,850,125
	700,201	2,440,899
Long-term bank loans (note 37)	**787,631**	1,409,175
Current portion of long-term bank loans (note 37)	**596,081**	563,380
	1,383,712	1,972,555

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

	2018 RMB'000	2017 RMB'000
Finance costs	**60,941**	114,225

46. RELATED PARTY TRANSACTIONS (continued)

(B) Compensation of key management personnel of the Group

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	7,760	6,974
Post-employment benefits	660	679
Total compensation paid to key management personnel	8,420	7,653

Further details of Directors', supervisors and the chief executive's emoluments are included in note 12.

47. 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 2018				31 December 2017 (restated)		
	Amortised cost RMB'000	FVTPL RMB'000	FVTOCI 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 26)*	132,298	–	–	132,298	249,061	–	249,061
Financial assets at FVTPL*(note 29)*	–	1,749,723	–	1,749,723	–	–	–
Accounts receivable *(note 27)*	8,015,313	–	–	8,015,313	6,258,372	–	6,258,372
Notes receivable *(note 28)*	208,164	–	24,740	232,904	85,533	–	85,533
Pledged deposits *(note 33)*	27,657	–	–	27,657	41,092	–	41,092
Time deposits with maturity of over three months *(note 33)*	143,242	–	–	143,242	28,870	–	28,870
Cash and cash equivalents *(note 33)*	3,168,969	–	–	3,168,969	9,009,074	–	9,009,074
Financial assets included in other current assets *(note 32)*	6,536,532	–	–	6,536,532	2,578,486	200,110	2,778,596
Total	18,232,175	1,749,723	24,740	20,006,638	18,250,488	200,110	18,450,598

47. FINANCIAL INSTRUMENTS (continued)

(a) Financial instruments by category (continued)

Financial liabilities

	31 December 2018 RMB'000	31 December 2017 RMB'000 (Restated)
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	8,859,437	7,677,477
Notes payables	50,266	–
Interest-bearing bank borrowings – current portion *(note 37)*	596,081	563,380
Long term bonds *(note 38)*	4,098,824	–
Loan from a related party *(note 36)*	1,372,640	2,286,970
Subtotal	14,977,248	10,527,827
Non-current		
Interest-bearing bank borrowings *(note 37)*	787,631	1,409,175
Long term bonds *(note 38)*	21,069,892	24,495,769
Subtotal	21,857,523	25,904,944
Total	36,834,771	36,432,771

(b) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

47. FINANCIAL INSTRUMENTS (continued)

(b) Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)

Financial assets	Fair value as at 31/12/2018 RMB'000	Fair value as at 31/12/2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Other current assets – liquidity funds	–	200,110	Level 1	Quoted bid prices in an active market
Financial assets at FVTPL – liquidity funds	1,246,690	–	Level 1	Quoted bid prices in an active market
Notes receivables-Bank acceptances	24,740	–	Level 2	Discounted cash flow at a discount rate that reflects the credit risk of the drawee of notes at the end of the reporting period
Financial assets at FVTPL – floating rate corporate wealth management products	503,033	–	Level 3	Discounted cash flow. Future cash flows estimated based on estimated return

Reconciliation of Level 3 fair value measurements is as follows:

	Financial assets at FVTPL RMB'000
At 31 December 2017	–
Effects arising from initial application of HKFRS 9	405,898
At 1 January 2018	405,898
Purchase	1,600,000
Redemption	(1,519,981)
Change in fair value	17,116
At 31 December 2018	503,033

(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 2018 RMB'000	31 December 2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000
Financial liabilities				
Long term bonds (*note 38*)	**25,168,716**	24,495,769	**25,072,753**	24,695,758

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.

48. 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.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities at the end of the reporting period are as follows:

	Financial assets		Financial liabilities	
	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000
US$	**16,232,815**	15,267,416	**1,624,501**	1,908,444
Others	**394,699**	399,105	**539,578**	460,842

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 2018 and 2017. The sensitivity analysis also includes inter-company balances where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. The following table details the Group's sensitivity to a 5% (2017: 5%) appreciation or depreciation of US dollars.

	Increase/(decrease) in profit		Increase/(decrease) in other comprehensive income	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Appreciation of US$	**301,306**	296,272	**297,636**	295,210
Depreciation of US$	**(301,306)**	(296,272)	**(297,636)**	(295,210)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The fair value interest rate risk relates primarily to the Group's fixed-rate long-term bonds (see note 38) and fixed-rate bank borrowings (see note 37). The cash flow interest rate risk of the Group relates primarily to variable-rate loan from a related party (see note 36) and variable-rate bank borrowings (see note 37 for details of these borrowings) and certain cash and cash equivalent (see note 33). 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 (2017: 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 (2017: 50 basis points) and all other variables were held constant, the Group's post-tax profit would (decrease) increase by approximately RMB11,433,000 for the year ended 31 December 2018 (2017: the Group's post-tax profit would (decrease) increase by RMB18,717,000) without considering the effect of capitalisation of borrowing costs.

Credit risk and impairment assessment

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.

According to the Group's credit risk management policy, the Group always recognises lifetime ECL for accounts receivable, lease receivables and contract assets. For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group has concentration of credit risk in respect of accounts receivable as the Group's largest accounts receivable and the five largest accounts receivable represent 71% (2017: 63%) and 80% (2017: 77%) of the total accounts receivable respectively.

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

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Note	12-month or lifetime ECL	Gross carrying amount RMB'000
Financial assets at amortised costs			
Financial assets included in deposits and other receivables		12-month ECL – assessed individually	13,689
		12-month ECL – provision matrix	130,721
		Lifetime ECL (credit-impaired) – assessed individually	500
Accounts receivable	a	Lifetime ECL (not credit-impaired) – assessed individually	7,004,392
		Lifetime ECL (not credit-impaired) – provision matrix	771,523
		Lifetime ECL (credit-impaired) – assessed individually	2,803,368
Notes receivable at amortised costs		12-month ECL	208,164
Pledged deposits		12-month ECL	27,657
Time deposits with maturity of over three months		12-month ECL	143,242
Cash and cash equivalents		12-month ECL	3,168,969
Financial assets included in other current assets		12-month ECL	6,536,532
Financial assets at FVTOCI			
Notes receivable at FVTOCI		12-month ECL	24,740

Note:

a. For accounts receivable, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix.

The Group has measured ECL at the individual instrument level for most of its relevant financial assets. Besides, there are insignificant balances where ECL is measured on a collective basis.

During the year ended 31 December 2018, the Group provided RMB34,945,000 and RMB8,570,000 impairment allowance for accounts receivable and other receivables respectively, based on the provision matrix. Impairment allowance of RMB458,400,000 were made on accounts receivable with significant balances and credit impaired.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39	–	2,036,704	2,036,704
Adjustment upon application of HKFRS 9	57,698	(57,698)	–
As at 1 January 2018-As restated	57,698	1,979,006	2,036,704
Changes due to financial instruments recognised as at 1 January:			
– Transfer to credit-impaired	(1,197)	1,197	–
– Impairment losses recognized	34,945	458,400	493,345
– Impairment losses reversed	(30,838)	(29,165)	(60,003)
– Write-offs	–	(87)	(87)
Exchange adjustments	153	93,858	94,011
As at 31 December 2018	60,761	2,503,209	2,563,970

Changes in the loss allowance for accounts receivable are mainly due to the default of certain debtors.

The following tables show reconciliation of loss allowances that has been recognised for other receivables:

	12m ECL RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39	–	30,590	30,590
Adjustment upon application of HKFRS 9	30,090	(30,090)	–
As at 1 January 2018-As restated	30,090	500	30,590
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognized	8,570	–	8,570
– Impairment losses reversed	(26,548)	–	(26,548)
As at 31 December 2018	12,112	500	12,612

Change in the loss allowance for other receivables are mainly due to the settlement of other receivables.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings, loan from a related party and long term bonds and ensures compliance with loan covenants.

The Group's objective is to maintain a balance between continuity of funding and flexibility through long term bonds and interest-bearing loans. 22% of the Group's borrowings would mature in less than one year as at 31 December 2018 (2017: 10%) 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 2018						
	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%	652,557	626,483	63,494	250,774	1,593,308	1,383,712
Loan from a related party	1.27%-1.99%	1,372,640	–	–	–	1,372,640	1,372,640
Long term bonds	3.13%-4.58%	5,012,412	4,216,532	12,773,124	7,109,444	29,111,512	25,168,716
Financial liabilities included in trade and other payables	N/A	8,859,437	–	–	–	8,859,437	8,859,437
Notes Payables	N/A	50,266	–	–	–	50,266	50,266
		15,947,312	4,843,015	12,836,618	7,360,218	40,987,163	36,834,771

	31 December 2017 (restated)						
	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	7,677,477	–	–	–	7,677,477	7,677,477
		11,478,654	5,608,110	16,816,375	7,698,849	41,601,988	36,432,771

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

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, notes payable, salary and bonus 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 2018 RMB'000	31 December 2017 RMB'000 (Restated)
Interest-bearing bank borrowings *(note 37)*	**1,383,712**	1,972,555
Trade and other payables	**8,859,437**	7,677,477
Notes payable	**50,266**	–
Salary and bonus payables	**909,174**	834,110
Loan from a related party *(note 36)*	**1,372,640**	2,286,970
Long term bonds *(note 38)*	**25,168,716**	24,495,769
Less: Cash and cash equivalents and time deposit with maturity of over three months *(note 33)*	**(3,312,211)**	(9,037,944)
Net debt	**34,431,734**	28,228,937
Equity attributable to owners of the Company	**34,529,876**	34,564,557
Non-controlling interests	**147,530**	122,928
Total capital	**34,677,406**	34,687,485
Capital and net debt	**69,109,140**	62,916,422
Gearing ratio	50%	45%

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**26,798,411**	28,039,845
Other intangible assets	**162,907**	285,498
Investments in subsidiaries	**7,773,474**	7,773,474
Investments in joint ventures	**679,162**	582,702
Other long term receivables	**6,137,644**	4,902,887
Other non-current assets	**50,284**	89,201
Total non-current assets	**41,601,882**	41,673,607
CURRENT ASSETS		
Inventories	**611,307**	612,502
Prepayments, deposits and other receivables	**1,173,085**	1,389,921
Accounts receivable	**7,883,374**	6,033,222
Notes receivable	**232,826**	85,533
Financial assets at fair value through profit or loss	**1,749,723**	–
Contract costs	**50,727**	–
Other current assets	**6,551,300**	2,779,276
Pledged deposits	**3,845**	5,287
Time deposits with original maturity over three months	**68,632**	–
Cash and cash equivalents	**1,992,838**	7,473,516
Total current assets	**20,317,657**	18,379,257
CURRENT LIABILITIES		
Trade and other payables	**8,393,981**	7,736,901
Notes payable	**50,266**	–
Salary and bonus payables	**783,481**	716,398
Tax payable	**335,646**	81,307
Interest-bearing bank borrowings	**596,081**	563,380
Long term bonds	**4,098,824**	–
Contract liabilities	**128,066**	–
Other current liability	**177,312**	176,915
Total current liabilities	**14,563,657**	9,274,901
NET CURRENT ASSETS	**5,754,000**	9,104,356
TOTAL ASSETS LESS CURRENT LIABILITIES	**47,355,882**	50,777,963
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**220,039**	238,176
Interest-bearing bank borrowings	**787,630**	1,409,175
Long term bonds	**7,394,667**	11,490,409
Deferred income	**355,471**	418,645
Total non-current liabilities	**8,757,807**	13,556,405
Net assets	**38,598,075**	37,221,558
EQUITY		
Issued capital	**4,771,592**	4,771,592
Reserves	**33,826,483**	32,449,966
Total equity	**38,598,075**	37,221,558

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movements in the Company's reserves

	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note (i))	Revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2017	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 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
Adjustments	–	–	(110)	–	(1,331)	–	(1,441)
At 1 January 2018	12,371,737	2,508,656	–	14,645	17,267,191	286,296	32,448,525
Profit for the year	–	–	–	–	1,577,474	–	1,577,474
Other comprehensive income for the year	–	–	–	86,872	–	–	86,872
Total comprehensive income for the year	–	–	–	86,872	1,577,474	–	1,664,346
Business Combination under common control	(39,154)	–	–	–	–	–	(39,154)
Deemed contribution by owners	39,062	–	–	–	–	–	39,062
Final 2017 dividend paid	–	–	–	–	–	(286,296)	(286,296)
Proposed final 2018 dividend	–	–	–	–	(334,011)	334,011	–
At 31 December 2018 *(note (ii))*	**12,371,645**	**2,508,656**	**–**	**101,517**	**18,510,654**	**334,011**	**33,826,483**

Notes:

(i) As detailed in note 17, 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 2018 and 2017 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.

(ii) As at 31 December 2018, in accordance with the PRC Company Law, an amount of approximately RMB12,371,645,000 (2017: RMB12,371,737,000) standing to the credit of the Company's capital reserve account and an amount of approximately RMB2,508,656,000 (2017: 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 RMB18,510,654,000 (2017: RMB17,268,522,000) 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 2018.

The retained profits of the Company determined under the relevant PRC accounting principles and financial regulations in the PRC amounted to approximately RMB18,510,654,000 as at 31 December 2018 (2017: RMB17,268,522,000).

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

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
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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. 2018 Annual Report published in the Hong Kong Stock Exchange.

China Oilfield Services Limited
Qi Meisheng
Chairman
27 March 2019

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	Occupational Safety and Health Administration
QHSE	Quality, health, safety and environment
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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