The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial information as at and for each of the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012; in each case, the accompanying notes are included in the accountants' report set out in Appendix I to this Prospectus. Our consolidated financial information has been prepared in accordance with IFRS. Potential investors should read the entire accountants' report set out in Appendix I to this Prospectus and not rely merely on the information contained in this section. Our historical results do not necessarily indicate future results. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the sections headed "Forward-Looking Statements" and "Risk Factors" in this Prospectus.

OVERVIEW

We are a leading international engineering contractor and service provider by revenue with a primary focus on EPC projects and particular expertise in the power projects, capable of providing one-stop customized and integrated engineering contracting solutions and services. We also conduct the Trading Business through our sales and marketing network which covers over 150 countries and regions. To a lesser extent, we are also involved in the Other Businesses that provide logistics services, exhibition services, tendering agency services and export-import agency services and we also conduct certain strategic equity investments. We believe that the combination of our International Engineering Contracting Business and Trading Business has created a platform that allows us to gather market information in an efficient manner and enables us to capture the growth opportunities in the international engineering contracting and trading markets.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue was RMB19,287.7 million, RMB19,077.0 million, RMB20,517.8 million and RMB10,354.1 million, respectively, and our profit was RMB610.1 million, RMB1,132.2 million, RMB1,472.3 million and RMB989.5 million, respectively. For the same periods, the profit attributable to equity owners of our Company was RMB613.6 million, RMB1,136.5 million, RMB1,474.9 million and RMB990.8 million, respectively.

International Engineering Contracting Business

We are an international engineering contractor and service provider with a primary focus, and has particular expertise, in the power projects. We began our International Engineering Contracting Business in 1980 and have since then undertaken engineering contracting projects in more than 45 countries around the world, with a focus on developing countries in Africa and Asia. In particular, since our inception, we have undertaken 80 international engineering contracting projects in the power sector located in various regions including Asia, Africa and Europe. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue generated from our International Engineering Contracting Business was approximately RMB13,646.7 million, RMB12,019.6 million, RMB12,055.2 million and RMB6,426.1 million, accounting for approximately 70.8%, 63.0%, 58.7% and 62.1% of our revenue, respectively.

We consider the power, transportation and telecommunications sectors to be the Core Sectors of our International Engineering Contracting Business. We are also engaged in projects in the non-Core Sectors such as water supply and treatment, building and construction, manufacturing and processing plants and mining and resources exploitation. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, we completed a total of 13, 18, 14 and 8 engineering contracting projects, respectively. As at December 31, 2009, 2010 and 2011 and June 30, 2012, the total number of engineering contracting projects under construction was 54, 48, 50 and 50, respectively.

We have established a well-known brand name in many countries and regions, especially in Africa, Asia and Europe. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue generated from Asia and Africa in total represented 70.4%, 77.0%, 88.7% and 60.1% of the revenue from our International Engineering Contracting Business, respectively.

Trading Business

With extensive sales and marketing networks in more than 150 countries and regions, we also engage in Trading Business. We provide bridging solutions to (i) domestic and overseas purchasers who wish to source products, or (ii) domestic and overseas suppliers who wish to sell their products, outside or in the PRC. Through our subsidiaries and representative offices in the PRC and other countries and regions, including, but not limited to, Germany, the United States, Australia, Japan and Hong Kong, we principally export and, to a lesser extent, import and domestically trade complete sets of plants and equipment and various mechanical, electrical and instrumental products including mining equipment, ship components, automobile parts, medical instruments, household appliances, electricity meters, manufacturing machineries and construction materials, for customers in the PRC and overseas. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenue generated from our Trading Business was approximately RMB4,979.1 million, RMB6,295.5 million, RMB7,688.6 million and RMB3,522.2 million, accounting for approximately 25.8%, 33.0%, 37.5% and 34.0% of our revenue, respectively.

Other Businesses

In addition to our International Engineering Contracting Business and Trading Business, we also operate the Other Businesses that provide exhibition services, logistics services, tendering agency services and other services (including export-import agency services and design services) and we conduct certain strategic equity investment. In particular, our logistics services support our International Engineering Contracting Business by providing logistics consultations and solutions. Our exhibition services and tendering agency services complement our Trading Business by enabling us to leverage on existing customer relationships and providing us with exposure to new contacts through exhibitions and tendering. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our Other Businesses generated revenue of approximately RMB661.9 million, RMB761.9 million, RMB774.0 million and RMB405.8 million, accounting for approximately 3.4%, 4.0%, 3.8% and 3.9% of our revenue, respectively.

BASIS OF PRESENTATION

On January 18, 2011, our Company was established as a joint stock company with limited liabilities under the PRC law with a registered capital of RMB3,300 million as part of the Reorganization. Prior to the establishment, China National Machinery & Equipment Import & Export Corporation (中國機械設備進出口總公司) was the holding company of the subsidiaries now comprising our Group prior to the Reorganization, and was wholly owned by SINOMACH. Subsequent to the Reorganization, our Company replaced China National Machinery & Equipment Import & Export Corporation as the holding company of these subsidiaries.

Pursuant to the Reorganization, we retained all of the assets and liabilities of China National Machinery & Equipment Import & Export Corporation. Upon the establishment, our Company had a total of 3,300 million issued ordinary Shares, with a par value of RMB1.00 each. Our Company issued to SINOMACH 3,267 million Shares, or 99.0% of the total issued share capital, in exchange for all the assets and liabilities of China National Machinery & Equipment Import & Export Corporation. Our Company also issued 33 million Shares, or 1.0% of the total issued share capital, to China United, a wholly owned subsidiary of SINOMACH, for a cash consideration of RMB46.9 million. As there was no change in controlling shareholder before and after the Reorganization, the financial information of our Company has been prepared as a continuation of China National Machinery & Equipment Import & Export Corporation. Accordingly, the relevant assets and liabilities of the companies comprising our Group have been recognized at historical cost or deemed cost, except for assets and liabilities which are stated at their fair value in accordance with the accounting policies as described in note 1 of section C of the accountants' report set out in Appendix I to this Prospectus.

All material intra-group transactions and balances have been eliminated on consolidation.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our revenue and profit are primarily derived from our International Engineering Contracting Business and Trading Business. Our results of operations have been and will continue to be most significantly affected by the following factors:

World market conditions, demand and competitive landscape for our International Engineering Contracting Business and Trading Business

Demand for our International Engineering Contracting Business and Trading Business depends on the general level of activity and growth in the industries in which we operate and serve in, in particular the power, transportation and telecommunications sectors. Factors which may influence the performance and growth of these sectors include general economic conditions, government investment plans, interest rates, inflation, government industry policies, demographic trends and consumer confidence. Changes in the global economy or changes in the financial and economic conditions of major regions in the world may reduce demand for our International Engineering Contracting Business and Trading Business, which may also have an unfavorable impact on the prices for our services. A reduced demand and/or lower contract sums could adversely affect our gross profit and negatively impact our cash flows. We could, however, mitigate the negative impact of adverse changes in economic conditions by passing on part of the reduction in the contract value for our projects to our subcontractors and suppliers through bargaining and negotiating for more favorable terms from them.

Pricing of our engineering contracting projects

Selection of contractors for construction projects is generally carried out using a competitive tender process, pursuant to which we must calculate our expected costs and submit a bid to potential customers. When contractors are selected for projects without a competitive tender process, the pricing of our engineering contracting projects can be determined by negotiation. In addition to considerations of projected costs, target profit margin and competitive landscape, our ability to price a project takes into consideration governmental pricing oversight and control, and the availability of financing and transaction terms for our customers. As some of our engineering contracting projects may involve contracting with foreign state-owned enterprises or ministries, these entities can be subject to governmental budgets and hence result in pricing oversight and control of the project by the authorities. Although our business operations are not subject to these foreign oversight and control, we negotiate with counterparties that are subject to them to arrive at mutually agreed-upon pricing terms.

Our ability to obtain favorable prices for our International Engineering Contracting Business is dependent on the relevant regulators taking action and allocating government budgetary resources in line with increases in costs and upgrades in technical specifications. Any downward adjustment in budgetary resources allocated or failure to increase them sufficiently to offset rising raw material, labor or other costs, particularly as the technical specifications for projects increase, could reduce our margins and have a material and adverse effect on our financial condition and results of operations. We believe that continuing deregulation and opening of the industry to more participants will ultimately allow for more market-driven pricing which will enable us to secure higher margins. However, there can be no assurance that this process will actually result in more favorable pricing for us or that increased competition resulting from such process will not adversely affect our revenue and results of operations.

Subcontracting costs and equipment costs

In almost all of our engineering contracting projects, we engage or outsource work to one or more subcontractors. We incur equipment costs when we purchase equipment in accordance with and as part of the performance of the contracts under our engineering contracting projects. As such, subcontracting costs and equipment costs constitute significant parts of the cost of sales of our Company. Our cost of raw materials is insignificant.

Once we have been awarded an engineering contracting contract, we usually engage and procure subcontractors to carry out different parts of the contract in order to complete the whole project. We maintain a regularly updated list of qualified subcontractors, from which we may select independent subcontractors to work on various projects. We may also select independent subcontractors based on past cooperation experience, performance and other factors. However, as the subcontractors may not always be readily available in a specific region when our needs for outsourcing arise or at reasonable pricing terms, failure to engage appropriate subcontractors could impair the punctual completion of the projects. If the amounts we are required to pay for subcontractors exceed what we have estimated, especially in fixed-price or fixed unit price type contracts with our customers, this may result in losses for us on these contracts. In addition, if a subcontractor fails to provide services as required under a contract for any reason, we may be required to source these services on a delayed basis or at a higher price than anticipated or compensate the project owner, which could impact our profitability. If a subcontractor's performance does not meet our standards, the quality of the project may be affected and we may be required to cure any defect or indemnify the project owner, which could have a negative effect on our financial performance. Therefore, if we fail to effectively control our subcontracting costs and the relevant risks in connection with the subcontractors, our profitability may be affected.

Subcontractors that have long-standing relationships and cooperation with us generally charge fees more favorable to us compared to other subcontractors that we engage. We generally do not maintain long-term contracts with our subcontractors and we typically enter into contracts with our subcontractors on a project-by-project basis. However, we do maintain long-term relationships with several of our regular subcontractors. As a result of such long-term relationships, we can secure more competitive terms from these subcontractors and are able to realize higher gross margins on engineering contracting projects with them.

To achieve better cost control of our fixed price contracts, we normally invite quotations from our suppliers and subcontractors during the bidding process to allow us to price our main contracts accurately, and fix the prices of our procurement of equipment and machinery and subcontracting fees during early stage of the projects. In some cases, our supply contracts or subcontracting contracts contain price adjustment mechanism, in which cases, our main contracts normally also contain price adjustment mechanism which allow us to shift part of the risks associated with the volatility in the prices of equipment and subcontracting costs to the project owners by exercising our right to reclaim part of the additional costs incurred as a result of unexpected increases in equipment and subcontracting costs.

Exchange rates

Our functional currency is the RMB and a substantial portion of our cost of sales was denominated in RMB during the Track Record Period. We are exposed to foreign exchange risk, mainly because we conduct a substantial portion of our International Engineering Contracting Business overseas, and these contracts are usually denominated in US dollars or other foreign currencies. Moreover, we also engage in the business of international trade and our revenue from such services is usually denominated in US dollars or other foreign currencies. The following table sets forth the equivalent amount in RMB of our revenue denominated in domestic and foreign currencies as of the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2009	**2010**	**2011**	**2011**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*
US dollar	15,907.4	14,126.0	15,043.3	6,748.5	8,228.9
RMB	2,204.7	3,321.3	4,080.3	2,660.1	1,519.1
Euro	764.8	1,457.8	1,103.9	296.3	485.5
Others	410.8	171.9	290.3	133.8	120.6
Total	19,287.7	19,077.0	20,517.8	9,838.7	10,354.1

Our foreign currency-denominated assets and liabilities are expected to increase significantly as we further expand our overseas business, including, in particular, undertaking additional engineering contracting projects and expanding our Trading Business. We therefore expect our financial results of these assets and liabilities be further affected by foreign exchange rate fluctuations. During the Track Record Period, we occasionally entered into foreign currency forward contracts with a view to reducing our foreign exchange rate risk. As at the Latest Practicable Date, we are in compliance with relevant PRC laws and regulations, mainly the Notice on Further Strengthening the Supervision of Financial Derivatives Transactions of Centrally Administered State-owned Enterprises (關於進一步加強中央企業金融衍生業務監管的通知) (the "**Notice**") issued by SASAC on February 3, 2009. We maintain internal policies and controls for managing our Group's use of derivative financial instruments that are based on the Notice. For details of our foreign exchange risk management, see "– Qualitative and Quantitative Disclosure about Market Risk – Currency Risk."

Fluctuations in the RMB exchange rate could materially affect our financial condition and results of operations. For example, appreciation of RMB against US dollars could result in a decrease of the revenue recognized for our International Engineering Contracting Business that we conducted overseas. See "Risk Factors – Risks Related to Our Business and the Industries in which We Operate – Fluctuations in foreign currency exchange rates could adversely affect our business."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified below the accounting policies that we believe are the most critical to the presentation of our consolidated financial information. Our significant accounting policies are set forth in detail in note 1 to the accountants' report included as Appendix I to this Prospectus. These accounting policies require subjective or complex judgments by our management, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our consolidated financial information. The estimates and associated assumptions are based on our historical experience and various other factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. We review our estimates and underlying assumptions on an ongoing basis.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when all of the general conditions stated above and following conditions are satisfied:

- the significant risks and rewards of ownership of the goods have been transferred to buyers; and
- our Group does not retain continuing managerial involvement to the degree usually associated with ownership of the goods sold, and has no effective control over the goods sold.

Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Contract revenue

When the outcome of a construction contract can be estimated reliably:

- revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs, surveys of work performed or completion of a physical proportion of the contract work for the contract. A fixed price contract is a contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses; and
- revenue from a cost plus contract is recognized by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs, surveys of work performed or completion of a physical proportion of the contract work of the contract. A cost plus contract is a contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a percentage of these costs or a fixed fee.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Revenue from services

Revenue from rendering of services is measured at the fair value of the consideration received or receivable under the contract or agreement:

- at the balance sheet date, where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognized in the income statement by reference to the stage of completion of the transaction based on the progress of work performed, the proportion of services performed to date to the total services to be performed, or the proportion of costs incurred to date to the estimated total costs; or

- where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent of the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognized.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(v) Interest income

Interest income is recognized as it accrues using the effective interest method.

(vi) Dividends

Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

(vii) Government grants

Government grants are recognized in the balance sheets initially when there is reasonable assurance that they will be received and that our Group will comply with the conditions attached to them. Grants that compensate our Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate our Group for the cost of an asset are recognized as deferred income and consequently are effectively recognized in profit or loss over the useful life of the asset.

Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out above. When the outcome of a construction contract can be estimated reliably, contract costs are recognized as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognized as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognized profit less recognized losses and progress billing, and are presented in the balance sheets as the "construction contracts" (as an asset or a liability, as applicable). Progress billings not yet paid by the customer are included in the balance sheets under "Trade and other receivables." Amounts received before the related work is performed are included in the balance sheets under "Receipt in advance."

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	20-35 years
Motor vehicles	3-10 years
Office and other equipment	2-15 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Trade and other payables

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Impairment of assets

Investments in equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of our Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For interest in subsidiaries and associates (including those recognized using the equity method), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount. The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

- For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortized cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years/periods.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When our Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- lease prepayments; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years/periods. Reversals of impairment losses are credited to profit or loss in the year/period in which the reversals are recognized.

Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to business combinations, or items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous years/periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried backward or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits; that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purpose, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, our Group controls the timing of the reversal. It is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if our Company or our Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, our Company or our Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

DESCRIPTION OF SELECTED INCOME STATEMENT ITEMS

Revenue

We generate our revenue from our International Engineering Contracting Business, Trading Business and Other Businesses.

Revenue from our International Engineering Contracting Business represents the largest source of our revenue over the Track Record Period. The revenue from our International Engineering Contracting Business is recognized in accordance with the principles and methods set forth in "– Critical Accounting Policies and Estimates – Revenue recognition – Contract revenue" above. Generally, there is a time gap between the signing of an engineering contracting contract and the full performance of such contract. The complete performance of an engineering contracting project may take up to five years after the engineering contracting contract commenced performance. Although the engineering contracting contracts are signed, no revenue is actually recognized from such contracts until we commence the performance of these contracts. Commencement of performance may not occur in the same fiscal year as the engineering contracting contracts are signed, and the revenue from such engineering contracting contracts is typically recognized over the course of contract performance. For contracts financed by export seller's credit, revenue is recognized at the fair value amount by discounting amount receivable to its present value, at an applicable discount rate. The difference between the fair value and nominal amount of consideration received or receivable was recognized as interest income over the period of financing using the effective interest method.

Our revenue from Trading Business is derived primarily from providing bridging solutions to (i) domestic and overseas purchasers who wish to source products, or (ii) domestic and overseas suppliers who wish to sell their products, outside or in the PRC.

Our revenue from the Other Businesses includes revenue generated from providing exhibition services, logistics services, tendering agency services and export-import agency services.

The following table sets forth the amount and percentage of our revenue contributed by each revenue source for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	(RMB million)	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*
International Engineering Contracting Business	13,646.7	70.8	12,019.6	63.0	12,055.2	58.7	5,507.4	56.0	6,426.1	62.1
Trading Business	4,979.1	25.8	6,295.5	33.0	7,688.6	37.5	4,010.7	40.8	3,522.2	34.0
Other Businesses	661.9	3.4	761.9	4.0	774.0	3.8	320.6	3.2	405.8	3.9
Total	19,287.7	100.0	19,077.0	100.0	20,517.8	100.0	9,838.7	100.0	10,354.1	100.0

International Engineering Contracting Business

The International Engineering Contracting Business historically has been the largest contributor to our revenue. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue from International Engineering Contracting Business amounted to RMB13,646.7 million, RMB12,019.6 million, RMB12,055.2 million and RMB6,426.1 million, respectively, accounting for approximately 70.8%, 63.0%, 58.7% and 62.1% of our revenue, respectively. The aggregate newly effective contract value as at December 31, 2009, 2010 and 2011 and June 30, 2012 amounted to approximately US$1,100.2 million, US$2,955.3 million, US$2,226.8 million and US$2,158.6 million, respectively.

Our revenue from International Engineering Contracting Business decreased by 11.9% from RMB13,646.7 million in 2009 to RMB12,019.6 million in 2010, primarily due to the decrease in the newly effective contract value of engineering contracting projects in 2009 as a result of the global financial crisis and the subsequent reduction in actual performance of the engineering contracting projects in 2010. Our revenue from the International Engineering Contracting Business slightly increased from RMB12,019.6 million in 2010 to RMB12,055.2 million in 2011, primarily due to stable and consistent progress made on the performance of our power and non-Core Sector projects in 2011, offsetting the decline in revenue from the telecommunications sector as projects in this sector were completed. Our revenue from the International Engineering Contracting Business increased by 16.7%, from RMB5,507.4 million for the six months ended June 30, 2011 to RMB6,426.1 million for the six months ended June 30, 2012, mainly due to the increase in revenue from power and telecommunications sectors in the first half of 2012.

The actual commencement of performance of our engineering contracting contracts typically does not occur in the same fiscal year as the contracts are signed, and the substantial portion of the revenue from these contracts is typically recognized in subsequent years over the course of performing the contracts. We consider this to be generally consistent with our project cycle and we expect revenue from our International Engineering Contracting Business to continue to contribute to the majority of our revenue in future. For more information about our project backlog, see "Business – Backlog."

The following table sets forth a breakdown of our revenue from power, transportation, telecommunications and non-Core Sectors and each expressed as a percentage of our International Engineering Contracting Business revenue, for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
Power	10,344.9	75.8	9,432.4	78.5	9,569.4	79.4	4,339.3	78.8	5,020.6	78.1
Transportation	1,613.2	11.8	938.6	7.8	1,104.4	9.2	660.2	12.0	524.0	8.2
Telecommunications	734.9	5.4	410.1	3.4	2.3	0.0	–	–	345.7	5.4
Non-Core Sectors	953.7	7.0	1,238.5	10.3	1,379.1	11.4	507.9	9.2	535.8	8.3
Total	13,646.7	100.0	12,019.6	100.0	12,055.2	100.0	5,507.4	100.0	6,426.1	100.0

Our International Engineering Contracting Business generates revenue primarily from EPC projects in the power, transportation and telecommunications sectors. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue from power, transportation and telecommunications projects amounted to RMB12,693.0 million, RMB10,781.1 million, RMB10,676.1 million and RMB5,890.3 million, respectively, accounting for approximately 65.8%, 56.5%, 52.0% and 56.9% of our revenue, respectively. Our revenue from transportation sector decreased from RMB1,613.2 million in 2009 to RMB938.6 million in 2010, mainly because we completed a majority portion of the transportation projects in 2009 with a small portion of the projects left to complete in 2010, offsetting the progress made on some of the transportation projects in 2010. Our revenue from transportation sector increased from 2010 to 2011, primarily due to substantial progress of certain transportation projects in 2011 and progress made on some new transportation projects which became effective in 2011. Our revenue from transportation sector decreased slightly from the six months ended June 30, 2011 to the six months ended June 30, 2012, mainly because one major project in Africa was completed in year 2011. Our revenue from the telecommunications sector decreased from RMB734.9 million in 2009 to RMB410.1 million in 2010 and to RMB2.3 million in 2011, mainly because although we had completed most previous projects in the telecommunications sector over the course of 2009 and 2010 but we had yet to begin the performance of new telecommunications projects that we had signed. Our revenue from telecommunications sector increased from nil for the six months ended June 30, 2011 to RMB345.7 million for the six months ended June 30, 2012, primarily due to the commencement of a new telecommunication project in Bengal in early 2012. We have continued to bid for new projects in the telecommunications sector which will remain as one of our Core Sectors.

We began to conduct our International Engineering Contracting Business internationally in 1980 and since then have undertaken projects in more than 45 countries around the world, including Asia, Africa, Europe and Central/South America, with a focus on developing countries in various regions. The following table sets forth a breakdown of our International Engineering Contracting Business revenue by the geographic location of the projects with each expressed as a percentage of our International Engineering Contracting Business revenue, for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	(RMB million)	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*
Asia[1]	3,521.3	25.8	2,346.7	19.5	3,771.4	31.3	1,521.0	27.6	1,609.9	25.1
Africa[2]	6,090.9	44.6	6,915.6	57.5	6,927.1	57.4	3,547.3	64.4	2,252.8	35.0
Europe[3]	3,985.6	29.2	2,757.3	23.0	1,349.6	11.2	438.2	8.0	1,605.2	25.0
Others[4]	48.9	0.4	–	–	7.1	0.1	0.9	0.0	958.2	14.9
Total	13,646.7	100.0	12,019.6	100.0	12,055.2	100.0	5,507.4	100.0	6,426.1	100.0

Notes:

(1) Includes Afghanistan, Pakistan, Laos, Maldives, Malaysia, Bengal, Myanmar, Sri Lanka, Singapore, Yemen, Iraq, Iran, India, Indonesia, Vietnam and the PRC

(2) Includes Angola, Equatorial Guinea, Republic of Congo, Cameroon, Nigeria, Senegal, Sudan, Zambia, the Republic of Cote d'Ivoire and Chad

(3) Includes Belarus, Germany, Turkey and Italy

(4) Includes Trinidad and Tobago, Ecuador and Venezuela

A significant portion of the revenue from our International Engineering Contracting Business was derived from the projects located in Asia, Africa and Europe, which in aggregate accounted for 99.6%, 100.0%, 99.9% and 85.1% of the revenue from our International Engineering Contracting Business for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. We have a diversified customer base and do not depend on any single one customer. For the year ended December 31, 2009, revenue from one customer in Turkey and another customer in the Republic of Congo accounted for 12% and 11% of our total revenue, respectively. For the year ended December 31, 2010, revenue from one customer in the Republic of Congo accounted for 10% of our total revenue. For the year ended December 31, 2011, revenue from one customer in Sri Lanka accounted for 11% of our total revenue. For the six months ended June 30, 2012, there was no revenue from an external customer accounted for more than 10% of our total revenue.

Trading Business

Our Trading Business generates revenue primarily from providing bridging solutions to (i) domestic and overseas purchasers who wish to source products, or (ii) domestic and overseas suppliers who wish to sell their products, outside or in the PRC. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue from Trading Business amounted to approximately RMB4,979.1 million, RMB6,295.5 million, RMB7,688.6 million and RMB3,522.2 million, accounting for approximately 25.8%, 33.0%, 37.5% and 34.0% of our revenue, respectively. From 2009 to 2010, our revenue from Trading Business increased by 26.4%, primarily due to the increase in trading volume as a result of the recovery of global macro-economic conditions and our encouragement of the continuing development of our Trading Business. For example, we encouraged information sharing between personnel of our International Engineering Contracting Business and Trading Business for cross referencing of potential business opportunities. From 2010 to 2011, our revenue from the Trading Business increased by 22.1%, primarily due to increase in trading volume, especially in our domestic trade, which we had signed and had completed on their deliveries. From the six months ended June 30, 2011 to the six months ended June 30, 2012, our revenue from the Trading Business decreased by 12.2%, primarily due to the decrease in trading volume, especially in our domestic trade. The following table sets forth a breakdown of our revenue from international export trade, international import trade and domestic trade and each expressed as a percentage of the revenue of our Trading Business, for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	(RMB million)	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*
International Export Trade	3,759.1	75.5	4,355.0	69.2	4,736.4	61.6	2,297.4	57.3	2,606.5	74.0
International Import Trade	708.1	14.2	561.4	8.9	473.5	6.2	265.1	6.6	244.5	6.9
Domestic Trade	511.9	10.3	1,379.1	21.9	2,478.7	32.2	1,448.2	36.1	671.2	19.1
Total	4,979.1	100.0	6,295.5	100.0	7,688.6	100.0	4,010.7	100.0	3,522.2	100.0

During the Track Record Period, a significant proportion of our Trading Business' revenue was derived from international export trade owning to the long history of our involvement in international export trade. However, to make us less susceptible to fluctuations in the global economy, we have, and intend to continue to, build on our domestic trade business and increase the proportion of domestic trade in our Trading Business. As a result, except for the first half of 2012, the portion contributed by our domestic trade business to our Trading Business revenue increased gradually during the Track Record Period.

Other Businesses

Our Other Businesses generate revenue primarily from providing import-export agency services, organizing exhibitions, conferences and other promotional activities, arranging bids and tenders for projects both domestically and internationally, and providing integrated worldwide logistics services. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue from the Other Businesses amounted to approximately RMB661.9 million, RMB761.9 million, RMB774.0 million and RMB405.8 million, accounting for 3.4%, 4.0%, 3.8% and 3.9% of our revenue, respectively. From 2009 to 2010, our revenue from the

Other Businesses increased by 15.1% as a result of the recovery of global macro-economic conditions. From 2010 to 2011, our revenue from the Other Businesses as a whole had remained generally stable. From the six months ended June 30, 2011 to the six months ended June 30, 2012, our revenue from the Other Businesses increased by 26.6%, mainly due to increased revenue from providing logistics services and organizing exhibitions.

Cost of Sales

Our cost of sales primarily consists of equipment costs and subcontracting costs, which varied on a contract-by-contract basis. Our cost of sales on a consolidated basis is presented after elimination of inter-segment transactions. As a result, only the cost of sales incurred from purchase of goods or services from external suppliers is accounted for as cost in our consolidated results of operations. We incurred equipment costs both for our International Engineering Contracting Business and Trading Business. Owing to the nature of our Trading Business which trades products manufactured by our suppliers, equipment costs are the major item and account for a significant portion of our Trading Business' cost of sales. Subcontracting costs are incurred for our International Engineering Contracting Business and include compensation we paid to subcontractors who perform design, installation, construction and other services in our EPC projects. For our International Engineering Contracting Business, for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our equipment costs was RMB7,469.5 million, RMB4,087.6 million, RMB3,426.9 million and RMB2,442.4 million, respectively, accounting for 59.7%, 41.2%, 37.5% and 49.0%, respectively, of the cost of sales of this business segment, while subcontracting costs was RMB3,267.9 million, RMB4,323.2 million, RMB4,320.3 million and RMB1,915.7 million, respectively, accounting for 26.1%, 43.6%, 47.3% and 38.4%, respectively, of the cost of sales of this business segment.

Subcontracting costs and equipment costs are the two major components of the cost of sales of our International Engineering Contracting Business, which generally constitute greater than 80% of our cost of sales from this business segment during the Track Record Period. The relative proportion of subcontracting costs and equipment costs varies between projects, and in a particular project, varies between different stages of the project's performance. In general, a relatively larger portion of cost of sales as subcontracting costs are incurred in the earlier stages when civil engineering work is being undertaken, whereas a relatively larger portion as equipment costs are incurred in later stages upon completion of the civil engineering work. In 2010, the portion of equipment costs decreased while that of subcontracting costs increased in our cost of sales for this business segment when compared to 2009, primarily because certain projects with high contract value began initial civil engineering work in 2010 and incurred higher subcontracting costs in the early stages of the project cycle.

The following table further sets forth a breakdown of our cost of sales by our business segments for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	(RMB million)	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*
International Engineering Contracting Business	12,518.9	71.4	9,910.3	61.4	9,139.7	54.2	4,437.1	52.9	4,984.4	59.0
Trading Business	4,631.5	26.4	5,832.6	36.2	7,252.5	43.0	3,808.4	45.4	3,254.0	38.5
Other Businesses	377.7	2.2	391.7	2.4	466.5	2.8	141.7	1.7	211.8	2.5
Total	17,528.1	100.0	16,134.6	100.0	16,858.7	100.0	8,387.2	100.0	8,450.2	100.0

Gross Profit

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our gross profit was RMB1,759.6 million, RMB2,942.4 million, RMB3,659.1 million and RMB1,903.9 million, respectively. Our gross profit margin was 9.1%, 15.4%, 17.8% and 18.4% for the same periods, respectively. The following tables set forth the breakdown of our gross profit, the contribution to our gross profit and gross profit margins by our business segments for the periods indicated:

	Year Ended December 31,									Six Months Ended June 30,					
	2009			2010			2011			2011			2012		
	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin
	(RMB million)	*(%)*	*(%)*	*(RMB million)*	*(%)*	*(%)*	*(RMB million)*	*(%)*	*(%)*	*(RMB million)*	*(%)*	*(%)*	*(RMB million)*	*(%)*	*(%)*
International Engineering Contracting Business															
Power	834.0	47.4	8.1	1,950.0	66.3	20.7	2,603.8	71.2	27.2	1,020.8	70.3	23.5	1,299.3	68.2	25.9
Transportation	127.4	7.2	7.9	16.2	0.6	1.7	77.7	2.1	7.0	36.4	2.5	5.5	79.5	4.2	15.2
Telecommunications	39.4	2.2	5.4	127.7	4.3	31.1	0.3	0.0	10.8	0.0	0.0	0.0	27.8	1.5	8.0
Non-Core sectors	127.0	7.3	13.3	15.4	0.5	1.2	233.7	6.4	16.9	13.1	0.9	2.6	35.1	1.8	6.6
Sub-total	1,127.8	64.1	8.3	2,109.3	71.7	17.5	2,915.5	79.7	24.2	1,070.3	73.7	19.4	1,441.7	75.7	22.4
Trading Business															
International trade	308.6	17.5	6.9	351.6	11.9	7.2	312.7	8.5	6.0	166.1	11.4	6.5	234.1	12.3	8.2
Domestic trade	39.0	2.2	7.6	111.3	3.8	8.1	123.4	3.4	5.0	36.2	2.5	2.5	34.1	1.8	5.1
Sub-total	347.6	19.7	7.0	462.9	15.7	7.4	436.1	11.9	5.7	202.3	13.9	5.0	268.2	14.1	7.6
Other Businesses	284.2	16.2	42.9	370.2	12.6	48.6	307.5	8.4	39.7	178.9	12.4	55.8	194.0	10.2	47.8
Total	1,759.6	100.0	9.1	2,942.4	100.0	15.4	3,659.1	100.0	17.8	1,451.5	100.0	14.8	1,903.9	100.0	18.4

During the Track Record Period, the power sector constituted the largest contributor to our gross profit from the International Engineering Contracting Business. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our gross profit from EPC projects of the power sector was RMB834.0 million, RMB1,950.0 million, RMB2,603.8 million and RMB1,299.3 million, respectively, representing 47.4%, 66.3%, 71.2% and 68.2% of our total gross profit. This is mainly attributable to our extensive experience and well-established track record in the power sector, which also enabled us to secure high-margin contracts in recent years. We generally consider projects that can achieve a gross profit margin above 15% as high-margin projects, which usually have a contract value of at least RMB1.0 billion. High-margin projects occur as the result of differing local conditions and also because of our long-term commitment and reputation from previous successful projects, and these high-margin projects are mostly in the power sector. For our Trading Business, a significant proportion of gross profit came from our international trade during the Track Record Period.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the gross profit margin of our power sector was 8.1%, 20.7%, 27.2% and 25.9%, respectively. Gross profit margin of our power sector increased significantly in 2010 and 2011 as we managed to choose and secure high-margin contracts in Africa and Asia after the global financial crisis in 2008. For the same periods, the gross profit margin of our transportation sector was 7.9%, 1.7%, 7.0% and 15.2%, respectively. The increase in the gross profit margin of our transportation sector for the six months ended June 30, 2012 was mainly due to more progress was made in the first half of 2012 on one contract in Africa with high-margin which became effective in 2011. Also for the same periods, the gross profit margin of our telecommunications sector was 5.4%, 31.1%, 10.8% and 8.0%, respectively. We did not undertake a significant number of contracts in the telecommunications sector during the Track Record Period and the gross profit margins varied according to particular contracts undertaken in that financial year. The increase in the gross profit margin of our telecommunications sector in 2010 was primarily attributable to our effective control on construction costs of certain projects in Africa, mainly through further negotiations with certain sub-contractors, equipment suppliers and project owners during the course of construction in 2010.

Other Revenue

Other revenue consists of dividend income from unquoted equity securities and government grants. Unquoted equity securities represent our shareholding in certain non-listed companies in the PRC and we receive dividends from such investment. We believe that through such holdings we can foster business cooperation with these companies during their development. We also made these investments with a view that these holdings will appreciate in value as the companies' business grow. We intend to continue holding these securities if we believe that they will appreciate in value with time. However, if we assess that they will not rise in value, or that holding them will not be in line with our business nor lead to avenues for cooperation, we may dispose of our holdings. Government grants were awarded to us by the finance or commerce bureaus of city municipal authorities, including those in Wuxi and Suzhou, to provide subsidies primarily for international engineering contracting projects and export credit insurance. No conditions are attached to such grants and they are non-recurring in nature. Enterprises that had purchased export credit insurance were eligible to apply for such grants, which were allocated proportionally based on the share of revenue amongst companies that had applied and reported on their financial income. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our other revenue amounted to RMB13.4 million, RMB19.3 million, RMB9.7 million and RMB2.3 million, respectively.

Other Expenses, net

Other expenses, net mainly consists of net gains/(losses) on disposal of property, plant and equipment and net losses on foreign currency forward contracts and an interest rate swap contract. We entered into an interest rate swap contract in 2008 in connection with a bank loan for a specific project. We entered into this one-off interest rate swap transaction to fix the interest rate of this bank loan denominated in US dollar to lower our interest rate risks. For details of our foreign currency forward contracts and interest rate swap contract, see "– Qualitative and Quantitative Disclosure about Market Risk – Currency Risk" and "– Interest Rate Risk." Our other expenses, net were RMB25.5 million, RMB10.2 million, RMB3.1 million and RMB21.2 million for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of wages and benefits and marketing and promotion expenses, of which marketing and promotion related traveling expenses constitute the major component. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our selling and marketing expenses represent 4.0%, 4.2%, 4.8% and 4.9% of our total revenue, respectively. The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2009	**2010**	**2011**	**2011**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*
Wages and benefits	576.4	569.3	692.2	299.8	383.4
Marketing and promotion expenses	100.0	126.2	133.3	46.3	51.7
Transportation expenses	10.6	12.3	17.9	9.8	7.3
Depreciation and amortization	9.2	9.8	10.3	5.0	4.8
Other	66.8	88.7	124.6	47.9	57.5
Total	763.0	806.3	978.3	408.8	504.7

Administrative Expenses

Our administrative expenses primarily include wages and benefits, depreciation and amortization of administration-related assets, traveling expenses, office expenses, consulting expenses and entertainment expenses. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our administrative expenses represent 1.5%, 1.5%, 2.0% and 2.1% of our total revenue, respectively. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2009	**2010**	**2011**	**2011**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*
Wages and benefits	134.5	137.2	184.1	77.9	87.5
Depreciation and amortization	22.9	25.6	62.0	25.1	48.1
Traveling expenses	24.1	27.2	29.7	11.4	16.4
Office expenses	22.1	25.1	30.6	12.1	13.1
Consulting expenses	25.5	29.1	31.2	12.8	14.3
Entertainment expenses	13.8	15.1	18.4	7.6	6.8
Others	45.0	30.6	50.4	24.8	26.1
Total	287.9	289.9	406.4	171.7	212.3

Other Operating Expenses

Other operating expenses mainly consist of impairment losses in respect of trade and other receivables and provisions arising from guarantees issued. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our other operating expenses amounted to RMB138.6 million, RMB320.0 million, RMB136.4 million and RMB72.7 million, respectively. The increase in other operating expenses from 2009 to 2010 was primarily due to an increase in impairment losses in respect of trade and other receivables and increase in provision for compensation liability arising from guarantees issued. Such increases in impairment losses and provision for compensation liability did not occur in 2011, which led to a decrease in our other operating expenses from 2010.

Finance Income/Finance Expense

Finance income consists of interest income and finance income on receivables from customers. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our finance income was RMB352.9 million, RMB411.8 million, RMB402.3 million and RMB249.1 million, respectively.

Our finance expenses consist of net foreign exchange losses, interest cost recognized in respect of defined benefit retirement plan, interest expense on borrowings, bank charges and others. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our finance expenses amounted to RMB76.4 million, RMB385.9 million, RMB559.6 million and RMB3.0 million, respectively. Our finance expenses increased from 2009 through 2011, primarily as a result of increased foreign exchange losses due to the general appreciation of the Renminbi. During the Track Record Period, we entered into forward contracts to reduce our foreign exchange rate risk. See "– Significant Factors Affecting Our Financial Condition and Results of Operations – Exchange rates."

Income Tax

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our income tax expenses were RMB224.5 million, RMB429.2 million, RMB515.0 million and RMB351.7 million, respectively, and our effective tax rates were 26.9%, 27.5%, 25.9% and 26.2%, respectively, which remained relatively stable.

Other Comprehensive Income for the Year/Period

Other comprehensive income for the year/period mainly include exchange differences on translation of financial information of overseas subsidiaries. We incurred a loss of RMB0.3 million in 2009. However, for the years ended December 31, 2010 and 2011 and the six months ended June 30, 2012, we had an income of RMB3.0 million, RMB1.3 million and RMB1.0 million, respectively, for exchange differences on translation of financial information of overseas subsidiaries, primarily due to the fluctuation of exchange rates of the RMB against the relevant foreign currencies of our overseas subsidiaries.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth selected items from our consolidated statements of comprehensive income for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2009	2010	2011	2011	2012
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)* (unaudited)	*(RMB million)*
Revenue	19,287.7	19,077.0	20,517.8	9,838.7	10,354.1
Cost of sales	(17,528.1)	(16,134.6)	(16,858.7)	(8,387.2)	(8,450.2)
Gross profit	1,759.6	2,942.4	3,659.1	1,451.5	1,903.9
Other revenue	13.4	19.3	9.7	0.8	2.3
Other expenses, net	(25.5)	(10.2)	(3.1)	(1.9)	(21.2)
Selling and marketing expenses	(763.0)	(806.3)	(978.3)	(408.8)	(504.7)
Administrative expenses	(287.9)	(289.9)	(406.4)	(171.7)	(212.3)
Other operating expenses	(138.6)	(320.0)	(136.4)	(19.3)	(72.7)
Profit from operations	558.0	1,535.3	2,144.6	850.6	1,095.3
Finance income	352.9	411.8	402.3	205.0	249.1
Finance expenses	(76.4)	(385.9)	(559.6)	(196.1)	(3.0)
Net finance income/(expenses)	276.5	25.9	(157.3)	8.9	246.1
Share of profits less losses of associates	0.1	0.2	(0.01)	(0.1)	(0.2)
Profit before taxation	834.6	1,561.4	1,987.3	859.4	1,341.2
Income tax	(224.5)	(429.2)	(515.0)	(217.1)	(351.7)
Profit for the year/period	610.1	1,132.2	1,472.3	642.3	989.5
Other comprehensive income for the year/period					
Exchange differences on translation of financial information of overseas subsidiaries	(0.3)	3.0	1.3	(3.5)	1.0
Total comprehensive income for the year/period	609.8	1,135.2	1,473.6	638.8	990.5
Profit attributable to:					
Equity owners of our Company	613.6	1,136.5	1,474.9	642.2	990.8
Non-controlling interests	(3.5)	(4.3)	(2.6)	0.1	(1.3)
Profit for the year/period	610.1	1,132.2	1,472.3	642.3	989.5
Total comprehensive income attributable to:					
Equity owners of our Company	613.6	1,137.9	1,475.1	639.4	991.3
Non-controlling interests	(3.8)	(2.7)	(1.5)	(0.6)	(0.8)
Total comprehensive income for the year/period	609.8	1,135.2	1,473.6	638.8	990.5

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Revenue

Our revenue increased by RMB515.4 million, or 5.2%, from RMB9,838.7 million for the six months ended June 30, 2011 to RMB10,354.1 million for the six months ended June 30, 2012. This increase was primarily due to the increase of our revenue from the International Engineering Contracting Business and Other Businesses, offsetting the decrease in revenue from our Trading Business. The increase in revenue of RMB918.7 million, or 16.7%, from International Engineering Contracting Business was mainly contributed by the power and telecommunications sectors. Our revenue generated from the power sector increased by RMB681.3 million, or 15.7%, from RMB4,339.3 million for the six months ended June 30, 2011 to RMB5,020.6 million for the six months ended June 30, 2012, primarily attributable to (i) stable progress made on our existing projects and (ii) commencement of several newly effective projects in Asia, Africa and South America. Our revenue generated from the telecommunications sector increased by RMB345.7 million, from nil for the six months ended June 30, 2011 to RMB345.7 million for the six months ended June 30, 2012, primarily due to the commencement of a newly effective telecommunication project in Bengal in early 2012. Revenue generated from our Other Businesses also increased by RMB85.2 million, or 26.6%, primarily due to increased revenue from providing logistics services and organizing exhibitions. The decrease in revenue from our Trading Business of RMB488.5 million, or 12.2%, was primarily due to the decrease in domestic trade, as in the first half of 2012, we did not have any of the bulk trades which we had in 2011 and were non-reoccurring in nature.

Cost of Sales

Our cost of sales slightly increased by RMB63.0 million, or 0.8%, from RMB8,387.2 million for the six months ended June 30, 2011 to RMB8,450.2 million for the six months ended June 30, 2012. This increase was primarily due to the increase of our performance undertaken on engineering contracting projects, which is offset by the decrease in our Trading Business for the same period. Cost of sales attributable to our International Engineering Contracting Business increased by RMB547.3 million, or 12.3%, from RMB4,437.1 million for the six months ended June 30, 2011 to RMB4,984.4 million for the six months ended June 30, 2012. Whilst, cost of sales incurred by our Trading Business decreased by RMB554.4 million, or 14.6%, from RMB3,808.4 million for the six months ended June 30, 2011 to RMB3,254.0 million for the six months ended June 30, 2012.

Gross Profit

Our gross profit increased by RMB452.4 million, or 31.2%, from RMB1,451.5 million for the six months ended June 30, 2011 to RMB1,903.9 million for the six months ended June 30, 2012, and our gross profit margin also increased from 14.8% for the six months ended June 30, 2011 to 18.4% for the six months ended June 30, 2012. The increase was primarily due to the growth of our International Engineering Contracting Business, resulting from (i) progress of high-margin power sector construction contracts, (ii) commencement of several newly effective projects with high margins and (iii) improved profit margin of Trading Business, especially international trade.

Other Revenue

Our other revenue increased by RMB1.5 million, or 187.5%, from RMB0.8 million for the six months ended June 30, 2011 to RMB2.3 million for the six months ended June 30, 2012. This increase was primarily due to the increase in government grants and dividend income from unquoted equity securities which we received in the first half of 2012.

Other Expenses, Net

Our other expenses increased from RMB1.9 million for the six months ended June 30, 2011 to RMB21.2 million for the six months ended June 30, 2012. The increase was primarily due to the increase in our net loss on our foreign currency forward contracts.

Selling and Marketing Expenses

Our selling and marketing expenses increased by RMB95.9 million, or 23.5%, from RMB408.8 million for the six months ended June 30, 2011 to RMB504.7 million for the six months ended June 30, 2012. This increase was primarily due to the increase in wages and benefits, resulting from the increased number of selling and marketing personnel by 12.0%, as well as their overall pay raise.

Administrative Expenses

Our administrative expenses increased by RMB40.6 million, or 23.6%, from RMB171.7 million for the six months ended June 30, 2011 to RMB212.3 million for the six months ended June 30, 2012. This increase was primarily due to (i) the increase in depreciation and amortization expenses due to higher amortization of certain land use rights which were obtained in November 2011 and (ii) the increase in wages and benefits, resulting from the overall pay raise of our administrative personnel while the number of our administrative staff remained relatively stable.

Other Operating Expenses

Our other operating expenses increased by RMB53.4 million, or 276.7%, from RMB19.3 million for the six months ended June 30, 2011 to RMB72.7 million for the six months ended June 30, 2012. This increase was primarily due to an increase in impairment losses in trade and other receivables relating to certain international engineering contracting projects and the Other Businesses.

Profit from Operations

As a result of the foregoing, our profit from operations increased by RMB244.7 million, or 28.8%, from RMB850.6 million for the six months ended June 30, 2011 to RMB1,095.3 million for the six months ended June 30, 2012.

Finance Income/Finance Expenses

Our finance income increased by RMB44.1 million, or 21.5%, from RMB205.0 million for the six months ended June 30, 2011 to RMB249.1 million for the six months ended June 30, 2012. This increase was primarily due to the increase in interest income on receivables from our customers as certain project entered into interest earning period under the sellers credit arrangement, as well as the increase in interest income from increased bank deposits and interest rate in the first half of 2012.

Our finance expenses significantly decreased by RMB193.1 million, or 98.5%, from RMB196.1 million for the six months ended June 30, 2011 to RMB3.0 million for the six months ended June 30, 2012. This decrease was primarily due to (i) we had foreign exchange gains of RMB13.9 million in the first half of 2012, as compared to RMB162.8 million of foreign exchange losses we incurred in the first half of 2011 due to the depreciation of RMB in the first half of 2012 and (ii) reduced interest expenses as a result of our reduced bank borrowings.

As a result, our net finance income increased by RMB237.2 million, or 26.7 times, from RMB8.9 million for the six months ended June 30, 2011 to RMB246.1 million for the six months ended June 30, 2012.

Profit before Taxation

Our profit before taxation increased by RMB481.8 million, or 56.1%, from RMB859.4 million for the six months ended June 30, 2011 to RMB1,341.2 million for the six months ended June 30, 2012.

Income Tax

Our income tax increased by RMB134.6 million, or 62.0%, from RMB217.1 million for the six months ended June 30, 2011 to RMB351.7 million for the six months ended June 30, 2012. This increase was primarily due to the increase of our taxable income in the first half of 2012.

Profit for the Period

As a result of the foregoing, our net profit increased by RMB347.2 million, or 54.1%, from RMB642.3 million for the six months ended June 30, 2011 to RMB989.5 million for the six months ended June 30, 2012 and our net profit margin increased from 6.5% for the six months ended June 30, 2011 to 9.6% for the six months ended June 30, 2012.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenue

Our revenue increased by RMB1,440.8 million, or 7.6%, from RMB19,077.0 million in 2010 to RMB20,517.8 million in 2011. Revenue from our International Engineering Contract Business amounted to RMB12,055.2 million in 2011, accounting for 58.7% of our total revenue in 2011, and remained relatively stable. The increase in our total revenue was primarily due to an increase of RMB1,393.1 million, or 22.1%, in revenue from our Trading Business that was attributable to increase in our trading volume, especially in domestic trade.

Cost of Sales

Our cost of sales increased by RMB724.1 million, or 4.5%, from RMB16,134.6 million in 2010 to RMB16,858.7 million in 2011. This increase was generally in line with the increase in our revenue from 2010 to 2011, mainly caused by the increase in the revenue of our Trading Business.

Gross Profit

Our gross profit increased by RMB716.7 million, or 24.4%, from RMB2,942.4 million in 2010 to RMB3,659.1 million in 2011. Our gross profit margin increased from 15.4% in 2010 to 17.8% in 2011. In particular, gross profit and gross profit margin of our International Engineering Contracting Business increased significantly, from RMB2,109.3 million and 17.5% respectively in 2010 to RMB2,915.5 million and 24.2% respectively in 2011. This was primarily due to the stable progress in our performance of several high-margin power construction projects.

Other Revenue

Our other revenue decreased by RMB9.6 million, or 49.7%, from RMB19.3 million in 2010 to RMB9.7 million in 2011. This decrease was primarily due to the decreases in government grants and dividend income from unquoted equity securities we received in 2011.

Other Expenses, Net

Our other expenses decreased by RMB7.1 million, or 69.6%, from RMB10.2 million in 2010 to RMB3.1 million in 2011, primarily as a result of the decrease in our net loss on an interest rate swap.

Selling and Marketing Expenses

Our selling and marketing expenses increased by RMB172.0 million, or 21.3%, from RMB806.3 million in 2010 to RMB978.3 million in 2011. This was primarily due to the increase in wages and benefits, resulting from the increase of over 300 selling and marketing personnel, representing an increase of approximately 16.3% in the number of selling and marketing personnel compared to the year ended December 31, 2010.

Administrative Expenses

Our administrative expenses increased by RMB116.5 million, or 40.2%, from RMB289.9 million in 2010 to RMB406.4 million in 2011. This increase was primarily attributable to the increase in wages and benefits, resulting from the overall pay raise of our administrative personnel in 2011 while the number of our administrative personnel remained relatively stable.

Other Operating Expenses

Our other operating expenses decreased by RMB183.6 million to RMB136.4 million in 2011. Other operating expenses in 2010 included an increase in impairment losses in respect of trade and other receivables and an increase in provision for compensation liability arising from guarantees issued. Such increases in impairment losses and provision for compensation liability did not occur in 2011, which led to a decrease in our other operating expenses from 2010.

Profit from Operations

As a result of the foregoing, our profit from operations increased significantly by RMB609.3 million, or 39.7%, from RMB1,535.3 million in 2010 to RMB2,144.6 million in 2011.

Finance Income/Finance Expenses

Our finance income decreased slightly by RMB9.5 million, or 2.3%, from RMB411.8 million in 2010 to RMB402.3 million in 2011, primarily due to the decrease in interest income on receivables from customers as they repaid part of the principals under the sellers credit arrangement, which was offset by the increase in interest income from increased bank deposits in 2011.

Our finance expenses increased by RMB173.7 million, or 45.0%, from RMB385.9 million in 2010 to RMB559.6 million in 2011. This increase was primarily due to foreign exchange losses as a result of the general appreciation of the Renminbi from 2010 to 2011.

As a result, we had a net finance income of RMB25.9 million in 2010 and a net finance expense of RMB157.3 million in 2011.

Profit before Taxation

Our profit before taxation increased by RMB425.9 million, or 27.3%, from RMB1,561.4 million in 2010 to RMB1,987.3 million in 2011.

Income Tax

Our income tax increased by RMB85.8 million, or 20.0%, from RMB429.2 million in 2010 to RMB515.0 million in 2011. This increase was primarily due to the increase in our taxable income in 2011. Our effective tax rates had remained relatively stable from 2010 to 2011.

Profit for the Year

As a result of the foregoing, our net profit increased by RMB340.1 million, or 30.0%, from RMB1,132.2 million in 2010 to RMB1,472.3 million in 2011 and our net profit margin increased from 5.9% in 2010 to 7.2% in 2011.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

Our revenue was RMB19,287.7 million in 2009 and RMB19,077.0 million in 2010. It remained relatively stable from 2009 to 2010, as a decrease in revenue from International Engineering Contracting Business was offset by an increase in revenue from Trading Business. The decrease in revenue of RMB1,627.1 million from International Engineering Contracting Business was primarily due to the decrease in the newly effective contract value in 2009 as a result of the global financial crisis, which gave rise to the subsequent reduction in actual performance of engineering contracting projects in 2010. The decrease in revenue from International Engineering Contracting Business was, however, partially offset by the increase in revenue from our Trading Business of RMB1,316.4 million. This increase was primarily attributable to the increase in trading volume as a result of the recovery of macro-economic conditions and our encouragement of the continuing development of our Trading Business. In addition, with the global financial crisis subsiding in 2010, orders from our international export trade that we did not previously negotiate successfully began to be concluded in 2010. Our domestic trade also grew significantly due to the continuing growth of Chinese economy.

Cost of Sales

Our cost of sales decreased by RMB1,393.5 million, or 8.0%, from RMB17,528.1 million in 2009 to RMB16,134.6 million in 2010. This decrease was primarily because we reduced our performance on engineering contracting projects in 2010 as a result of the reduction in the newly effective contract value of engineering contracting projects in 2009, resulting in our cost of sales from International Engineering Contracting Business to decrease by RMB2,608.6 million. This decrease was in line with the decrease in revenue from International Engineering Contracting Business from 2009 to 2010. Our cost of sales from Trading Business increased by RMB1,201.1 million due to increased trading volume in both international export trade and domestic trade.

Gross Profit

Our gross profit increased by RMB1,182.8 million, or 67.2%, from RMB1,759.6 million in 2009 to RMB2,942.4 million in 2010, and our gross profit margin also increased from 9.1% in 2009 to 15.4% in 2010. This is primarily due to the significant increases in gross profit and gross profit margin of our International Engineering Contracting Business, from RMB1,127.8 million and 8.3% respectively in 2009 to RMB2,109.3 million and 17.5% respectively in 2010. The increases were mainly due to the significant progress in the performance of several high-margin power projects in Africa and Asia in 2010.

Other Revenue

Our other revenue increased by RMB5.9 million, or 44.0%, from RMB13.4 million in 2009 to RMB19.3 million in 2010. This increase was primarily due to the increase of government grants received in 2010.

Other Expenses, Net

Our other expenses decreased by RMB15.3 million, or 60.0%, from RMB25.5 million in 2009 to RMB10.2 million in 2010, primarily as a result of the decrease in our net loss on an interest rate swap.

Selling and Marketing Expenses

Our selling and marketing expenses increased slightly by RMB43.3 million, or 5.7%, from RMB763.0 million in 2009 to RMB806.3 million in 2010. This increase was mainly due to the increase in our marketing and promotion expenses resulting from the increased marketing and promotional activities in 2010 in developing countries to explore new business opportunities and extend our networks, aiming to mitigate the impact of the global financial crisis.

Administrative Expenses

Our administrative expenses increased by RMB2.0 million, or 0.7%, from RMB287.9 million in 2009 to RMB289.9 million in 2010. This increase was primarily due to the salary increase of our administrative staff and the increase of professional service expenses and office expenses as a result of the Reorganization undertaken in 2010.

Other Operating (Expenses)/Income

Our other operating expenses increased significantly by RMB181.4 million, or 130.9%, from RMB138.6 million in 2009 to RMB320.0 million in 2010. This increase was primarily due to a provision of RMB125.0 million arising from irrevocable letters of guarantee issued by us, under our agency business, to buyers on the advances paid by buyers to sellers, which guarantee the repayment in case the sellers are not able to fulfill their contractual obligations and fail to repay the advances to the buyers. This amount was based on our estimated compensation liability that we expected to undertake.

Profit from Operations

As a result of the foregoing, our profit from operations significantly increased by RMB977.3 million, or 175.1%, from RMB558.0 million in 2009 to RMB1,535.3 million in 2010.

Finance Income/Finance Expenses

Our finance income increased by RMB58.9 million, or 16.7%, from RMB352.9 million in 2009 to RMB411.8 million in 2010. This increase was primarily due to the increase of interest income from the increase in our bank deposits in 2010.

Our finance expenses also experienced a significant increase of RMB309.5 million, or 405.1%, from RMB76.4 million in 2009 to RMB385.9 million in 2010. This increase was primarily due to the increase of foreign exchange losses in 2010 because the RMB appreciated against the US dollar in 2010, whereas the exchange rate of RMB against US dollars remained relatively stable in 2009. The increase was partially offset by a decrease in our interest expense on bank loans as a result of the decrease in the amount of bank loans of our Group in 2010.

As a result, our net finance income decreased by RMB250.6 million, or 90.6%, from RMB276.5 million in 2009 to RMB25.9 million in 2010.

Profit before Taxation

Our profit before taxation increased by RMB726.8 million, or 87.1%, from RMB834.6 million in 2009 to RMB1,561.4 million in 2010.

Income Tax

Our income tax increased by RMB204.7 million, or 91.2%, from RMB224.5 million in 2009 to RMB429.2 million in 2010. This increase was primarily due to the increase in our taxable income in 2010. Effective tax rates had remained relatively stable from 2009 to 2010.

Profit for the Year

As a result of the foregoing, our net profit increased by RMB522.1 million, or 85.6%, from RMB610.1 million in 2009 to RMB1,132.2 million in 2010 and our net profit margin increased from 3.2% in 2009 to 5.9% in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of funds have been cash generated from operations and various short-term and long-term bank borrowings and lines of credit, as well as equity contributions from shareholders. Our liquidity requirements derive primarily from our working capital needs, purchases of fixed assets and the servicing of our indebtedness.

We have historically met our working capital and other liquidity requirements principally from cash generated from operations, while financing the remainder primarily through bank borrowings.

We focus on improving the profitability of our business while managing our operating cash flow position. We closely monitor and manage (i) the level of our accounts payables and receivables, (ii) our inventory level and (iii) our ability to obtain external financing by implementing various internal guidelines and mechanisms, including the following:

- approval procedures for our contract terms governing collection and payment, strict compliance with contractual terms, regular reviews of the collection of accounts receivables and payment for payables, allocation of responsibility on account receivables and provision for doubtful debts;

- procurement, comprehensive budget management, inventory management and an acceptance and return system to control our procurement and enhance inventory management; and

- increase in our credit facilities. As at June 30, 2012, we had banking facilities in the amount of RMB38,620.3 million, of which we utilized RMB22,065.7 million.

We intend to further improve our receivable management and control our inventory level. We also intend to maintain a prudent capital expenditure policy based on our business development needs and our cash flow situation. According to our corporate policy, the capital expenditure plans of each of our subsidiaries as well as any independent capital expenditure exceeding a certain amount must be approved by our corporate headquarters.

Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Net cash generated from operating activities	708.9	5,602.6	2,828.2	5,990.1
Net cash used in investing activities	(1,659.3)	(2,180.3)	(533.1)	(504.5)
Net cash generated from/(used in) financing activities	316.0	(651.8)	(2,130.1)	(458.3)
Net (decrease)/increase in cash and cash equivalent	(634.4)	2,770.5	165.0	5,027.3
Cash and cash equivalents at the beginning of the year/period	2,992.2	2,353.1	5,078.8	5,170.7
Effect of foreign exchange rate	(4.7)	(44.8)	(73.1)	(6.1)
Cash and cash equivalents at end of the year/period	2,353.1	5,078.8	5,170.7	10,191.9

Cash flows from operating activities

For the six months ended June 30, 2012, we had net cash generated from operating activities of RMB5,990.1 million. Net cash generated from operating activities was a result of operating profit before changes in working capital in the amount of RMB1,405.6 million, a cash inflow due to changes in working capital of RMB5,051.3 million and income tax paid in the amount of RMB466.8 million. The changes in working capital mainly included (i) a decrease in construction contracts of RMB575.9 million, (ii) an increase in receipts in advance of RMB2,266.8 million, (iii) a decrease in trade and other receivables of RMB764.3 million and (iv) an increase in trade and other payables of RMB1,597.7 million.

For the year ended December 31, 2011, we had net cash generated from operating activities of RMB2,828.2 million. Net cash generated from operating activities was a result of operating profit before changes in working capital in the amount of RMB2,076.9 million, a cash inflow due to changes in working capital of RMB1,433.9 million and income tax paid in the amount of RMB682.6 million. The change in working capital mainly included (i) the decrease in construction contracts of RMB1,612.1 million, (ii) the increase in receipts in advance of RMB1,645.1 million and (iii) the increase in trade and other receivables of RMB1,427.4 million.

For the year ended December 31, 2010, we had net cash generated from operating activities of RMB5,602.6 million. Net cash generated from operating activities was a result of operating profit before changes in working capital in the amount of RMB1,757.2 million, a cash inflow due to changes in working capital of RMB4,290.6 million and income tax paid in the amount of RMB445.2 million. The change in working capital mainly included (i) the increase in receipts in advance of RMB3,593.5 million, (ii) the increase in trade and other payables of RMB1,301.6 million, (iii) the increase in construction contracts of RMB309.5 million and (iv) the increase in trade and other receivables of RMB368.0 million.

For the year ended December 31, 2009, we had net cash generated from operating activities of RMB708.9 million. Net cash generated from operating activities was a result of operating profit before changes in working capital in the amount of RMB1,011.1 million, a cash inflow due to changes in working capital of RMB134.1 million and income tax paid in the amount of RMB436.3 million. The change in working capital mainly included (i) the increase in construction contracts of RMB1,801.6 million, (ii) the decrease in receipts in advance of RMB1,424.7 million, (iii) the decrease in trade and other receivables of RMB1,258.4 million and (iv) an increase in trade and other payables of RMB2,228.5 million.

Cash flows from investing activities

For the six months ended June 30, 2012, our net cash used in investing activities was RMB504.5 million. Our cash outflow for investing activities mainly consisted of (i) payments for acquisition of property, plant and equipment of RMB31.7 million, (ii) payment for acquisition of land use right of RMB30.0 million and (iii) an increase in time deposits of RMB654.8 million. Such amount was partially offset by (i) a decrease in restrict deposits of RMB120.9 million and (ii) interest income received of RMB94.7 million.

For the year ended December 31, 2011, our net cash used in investing activities was RMB533.1 million. Our cash outflow for investing activities mainly consisted of (i) payments for acquisition of land use rights of RMB873.6 million and (ii) increase in restricted deposits of RMB191.9 million. Such amounts were partially offset by (i) decrease in time deposits of RMB391.3 million and (ii) interest income received of RMB195.4 million.

For the year ended December 31, 2010, our net cash used in investing activities was RMB2,180.3 million. Our cash outflow for investing activities mainly consisted of an increase in time deposits of RMB2,349.8 million. Such amount was partially offset by (i) decrease in restricted deposit of RMB99.2 million and (ii) interest income received of RMB96.8 million.

For the year ended December 31, 2009, our net cash used in investing activities was RMB1,659.3 million. Our cash outflow for investing activities mainly consisted of (i) an increase in time deposits of RMB1,553.3 million and (ii) an increase in restrict deposits of RMB137.6 million. Such amounts were partially offset by interest income received of RMB55.3 million.

Cash flows from financing activities

For the six months ended June 30, 2012, our net cash used in financing activities was RMB458.3 million. Our cash outflow from financing activities primarily consisted of (i) repayment of borrowings from banks of RMB147.3 million and (ii) dividends paid to equity owners of our Company of RMB354.2 million. Such amount was partially offset by proceeds from borrowings of RMB49.3 million.

For the year ended December 31, 2011, our net cash used in financing activities was RMB2,130.1 million. Our cash outflow from financing activities primarily consisted of (i) repayment of borrowings from banks of RMB1,572.4 million, (ii) dividends paid to equity owner of our Company of RMB698.0 million and (iii) interest paid of RMB20.1 million. Such amounts were partially offset by (i) capital contributions of RMB20.5 million and (ii) proceeds from borrowings from banks of RMB140.2 million.

For the year ended December 31, 2010, our net cash used in financing activities was RMB651.8 million. Our cash outflow from financing activities primarily consisted of (i) repayment of borrowings from banks of RMB609.9 million, (ii) dividends paid to equity owner of our Company of RMB272.5 million and (iii) interest paid of RMB68.4 million. Such amounts were partially offset by (i) capital contributions of RMB100.0 million and (ii) proceeds from borrowings from banks of RMB199.0 million.

For the year ended December 31, 2009, our net cash generated from financing activities was RMB316.0 million. Our cash inflow from financing activities primarily consisted of proceeds from borrowings from banks of RMB1,614.5 million. Such amount was partially offset by (i) repayment of borrowings from banks of RMB974.5 million, (ii) dividends paid to equity owner of our Company of RMB216.3 million and (iii) interest paid of RMB110.1 million.

NET CURRENT LIABILITIES

The following table sets forth our current assets and liabilities as at the balance sheet dates indicated:

	As at December 31,			As at June 30,	As at October 31,
	2009	**2010**	**2011**	**2012**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*
Current assets					
Inventories	175.0	174.7	212.3	356.0	576.9
Trade and other receivables	4,657.6	4,919.4	6,426.8	5,640.4	6,513.7
Construction contracts	3,558.2	3,902.5	3,176.3	2,682.0	3,402.8
Restricted deposits	297.0	197.8	389.7	268.8	285.5
Time deposits with original maturity over three months	1,996.7	4,346.5	3,955.2	4,610.0	4,920.0
Cash and cash equivalents	2,353.1	5,078.8	5,170.7	10,191.9	10,486.5
Total current assets	13,037.6	18,619.7	19,331.0	23,749.1	26,185.4
Current liabilities					
Borrowings	513.1	576.2	160.1	97.7	134.7
Receipts in advance	5,077.4	8,671.0	10,316.0	12,582.7	13,870.3
Trade and other payables	8,453.9	9,605.3	9,671.3	11,312.7	11,971.2
Construction contracts	4.2	5.1	–	–	–
Retirement and other supplemental benefit obligation	35.9	31.8	31.8	31.7	31.6
Income tax payable	401.8	432.1	318.0	280.1	316.4
Provisions	–	125.0	–	–	–
Total current liabilities	14,486.3	19,446.5	20,497.2	24,304.9	26,324.2
Net current liabilities	(1,448.7)	(826.8)	(1,166.2)	(555.8)	(138.8)

As at December 31, 2009, 2010 and 2011 and June 30, 2012, our net current liabilities were RMB1,448.7 million, RMB826.8 million, RMB1,166.2 million and RMB555.8 million, respectively, which was primarily a result of using cash generated from our business operations to finance some of our EPC projects that have a cash collection period of over one year. As at October 31, 2012, being the latest practicable date such information is available to us, our unaudited net current liabilities was RMB138.8 million.

Historically, we engaged in projects financed by export seller's credit, whereby we, as contractor, provided substantially all the required funding for the project, with project owners making deferred payments to us by installments upon completion of the project. We had funded such projects principally with long-term loans and credit facilities provided by financial institutions. To reduce the finance expenses to be paid to these financial institutions, we had repaid most of these bank borrowings by using cash generated from our business operations after taking into consideration our financial position. As a result of our earlier repayment, the total balance of such borrowings related to export seller's credit was reduced to RMB252.1 million as at June 30, 2012. As at June 30, 2012, we had amount due from customers under the export seller's credit of approximately RMB6,516.2 million, out of which RMB118.1 million were more than one year overdue and we had made adequate allowance for doubtful debts for it.

Furthermore, amounts due from customers under the export seller's credit, due to their long cash collection periods in accordance with relevant contract terms, are substantially classified as non-current assets. Our practice of using cash generated from business operations to repay long-term bank borrowings under the export seller's credit arrangement reduced our current assets and our non-current liabilities. The reduction in our current assets without a corresponding reduction in our current liabilities, together with recognition of amounts due from customers under export seller's credit under non-current assets, was the main reason for our net current liabilities positions throughout the Track Record Period. We expect that this will not have a material adverse impact on our liquidity and we will be able to repay our debts in the foreseeable future when they become due. We had also completed most of the projects under the export seller's credit arrangement as of the Latest Practicable Date. Moreover, during the Track Record Period and up till the Latest Practicable Date, none of our new engineering contracting projects was financed by the export seller's credit. Please refer to the section headed "Business – International Engineering Contracting Business – Financing for Projects – Export seller's credit" for further details about the export seller's credit arrangement.

During the Track Record Period, a major component of our current liabilities was receipts in advance from customers. As at December 31, 2009 , 2010 and 2011 and June 30, 2012, receipts in advance from third-party customers, most of which were advance payments made by customers of our International Engineering Contracting Business to us, amounted to RMB5,077.4 million, RMB8,158.4 million, RMB9,617.2 million and RMB12,582.7 million, respectively. Receipts in advance concerning construction contracts are recorded when advance payments are received from the customers in accordance with the terms of the relevant contracts before the related work is performed. Receipts in advance are utilized against relevant amounts due from customers gradually when the revenue of relevant construction contract is recognized using the percentage of completion method in accordance with the project progress. The balance of the receipts in advance as at each balance sheet dates represents the remaining amount received before the related work is performed.

It has been our Company's policy to request for advance payments from our customers so as to better manage the cash flow from our projects. The ability to request for and collect such receipts in advance demonstrates our relatively strong bargaining position. Generally, we are not expected to repay these receipts in advance, as they are subsequently recognized as revenue along with the performance and completion of the relevant project.

Additionally, we had unutilized banking facilities of approximately RMB16,554.6 million, cash and cash equivalents of approximately RMB10,191.9 million and time deposits with original maturity over three months of approximately RMB4,610.0 million as at June 30, 2012. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due.

Working Capital

Taking into account the financial resources available to us, including the internally generated funds, our available credit facilities, the estimated net proceeds from the Global Offering and cash flow from our operations, we are of the opinion that we have sufficient working capital for our present requirements and for at least 12 months from the date of this Prospectus. As at October 31, 2012, we had RMB41,321.9 million of credit facilities made available to us, among which RMB20,143.1 million were not utilized. The credit facilities were extended to us without any guarantee from any parties outside our Group and our Company did not breach any of the covenants on these facilities as at the Latest Practicable Date. Based on the business and financial performance of our Company, our Directors are not aware of any circumstances where our ability to obtain external financing going forward may be affected by the recent global financial market volatility and credit tightening.

Construction Contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. Construction contracts at the end of each reporting period are recorded at the net amount of costs incurred plus recognized profit less recognized losses and progress billings. The following table sets forth our construction contracts as at the balance sheet dates indicated:

	As at December 31,			As at June 30,
	2009	2010	2011	2012
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Gross amount due from contract customers for contract work				
– current portion	3,558.2	3,902.5	3,176.3	2,682.0
– non-current portion	5,901.7	5,705.5	4,774.3	4,684.5
Gross amount due to contract customers for contract work	(4.2)	(5.1)	–	–
	9,455.7	9,602.9	7,950.6	7,366.5
Contract costs incurred plus recognized profits less recognized losses to date	40,002.8	45,652.3	45,318.7	49,097.3
Less: progress billings	30,547.1	35,916.5	37,195.2	41,551.9
allowance for doubtful debts for construction contracts	–	132.9	172.9	178.9
	9,455.7	9,602.9	7,950.6	7,366.5

Our construction contracts remained relatively stable as at December 31, 2009 and 2010. Our construction contracts decreased from RMB9,602.9 million as at December 31, 2010 to RMB7,950.6 million as at December 31, 2011, which was mainly due to an increase in progress billings to contract customers that is larger than the increase in contract costs incurred in 2011. Our construction contracts decreased from RMB7,950.6 million as at December 31, 2011 to RMB7,366.5 million as at June 30, 2012 for the same reason.

Lease Prepayments

Our lease prepayments mainly represent land use right premiums paid by us for land located mainly in the PRC. As at December 31, 2009, 2010 and 2011 and June 30, 2012, our lease prepayments amounted to approximately RMB75.9 million, RMB73.6 million, RMB1,630.4 million and RMB1,642.7 million, respectively. The significant increase in our lease prepayments in 2011 was primarily attributable to the lease prepayment amounting to approximately RMB1,000.0 million in relation to the acquisition of land use right for a piece of land in Beijing, where our new headquarters will locate, and the revaluation gain of RMB576.1 million of other lease prepayments for the year ended December 31, 2011.

Trade and Other Receivables

Our trade and other receivables primarily consist of trade and bill receivables, advances to suppliers, other receivables related to agency services and amount due from or advances to fellow subsidiaries. The following table sets forth our trade and other receivables as at the balance sheet dates indicated:

	As at December 31,			As at June 30,
	2009	**2010**	**2011**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Trade and bills receivables	1,596.4	2,440.1	3,768.0	3,343.9
Less: allowance for doubtful debts	(182.6)	(193.9)	(280.0)	(355.5)
Advances to suppliers	1,508.4	993.4	1,850.2	1,649.4
Other receivables related to agency services	1,108.7	1,128.7	625.2	484.2
Export VAT refundables	575.7	528.6	355.0	389.7
Amount due from/advances to fellow subsidiaries	136.5	179.5	63.4	19.7
Deductible VAT	36.0	30.7	48.6	55.6
Others	63.3	160.4	178.1	188.5
Less: allowance for doubtful debts	(20.8)	(65.6)	(74.8)	(65.0)
Total trade and other receivables	4,821.6	5,201.9	6,533.7	5,710.5

As at December 31, 2009, 2010 and 2011 and June 30, 2012, we had trade and other receivables of RMB4,821.6 million, RMB5,201.9 million, RMB6,533.7 million and RMB5,710.5 million, respectively. Among them, the current portion (i.e. less than one year) amounted to RMB4,657.6 million, RMB4,919.4 million, RMB6,426.8 million and RMB5,640.4 million, respectively, accounting for 35.7%, 26.4%, 33.2% and 23.7% of our current assets as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, our trade and bills receivables (net of allowance of doubtful debts) amounted to RMB1,413.8 million, RMB2,246.2 million, RMB3,488.0 million and RMB2,988.4 million, respectively, accounting for 29.3%, 43.2%, 53.4% and 52.3% of our total trade and other receivables, respectively. The increase in our trade and bills receivables from December 31, 2009 to December 31, 2010 was in line with the increase in revenue from our Trading Business from 2009 to 2010, which was primarily due to the recovery of macro-economic conditions in 2010. Our trade and bills receivables increased from December 31, 2010 to December 31, 2011, mainly due to the growth of our International Engineering Contracting Business and Trading Business in 2011. Our trade and bills receivables, which mainly consist of the current portion, decreased by RMB424.1 million from December 31, 2011 to June 30, 2012, primarily due to collection of receivables from our International Engineering Contracting Business.

The following table sets forth an aging analysis of trade and bill receivables (net of allowance of doubtful debts) as at the balance sheet dates indicated:

	As at December 31,			**As at June 30,**
	2009	**2010**	**2011**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Current	902.5	1,649.3	2,924.9	1,904.6
Within 3 months past due	388.1	214.4	269.0	295.8
More than 3 months to 6 months past due	13.1	32.7	57.5	385.3
More than 6 months to 1 year past due	50.4	88.9	132.1	222.4
More than 1 year past due	59.7	260.9	104.5	180.3
	1,413.8	2,246.2	3,488.0	2,988.4

We continually enhanced our management of trade and bills receivables to reduce the exposure to doubtful debts. In addition, we made allowance for doubtful debts after fully considering the nature of trade and bills receivables and their collectability. As at December 31, 2009, 2010 and 2011 and June 30, 2012, allowance for doubtful debts for our trade and bill receivables amounted to RMB182.6 million, RMB193.9 million, RMB280.0 million and RMB355.5 million, respectively, accounting for 11.4%, 7.9%, 7.4% and 10.6% of our trade and bill receivables, respectively. The increase in allowance for doubtful debt from 2009 to the first half of 2012 was primarily due to the provision we made in connection with certain trade and bills receivables from our International Engineering Constructing Business and Trading Business as a result of evidences of significant financial difficulties of debtors that came into our attention. See "– Critical Accounting Policies and Estimates – Impairment of assets" for further information on our provision policy. As at October 31, 2012, being the latest practicable date such information is available to us, we had received RMB1,436.8 million of the trade and bills receivables as at June 30, 2012. Our Directors confirmed that allowance for doubtful debts was adequately provided as at December 31, 2009, 2010 and 2011 and June 30, 2012.

With respect to our International Engineering Contracting Business, our credit terms granted to customers are negotiated individually on a case-by-case basis and set forth in the relevant engineering contracting contracts and can normally range from 30 to 60 days. For the Trading Business, our credit terms granted to customers are normally three to six months, mainly in the form of letters of credit. Our trade and bills receivables turnover days for Trading Business were 88 days in 2009, 76 days in 2010, 77 days in 2011 and 78 days in the first half of 2012. From 2009 to 2010, our trade and bills receivables turnover days had decreased, primarily because we have strengthened our management and monitoring of accounts receivable collections and set more stringent credit standards for credit risk analysis of new transactions in our Trading Business. Our trade and bills receivables turnover days for Trading Business from 2010 to the first half of 2012 had remained stable.

Our amount due from/advance to fellow subsidiaries included an amount due from CMIC. Please refer to the section headed "History and Reorganization – Our History and Development" for the discussion regarding CMIC's relationship with our Company and the nature of the amount due from CMIC.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, our advances to suppliers amounted to RMB1,508.4 million, RMB993.4 million, RMB1,850.2 million and RMB1,649.4 million, respectively, accounting for 11.6%, 5.3%, 9.6% and 6.9% of our current assets, respectively. The decrease of advances to suppliers from 2009 to 2010 was primarily because (i) as a result of the global financial crisis, we started to adopt a more stringent credit policy in 2009 to minimize the use of advances to suppliers in order to reduce risks of doubtful debts, and (ii) for some of the new engineering contracting contracts signed in 2010, such projects had not performed to the stage that we make advances to suppliers. Our advances to suppliers increased from RMB993.4 million as at December 31, 2010 to RMB1,850.2 million as at December 31, 2011. This increase was because there were more engineering contracts performed to the stage that we make advances to suppliers during the second half of 2011. Furthermore, our advances to suppliers in our Trading Business also increased due to the increase in our trading volume in 2011. Our advances to suppliers decreased by RMB200.8 million from December 31, 2011 to June 30, 2012, primarily because for some trading contracts performed in the first half of 2012, the advance payments were made to the suppliers in 2011 before substantial performance of those contracts in 2012.

Our other receivables related to agency services mainly represent receivables from overseas buyers that we undertake to help customers of our export-import agency service to collect when these overseas buyers purchase goods from our customers.

Others primarily consist of deposits, interest receivables and other receivables. The increase in these receivables from RMB63.3 million as at December 31, 2009 to RMB160.4 million as at December 31, 2010 was primarily due to the increase in interest receivables as a result of increased bank deposits and the addition of an advance to a supplier who had eventually gone into bankruptcy proceedings. We reclassified such advance as an other receivable and fully provided allowances for it in 2010 as we deemed such receivable as unrecoverable. The amount of such other receivables remained generally stable from 2010 to 2011 and from 2011 to the first half of 2012.

Trade and Other Payables

Our trade and other payables primarily consist of trade and bills payables, other payables related to agency services, accrued salaries, wages and benefits and amounts due to fellow subsidiaries. The following table sets forth our trade and other payables as at the balance sheet dates indicated:

	As at December 31,			As at June 30,
	2009	2010	2011	2012
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Trade and bills payables	6,460.9	7,853.7	8,319.7	9,942.6
Amount due to SINOMACH	–	–	0.5	0.5
Amount due to fellow subsidiaries	28.7	29.3	1.2	0.8
Other payables related to agency services	1,596.0	1,451.4	632.7	516.1
Accrued salaries, wages and benefits	363.1	333.8	459.2	625.5
Other taxes payable	39.2	61.6	125.5	25.7
Derivative financial instruments	24.7	28.8	24.8	40.6
Payables for acquisition of land use rights	–	–	127.3	127.3
Others	119.6	167.7	111.5	136.7
Total	8,632.2	9,926.3	9,802.4	11,415.8

As at December 31, 2009, 2010 and 2011 and June 30, 2012, our trade and other payables amounted to RMB8,632.2 million, RMB9,926.3 million, RMB9,802.4 million and RMB11,415.8 million, respectively. Among them, the current portion amounted to RMB8,453.9 million, RMB9,605.3 million, RMB9,671.3 million and RMB11,312.7 million as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. As at October 31, 2012, being the latest practicable date such information is available to us, we had paid RMB2,430.8 million of the trade and bills payables as at June 30, 2012. Our Directors confirmed that there had been no material defaults in payment of our trade and other payables during the Track Record Period.

Our trade and bills payables amounted to RMB6,460.9 million, RMB7,853.7 million, RMB8,319.7 million and RMB9,942.6 million as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. From 2009 to 2011, our trade and bills payables increased, primarily due to the active management of our cashflow and liquidity. It further increased to RMB9,942.6 million as at June 30, 2012, primarily due to the same reason. Our turnover days of trade and bills payables were 109 days in 2009, 160 days in 2010, 173 days in 2011 and 195 days in the first half of 2012. Due to the difficult global economic environment in recent years, the international engineering contracting market demand has also been under pressure. Under these circumstances, to preserve our ability for long term development, we have imposed stringent standards and policies for the evaluation of our subcontractors and the subcontracting contracts we enter into. For those subcontractors who met our standards, leveraging on our reputation and strength in the international engineering contracting market, we were able to negotiate effectively and agree with them on extended payment schedules that were acceptable to both parties and, at the same time, were beneficial to our cash flow.

The following table sets forth the aging analysis of our trade and bills payables as at the balance sheet dates indicated:

	As at December 31,			As at June 30,
	2009	2010	2011	2012
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Due within 1 month or on demand	2,266.4	3,904.9	4,694.0	5,565.6
Due after 1 month but within 3 months	1,193.4	1,234.8	948.5	1,504.3
Due after 3 months but within 6 months	1,668.1	1,221.1	1,108.7	1,212.1
Due after 6 months but within 1 year	1,005.5	1,082.9	1,082.0	1,179.0
Due after 1 year	327.5	410.0	486.5	481.6
	6,460.9	7,853.7	8,319.7	9,942.6

Our other payables related to agency services mainly represents payables to customers of our export-import agency service with respect to the amounts we had collected on their behalf from overseas buyers of their goods. Such payables generally decreased over the Track Record Period, as our agency services have generally decreased during the same period.

Others mainly included deposits from suppliers, service fee payables, interest payables and other miscellaneous payables, and had remained relatively stable throughout the Track Record Period.

Receipts in Advance from Customers

Our receipts in advance from customers mainly consist of receipts in advance for our International Engineering Contracting Business from SINOMACH and third parties, which amounted to RMB4,324.3 million, RMB8,027.1 million, RMB8,914.9 million and RMB11,553.5 million as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. The balances as at December 31, 2009, 2010 and 2011 and June 30, 2012 represented advances received from customers before the related work is performed as at the end of each respective reporting period. The increases in our receipts in advance for the International Engineering Contracting Business from 2009 to 2010 was primarily due to the increase in the newly effective contract value of engineering contracting projects in 2010. Our receipts in advance for the International Engineering Contracting Business increased from 2010 to 2011, mainly due to some of our projects becoming effective in 2011 upon fulfillment of certain conditions, including but not limited to the obtaining of requisite governmental approvals, securing of financing arrangements, issuing of requisite letters of credit and payment of advances. We obtained advance payments from these projects after they had become effective. It further increased to RMB11,553.5 million as at June 30, 2012, primarily due to new power projects in South America with total contract amount of US$1,919.3 million became effective in the first half of 2012.

We generally require our customers to make advance payments equal to 10% to 15% of the overall contract value, and the cash received from such payments are not required to be specifically designated for a particular project. Receipts in advance from customers would generally be recorded as current liabilities in our Group's balance sheet when they are received by us in accordance with the terms of the relevant contracts. Such receipts in advance would generally be utilized by recognizing revenue in accordance with project progress during the project lifecycle. Due to our strong bargaining power from our leading market position, reputation, financing power and good relationships with overseas governments and clients, we may request for a higher percentage of advance payment for some large-scale and/or high value projects. An advance payment is beneficial to us for it ensures the initial funding of a project when it commences, while also mitigating the risk of non-recovery of costs or expenses incurred as a project progresses. Finally, our ability to receive receipts in advance will also reduce the outstanding contract amount to be collected from project owners at later stages, thus facilitating to shorten the accounts receivables cycle.

Our receipts in advance from customers also include receipts in advance for our Trading Business, which amounted to RMB699.1 million, RMB580.5 million, RMB1,310.3 million and RMB895.0 million as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively.

As a result of the above, our total receipts in advance amounted to RMB5,077.4 million, RMB8,671.0 million, RMB10,316.0 million and RMB12,582.7 million as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash on hand and cash at bank and other financial institutions. As at December 31, 2009, 2010 and 2011 and June 30, 2012, our cash and cash equivalents amounted to RMB2,353.1 million, RMB5,078.8 million, RMB5,170.7 million and RMB10,191.9 million, respectively, accounting for 18.0%, 27.3%, 26.7% and 42.9% of our current assets, respectively. The increase in cash and cash equivalents from 2009 to 2010 was primarily due to the increase of prepayments we received from our engineering contracting customers as a result of the increase in the newly effective contract value of engineering contracting projects. Our cash and cash equivalents in 2011 had remained relatively stable from 2010. It increased significantly in the first half of 2012 as (i) several new projects became effective and we received significant amounts of prepayments from the project owners, and (ii) increase of payables due to active management of our cash flow and liquidity.

Time Deposits with Original Maturity Over Three Months

As at December 31, 2009, 2010 and 2011 and June 30, 2012, our time deposits with original maturity over three months amounted to RMB1,996.7 million, RMB4,346.5 million, RMB3,955.2 million and RMB4,610.0 million, respectively.

INDEBTEDNESS, CONTINGENT LIABILITIES AND CAPITAL EXPENDITURES

Borrowings

Our consolidated borrowings as at December 31, 2009, 2010 and 2011, June 30, 2012 and October 31, 2012 for the purpose of calculating the indebtedness of our Company were as follows:

	As at December 31,			As at June 30,	As at October 31,
	2009	**2010**	**2011**	**2012**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*	*(RMB million)*
Current:					
Short-term borrowings					
Bank loans					
unsecured	–	73.3	14.9	25.4	33.3
secured	118.6	7.6	3.2	2.0	9.5
Subtotal	118.6	80.9	18.1	27.4	42.8
Loans from a fellow subsidiary unsecured	–	20.7	–	–	–
Subtotal	118.6	101.6	18.1	27.4	42.8
Add: current portion of long-term borrowings	394.5	474.6	142.0	70.3	91.9
Subtotal	513.1	576.2	160.1	97.7	134.7
Non-current:					
Long-term borrowings					
unsecured	913.8	740.6	–	–	–
secured	1,230.4	993.6	367.5	260.8	257.7
Subtotal	2,144.2	1,734.2	367.5	260.8	257.7
Less: current portion of long-term borrowings	394.5	474.6	142.0	70.3	91.9
Subtotal	1,749.7	1,259.6	225.5	190.5	165.8
Total	2,262.8	1,835.8	385.6	288.2	300.5

Our short-term borrowings include primarily credit borrowings, mortgage borrowings and guarantee borrowings from commercial banks and other financial institutions. As at December 31, 2009, 2010 and 2011 and June 30, 2012, our short-term borrowings amounted to RMB513.1 million, RMB576.2 million, RMB160.1 million and RMB97.7 million, respectively, accounting for 22.7%, 31.4%, 41.5% and 33.9% of our total borrowings, respectively.

Our long-term borrowings included primarily guarantee borrowings from commercial banks and other financial institutions. These included bank borrowings related to projects financed by export seller's credit, with the total balance of such borrowings (including the current portion) amounting to approximately RMB252.1 million as at June 30, 2012. As at December 31, 2009, 2010 and 2011 and June 30, 2012, our long-term borrowings (excluding the current portion) amounted to RMB1,749.7 million, RMB1,259.6 million, RMB225.5 million and RMB190.5 million, respectively, accounting for 77.3%, 68.6%, 58.5% and 66.1% of our total borrowings, respectively. The significant decrease in our interest-bearing borrowings to RMB190.5 million as at June 30, 2012 was primarily due to the repayment of long-term bank borrowings using cash generated from our business operations with a view to reducing our finance expenses and the decreased use of export seller's credit in financing our projects.

Our Directors confirmed that there had been no material defaults in payment of our bank borrowings and breaches of the finance covenants during the Track Record Period.

The maturity profile of our interest-bearing borrowings as at December 31, 2009, 2010 and 2011 and June 30, 2012 is as follows:

	As at December 31,			As at June 30,
	2009	**2010**	**2011**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Within 1 year or on demand	513.1	576.2	160.1	97.7
After 1 year but within 2 years	479.6	485.0	71.4	72.7
After 2 years but within 5 years	1,171.2	771.2	151.2	115.5
After 5 years	98.9	3.4	2.9	2.3
Total	2,262.8	1,835.8	385.6	288.2

Our Directors are of the view that, other than as disclosed above, there has been no material change in our indebtedness during the period from October 31, 2012 to the Latest Practicable Date.

Contingent Liabilities

We were involved in a number of legal proceedings and claims against either our Company or a subsidiary of our Company in the ordinary course of business. Please refer to the section headed "Business – Legal Proceedings and Regulatory Compliance" for a brief summary of our legal proceedings.

For some export-import agency services, we issued irrevocable letters of guarantee through certain banks to buyers for the benefit of sellers, which guarantee the repayment of advances paid by the buyer, plus interest if applicable, if and when the total or part of the advances becomes repayable to the buyer from the seller in accordance with the relevant contracts. These guarantees are issued to provide security to the buyer in paying an advance to a seller before the actual goods are received, and we do not receive separate consideration for issuing such guarantees. In order for us to issue these letters of guarantee, we require the sellers to provide us with security interests on their assets or guarantees from third parties that must be sufficient to cover the total outstanding amount under the respective letters of guarantee issued. Please refer to the section headed "Business – Other Businesses – Other Services – Export-Import Agency Services" for details about our export-import agency services.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, the total outstanding amount under these letters of guarantee issued were RMB1,832.2 million, RMB2,131.8 million, RMB1,727.3 million and RMB1,246.6 million, respectively, which are secured by the sellers' assets or guaranteed by certain banks on behalf of the sellers. A provision of RMB125.0 million was made with respect to an irrevocable letter of guarantee issued to a buyer who contracted to purchase two vessels. The seller in that transaction was not able to fulfill its contractual obligations and failed to repay the advance it had previously received from the buyer. We were, thus, expected to compensate the buyer under the guarantee that we had issued. For the year ended December 31, 2011, this amount had been fully paid out to the buyer and the claim had been fully settled. We do not consider it probable that any additional claim will be made against us under these guarantees. Our Directors confirm that there has been no material change in our indebtedness and contingent liabilities since June 30, 2012.

Capital Expenditures

Our capital expenditures consisted primarily of the purchase of property, plant and equipment, investment properties, lease prepayments and intangible assets. In 2009 and 2010, our capital expenditures were RMB21.0 million and RMB21.3 million, respectively, and were primarily used for the purchase of equipment. Our capital expenditures increased significantly to RMB1,051.3 million in 2011 and this increase was mainly attributable to the acquisition of the land use right for a piece of land in Beijing for a consideration of RMB1,000.0 million, on which our new headquarters will be constructed. We expect our total capital expenditure will be approximately RMB331.6 million for the year ending December 31, 2012, which will be primarily for the acquisition of land use rights and construction of our new office buildings in Beijing, Shanghai, Shenzhen and Changsha as well as acquisition of a new office building in Wuxi. For further details, please refer to the section headed "Business – Properties" in this Prospectus. We financed our capital expenditures primarily through our cash flow from operations.

Capital Commitments and Operating Lease Commitments

The following table sets forth our contractual obligations and capital commitments as at the dates indicated:

	At December 31,			As at June 30,
	2009	**2010**	**2011**	**2012**
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Contracted for	–	–	68.5	58.5
Authorized but not contracted for	–	365.2	1,575.9	1,575.8
Total	–	365.2	1,644.4	1,634.3

The significant increases in our capital commitments in 2010 and 2011 are mainly attributable to the construction of our new headquarters in Beijing and three new office buildings in Shanghai, Shenzhen and Changsha. We funded these payments mainly with cash generated from our operations.

The following table sets forth our operating lease commitments as at the dates indicated:

	At December 31,			As at June 30,
	2009	2010	2011	2012
	(RMB million)	*(RMB million)*	*(RMB million)*	*(RMB million)*
Within 1 year	2.9	3.6	10.7	14.3
After 1 year but within 5 years	2.1	1.1	12.7	10.9
Total	5.0	4.7	23.4	25.2

Our operating lease commitments primarily consist of the lease of certain buildings through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payment.

During the Track Record Period, we did not have any listing expenses that were incurred but not reflected in the consolidated financial information. During the Track Record Period, listing expenses of approximately RMB56.2 million was incurred. We estimate to incur a further amount of approximately RMB137.0 million of listing expenses before the completion of the Global Offering, out of which RMB97.0 million will be charged against equity with the remainder to be charged against our income statement. We do not expect this amount to have a material impact on our results of operations for the year ending December 31, 2012.

KEY FINANCIAL RATIOS

Liquidity Ratios

The following table sets forth certain of our liquidity ratios as of the balance sheet dates indicated:

	Year Ended December 31,			As at June 30,
	2009	2010	2011	2012
Current Ratio[1]	0.90	0.96	0.94	0.98
Quick Ratio[2]	0.89	0.95	0.93	0.96

Notes:

(1) Current assets divided by current liabilities.

(2) Current assets less inventories divided by current liabilities.

Our current ratio and quick ratio were generally stable during the Track Record Period. In addition, for a discussion on our net current liabilities, please refer to the section headed "Financial Information – Balance Sheet Items – Net Current Liabilities."

Gearing Ratio

As at December 31, 2009, 2010 and 2011 and June 30, 2012, our gearing ratios were 11.4%, 7.2%, 1.4% and 0.9%, respectively. Gearing ratio is derived by dividing total borrowings by total assets multiplied by 100%. The significant decrease in our gearing ratio was primarily due to repayment of bank borrowings during the Track Record Period.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks, including currency risk, interest rate risk, credit risk and liquidity risk in the normal course of our business.

Currency Risk

We are exposed to currency risk primarily through sales and purchases and our International Engineering Contracting Business overseas which give rise to receivables, payables and cash balances that are denominated in foreign currencies other than the functional currency of our operations, RMB, to which these transactions relate. The currencies giving rise to this risk are primarily US dollars, Euros and other currencies of countries where we have operations.

During the Track Record Period, we entered into foreign currency forward contracts to lock in the value in RMB of our future income, primarily in respect of our international engineering contracting projects financed by export seller's credit in order to reduce our currency risk and to obtain certainty of forecasted income generated from the deferred payments to be received from the project owners under such projects. As a state-owned enterprise, we abide by relevant PRC laws and regulations concerning the use of derivative financial instruments, mainly the Notice on Further Strengthening the Supervision of Financial Derivatives Transactions of Centrally Administered State-owned Enterprises (關於進一步加強中央企業金融衍生業務監管的通知) issued by SASAC on February 3, 2009, which regulates derivatives transactions of the state-owned enterprise. Also, as a matter of policy and in compliance with the PRC laws and regulations, we are not allowed to widely engage in hedging activities. Hence, during the Track Record Period, our foreign currency hedging activities were limited to these foreign currency forward contracts.

During the Track Record Period, based on the limited foreign currency hedging instruments available in the PRC financial market, we entered into foreign currency forward contracts with major banks and financial institutions in the PRC. Each of our foreign currency forward contracts was matched against our business transactions, i.e. the amounts and the terms of such contracts match the amounts of the expected foreign currency denominated income to be received. Under these contracts, we agree to buy RMB from and sell foreign currencies to the counter-party in a given quantity at a pre-determined exchange rate at a maturity date in the future. As at December 31, 2009, 2010 and 2011 and June 30, 2012, we had two, three, 14 and 44 foreign currency forward contracts outstanding. The number of outstanding foreign currency forward contracts increased during the Track Record Period, because while each contract still matched with our actual business need, we entered into more foreign currency forward contracts in smaller amounts to better accommodate our business needs and to better manage our cash flow in light of the forecasted high volatility of exchange rates. The contract periods of our current outstanding 44 contracts range from one month to 4.5 years. According to these foreign exchange forward contracts, we buy RMB while selling US$ at various pre-determined exchange rates ranging from US$1.0 = RMB 6.1 to US$1.0 = RMB6.4. The purpose of entering into such foreign currency contracts is to lock in the RMB value of our cash flows to be received in foreign currencies. Our exposure of such foreign currency contracts will be primarily determined by the differences between the pre-determined rates under these contracts and the spot rates on the expiry date of the contracts. We will recognize gains on remeasurement to fair value if the exchange rate of US$ appreciates against RMB above the respective pre-determined rate of the contracts, while we will recognize losses on remeasurement to fair value if the exchange rate of US$ depreciates against RMB below the respective pre-determined rate.

We recognize the foreign currency forward contracts initially at fair value. At the end of each reporting period, the fair value is re-measured and the difference is recognized immediately as profit or loss. The net fair values of our foreign currency forward contracts were recognized as derivative financial instruments recorded in "trade and other receivables" and "trade and other payables" during the Track Record Period. As at June 30, 2012, the net fair value of our foreign currency forward contracts was RMB(23.6) million, representing gross fair value assets and liabilities of such contracts of RMB nil and RMB(23.6) million, respectively, which represent our exposure under the foreign currency forward contracts estimated as at June 30, 2012. Our maximum expose under all our foreign currency forward contracts outstanding as at the Latest Practicable Date would be unlimited, if hypothetically, the value of RMB depreciated to zero before these contracts are settled. Our maximum gain would be RMB2,141.9 million, if hypothetically, the value of US dollar depreciated to zero before these contracts are settled. In the future, we do not intend to engage in other hedging activities except for entering into foreign currency forward contracts to mitigate our currency risk caused by potential exchange rate fluctuations. We also buy or sell foreign currencies at spot rates to further manage our foreign currency risk.

We maintain and follow our internal policies and controls for managing our Group's use of derivative financial instruments. Our treasury department has overall responsibilities regarding managing our hedging activities and implementing our internal policy and controls regarding the use of derivative financial instruments. In addition, our legal, finance and auditing departments also participate in the management of our hedging activities from internal control perspective and conduct regular internal auditing and inspection to ensure our hedging activities are in compliance with our policies and applicable laws and regulations.

Our use of derivative financial instruments is not for investment or speculative purposes, but is solely limited to hedging against foreign exchange rates and interest rates. As a matter of policy, our derivative products are strictly related to actual business transactions for hedging against foreign exchange rate and interest rate fluctuations involved only and all speculative transactions are strictly forbidden. We have an internal and centralized policy on the use of financial derivative instruments which includes the following procedures to review, examine and approve all hedging transactions:

- The relevant department or project manager, or business manager of our subsidiaries reviews and ensures the compatibility of the hedging transaction and the business transaction;
- The finance manager of the relevant department or subsidiary reviews and examines the effect of the hedging transaction on the profitability of the business transaction, advises on accounting matters and provides forecasts on the profit and loss during the term of the hedging contract;
- Our treasury department reviews and examines the viability of the hedging transaction and the completeness of the necessary documents for approving the transaction;
- Depending on the value of the relevant hedging contract, final approval is required of from the relevant department or project manager, business unit or business manager of our subsidiaries, our Vice Presidents, our Chief Financial Officer, our President or the Board;
- Upon approval on the hedging transaction, our treasury manager is responsible for selecting credible derivative products and financial institutions, formulating the transactions based on the transaction amount, maturity date and forward exchange rate at maturity date as offered by the financial institutions, and liaising internally to complete the hedging transaction; and
- Our legal department reviews and provides legal advices in relation to the hedging contracts.

All personnel involved in the internal approval procedures are at least managers of our Company. Although our historical hedging activities are limited, the approval of the foreign currency forward contracts still followed our internal approval procedures. In addition, according to our internal policy, we only select major financial institutions as counterparties to our hedging contracts. Also, the amounts and maturity of the hedging contracts must match the corresponding business transactions' to avoid any unnecessary exposure under these contracts. As ongoing monitoring measures, our treasury department also monitors the execution of the derivative contracts, and reports regularly the overall exposures, amount of the derivative contracts, the profit and loss of the hedging contracts and other information to our Chief Financial Officer and management. Our audit department at least annually reviews and examines matters including the compliance of the hedging transactions, the soundness of the internal control policy and the accuracy of the disclosure of information, and reports to the our Chief Financial Officer and management.

We did not adopt hedge accounting for our foreign currency forward contracts. Changes in the fair value of our foreign currency forward contracts are recognized in profit or loss.

Interest Rate Risk

Our interest rate risk arises primarily from borrowings. Borrowings bearing interests at variable rates and at fixed rates expose us to cash flow interest rate risk and fair value interest rate risk, respectively. As at December 31, 2009, 2010 and 2011 and June 30, 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates of net variable rate instruments, with all other variables held constant, would have increased/decreased our Group's profit after tax and retained profits by approximately RMB10.4 million, RMB13.7 million, RMB20.5 million and RMB33.2 million, respectively.

We regularly review and monitor the mix of our fixed and variable rate borrowings, either through managing the contractual terms of interest-bearing financial assets and liabilities or through the use of interest rate swaps in order to manage our interest rate risks. Like our currency risk hedging activities, our use of interest rate swaps is also subject to our internal control policy of derivative financial instruments as mentioned above; please see "– Currency Risk."

During the Track Record Period, we utilized one interest rate swap arrangement to hedge interest rate risk against a US$50.0 million LIBOR-based variable rate bank loan which will expire in January 2016. Under the interest rate swap arrangement, which became effective on March 20, 2009 and expires on January 31, 2016, we pay interest at a fixed interest rate of 6.28% per annum to the swapping bank on the principal amount of US$50.0 million, who in exchange pays us interest at a LIBOR-based interest rate on the same principal amount, which are used to satisfy our LIBOR-based interest rate payments under the original bank loan. The LIBOR-based interest rate under the interest rate swap arrangement is determined by the 6-month LIBOR rate plus 2.0% per annum. As at October 31, 2012, the remaining balance of the loan is US$34.5 million.

We recognize the interest rate swap initially at fair value. At the end of each reporting period, the fair value is re-measured and the difference is recognized immediately as profit or loss. The net fair values of our interest rate swap contract were recognized as derivative financial instruments recorded in "trade and other payables" during the Track Record Period. As at June 30, 2012, the net and gross fair value liabilities of our interest rate swap contract was RMB17.0 million, which represent our exposure under the interest rate swap estimated as at June 30, 2012. Our maximum expose under this interest rate swap as at the Latest Practicable Date is US$2.5 million, if hypothetically, the LIBOR becomes zero before this contract is settled. Our maximum gain would be unlimited, if hypothetically, the LIBOR rises to infinite before this contract is settled. In the future, we do not intend to engage in other hedging activities upon the expiration of the current interest rate swap. For the review and approval process and other internal control policy regarding our interest rate swaps activities, see "– Qualitative and Quantitative Disclosure about Market Risk – Currency Risk."

Credit Risk

Our credit risk is primarily attributable to trade and other receivables. We have a credit policy in place and our exposure to these credit risks are monitored on an ongoing basis. Credit terms extended to our customers are determined on a case-by-case basis, depending on credit assessment carried out by management. Our credit terms granted to customers of our Trading Business are normally about three to six months. With respect to our International Engineering Contracting Business, credit terms granted are negotiated individually on a case-by-case basis and set forth in the relevant engineering contracting contracts. We conduct monthly reviews of our credit risk as an internal measure, and we also conduct end of term period reviews to determine if we need to make any necessary provisions for credit that we have extended.

As to credit risk for trade and other receivables, we first evaluate the customer's credit status and its ability to guarantee the payment through establishing an appropriate business evaluation system. Meanwhile, in order to establish our risk control mechanism on trade and other receivables, we implemented the policy to buy export credit insurance. For Trading Business, we and our individual operating entities are required to buy unified export credit insurance from Sinosure; for International Engineering Contracting Business financed by export seller's credit, we typically buy export credit insurance from Sinosure for our projects in order to meet financing needs as well as to control credit risk for trade and other receivables.

Our concentration of credit risk stems from trade and other receivables due from certain individual customers. As at December 31, 2009, 2010 and 2011 and June 30, 2012, 6.2%, 8.6%, 7.8% and 9.0% of the total trade and other receivables was due from our largest customer, respectively, and 21.3%, 26.3%, 21.5% and 24.6% of the total trade and other receivables was due from the five largest customers, respectively.

Liquidity Risk

Liquidity risk is the rate that we have net current liabilities at each respective balance sheet date during the Track Record Period. We are exposed to liquidity risk if we are unable to raise sufficient funds to meet our financial obligations when they fall due.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, our net current liabilities amounted to RMB1,448.7 million, RMB826.8 million, RMB1,166.2 million and RMB555.8 million, respectively. Please see "– Balance Sheet Items – Net Current Liabilities" for more details.

To manage liquidity risk, we prepare both annual and quarterly financial budgets which include budgeting for capital and utilization of credit facilities to plan and consolidate various financial resources in meeting the needs of our business, operations and development. Furthermore, we monitor and maintain a level of cash and cash equivalents considered adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flow. In doing so, our management monitors the utilization of borrowings to ensure adequate unutilized banking facilities and compliance with loan covenants. We adopt a centralised system of borrowings and credit facilities so that the borrowings and credit facilities of all members of our Group are approved, managed, and monitored by our finance department. We maintain good relationships with various banks, for example with the Export-Import Bank, and as a result have obtained sufficient credit facilities so that the net current liabilities will have no material adverse impact on the financial position of our Company. As at October 31, 2012, our credit facilities amounted to RMB41,321.9 million, of which RMB19,761.2 million have been drawn down.

OFF-BALANCE SHEET ARRANGEMENTS

Except for the contingent liabilities disclosed, we have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us, or that engages in leasing, hedging or research and development services with us.

DIVIDEND POLICY

Our Directors, subject to approval by the Shareholders, may declare dividends after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on PRC GAAP or IFRS, whichever is lower, our Articles of Association, the PRC Company Law, applicable laws and regulations and other factors that our Directors deem relevant. In particular, under applicable PRC laws and our Articles of Association, we can only distribute dividends out of our after-tax profit after the following allocations have been made: (i) recovery of accumulated losses, if any; (ii) mandatory allocations to the statutory common reserve fund equivalent to 10% of our after-tax profit, unless the statutory common reserve fund reaches 50% of our registered capital or above; and (iii) allocations to discretionary common reserve fund, subject to the shareholders' approval at shareholders meeting.

During the Track Record Period, we made dividend distributions to our shareholders. Dividends paid to equity owners of our Company were RMB216.3 million in 2009, RMB272.5 million in 2010 and RMB698.0 million in 2011. Pursuant to the resolution of the shareholders' meeting dated May 8, 2012, we resolved to distribute dividends of RMB278.7 million and RMB2.8 million to SINOMACH and China United, respectively. Such amount was paid to SINOMACH and China United by our Company in May 2012 and funded entirely out of the cash generated from our operations. We cannot assure you, however, that we will be able to distribute dividends in any amount each year or in any year. In addition, the declaration and payment of dividends may be limited by legal restrictions or financial instruments that we may enter into in the future. See "– Withholding Arrangement" below.

Considering our present financial position, we currently intend, subject to the above-mentioned limitations and in the absence of any circumstances which might reduce the amount of distributable profits whether by losses or otherwise, to distribute to our shareholders not less than 30% of our distributable profits for the years ending December 31, 2012 and December 31, 2013.

There is, however, no assurance that we will be able to declare dividends of such amount or any amount in any year. In addition, the declaration and/or payment of dividends may be limited by legal restrictions and/or by financing agreements that we may enter into in the future.

SPECIAL DISTRIBUTION

In accordance with the Provisional Regulation Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment (企業公司制改建有關國有資本管理與財務處理的暫行規定) issued by MOF and the resolution of the shareholders' meeting dated February 14, 2011, we have agreed to declare a special distribution to SINOMACH in an amount equal to the consolidated net profit attributable to equity owner of our Company for the period from July 1, 2010, the date immediately after the reference date on which our assets were valued for the establishment of our Company as a joint stock company with limited liability, to January 18, 2011, the date of the establishment.

The Special Distribution payable by our Company to SINOMACH for the period from July 1, 2010 to December 31, 2010 amounted to RMB698.0 million, which was determined based on the audited consolidated net profit attributable to the equity owner of our Company for the year ended December 31, 2010 in accordance with PRC GAAP, after deducting the consolidated net profit attributable to the equity owner of our Company for the six-month period ended June 30, 2010. Such amount was paid to SINOMACH by our Company in 2011 and funded entirely out of the cash generated from our operations.

The Special Distribution payable by our Company to SINOMACH for the period from January 1, 2011 to January 18, 2011 was determined based on the audited consolidated net profit attributable to the equity owners of our Company for the year ended December 31, 2011 in accordance with PRC GAAP, prorated according to the number of days from January 1, 2011 to January 18, 2011 (18 days). Pursuant to the resolution of the shareholders' meeting dated May 8, 2012, we resolved to distribute a special dividend of RMB72.7 million for the period from January 1, 2011 to January 18, 2011 to SINOMACH. Such amount was paid to SINOMACH by our Company in May 2012 and funded entirely out of the cash generated from our operations.

WITHHOLDING ARRANGEMENT

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and Non-PRC Resident Enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of the H Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under the PRC's Individual Income Tax Law (中華人民共和國個人所得稅法). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between the PRC and the jurisdictions in which the foreign individuals reside reduce, or provide an exemption, for the relevant tax obligations. Generally, a convenient tax rate of 10% shall apply to the dividends paid by the company listed in Hong Kong to foreign individuals according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall: (1) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%, (2) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, and (3) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For Non-PRC Resident Enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, under the EIT Law (中華人民共和國企業所得稅法), dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of the H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Notice on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprise to Shareholders Which are Overseas Non-resident Enterprises (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by the State Administration of Taxation, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the residence of the relevant Non-PRC Resident Enterprise.

DISTRIBUTABLE RESERVES

As at June 30, 2012, our reserves available for distribution to our equity holders amounted to approximately RMB1,703.5 million.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets attributable to the equity holders of our Company has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis of the notes set out below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on June 30, 2012. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as at June 30, 2012 or any future date.

	Consolidated net tangible assets attributable to equity holders of our company as at June 30, 2012	Estimated net proceeds from issue of Offer Shares	Unaudited pro forma adjusted net tangible assets attributable to equity holders of our company	Unaudited pro forma adjusted net tangible assets per Share	
	(RMB million)[(1)]	*(RMB million)*[(2)]	*(RMB million)*	*(RMB)*[(3)]	*(HK$)*[(3)]
Based on an Offer Price of HK$4.10 per Share ..	6,012.2	2,240.5	8,252.7	2.05	2.53
Based on an Offer Price of HK$5.40 per Share ..	6,012.2	2,998.1	9,010.3	2.24	2.76

Notes:

(1) As at June 30, 2012, our consolidated net tangible assets attributable to equity holders of our Company was equal to our consolidated net assets attributable to equity holders of our Company less the intangible assets.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$4.10 per H Share and HK$5.40 per H Share, respectively, assuming no exercise of the Over-allotment Option, after deduction of underwriting fees and estimated expenses payable by us in connection with the Global Offering.

(3) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 4,018,000,000 Shares expected to be in issue immediately following the completion of the Global Offering (assuming no exercise of the Over-allotment Option). The unaudited pro forma adjusted net tangible assets per Share is converted into Hong Kong dollars at the PBOC rate of RMB0.8117 to HK$1 prevailing on December 3, 2012.

(4) No adjustment has been made to reflect any trading result or other transaction of our Group entered into subsequent to June 30, 2012.

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this Prospectus, there has been no material adverse change in our financial or trading position or prospects since June 30, 2012, and there is no event since June 30, 2012 which would materially affect the information shown in the accountants' report, the text of which is set out in Appendix I to this Prospectus.

SUBSEQUENT EVENTS

Post Balance Sheet Date Acquisition

We completed the acquisition of Zhongnan after the latest balance sheet date, being June 30, 2012. For details of the Acquisition, please see the section headed "Waivers from Strict Compliance with the Listing Rules – Post Balance Sheet Date Acquisition."

Termination of Certain Construction Contracting Projects

On December 4, 2012, we signed an assignment agreement with a subsidiary of SINOMACH to assign the rights and liabilities under the Water Supply Contract in Sudan to the Assignee without any assignment fee. On December 10, 2012, SINOMACH agreed to indemnify us for all liabilities, losses, damages, costs and expenses (if any) that may be incurred by us arising out of, or in connection with, any claims that may be brought forward by the project owner in relation to the assignment of the Water Supply Contract.

On January 12, 2012, we issued a notice of termination to the project owner of the project in Sudan to terminate the Power Plant Contract pursuant to the contractual provision, since certain contractual obligation was not performed by the project owner. On December 10, 2012, SINOMACH also agreed to indemnify us for all liabilities, losses, damages, costs and expenses (if any) that may be incurred by us arising out of, or in connection with, any claims that may be brought forward by the project owner in relation to the termination of the Power Plant Contract.

Our Directors are of the opinion that the assignment of the Water Supply Contract and the termination of the Power Plant Contract had no material adverse impact on our reputation, operations and financial position

For details of the above mentioned contracts and related indemnities provided by SINOMACH to us, and the financial, operational and reputational impact of the assignment and termination of these two contracts on us, please refer to section "Business – Restructuring of Business in Sanctioned Countries – Restructuring of our International Engineering Contracting Business – Ongoing Projects in Sanctioned Countries" in this Prospectus.