



中國機械設備工程股份有限公司

China Machinery Engineering Corporation*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 1829



GLOBAL OFFERING

Sole Global Coordinator and Sole Sponsor



Joint Bookrunners and Joint Lead Managers



* For identification purposes only

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.



中國機械設備工程股份有限公司
China Machinery Engineering Corporation*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	718,000,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	71,800,000 H Shares (subject to adjustment)
Number of International Offer Shares	:	646,200,000 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$5.40 per H Share, plus brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)
Nominal value	:	RMB1.00 per H Share
Stock code	:	1829

Sole Global Coordinator and Sole Sponsor



BOC INTERNATIONAL

Joint Bookrunners and Joint Lead Managers



BOC INTERNATIONAL



ICBC 工银国际



CIMB



農銀國際
ABC INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this Prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this Prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us on the Price Determination Date, which is expected to be on or around Saturday, December 15, 2012 and, in any event, not later than Tuesday, December 18, 2012. The Offer Price will be not more than HK\$5.40 per Offer Share and is currently expected to be not less than HK\$4.10 per Offer Share, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Tuesday, December 18, 2012 between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse. Applicants for the Hong Kong Offer Shares are required to pay, upon application, the maximum Offer Price of HK\$5.40 per Offer Share for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$5.40 per Offer Share.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.cmec.com. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this Prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this Prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus including the risk factors set out in the section headed "Risk Factors" in this Prospectus.

Our Company is incorporated, and our operations are primarily located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections entitled "Risk Factors", "Appendix III – Summary of the Articles of Association of our Company", "Appendix IV – Taxation and Foreign Exchange" and "Appendix V – Summary of Principal Legal and Regulatory Provisions" in this Prospectus.

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of US persons, except that the Offer Shares may be offered, sold or delivered outside the United States in reliance on Regulation S under the US Securities Act.

* For identification purposes only

EXPECTED TIMETABLE⁽¹⁾

- Latest time to complete electronic applications under the **White Form eIPO** service through the designated website at www.eipo.com.hk⁽²⁾ 11:30 a.m. on Friday, December 14, 2012
- Application lists of the Hong Kong Public Offering open⁽³⁾ 11:45 a.m. on Friday, December 14, 2012
- Latest time to lodge **WHITE** and **YELLOW** Application Forms 12:00 noon on Friday, December 14, 2012
- Latest time to give **electronic application instructions** to HKSCC⁽⁴⁾ 12:00 noon on Friday, December 14, 2012
- Latest time to complete payment for **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) 12:00 noon, Friday, December 14, 2012
- Application lists of the Hong Kong Public Offering close 12:00 noon on Friday, December 14, 2012
- Expected Price Determination Date Saturday, December 15, 2012
- Announcement of:
- the Offer Price;
 - the level of indications of interest in the International Offering;
 - the level of applications in the Hong Kong Public Offering; and
 - the basis of allotment of the Hong Kong Offer Shares, to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and our website (www.cmec.com) (in both English and Chinese)⁽⁵⁾ on or before Thursday, December 20, 2012
- Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers where appropriate) will be available through a variety of channels, including our website at www.cmec.com and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk (please see the section headed "How to Apply for Hong Kong Offer Shares – 10. Results of Allocations" in this Prospectus) from Thursday, December 20, 2012
- Results of allocations in the Hong Kong Public Offering (with the successful applicants' identification document numbers, where appropriate) to be available at www.iporesults.com.hk with a "search by ID" function from Thursday, December 20, 2012
- Dispatch of the H Share certificates in respect of wholly or partially successful applicants on or before^(6 and 7) Thursday, December 20, 2012
- Dispatch of White Form e-Refund payment instructions/refund checks (if applicable) on or before⁽⁸⁾ Thursday, December 20, 2012
- Dealings in the H Shares on the Stock Exchange expected to commence on Friday, December 21, 2012

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time except where otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this Prospectus.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, at which time the application lists will close.
- (3) If there is a tropical cyclone warning signal number eight or above in force in Hong Kong, or a “black” rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Friday, December 14, 2012, the application lists will not open on that day. See the section headed “How to apply for Hong Kong Offer Shares – 7. When may applications be made – (e) Effects of bad weather conditions on the opening of the application lists” in this Prospectus.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this Prospectus.
- (5) Our website, and all of the information contained on our website, does not form part of this Prospectus.
- (6) H Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is expected to be at or around 8:00 a.m. on Friday, December 21, 2012. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of their H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.
- (7) Applicants who apply on **WHITE** Application Forms or through **White Form eIPO** service for 1,000,000 H Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect any refund checks (where applicable) and the H Share certificates in person may do so from our Company’s H Share Registrar, Computershare Hong Kong Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Thursday, December 20, 2012. Identification and (where applicable) authorization documents acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund checks in person may collect their refund checks (if any) but may not elect to collect their H Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund checks for applicants who apply on **YELLOW** Application Forms for the H Shares is the same as that for **WHITE** Application Form applicants.

Applicants being individuals who opt for personal collection must not authorize any person to make collection on their behalf. Applicants being corporations which opt for personal collection must attend by their authorized representatives with letters of authorization of their corporations stamped with the corporation’s chops (bearing the name of the corporations). Both individuals and authorized representatives of corporations (as applicable) must produce, at the time of collection, evidence of identity and authority (as applicable) acceptable to our Company’s H Share Registrar.

Uncollected H Share certificates and refund checks will be dispatched by ordinary post (at the applicants’ own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed “How to Apply for the Hong Kong Offer Shares – 11. Dispatch/collection of H Share certificates and refunds of application monies” in this Prospectus.

- (8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund check(s), if any. Such data may also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before cashing of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund check or may invalidate your refund check.

You should read carefully the sections headed “Underwriting,” “Structure of the Global Offering,” “How to Apply for Hong Kong Offer Shares” and “Further Terms and Conditions of the Hong Kong Public Offering,” for details relating to the structure of the Global Offering, how to apply for the Hong Kong Offer Shares and the expected timetable, including, among other things, conditions, effect of bad weather and the dispatch of refund checks and H Share certificates.

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IMPORTANT NOTE TO INVESTORS

This Prospectus is issued by China Machinery Engineering Corporation solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares, and it does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. We have taken no action to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and we have taken no action to permit the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, any of the Underwriters, any of their respective directors, agents, employees or advisors, or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this Prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this Prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

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 sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. Based on the financial data derived from ENR's top 225 international contractors list, in 2011, we ranked sixth among the global international contractors in terms of total revenue generated from international contracting work in the power sector performed in the previous calendar year⁽¹⁾, accounting for approximately 3.6% of total revenue from the power sector derived by these 225 companies. Engineering contracting solutions and services we provided include preliminary project consultation, financing solutions for projects, project design, procurement, logistics, construction, installation, commissioning and related works, in a combination of any of the above services in keeping with the needs of the project owners. We were one of the first Chinese engineering contractors that offered engineering contracting services for international power projects with over 30 years of industry experience. We adopt an asset-light operating model as we subcontract substantially all of the construction works, which enables us to focus on project execution, management and supervision of our projects as well as achieving high internal efficiency.

We also conduct the Trading Business through our sales and marketing network which covers over 150 countries and regions. Such network spans primarily in Asia, Europe and Africa and, to a lesser extent, in North America, South America and Oceania. Our sales and marketing network is established through years of international engineering contracting and trading experiences and business transactions involving export and import of products and services to and from these countries and regions. To a lesser extent, we are involved in the Other Businesses that provide logistics services, exhibition services, tendering agency services and other services (including export-import agency services and design services), and we also conduct certain strategic equity investment.

Through years of experience and proven track record in the International Engineering Contracting Business, we have established a well-known "CMEC" brand name in many countries and regions, especially in Asia and Africa. Our customers cover a wide range of business, geographical locations and industries. Our major customers are primarily customers for our International Engineering Contracting Business and many of them are governments or state-owned entities of overseas countries. 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.

Note:

- (1) In 2011, SINOMACH was ranked as one of the top five international contractors in the power sector by ENR's top 225 international contractors list. Before our establishment as a joint stock limited company on January 18, 2011, there was no separate ranking for us as a subsidiary of SINOMACH in relation to the power sector. Based on the financial data of the top 225 international contractors derived from ENR's top 225 international contractors list, we substituted SINOMACH with our Company in the list using our own revenue generated from our International Engineering Contracting Business in the power sector in 2010 (which is exclusive of the revenue generated by the Excluded Business of SINOMACH) to deduce our ranking among ENR's top 225 international contractors.

SUMMARY

The following table sets out, for the periods indicated, the amount and percentage of our total revenue by each of our three business segments:

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

The following tables set forth the breakdown of our gross profit and gross profit margins by our three business segments for the periods indicated:

	Year Ended December 31,									Six Months Ended June 30,		
	2009			2010			2011			2012		
	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin	Gross profit		Gross profit margin
	<i>(RMB million)</i>	(%)	(%)	<i>(RMB million)</i>	(%)	(%)	<i>(RMB million)</i>	(%)	(%)	<i>(RMB million)</i>	(%)	(%)
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	1,299.3	68.2	25.9
Transportation	127.4	7.2	7.9	16.2	0.6	1.7	77.7	2.1	7.0	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	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	35.1	1.8	6.6
Sub-total	<u>1,127.8</u>	<u>64.1</u>	8.3	<u>2,109.3</u>	<u>71.7</u>	17.5	<u>2,915.5</u>	<u>79.7</u>	24.2	<u>1,441.7</u>	<u>75.7</u>	22.4
Trading Business												
International trade.....	308.6	17.5	6.9	351.6	11.9	7.2	312.7	8.5	6.0	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	34.1	1.8	5.1
Sub-total	<u>347.6</u>	<u>19.7</u>	7.0	<u>462.9</u>	<u>15.7</u>	7.4	<u>436.1</u>	<u>11.9</u>	5.7	<u>268.2</u>	<u>14.1</u>	7.6
Other Businesses.....	<u>284.2</u>	<u>16.2</u>	42.9	<u>370.2</u>	<u>12.6</u>	48.6	<u>307.5</u>	<u>8.4</u>	39.7	<u>194.0</u>	<u>10.2</u>	47.8
Total	<u>1,759.6</u>	<u>100.0</u>	9.1	<u>2,942.4</u>	<u>100.0</u>	15.4	<u>3,659.1</u>	<u>100.0</u>	17.8	<u>1,903.9</u>	<u>100.0</u>	18.4

SUMMARY

International Engineering Contracting Business

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. Since our inception, we have undertaken over 80 engineering contracting projects in the power sector. As a leading international engineering contractor and service provider with established presence in the EPC industry, we offer a full spectrum of turnkey solutions to our governmental and corporate customers around the world, especially in developing countries.

We consider power, transportation and telecommunications sectors to be our Core Sectors. In addition, we are also engaged in engineering contracting projects in non-Core Sectors, such as water supply and treatment, building and construction, manufacturing and processing plants and mining and resources exploitation.

Our Major Engineering Contracting Projects

We have built extensive experience in international engineering contracting projects, particularly in EPC projects, since 1980. We have been involved in landmark projects across various countries and regions, including projects that contributed substantially to the overall infrastructure of certain cities or regions within some developing countries. 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 eight projects, respectively.

Subcontracting Arrangement

In line with our asset-light operating model, we generally engage subcontractors through tenders, whereby the subcontractors participating in the tenders must either be on our list of qualified and reliable subcontractors maintained by us, or have passed our internal evaluation. Our list of qualified and reliable subcontractors had more than 350 subcontractors in the areas of design, exploration, logistics, installation, construction and supervision as at the Latest Practicable Date.

Trading Business

Our Trading Business provides 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 Company as well as our subsidiaries and overseas representative offices, we operate our Trading Business in the PRC and other countries, and we principally export and, to a lesser extent, import and domestically trade complete sets of plants and equipment and various machinery, electrical, and instrumental products, including mining equipment, ship components, automobile parts, medical instrument, household appliances, office equipment, electrical hardware and construction materials for customers in the PRC and overseas.

OUR STRENGTHS

We believe that our success to date and our potential for future growth are built on the following strengths: (1) we have maintained our leading position in the power sector among international engineering contractors and are well-positioned to capture the opportunities in the fast-growing international engineering contracting market; (2) we have in-depth experience and well-recognized brand in the international engineering contracting industry with our projects spanning over a broad geographic area; (3) we offer one-stop customized and integrated engineering contracting solutions and services, while our asset-light operating model enables us to focus on providing high quality project management services and effective financing options for projects; (4) we have extensive worldwide business networks and a professional business team with deep industry knowledge; and (5) we have an experienced and innovative senior management team and a strong technical team of professional experts.

SUMMARY

OUR STRATEGIES

We plan to implement the following business strategies to maintain our success to date and to achieve future growth: (1) strengthen our leading position in the power sector and enlarge our market share in the transportation and telecommunications sectors as well as other sectors and countries; (2) consolidate our strengths and enlarge our market share in our Trading Business; (3) selectively undertake international projects in the non-Core Sectors; (4) utilize local resources to improve our profit margin and efficiency; (5) increase our profitability through efficient fund usage and capital structure management; (6) strengthen our information system, increase our operational efficiency and improve our risk management system; and (7) continue to advance and enhance the quality of our personnel.

RISK FACTORS

There are certain risks relating to an investment in the Offer Shares. These can be categorized into (i) risks relating to our business and the industries in which we operate; (ii) risks relating to our group structure; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering. You are cautioned that you should read the whole section “Risk Factors” carefully before you decide to invest in the Offer Shares.

Risks relating to the US sanctions

On July 25, 2002, our predecessor, China National Machinery & Equipment Import & Export Corporation (中國機械設備進出口總公司), and one of our subsidiaries, CMEC Machinery & Electric, were listed in a notice appearing in the Federal Register of the United States as parties determined by the US Department of State (the “**Department of State**”) to have engaged in conduct sanctionable under the Iran-Iraq Arms Non-Proliferation Act of 1992 (the “**1992 Act**”) and the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the “**1991 Act**”). On January 24, 2002, and May 16, 2002, variations of the name of CMEC Machinery & Electric were listed in Federal Register notices as parties determined by the Department of State to have engaged in conduct sanctionable under the Iran Nonproliferation Act of 2000 (the “**2000 Act**”). For more details, see “Risk Factors – Our predecessor and one of our subsidiaries were listed by the US Department of State as having engaged in conduct sanctionable under US law which may affect our reputation, share price performance, trading business, results of operations and financial condition” (pages 30 to 31 of this Prospectus) and “Business – Restructuring of Business in the Sanctioned Countries – Impact of US Sanctions Law – Iran-Iraq Arms Non-Proliferation Act of 1992, the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991, and the Iran Nonproliferation Act of 2000” (pages 182 to 183 of this Prospectus).

Furthermore, we are a company incorporated in the PRC and we comply with all applicable PRC laws and regulations. However, as a result of our international activities, we are also subject to the laws and regulations of the various countries and regions in which we do business. In particular, if any of our transactions is conducted in or through the United States, or otherwise involves US persons, US dollar clearing in the United States or US-origin goods, US sanctions regulations may be applicable to some or all of such transactions. For the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue generated in the Sanctioned Countries in aggregate amounted to approximately RMB744.0 million, RMB1,382.0 million, RMB1,665.2 million and RMB315.6 million, respectively, accounting for approximately 3.9%, 7.2%, 8.1% and 3.0%, respectively, of our total revenue during the same periods. We have restructured our business to terminate future activities in the Sanctioned Countries. See “Business – Restructuring of Business in the Sanctioned Countries” for more details (pages 176 to 185 of this Prospectus). We believe that our limited activities in the US and our decision to terminate existing business with the Sanctioned Countries substantially mitigate any risk to our Company under US sanctions regulations targeting the Sanctioned Countries. We have various internal control measures on sanctions and export control with a view to ensuring our compliance with the applicable sanctions laws and regulations. See “Business – Internal Control on

SUMMARY

Sanctions and Export Control” (pages 185 to 189 of this Prospectus) for more details. Nevertheless, the restrictions under US sanctions regulations are far-reaching and complex, and despite our limited activities in the United States, we cannot provide absolute assurance that our compliance efforts will be completely effective. If we were to violate those restrictions, any such violation could lead to the imposition of civil or criminal sanctions.

The above are highlights of some of the particular risks which are considered to be material by the Directors. As different investors may have different interpretations and standards for determining materiality of a risk, you are again cautioned that you should read the whole section headed “Risk Factors” (pages 27 to 57 of this Prospectus) and consider the risks and uncertainties described in that section carefully before you decide to invest in the Offer Shares.

RESTRUCTURING OF BUSINESS IN THE SANCTIONED COUNTRIES

Prior to Listing, we underwent the Restructuring of our International Engineering Contracting Business and Trading Business in the Sanctioned Countries by terminating or transferring to parties outside of our Group all ongoing and future business in the Sanctioned Countries such that we will not conduct business or operate in the Sanctioned Countries after Listing.

See “Risk Factors – Risks Relating to Our Business and the Industries in which We Operate – We could be adversely affected as a result of our historical operations in certain countries that are subject to economic sanctions or if the US government were to determine that our prior Iran-related business activities are sanctionable under US Iranian sanction laws and regulations” (pages 31 to 34 of this Prospectus) and “Business – Restructuring of Business in the Sanctioned Countries” (pages 176 to 185 of this Prospectus) for more details.

DELINEATION OF BUSINESS AND COMPETITION WITH CONTROLLING SHAREHOLDER

SINOMACH is our Controlling Shareholder prior to the Global Offering and will continue to be our Controlling Shareholder immediately after the completion of the Global Offering. The principal business of SINOMACH Group is manufacturing and R&D of machinery and equipment, engineering contracting, as well as trading and services.

Some of the SINOMACH Subsidiaries, namely, CAMC Engineering, CNEEC, CHMC, CGME, CMCEC and CACS, are engaged in the Excluded International Engineering Contracting Business which competes or is likely to compete, either directly or indirectly, with the business carried out by our Group. The Excluded International Engineering Contracting Business is not included in our Group because, among others, it is not commercially viable and it may diverge our Group’s focus from our Core Sectors and lead to insufficient allocation of our resources. As regards the Excluded Trading Business, it is not included in our Group due to the differences between our Trading Business and the Excluded Trading Business in the aspects of business nature, product types, supply and sales channels, business model, business focus and management team and operational staff. See the section headed “Relationship with Controlling Shareholder” (pages 190 to 216 of this Prospectus) for more details.

In order to safeguard the interests of our Company and Shareholders in respect of the Excluded International Engineering Contracting Business, we have entered into the Non-competition Agreement with SINOMACH, pursuant to which SINOMACH has undertaken that, among other things, so long as it remains as our Controlling Shareholder, it shall not, and shall procure its subsidiaries which are engaged in the Excluded International Engineering Contracting Business (excluding CAMC Engineering) not to, compete with our Group in respect of the Core Sectors. See “Relationship with Controlling Shareholder – Non-competition Agreement” (pages 208 to 213 of this Prospectus) for more details.

SUMMARY

SELECTED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CONSOLIDATED BALANCE SHEETS DATA

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	<i>(RMB million)</i>			
Revenue	19,287.7	19,077.0	20,517.8	10,354.1
Gross Profit	1,759.6	2,942.4	3,659.1	1,903.9
Profit for the year	610.1	1,132.2	1,472.3	989.5
Profit for the year attributable to:				
Equity owners of our Company ...	613.6	1,136.5	1,474.9	990.8
Non-controlling interests	(3.5)	(4.3)	(2.6)	(1.3)
	As at December 31,			As at June 30,
	2009	2010	2011	2012
	<i>(RMB million)</i>			
Current assets	13,037.6	18,619.7	19,331.0	23,749.1
Current liabilities	(14,486.3)	(19,446.5)	(20,497.2)	(24,304.9)
Net current liabilities	(1,448.7)	(826.8)	(1,166.2)	(555.8)
Net assets	3,020.6	3,965.0	5,373.9	6,010.2
Total assets	19,879.4	25,388.2	26,608.2	30,982.9

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOW DATA

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	<i>(RMB million)</i>			
Operating profit before changes in work capital	1,011.1	1,757.2	2,076.9	1,405.6
Change in working capital	134.1	4,290.6	1,433.9	5,051.3
Income tax paid	(436.3)	(445.2)	(682.6)	(466.8)
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 equivalents	(634.4)	2,770.5	165.0	5,027.3
Cash and cash equivalents at the beginning of the financial year/period	2,992.2	2,353.1	5,078.8	5,170.7
Effect of foreign exchange rate changes	(4.7)	(44.8)	(73.1)	(6.1)
Cash and cash equivalents at the end of the financial year/period, representing bank balances and cash	2,353.1	5,078.8	5,170.7	10,191.9

SUMMARY

SELECTED KEY FINANCIAL RATIOS

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
Gross Profit Margin	9.1%	15.4%	17.8%	18.4%
Net Profit Margin	3.2%	5.9%	7.2%	9.6%
Current Ratio	0.90	0.96	0.94	0.98
Quick Ratio	0.89	0.95	0.93	0.96
Gearing Ratio	11.4%	7.2%	1.4%	0.9%

NET CURRENT LIABILITIES

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 operation to finance some of our EPC projects, that have cash collection period of over one year. As at October 31, 2012, our unaudited net current liabilities were 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. With a view to reducing the finance expenses to be paid to these financial institutions, we had repaid portions 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, which was significantly lower than amount due from customers under the export seller's credit as at June 30, 2012 of approximately RMB6,516.2 million. Of this amount, we have receivables of RMB118.1 million that are more than one year overdue and adequate provision had been made.

Our utilization of cash generated from business operations to repay long-term bank borrowings under the export seller's credit arrangement had reduced our current assets, while correspondingly reducing our non-current liabilities under which such bank borrowings are classified. 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. The combination of 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 principal factor which contributed to our net current liabilities positions throughout the Track Record Period. We expect that this will not have a material impact on our liquidity and we will be able to repay our debts in the foreseeable future when they become due. See the section headed "Financial Information – Net Current Liabilities" (pages 291 to 299 of this Prospectus) for further details.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$3,226.9 million, after deducting the underwriting fees and expenses payable by us in the Global Offering, and assuming the Over-allotment Option is not exercised and an Offer Price of HK\$4.75 per Offer Share, being the mid-point of the estimated Offer Price range stated in this Prospectus.

SUMMARY

We intend to use these net proceeds for the following purposes (assuming that the Over-allotment Option is not exercised):

- approximately 90% (approximately HK\$2,904.2 million) of the net proceeds of the Global Offering will be applied towards financing our international engineering contracting projects, which is a summation of (1) approximately 76% of the net proceeds of the Global Offering for the engineering contracting projects in our Core Sectors (being approximately 52% in the power sector and approximately 24% in the transportation sector) and (2) approximately 14% of the net proceeds of the Global Offering for the engineering contracting projects in the non-Core Sectors; in areas such as payment to subcontractors and suppliers for payments of subcontracting services and equipment and machinery. See “Future Plans and Use of Proceeds – Use of proceeds on our engineering contracting projects” (page 313 of this Prospectus) for more details on the engineering contracting projects. We will allocate the funds to these projects according to their actual progress and financial needs; and
- approximately 10% (approximately HK\$322.7 million) of the net proceeds of the Global Offering will be used for working capital and other general corporate purposes.

To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis. See “Future Plans and Use of Proceeds” (pages 312 to 313 of this Prospectus) for more details.

DIVIDEND POLICY

Our Directors, subject to approval by our 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 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 the Shareholders meeting.

Considering our present financial position, we currently intend, subject to the abovementioned 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.

SUMMARY

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 (“**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 our 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.

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering comprises (assuming the Over-allotment Option is not exercised):

- the Hong Kong Public Offering of an initial 71,800,000 H Shares to be offered by our Company (subject to adjustment) (representing 10% of the total number of the Offer Shares initially available under the Global Offering) in Hong Kong; and
- the International Offering of an initial 646,200,000 H Shares to be offered by our Company (subject to adjustment) (representing 90% of the total number of the Offer Shares initially available under the Global Offering) outside the United States in offshore transactions in reliance on Regulation S.

The number of Hong Kong Offer Shares and International Offer Shares, or together, Offer Shares, is subject to adjustment and reallocation as well as the Over-allotment Option as described in the section headed “Structure of the Global Offering” (pages 321 to 327 of this Prospectus).

SUMMARY

GLOBAL OFFERING STATISTICS⁽¹⁾

	Based on an Offer Price of HK\$4.10	Based on an Offer Price of HK\$5.40
Market capitalization of our Shares ⁽²⁾	HK\$16,473.8 million	HK\$21,697.2 million
Unaudited pro forma adjusted net tangible asset per Share ⁽³⁾	HK\$2.53	HK\$2.76

Notes:

- (1) All statistics in this table are on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalization is based on 4,018,000,000 Shares expected to be in issue immediately after completion of the Global Offering.
- (3) The unaudited pro forma adjusted net tangible asset per Share is based on 4,018,000,000 Shares expected to be in issue immediately after completion of the Global Offering.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$4.10 and HK\$5.40, respectively, the unaudited pro forma adjusted net tangible asset per H Share will be HK\$2.57 per H Share and HK\$2.83 per H Share, respectively.

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“ABCI”	ABCI Securities Company Limited, a licensed corporation under the SFO for Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO
“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“American Machinery”	Sino American Machinery Corporation (美國華美機械有限公司), a wholly-owned subsidiary of our Company incorporated in the State of Delaware, the United States on August 22, 1983 with limited liability
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or, where the context so requires, any of them that is (are) in relation to the application of the Hong Kong Public Offering
“Articles of Association”	the articles of association of our Company, adopted on February 14, 2011 and as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of directors of our Company
“BOCI”	BOCI Asia Limited, a licensed corporation under the SFO for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
“Business Day”	any day (other than Saturday, Sunday and public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“CACCS”	China National Automation Control System Corporation (中國自動化控制系統總公司), an enterprise established in the PRC on January 17, 1984 and wholly-owned by SINOMACH
“CAGR”	compound annual growth rate
“CAMC Engineering”	China CAMC Engineering Co., Ltd. (中工國際工程股份有限公司), an A-share company listed on the SZSE established on May 22, 2001, owned as to approximately 68.09% by SINOMACH according to CAMC Engineering’s third quarterly report for 2012 as published on SZSE
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

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“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CGME”	China National General Machinery Engineering Corporation (中國通用機械工程有限公司), an enterprise established in the PRC on May 25, 1992 and wholly-owned by SINOMACH
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this Prospectus only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“China Machinery R&D”	China Machinery International Engineering Design & Research Institute Co., Ltd. (中機國際工程設計研究院有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on October 5, 1993 with limited liability
“China United”	China United Engineering Corporation (中國聯合工程公司), an enterprise established in the PRC on January 21, 1984 and a wholly-owned subsidiary of SINOMACH, our connected person and our Promoter who holds 1.00% equity interest in our Company as at the date of this Prospectus
“CHMC”	China National Heavy Machinery Corporation (中國重型機械有限公司), an enterprise established in the PRC on January 30, 1981 and wholly-owned by SINOMACH
“CIMB”	CIMB Securities Limited, a licensed corporation under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“CMCEC”	China National Complete Engineering Corporation (中國成套工程有限公司), an enterprise established in the PRC on September 5, 1985 and wholly-owned by SINOMACH
“CMEC (Suzhou)”	China National Machinery & Equipment Import & Export (Suzhou) Co., Ltd (中設(蘇州)機械設備進出口有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on February 20, 1987 with limited liability

DEFINITIONS

“CMEC (Wuxi)”	China National Machinery & Equipment Import & Export (Wuxi) Co., Ltd (中設(無錫)機械設備進出口有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on April 9, 1987 with limited liability
“CMEC Comtrans”	CMEC Comtrans International Co., Ltd. (中設國際商務運輸代理有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on March 5, 1997 with limited liability
“CMEC Engineering Machinery”	CMEC Engineering Machinery Import & Export Co., Ltd. (中設工程機械進出口有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on January 9, 1995 with limited liability
“CMEC Expo”	CMEC International Exhibition Co., Ltd (西麥克國際展覽有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on January 9, 1995 with limited liability
“CMEC General Machinery”	CMEC General Machinery Import & Export Co., Ltd. (中設通用機械進出口有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on January 9, 1995 with limited liability
“CMEC Industrial Products”	China Machinery Industrial Products Co., Ltd. (中設集團工貿發展有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on February 6, 2002 with limited liability
“CMEC International Engineering”	CMEC International Engineering Co., Ltd. (中設國際工程有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on September 9, 1997 with limited liability
“CMEC International Trading”	CMEC International Trading Co., Ltd. (中設國際貿易有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on January 16, 1995 with limited liability
“CMEC Machinery & Electric”	CMEC Machinery & Electric Equipment Import & Export Co., Ltd. (中設機電進出口有限公司), a wholly-owned subsidiary of our Company established in the PRC on January 16, 1995 with limited liability
“CMEC Tendering”	China Machinery and Equipment International Tendering Co., Ltd. (中設國際招標有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on April 29, 1996 with limited liability
“CMIC”	China Machine-Building International Corporation (中國機械對外經濟技術合作總公司), an operationally diversified and renowned international economic and technological cooperation company founded in the PRC on October 4, 1981 and wholly-owned by SINOMACH

DEFINITIONS

“CNEEC”	China National Electric Engineering Co., Ltd. (中國電力工程有限公司), a limited liability company established in the PRC in October 1979 and wholly-owned by SINOMACH
“COMIBEL”	COMIBEL S.A., a subsidiary of our Company incorporated in the Republic of Gabon on March 19, 2008 as a limited company, and is owned as to 66% by our Company
“Company”, “our Company” or “CMEC”	China Machinery Engineering Corporation (中國機械設備工程股份有限公司), a joint stock company with limited liability incorporated in the PRC on January 18, 2011, and except where the context indicates otherwise, includes (i) our predecessors and (ii) with respect to the period before our Company became the holding company of its present subsidiaries, the business operated by it and its present subsidiaries or (as the case may be) their predecessors
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder”	has the meaning ascribed under the Listing Rules and in this context, refers to SINOMACH
“Core Sectors”	the core sectors of our International Engineering Contracting Business which are the power sector, transportation sector and telecommunications sector
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company
“Domestic Shares”	ordinary shares in our capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“East Resources”	China-East Resources Import & Export Co. Ltd. (中經東源進出口有限責任公司), a wholly-owned subsidiary of our Company established in the PRC on July 22, 1993 with limited liability
“EIT Law”	PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) adopted by the National People’s Congress on March 16, 2007, and became effective on January 1, 2008
“ENR”	Engineering News-Record magazine, a publication that provides news, analyses, commentary and data about the global construction industry and an independent third party
“EU”	the European Union
“EUR”	the lawful currency of the member states of the European Union

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“Euro MEC”	Euro M.E.C. Import & Export GmbH (歐麥克進出口有限公司), a wholly-owned subsidiary of our Company incorporated in Germany on March 9, 1990 with limited liability
“Excluded Business”	the Excluded International Engineering Contracting Business and the Excluded Trading Business
“Excluded International Engineering Contracting Business”	international engineering contracting business conducted by SINOMACH Group, which competes, or is likely to compete, either directly or indirectly, with the International Engineering Contracting Business of our Group in the Core Sectors
“Excluded Trading Business”	international trading business conducted by SINOMACH Group, which competes, or is likely to compete, either directly or indirectly, with the Trading Business of our Group
“Export-Import Bank”	Export-Import Bank of China (中國進出口銀行), established in 1994, a government policy bank fully owned by the PRC Government and under the direct leadership of the State Council
“FIDIC”	Fédération Internationale des Ingénieurs-Conseils (International Federation of Consulting Engineers), an organization headquartered in Geneva, Switzerland, that promotes the business interest of firms engaged in the consulting engineering industry globally, and an independent third party
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal growth rates of GDP)
“GFA”	gross floor area
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group” or “our Group”	our Company and its subsidiaries, or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were the subsidiaries of our Company at the time
“H Share Registrar”	Computershare Hong Kong Investor Services Limited

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“H Share(s)”	overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Offer Shares”	the H Shares offered by us for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offering by our Company of initially 71,800,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus) for cash at the Offer Price on the terms and conditions described in this Prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Hong Kong Underwriters” in this Prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated December 10, 2012 relating to the Hong Kong Public Offering entered into between, among others, the Sole Global Coordinator, the Joint Bookrunners, the Hong Kong Underwriters and us as further described in the section headed “Underwriting – Hong Kong Public Offering – Hong Kong Underwriting Agreement” in this Prospectus
“ICBCI Capital”	ICBC International Capital Limited, a licensed corporation under the SFO for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“ICBCI Securities”	ICBC International Securities Limited, a licensed corporation under the SFO for Type 1 (dealing in securities) regulated activity under the SFO

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“IFRS”	the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board (IASB)
“independent third party(ies)”	an individual or a company who is not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders of our Company, its subsidiaries or any of their respective associates
“international engineering contracting”	in the context of our Company’s rankings among other PRC and foreign contractors, engineering contracting outside of the home country of the contractor concerned
“International Engineering Contracting Business”	the international engineering contracting business conducted by our Group with a primary focus on EPC projects
“International Offer Shares”	646,200,000 H Shares initially offered by our Company for subscription under the International Offering, subject to the Over-allotment Option and adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price, as further described in the section headed “Structure of the Global Offering” in this Prospectus, and outside the United States in reliance on Regulation S under the US Securities Act as further described in the section headed “Structure of the Global Offering” in this Prospectus
“International Underwriters”	the group of international underwriters expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or about December 15, 2012 by, among others, the Sole Global Coordinator, the Joint Bookrunners, the International Underwriters and us in respect of the International Offering, as further described in the section headed “Underwriting – International Offering”
“Ipsos Report”	a report prepared by Ipsos Hong Kong Limited, an independent third party, on the global infrastructure engineering industry and international trading industry in general, and the infrastructure engineering industry and international trading industry in the developing countries in particular, which was commissioned by us and issued on December 7, 2012

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“ISA”	the United States Iran Sanctions Act, as amended (P.L. 104-172, August 5, 1996) (formerly the Iran and Libya Sanctions Act of 1996)
“Joint Bookrunners”	BOCI, ICBCI Capital, CIMB and ABCI
“Joint Lead Managers”	BOCI, ICBCI Securities, CIMB and ABCI
“Latest Practicable Date”	December 3, 2012, being the latest practicable date for the inclusion of certain information in this Prospectus prior to its publication
“Listing”	listing of our H Shares on the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about December 21, 2012, on which our H Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Commission and other PRC government departments on August 27, 1994, as amended, supplemented or otherwise modified from time to time
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOFTEC”	former Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國原對外經濟貿易合作部)
“Non-competition Agreement”	the non-competition agreement dated July 12, 2011 entered into between SINOMACH and us as supplemented by a supplemental agreement dated December 10, 2012
“non-Core Sectors”	any sectors that do not fall within the Core Sectors of our International Engineering Contracting Business
“Non-PRC Resident Enterprise”	as defined under the EIT Law, companies established pursuant to non-PRC law with their de facto management conducted outside the PRC, but which have established organizations or premises in the PRC, or which have generated income within the PRC without having established organizations or premises in the PRC

DEFINITIONS

“NPC”	National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NSSF”	National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
“OFAC”	the Office of Foreign Assets Control of the US Department of the Treasury
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%) at which the Hong Kong Offer Shares are to be subscribed, to be confirmed in the manner further described in the section headed “Structure of the Global Offering” in this Prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares, collectively, and where relevant, together with any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option
“Other Businesses”	the other businesses conducted by our Group, other than the International Engineering Contracting Business and the Trading Business, which include, among others, logistic services, exhibition services, tendering agency services, export-import agency services, design services and other services
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters exercisable by the Joint Bookrunners (on behalf of the International Underwriters) under the International Underwriting Agreement pursuant to which our Company may be required by the Joint Bookrunners to issue and allot up to an aggregate of 107,700,000 additional H Shares at the Offer Price as described in the section headed “Structure of the Global Offering” in this Prospectus
“PBOC”	the People’s Bank of China (中國人民銀行)
“PRC Company Law” or “Companies Law”	Company Law in the PRC (中華人民共和國公司法), adopted by the Standing Committee of the National People’s Congress on October 27, 2005 and which became effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	generally accepted accounting principles in the PRC
“PRC Government” or “State”	the government of the PRC, including government departments at all levels (including provincial, municipal and other regional or local governmental agencies)

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“Price Determination Date”	the date, expected to be on or around December 15, 2012 but no later than December 18, 2012, on which the Offer Price is to be fixed for the purposes of the Global Offering
“Promoters”	the promoters of our Company, namely, SINOMACH and China United
“Prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“R&D”	research and development
“Regulation S”	Regulation S under the US Securities Act, as amended from time to time
“Reorganization”	the reorganization undergone by our Group in preparation for Listing as described in the section headed “History and Reorganization – Reorganization” in this Prospectus
“Reorganization Agreement”	the agreement dated May 30, 2011 entered into between SINOMACH and us in respect of the Reorganization
“Restructuring”	the restructuring of our International Engineering Contracting Business and Trading Business in the Sanctioned Countries by terminating all ongoing and future business therein
“RMB” or “Renminbi”	the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sanctioned Countries”	the countries against which the US and other jurisdictions impose comprehensive economic sanctions, and in the context of this Prospectus, refer to Cuba, Sudan, Iran and Syria
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會)
“SAT” or “State Administration of Taxation”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, including our Domestic Shares and H Shares

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“Shareholder(s)”	holder(s) of our Share(s)
“SINOMACH”	China National Machinery Industry Corporation (中國機械工業集團有限公司), a state-owned enterprise established in the PRC on May 21, 1988, our Controlling Shareholder and Promoter who directly and indirectly owns 100% equity interest in our Company as at the date of this Prospectus
“SINOMACH Group”	SINOMACH and its subsidiaries, which excludes our Group
“SINOMACH Subsidiaries”	the subsidiaries of SINOMACH, which excludes our Group
“Sinosure”	China Export & Credit Insurance Corporation (中國出口信用保險公司), a policy-oriented insurance company specializing in export credit insurance in the PRC and an independent third party
“Sole Global Coordinator” or “Sole Sponsor”	BOCI
“Special Regulations”	Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994, as amended, supplemented or otherwise modified from time to time
“Stabilizing Manager”	BOCI
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited (香港聯合交易所有限公司)
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“SUMEC”	SUMEC Group Corporation (江蘇蘇美達集團公司), an enterprise established in the PRC in 1978 and is owned as to 80% by SINOMACH
“Supervisor(s)”	one (or all) of our Company’s supervisors
“Supervisory Board”	the supervisory board of our Company
“SZSE”	Shenzhen Stock Exchange (深圳證券交易所), a self-regulated legal entity established on December 1, 1990 and supervised by CSRC
“Track Record Period”	the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012

DEFINITIONS

“Trading Business”	the international trading business conducted by our Group
“UN”	the United Nations
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“United States dollars” or “US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“US Securities Act”	the US Securities Act of 1933, as amended, and the rules and regulations promulgated under it
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at <u>www.eipo.com.hk</u>
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“World Bank”	The World Bank Group, established in 1944 and headquartered in Washington, D.C., an institution with 188 member states as at the Latest Practicable Date, providing financial and technical assistance to developing countries around the world
“XAF”	Central African franc which is the currency of six independent states in central Africa being the Republic of Cameroon, Central African Republic, the Republic of Chad, the Republic of Congo, the Republic of Equatorial Guinea and the Republic of Gabon

In this Prospectus:

- The English names of the PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included for identification purposes only. In the event of inconsistency between the Chinese names and their English translations, the Chinese names shall prevail; and
- “We”, “us” and “our” refer to our Company or our Group (as the case may be).

GLOSSARY OF TECHNICAL TERMS

The glossary contains certain definitions of technical terms used in this Prospectus as they relate to us. Some of these definitions may not correspond to standard industry definitions.

“BOT”	Build-Operate-Transfer, a business model in which the proprietor grants the rights to a contracted enterprise by concession agreement to undertake the financing, design, construction, operation and maintenance of a project (mainly infrastructure projects), which enterprise can charge users a fee during the concession period to cover its costs of investment, operations and maintenance as well as reasonable returns, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor
“BT”	Build-Transfer, a business model in which the contractor undertakes the financing of construction expenditures and transfers the project back to the proprietor upon completion and inspection for acceptance and the proprietor will pay the contractor for such construction expenditures, financing costs and return on project in installments pursuant to relevant agreements
“CDMA”	Code Division Multiple Access which is a technique used for digital communication and wireless technology and commonly applied for mobile communication
“design”	application of engineering theories and techno-economic approaches, based on the prevailing technical standards, for conducting all-round design (including requisite customized equipment design) and techno-economic analysis on newly constructed, expansion and reconstruction projects in respect of their technical process, land construction, civil works and environmental works; provision of design papers and blueprints as the basis for construction work
“DWT”	the deadweight of a ship expressed in tonnes which measures the total weight of cargo, fuel, fresh water, stores and crew which the ship can carry
“EPC” or “engineering, procurement and construction” or “turnkey”	a common form of contracting arrangement whereby the contractor is commissioned by the project owner to carry out such project work as design, procurement, construction and trial operations, or any combination of the above, either through the contractor’s own labor or by subcontracting part or all of the project work, and be responsible for the quality, safety, timely delivery and cost of the project

GLOSSARY OF TECHNICAL TERMS

“EPC project”	engineering contracting project adopting EPC as the contracting arrangement
“km”	unit of distance, kilometer. 1km = 1,000m
“kV”	unit of electric potential, kilovolt. 1kV = 1,000 volts
“MW”	unit of energy, megawatt. 1 MW = 1,000 kW. The installed capacity of power plants is generally expressed in MW
“PPP”	Public-Private Partnership, a business model in which public infrastructure projects are financed, built and operated by way of partnership between the public sector and the private sector

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain statements that are, or may be deemed to be, “forward-looking statements.” These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believe(s)”, “aim(s)”, “estimate(s)”, “plan(s)”, “project(s)”, “anticipate(s)”, “expect(s)”, “intend(s)”, “may”, “seek(s)”, “can”, “could”, “ought to”, “potential”, “will” or “should” or similar expressions, or, in each case, their negative or other variations, or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. In particular, references to “*estimate(s)*” only refer to the situations whereby best estimation was adopted by the management. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include, but are not limited to, statements regarding our intentions, beliefs or current expectations concerning, among other things, our business, results of operations, financial position, liquidity, prospects, growth, strategies and the industries and markets in which we operate or may operate in the future.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance or the actual results of our operations, financial position and liquidity. The development of the markets and the industries in which we operate may differ materially from the description or implication suggested by the forward-looking statements contained in this Prospectus. In addition, even if our results of operations, financial position and liquidity as well as the development of the markets and the industries in which we operate are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- adverse changes or developments in the industries in which we operate;
- our operation and business prospect;
- our ability to maintain and enhance our market position;
- the effects of domestic and overseas competition in the industries or markets we operate and its potential impact on our business;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to the PRC;
- general political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC Government to manage economic growth;
- fluctuations in inflation, interest rates and exchange rates;
- changes in the availability of, or new requirements for financing;
- material changes in the costs of the equipment required for our operations;
- our ability to successfully implement any of our business strategies, plans, objectives and goals;

FORWARD-LOOKING STATEMENTS

- our ability to expand and manage our business and to introduce new services;
- our ability to obtain or extend the terms of the licenses necessary for the operation of our business;
- changes in restrictions on foreign currency convertibility and remittance abroad;
- changes to our expansion plans and estimated capital expenditure;
- our dividend policy;
- our success in accurately identifying future risks to our business and managing the risks of the aforementioned factors;
- other factors discussed in sections headed “Summary”, “Risk Factors”, “Future Plans and Use of Proceeds”, “Industry Overview”, “Business” and certain statements in the section headed “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical facts.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this Prospectus reflect our management’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions. Investors should specifically consider the factors identified in this Prospectus, which could cause actual results to differ, before making any investment decision. Subject to the requirements of the Listing Rules and except as may be required by applicable law, we undertake no obligation to revise any forward-looking statements that appear in this Prospectus to reflect any change in our expectations, or any events or circumstances, that may occur or arise after the date of this Prospectus. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this Prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should note that we are a PRC company governed by a legal and regulatory environment that may differ significantly from that of other jurisdictions. For more information concerning the PRC and certain related matters discussed below, please see the sections headed “Regulatory Overview”, “Appendix III – Summary of the Articles of Association of our Company” and “Appendix V – Summary of Principal Legal and Regulatory Provisions.”

RISKS RELATING TO OUR BUSINESS AND THE INDUSTRIES IN WHICH WE OPERATE

Decrease of investment in the industries and countries in which we operate or serve and deterioration in global economic conditions may adversely affect our business.

Demand for our business which is principally international in nature depends on the general level of activity and growth in the industries in which we operate and serve, especially the power, transportation and telecommunications sectors for the international engineering contracting industry. Factors which may influence the performance and growth of these industries include, but not limited to, general economic conditions, government investment plans, interest rates, exchange rates, inflation, government policies for the industries, demographic trends, political stability and consumer confidence. From 2009 to 2010, revenue from our International Engineering Contracting Business decreased by approximately 11.9% because of the decrease in the newly effective contract value in 2009 as a result of the global financial crisis and the subsequent reduction in actual performance of our engineering contracting projects that were undertaken in 2010. Revenue from our International Engineering Contracting Business remained relatively stable from 2010 to 2011 and revenues from our Trading Business and Other Businesses increased by approximately 22.1% and 1.6%, respectively, from 2010 to 2011, primarily due to the recovery and stabilization of the macro-economic conditions. There is no guarantee that economic conditions will not deteriorate again nor would it be undermined by the economic crisis in the US and the sovereign debt crisis in Europe, and that there will not be any adverse impact on the global economy in general and the countries in which we operate. A global economic downturn or slowdown, or a downturn or slowdown in any of the industries we serve in (in particular the engineering contracting industry and trading industry) and their downstream industries, will generally lead to a decrease of investment in and number of new projects available to us, delays in or cancellations of our ongoing projects in our International Engineering Contracting Business as well as a decrease in the business activities for our Trading Business and Other Businesses, in which case our business, financial condition and results of operations may be materially adversely affected.

We may experience delays or defaults in realizing accounts receivable and progress payments, or delays in the releases of bid bonds, advance payment bonds, performance bonds or retention bonds from our customers.

For our International Engineering Contracting Business, we generally obtain our engineering contracting projects through bidding where we are required to provide a bid bond (in the form of bank guarantee). Such bid bond will be released upon winning the bid and signing the contract. After winning a bid, we typically require project owners to make an advance payment equal to not less than 10% of the total contract amount; in return, we procure a bank to issue an advance payment bond in the project owner's favor to guarantee our refund of the advance payment if we do

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not complete the project pursuant to the contract terms. As the project progresses, project owners typically make progress payments to us with reference to the amount of work completed at specific milestone dates. In accordance with the engineering contracting contracts we enter into, our customers generally pay us an advance equal to 10% to 15% of the overall contract value, and once the engineering contracting project reaches a certain stage as specified in the relevant engineering contracting contract, we will be paid a portion of the contract value on a progressive milestone basis. From time to time, we may be required to commit cash and other resources to the projects prior to receiving full payments from project owners to cover certain expenditures on the projects as they incur. To safeguard our performance of the obligations under the contract, we are generally required by the project owner to provide a performance bond in an amount equal to 5% to 10% of the total contract value. Such performance bonds will typically expire around the date of signing of the provisional acceptance certificate (PAC) for the relevant project and delivery of the project to the project owner. After the signing of the PAC, a retention bond in an amount generally equal to 5% of the contract value is usually retained by the project owner and will generally expire at the end of the maintenance period, typically 12 to 24 months after a final acceptance certificate (FAC) is issued. Where a project is financed by export seller's credit, we, as contractor, typically provide funding to a project principally with loans and credit facilities provided by financial institutions and to a lesser extent with our Company's own financial resources, such that the project owner would make payment to us on a deferred basis. The payment that the project owner should make to us under this arrangement is regarded as our accounts receivable. For all our projects which were financed by export seller's credits, to safeguard against default on the part of the project owners in making deferred repayments to us as stipulated under the contract, we purchased export credit insurance from Sinasure. See "Business – International Engineering Contracting Business – Payment and settlement terms – Bid deposit or bid bond", "– Advance payment and advance payment bond", "– Performance guarantee or performance bond", "– Retention fund or retention bond", "– Financing for projects – Export seller's credit" and "– Export credit insurance" for more details. For our Trading Business, we may allow sales on credit, contractually or upon approval of an application for credit on a case-by-case basis, to some of our trading customers.

Due to the foregoing and other factors, we may have a significant amount of accounts receivable at any particular date. As at June 30, 2012, we had total trade and bills receivables of RMB2,988.4 million. We have a concentration of credit risk which stems from considerable trade and other receivables due from certain individual customers. As at December 31, 2009, 2010 and 2011 and June 30, 2012, approximately 6.2%, 8.6%, 7.8% and 9.0% of the total trade and other receivables was due from our largest customer, respectively, and approximately 21.3%, 26.3%, 21.5% and 24.6% of the total trade and other receivables was due from the five largest customers, respectively. We cannot assure you that our customers will perform their contractual obligations pursuant to the terms and conditions of the contracts and make full and timely payments for our services rendered or goods sold to them.

Delays in accounts receivable, progress payments or enforcement of bid bonds, advance payment bonds, performance bonds or retention bonds by our customers may significantly increase our working capital needs. If a customer defaults or delays in making its payments, enforces a bid bond, advance payment bond, performance bond or retention bond, becomes insolvent or is otherwise unable or unwilling to settle its outstanding payment in a timely manner or at all, it could also affect our liquidity and reduce the capital resources that are otherwise available for other uses. We may file a claim for compensation of the loss that we incur pursuant to our contracts but settlement of disputes generally takes significant time and financial and other resources, and the outcome is often uncertain. In general, we make provisions for doubtful debts, including those associated with accounts receivable, bills receivable, progress payments or non-releases of bid bonds, advance payment bonds, performance bonds or retention bonds, based on factors and circumstances relating to specific customers. There can be no assurance that the

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accounts receivable, bills receivable or progress payments will be remitted, or that the bid bonds, advance payment bonds, performance bonds or retention bonds will be released by our customers to us on a timely basis, or at all, or that we will be able to efficiently manage the level of doubtful debts arising from such payment practice or enforcement of bonds. In view of this, our liquidity may be constrained, our level of bad debts may soar and our capital needs may be heightened, thereby adversely affecting our financial condition and results of operations.

Disputes with consortium members or business partners may adversely affect our business.

In operating our business, we have in the past formed, and may in the future continue to form, strategic consortiums or other cooperative relationships with other parties, to jointly bid for and engage in a project. For instance, for our hydropower station project in Pakistan that was ongoing as at June 30, 2012, we formed a consortium with a PRC state-owned enterprise specialized in hydropower infrastructure construction. Whilst we endeavor to initiate cooperation with consortium members or business partners which we find to be reliable and capable, in the course of cooperation, the relationship with such consortium members or business partners may not be entirely fruitful possibly due to the fact that the consortium members or business partners may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions or make requests contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant consortium or cooperative arrangements; and/or
- have financial difficulties.

For certain projects, we may bear joint and several liabilities to the clients or other parties with other consortium member or business partner under the relevant consortium agreements or cooperative agreement, and as a result, we may incur damages and other liabilities for any defective work or breaches by the other consortium member or business partner.

In view of the above-mentioned reasons, we may have dispute with the consortium member or business partner. A serious dispute with the consortium member or business partner may cause a loss of business opportunities or disruption to or termination of the relevant project or consortium. Such dispute may also give rise to litigation or other legal proceedings, which will divert our management attention and other resources, and if a decision or award is rendered against us, we could be required to pay significant monetary damages or penalties, assume other liabilities, or suspend or terminate the relevant project or operations. In the event that we encounter any of the foregoing problems, our business, financial condition and results of operations may be materially adversely affected.

Any failure to maintain an effective quality control system could have a material adverse effect on our business and operations.

The quality of the services that we provide and the products that we trade is one of the factors critical to our success. In order to sustain such success, we need to continue to maintain an effective quality control system for our business, particularly for our International Engineering Contracting Business and our Trading Business. The effectiveness of our quality control system depends significantly on a number of factors, including a timely update of the quality control system to suit the ever-changing business needs, training program as well as our ability to ensure that our

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quality control policies and guidelines are adhered to. Any failure or deterioration of our quality control system could result in defects in our services or products that we trade, which in turn may jeopardize our reputation, reduce demands for our services and products that we trade or even subject us to contractual or product liabilities and other claims. Any such claims, regardless of whether they are ultimately successful, could cause us to incur significant costs, harm our reputation and/or result in significant disruption to our operations. Furthermore, if any of such claims were ultimately successful, we could be required to pay substantial monetary damages or penalties, which could have a material adverse impact on our business, financial condition and results of operations.

Our predecessor and one of our subsidiaries were listed by the US Department of State as having engaged in conduct sanctionable under US law which may affect our reputation, share price performance, trading business, results of operations and financial condition.

On July 25, 2002, our predecessor, China National Machinery & Equipment Import & Export Corporation (中國機械設備進出口總公司), and one of our subsidiaries, CMEC Machinery & Electric, were listed in a notice appearing in the Federal Register of the United States as parties determined by the US Department of State (the “**Department of State**”) to have engaged in conduct sanctionable under the Iran-Iraq Arms Non-Proliferation Act of 1992 (the “**1992 Act**”) and the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the “**1991 Act**”). On January 24, 2002, and May 16, 2002, variations of the name of CMEC Machinery & Electric were listed in Federal Register notices as parties determined by the Department of State to have engaged in conduct sanctionable under the Iran Nonproliferation Act of 2000 (the “**2000 Act**”). Pursuant to the sanctions imposed under the 1991 Act, the US government will not procure or enter into any contract for the procurement of any goods or services from China National Machinery & Equipment Import & Export Corporation, CMEC Machinery & Electric or their respective successors (including our Company), and importation into the United States of any products produced by China National Machinery & Equipment Import & Export Corporation, CMEC Machinery & Electric, or their respective successors (including our Company) is prohibited. According to the Federal Register Notice, these sanctions against us under the 1991 Act remain in force until further notice. For more details, see “Business – Restructuring of Business in the Sanctioned Countries – Impact of US Sanctions Law – Iran-Iraq Arms Non-Proliferation Act of 1992, the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991, and the Iran Nonproliferation Act of 2000.” The sanctions imposed under the 1992 Act also prohibited US government procurement from China National Machinery & Equipment Import & Export Corporation, CMEC Machinery & Electric, or their respective successors (including our Company), and their parents and subsidiaries, and such sanctions further prohibited the issuance of any US export license for exports or re-exports to or from those entities. Under the 2000 Act, the Department of State imposed the following measures upon the listed entities and any successor, sub-unit, or subsidiary thereof, for a period of two years, (i) the US government would not procure, or enter into any contract for the procurement of, any goods or services from the listed entities; (ii) the listed entities were barred from receiving any assistance from the US government; (iii) the US government would not sell any item on the United State Munitions List to the listed entities, and all sales of defense articles or defense services under the Arms Export Control Act were terminated; and (iv) no licenses to export goods controlled under the Export Administration Regulations to the listed entities were available. By the terms of the relevant Federal Register notices, these additional sanctions under the 1992 Act and the 2000 Act expired in 2004.

Our Company does not trade with the US government, which has never been one of our target customers. In addition, our Company is not involved in manufacturing and does not manufacture

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any product on its own. During the Track Record Period, we still conducted our Trading Business with other entities in the United States but not with the US government. See “Business – Trading Business – Export, Import and Domestic Trading Services – International Coverage” for further details. Therefore, our Directors believe that the presence of the above-mentioned sanctions does not affect our business and operations directly or substantially. However, some investors and/or potential business partners may not understand the scope of the above-mentioned sanctions or may have reputational concerns over these sanctions that go beyond the scope of the applicable legal restrictions. Therefore, the above-mentioned sanctions may have an adverse impact on our reputation, share price performance, Trading Business, financial condition and results of operations.

We could be adversely affected as a result of our historical operations in certain countries that are subject to economic sanctions or if the US government were to determine that our prior Iran-related business activities are sanctionable under US Iranian sanction laws and regulations.

In 2010, the United States adopted the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (“**CISADA**”), which expanded the scope for imposing US economic sanctions under the Iran Sanctions Act of 1996 (“**ISA**”) against non-US companies engaged in, among other things, certain “investment” activities relating to Iranian oil or gas production. CISADA also increased the severity of potential sanctions available under the ISA (as amended by CISADA) and imposed mandatory investigation and reporting requirements designed to increase the likelihood of enforcement. Although the definition of “investment” in CISADA by its terms does not cover the supply of goods and services, the legislative report accompanying the statute indicates that certain changes to the definition as it existed under the ISA were intended to encompass such supply, and the impact of those changes is therefore ambiguous. In addition, on November 21, 2011, the United States further expanded the scope of potential economic sanctions against companies doing business with Iran through the issuance of Executive Order 13590 (the “**Executive Order**”). The Executive Order, among other things, broadens the scope of sanctions to include the petrochemical sector and to directly address the supply of goods and services; however, guidance from the US State Department indicates that the Executive Order will not be applied to contracts entered into prior to November 21, 2011.

A range of sanctions may be imposed under the ISA on companies that engage in sanctionable activities, including, among other things, the prohibition of financial transactions between the sanctioned company and persons subject to US jurisdiction and the blocking of any property subject to US jurisdiction in which the sanctioned company has an interest, which could include a prohibition on transactions or dealings involving securities of the sanctioned company (including securities of our Company such as the H Shares).

Our Company does not participate directly in the Iranian petroleum or petrochemical sector. However, on November 2, 2010 (after the adoption of CISADA on July 1, 2010 and prior to the effective date of the Executive Order on November 21, 2011), we entered into a contract (as subsequently supplemented and varied) valued at approximately EUR31.7 million to supply steel to Iran for use in drilling platforms. During the Track Record Period and up to June 30, 2012, revenue recognized from the aforementioned contracts amounted to approximately EUR29.3 million. As at the Latest Practicable Date, the outstanding order of steel under the contract was delivered and the remaining contract value of approximately EUR2.4 million was recognized. We have not “invested” in any Iranian oil or gas project as that term is commonly understood. Although the Executive Order clearly states that the supply of goods and services to the Iranian oil and gas sector is sanctionable, the US State Department has indicated that the Executive Order does not apply retroactively. As such, the language of CISADA, which does not on its face appear to be sufficient to cover the

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supply of goods and services, would govern the interpretation and assessment of the contract and the risk of sanctions on our Company would therefore seem to be low. However, the wide enforcement discretion of the US State Department and OFAC in this area, combined with the legislative history indicating an intent to include the supply of goods and services, makes it impossible to eliminate the possibility that the activity could lead to the imposition of sanctions against our Company. We believe that the fact we have terminated existing business in Iran and committed not to do business in Iran in the future substantially removes any risk that we would be sanctioned under the ISA. However, we cannot guarantee that our prior activity in Iran would not be sanctioned. If we were sanctioned under the ISA, sanctions including those mentioned in the preceding paragraph could adversely impact our business and reputation as well as investors in our securities.

Furthermore, we are a company incorporated in the PRC and we comply with all applicable PRC laws and regulations. However, as a result of our international activities, we are also subject to the laws and regulations of the various countries and regions in which we do business. In particular, if any of our transactions is conducted in or through the United States, or otherwise involves US persons, US dollar clearing in the United States or US-origin goods, US sanctions regulations may be applicable to some or all of such transactions. For the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue generated from our business in the Sanctioned Countries in aggregate amounted to approximately RMB744.0 million, RMB1,382.0 million, RMB1,665.2 million and RMB315.6 million, respectively, accounting for approximately 3.9%, 7.2%, 8.1% and 3.0%, respectively, of our total revenue during the same periods. We have restructured our business to terminate future activities in the Sanctioned Countries. See “Business – Restructuring of Business in the Sanctioned Countries” for more details. In particular, a power supply contract in Sudan (the “**Power Plant Contract**”) was terminated by us because certain contractual obligation was not performed by the project owner, and a water supply contract in Sudan (the “**Water Supply Contract**”) was assigned by us to CMIC pursuant to an assignment agreement. Our Controlling Shareholder, SINOMACH, has 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 owners in relation to the termination of the Power Plant Contract and the assignment of the Water Supply Contract. See “Business – Restructuring of Business in the Sanctioned Countries – Restructuring of our International Engineering Contracting Business” for more details regarding the Power Plant Contract and the Water Supply Contract. In addition, such Restructuring caused an identifiable loss of income of approximately US\$17.2 million (based on the backlog as at June 30, 2012 of the Water Supply Contract which was subsequently assigned prior to Listing) and other loss of potential income from future potential business opportunities in the Sanctioned Countries, which could adversely affect our business, financial condition and results of operations.

We believe that our limited activities in the US and our decision to terminate existing business with the Sanctioned Countries substantially mitigate any risk to our Company under US sanctions regulations targeting the Sanctioned Countries. We have various internal control measures on sanctions and export control with a view to ensuring our compliance with the applicable sanctions laws and regulations. See “Business – Internal Control on Sanctions and Export Control” for more details. Nevertheless, the restrictions under US sanctions regulations are far-reaching and complex, and despite our limited activities in the United States, we cannot provide absolute assurance that our compliance efforts will be completely effective. If we were to violate those restrictions, any such violation could lead to the imposition of civil or criminal sanctions.

We are also aware of initiatives by certain US states and US institutional investors, such as funds, to adopt or consider adopting laws, regulations or policies requiring divestment from, or reporting of interests in, companies that do business with countries designated as state sponsors

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of terrorism, including Cuba, Iran, Sudan and Syria, where we have done business. Such US states or institutional investors may also have concerns that sanctions administered by OFAC may be implicated by our historical business in those countries. US federal legislation authorizes divestment initiatives regarding Iran. These policies could adversely affect investment by certain investors in our H Shares.

Under Chapter VII of the United Nations Charter, the United Nations Security Council (“UNSC”) may impose sanctions measures in order to maintain or restore international peace and security, and does so in UNSC Resolutions (“UNSCRs”). UNSCRs may call upon UN Member States to apply such measures and the United Nations Charter requires each UN Member State to give effect to UNSCRs in its territory or jurisdiction. The manner in which UNSCRs are given effect in a particular jurisdiction depends on the constitutional position in that jurisdiction. In some instances, national legislation is required before the requirements of a UNSCR will become binding on private parties in the relevant jurisdiction. The implementation, application and enforcement of UN sanctions is a question of local law in each country and breaches of UN sanctions can attract criminal law and/or civil law penalties in some countries. We need to comply with UN sanctions that are given effect by the laws of the countries in which we are located or operate, in particular the PRC.

There are currently UN sanctions in relation to various countries, including Iran and Sudan, but not in relation to Burma, Cuba or Syria. UN sanctions in relation to Iran are directed principally at curtailing Iran’s proliferation sensitive nuclear activities and the development of nuclear weapon delivery systems and involve specific prohibitions related to those industries, including a requirement to freeze the assets of designated persons who are involved in such activities. UN sanctions in relation to Sudan are directed at those impeding the peace process, constituting a threat to stability in Darfur and the region and committing human rights violations and include an arms embargo and an asset freeze in relation to designated persons. Our Directors believe, after consulting with our external legal advisors, that none of our Company’s business involving the Sanctioned Countries falls within the scope of activity subject to current UN sanctions and that our decision to terminate existing business with the Sanctioned Countries substantially mitigates any risk to our Company in relation to the possibility of breaching laws that apply to us, insofar as they give effect to UN sanctions.

The EU applies sanctions (restrictive measures) in relation to third countries, individuals, groups or entities as part of its Common Foreign and Security Policy, either in order to implement UNSCRs or to implement a Common Position adopted collectively by EU Member States. EU Regulations imposing sanctions (“**EU Sanctions**”) generally target persons, entities and bodies that have been designated pursuant to particular sanctions programmes, as well as prohibiting certain activities in relation to certain countries, individuals, groups or entities. Our Company is not a designated target of EU Sanctions. The EU currently imposes sanctions in relation to certain countries, including Iran, Sudan and Syria (but not Cuba). Current EU sanctions in relation to Burma/Myanmar have been suspended (with the exception of an arms embargo) until April 30, 2013.

EU Sanctions are directly applicable in all EU Member States and enforcement is the responsibility of the competent authorities in each EU Member State. Breaches of EU sanctions can attract criminal and/or civil penalties. EU sanctions apply to, among others, all persons within the territory of the EU and any legal person, entity or body which is incorporated or constituted under the laws of an EU Member State. EU Sanctions do not apply, however, to entities which are located and incorporated outside the EU, except in respect of any business done by them in whole or in part within the territory of the EU. As a result, our Directors believe, after consulting with our external legal advisors, that as we are a PRC-incorporated entity located outside of the EU, with

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respect to our business outside of the EU, current EU sanctions laws do not apply to us. We do not conduct any business in the EU involving the Sanctioned Countries and we believe that our decision to terminate existing business with the Sanctioned Countries substantially mitigates any risk to our Company in relation to the possibility of breaching EU Sanctions.

Australia applies economic sanctions under the Charter of the United Nations Act 1945 (Cth), the Autonomous Sanctions Act 2011 (Cth) and associated regulations (collectively, the “**Australian Sanctions Laws**”). The offences created by the Australian Sanctions Laws are mainly in relation to the making of assets or financial services available, directly or indirectly, to a person or entity that is either itself subject to Australian sanctions or is controlled by a person subject to Australian sanctions. Our Directors believe, after consulting with our external legal advisors, that the Australian Sanctions Laws relevant to the Sanctioned Countries do not apply to our prior business in the Sanctioned Countries. The primary reason for this is that the necessary jurisdictional link with Australia cannot be established. If our Company were to breach Australian Sanctions Laws, it would commit a criminal offence.

We currently do not operate any business in a way that would expose us to the relevant sanctions laws of the EU, UN and Australia. However, we cannot assure you that our future business will be free of sanctions risk or that we will be able to conform our business to the requirements of the relevant authorities that enforce sanctions laws in the relevant jurisdictions (whether they have jurisdiction over our business or not, or if they assert, or the sanctions laws are amended that give the authorities, extraterritorial power to impose sanctions on us). If any of the above-mentioned risk relating to sanctions materializes, there will be material adverse impact on our results of operations, financial condition, ability to carry on business in the jurisdictions concerned, share price performance and reputation.

We face potential competition with SINOMACH Group.

Our International Engineering Contracting Business has a primary focus on international engineering contracting projects in which we act as a general contractor. We consider the power, transportation and telecommunications sectors to be our Core Sectors. SINOMACH Group (including CAMC Engineering which is a company listed on the SZSE) retains certain Excluded Business. In order to safeguard the interests of our Company and Shareholders against the Excluded International Engineering Contracting Business, we have entered into the Non-competition Agreement with SINOMACH, pursuant to which SINOMACH has undertaken that, so long as it remains as our Controlling Shareholder, it shall not, and shall procure its subsidiaries which are engaged in the Excluded International Engineering Contracting Business (excluding CAMC Engineering) not to, compete with our Group in respect of the Core Sectors conducted by our Group. The Non-competition Agreement does not include CAMC Engineering. See “Relationship with Controlling Shareholder – Listed SINOMACH Subsidiary – CAMC Engineering – Reasons for Non-inclusion of CAMC Engineering in Our Group” and “Relationship with Controlling Shareholder – Non-competition Agreement” for more details. SINOMACH is not able to control all business decisions of CAMC Engineering simply by virtue of it being a shareholder of such subsidiary, including decisions on whether or not to compete with us. If the competition between CAMC Engineering and our Company intensifies, our business, results of operations and financial condition may be materially adversely affected.

Our Trading Business mainly consists of import, export and domestic trading services of complete sets of plants and equipment and various machinery, electrical and instrumental products. On the other hand, the Excluded Trading Business includes the manufacture, import and export of machinery and electrical products, including electric power tools and gardening tools, power generating machinery and various industrial products and consumer goods (such as

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antennas, cookers, motorcycles, etc). The Excluded Trading Business is mainly carried out through SUMEC, which was incorporated in the PRC and is 80% owned by SINOMACH. Although the business nature, mode of trading and focuses of product types of our Trading Business and the Excluded Trading Business of SINOMACH Group are different, there may be overlap to a certain extent between our Trading Business and the Excluded Trading Business given the trading market is sizeable with a large number of participants. Additionally, although our Group and SUMEC have different target markets and target customers because of the diversified range of products, different geographical locations of the customers and different sectors in which they respectively operate, SUMEC may, from time to time, operate in more or less the same regions as our Group does. The Non-competition Agreement includes a non-competition undertaking in relation to our Trading Business and the Excluded Trading Business operated by SUMEC. See “Relationship with Controlling Shareholder – Excluded Trading Business in Potential Competition with Business Carried out by our Group”, “– SUMEC” and “– Non-competition Agreement – Undertakings in relation to the Trading Business” for more details. It is possible that potential competition may arise in the future should SINOMACH Group decide to expand its business scope to include products similar to those traded by us, or operate in regions where we conduct our Trading Business, which could affect our profitability, financial condition and results of operations.

Historical trend of gross profit margin is not, and should not be deemed to be, indicative of our future business performance.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our gross profit margin was 9.1%, 15.4%, 17.8% and 18.4%, respectively. Our gross profit margin increased significantly from 9.1% in 2009 to 15.4% in 2010; in particular, the gross profit margin of our International Engineering Contracting Business increased from 8.3% in 2009 to 17.5% in 2010 and further increased to 24.2% in 2011. This increase generally reflected the high-margin engineering contracting projects which we secured in recent years, and these high-margin projects are predominantly in the power sector. Given the case-by-case nature of our engineering contracting projects, the gross profit margin of our International Engineering Contracting Business may fluctuate significantly from period to period. We intend to continue our efforts to strengthen cost control, enhance overall productivity and efficiency and undertake more projects and businesses with high profit margins. However, we cannot assure you that these efforts will be successful or at all, or that we can maintain or improve our gross profit margins by continuously securing engineering contracting projects with high profit margin. Our profit margin could be materially adversely affected, if, amongst others, our cost increases as a result of increases in areas such as costs of equipment and raw materials, subcontracting costs and labor cost, which exceed the increase in our revenue during the same period. As such, the historical fluctuation of our gross profit margin may not reflect the future movement and/or trend of our gross profit margin. Our profit margin may also be materially adversely affected if we need to provide our services with more favorable terms to our customers under fierce market competition.

As engineering contracting projects are characterized by capital intensive investments, long completion times and lengthy repayment periods, if we are unable to accurately estimate and control our costs or the scope of work we are required to perform, our profitability could be adversely affected.

During the Track Record Period, our engineering contracting contracts typically require us to complete a project at a pre-agreed fixed price. We are typically responsible for all costs incurred under an engineering contracting project, and our ability to make a profit is largely dependent on our ability to effectively estimate and control these costs. Cost overruns may result in a lower profit or even a loss on a project. The amount of total costs we expect to incur on a project is influenced by a variety of assumptions, including those about future economic conditions, cost and availability

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of subcontractors, labor, equipment and raw materials, subcontractors' performance and specifications, construction and technical standards to be applied, as well as factors such as climate conditions and changes in project scope and conditions, many of which are beyond our control. We cannot guarantee that we will not encounter cost overruns or delays in our current and future engineering contracting projects. If such cost overruns or delays occur, our costs could exceed our budget, especially to the extent the increases in costs were not anticipated or not factored into the pre-agreed fixed price under a contract, or we could be required to pay liquidated damages in accordance with the contractual terms with a consequential reduction in, or elimination of, any profits from our engineering contracting contracts or even leading to losses, which could materially adversely affect our business, financial condition and results of operations.

In addition, the scope of work we are required to perform in relation to an engineering contracting contract is also subject to change as envisaged in the contractual provision for change order. Project owners may require us to perform extra work which may even go beyond the scope and price of the work to be performed which have already been pre-agreed pursuant to the change orders. While such change orders can be profitable, they may also result in disputes over whether the work performed is beyond the scope of work pre-agreed upon, or over the price to be paid for such extra work. Even when a project owner agrees to pay for the extra work, we may be required to fund the cost of such work for a lengthy period of time until the change order is approved and funded by the project owner. We cannot assure that we will be able to recover our costs for additional work we undertake on our contracts in full or at all, which may lead to business disputes or may otherwise adversely affect our business, financial condition and results of operations.

Our International Engineering Contracting Business is largely dependent on the level of public spending on infrastructure in the countries in which we currently or potentially undertake engineering contracting contracts.

Our International Engineering Contracting Business is largely dependent on the level of public infrastructure spending by the relevant government or governmental agencies (including entities administered and financed by such agencies) of the countries in which we currently or potentially operate. Our International Engineering Contracting Business largely depends on continued spending by the relevant government or governmental agencies to, among others, improve the living standards of their people and sustain local economic development. Various factors can affect the nature, scale, location and timing of a government's public investment plans in these infrastructure sectors. These factors may include different governments' policies and priorities regarding their economies, regulations, and general condition and prospects of their overall economies. Any significant reduction in the relevant government's public budgets and change in fiscal policies relating to infrastructure could have a material adverse effect on our business, financial condition and results of operations.

Our backlog is subject to unexpected adjustments and cancellations and may, therefore, not be indicative of our future results of operations.

We have provided in this Prospectus contract backlog figures that represent our estimate of the total contract value of work which remained to be completed pursuant to the terms of the engineering contracting contracts which have become effective and are outstanding (but excluding signed contracts pending to be effective). See "Business – International Engineering Contracting Business – Backlog and Signed Contracts Pending to be Effective" for more details. Backlog is not a measure defined by generally accepted accounting principles and backlog may not be indicative of future operating results. Our methodology for determining backlog may not be comparable to the methodologies used by other companies in determining their backlog. The contract value of a project or other transaction represents the amount as of the relevant date we expect to receive

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assuming our performance is in accordance with the terms of the contract. As at June 30, 2012, the aggregate value of engineering contracting contracts in our backlog was approximately US\$6,051.4 million⁽¹⁾. However, this figure is based on the assumption that the relevant contracts will be performed in full in accordance with their terms. Our engineering contracting contracts may be subject to project cancellations or change order by project owners or other force majeure which may affect the project progress. Such cancellations or change order of any one or more sizeable contracts or force majeure may have a substantial and immediate effect on our backlog, and could reduce the amount of our backlog and the revenues and profits that we can actually generate and pose pressure on our working capital. In addition, projects may also remain in our backlog for an extended period of time. We cannot guarantee that the amount estimated in our backlog will be realized in a timely fashion, or at all, or that, even if they are realized, will result in profits. As a result, investors should not unduly rely on our backlog information presented in this Prospectus as an indicator of our future earnings, performance or business prospects.

Our engineering contracting contracts that are signed and pending to be effective may encounter delays in becoming effective or may not become effective.

Engineering contracting contracts that we enter into are usually subject to some conditions precedent which are required to be fulfilled before these contracts can become effective, such as advance payment of contract value and obtaining of financing or governmental approvals, and some of these conditions precedent are beyond our control. We consider contracts that are signed during the Track Record Period and up to the Latest Practicable Date and pending to be effective as at the Latest Practicable Date to be “signed contracts pending to be effective”, which have an aggregate contract value of approximately US\$12,404.2 million. See “Business – International Engineering Contracting Business – Backlog and Signed Contracts Pending to be Effective” for more details. Any postponement or delay of the effective dates of these contracts could potentially expose us to significant risks associated with foreign currency fluctuations and uncertainty in equipment and raw material costs once they become effective, which may materially adversely impact our budget and profitability. Signed and pending to be effective contract value is not a measure defined by generally accepted accounting principles, and is not counted towards our revenue, completed projects, ongoing projects, backlog or newly effective contract value. As such, the signed and pending to be effective contract value is not and should not be deemed to be indicative of our future business performance. We cannot provide assurance that these contracts will not encounter delay in becoming effective or will become effective at all, and in the event that they do, these contracts may not be as profitable as we originally expected and hence may have a material adverse effect on our business prospects, future earnings and eventually our results of operations.

We are subject to risks associated with volatility in the prices of products, equipment and raw materials, as well as fluctuations in subcontracting costs.

For our International Engineering Contracting Business, we typically procure equipment and raw materials from third-party suppliers and subcontract work, including design, exploration, logistics, installation, construction and supervision, to third-party subcontractors. We generally do not maintain long-term contracts with our suppliers and subcontractors. We typically enter into contracts with our suppliers and subcontractors on a project-by-project basis in view of the requirements and specifications of individual projects. Supply contracts are generally entered into

Note:

(1) The aggregate value of the engineering contracting projects in our backlog would have been US\$6,034.2 million if the Restructuring had happened on or prior to June 30, 2012.

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per each specific transaction. Subcontracting contracts usually last, at most, only as long as the life of the individual project. Increases in the prices of equipment and raw materials as well as fluctuations in the subcontracting costs may increase the cost of procuring equipment and raw materials and engaging subcontractors and hence materially and adversely affect our profitability and results of operations. At certain price levels of equipment and raw materials as well as subcontracting costs, the continued undertaking of certain projects may become less profitable or even unprofitable. Some of our engineering contracting contracts contain price adjustment clauses, which allow us to reclaim additional costs incurred as a result of unexpected increases in equipment and raw material costs. However, we are typically required to bear a portion of the increased cost. Even with the price adjustment clauses, the significance and relative impact of factors affecting the prices of equipment and raw materials as well as subcontracting costs are difficult to predict or quantify, which may cause difficulty in our project budgeting and eventually may have a material adverse impact on our business, financial condition and results of operations. However, we do not engage in any speculation or hedging activities against the volatility in the prices of equipment and raw materials or the fluctuations in subcontracting costs.

Since our Trading Business is modeled on our sourcing ability in addressing the needs of the suppliers or customers which by nature fluctuate, some of the contracts are not long-term contracts, which exposes us to potential volatility in the revenue generated from our Trading Business. In addition, terms of the current or long-term arrangements with some of our customers and suppliers are susceptible to changes. There is no assurance that any of our existing customers or patrons will in the future continue to seek our trading services or place purchase orders with us or at the same level as in the current or prior periods, or at all and such reduction or termination of service required or purchase orders may be effected with short prior notice or no prior notice at all and we may not be able to locate alternative customers to replace the decreased services required or purchase orders. Similarly, there is no assurance that any of our suppliers will continue to supply products to us at our desired quality or price, or in a timely manner or commercially acceptable terms. In particular, at certain price levels of raw materials and parts and components for machinery, the continued production of certain products or provision of certain raw materials may become unprofitable for the suppliers (especially the suppliers who do not manage the risk of price fluctuations in raw materials, or parts or components for equipment through hedging transactions). If there is any adverse change in the business relationship with our customers or suppliers, and we are unable to expand our business with existing customers or patrons, attract new customers, or source for alternative suppliers when required, our business, financial condition and results of operations would be materially adversely affected.

We rely on subcontractors to a certain extent to complete our engineering contracting projects and some of our subcontractors may potentially compete with us on other engineering contracting projects.

In line with our asset-light business model, in all of our engineering contracting projects, we subcontract work to one or more subcontractors. Once we have been awarded an engineering contracting contract, we usually engage subcontractors to carry out different parts of the engineering contracting contract. Subcontracting allows us to play to our strengths in specialization and our turnkey capability, reduces the need to employ a large workforce, including skilled labor in different specialized areas and semi-skilled labor, and increases flexibility and cost effectiveness in executing contracts. We maintain a regularly updated list of qualified and reliable subcontractors and enter into subcontracting agreements with them which generally reflect the terms and conditions of our main engineering contracting contracts with the project owners. Nevertheless, we may not be able to monitor the performance or control the quality of these subcontractors as directly and efficiently as with our own staff. In addition, qualified subcontractors may not always be readily available when our subcontracting needs arise. If we were unable to engage and retain qualified

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subcontractors, our ability to complete the engineering contracting projects could be impaired. If a subcontractor fails to provide services as required under a subcontracting contract for any reason, we may be required to source these services on a delayed basis or elsewhere, or at a price higher than anticipated, which could adversely impact the profitability of our International Engineering Contracting Business. If a subcontractor's performance does not meet our standards, the quality of the project may be affected, which could harm our reputation and business prospect, and potentially expose us to litigation and damages claims.

In circumstances where the subcontractors have their own project execution team which operate their own engineering contracting business, they may bid for engineering contracting projects which could be in competition with our Company. There can be no assurance that the competition between us and the subcontractors will not intensify in the future, which may have adverse impact on our business, financial condition, results of operations and prospects.

We may cause substantial damage to persons, properties or the environment in the course of our business operation, which could harm our reputation and cause us to incur substantial costs.

Due to the nature of construction work involved in our International Engineering Contracting Business, our projects may involve certain inherently dangerous activities, including operations on aerial platform, underground construction, use of heavy machinery, and working with flammable and explosive materials. We ensure compliance with the requisite safety requirements and standards. Despite that, we are subject to the inherent risks of these activities, such as geological catastrophes, toxic gas, risk of equipment failure, industrial accidents, fire and explosion. These dangerous activities may result in personal injury and loss of life, damage to or destruction of properties and equipment, and environmental damage and pollution, any of which could result in the delay in our engineering contracting projects, suspension of our operations and imposition of civil or criminal liabilities. We may also be subject to claims, resulting from the subsequent use of facilities, infrastructure and other engineering works in which we have been involved, from project owners or other third parties.

We normally seek to lower our exposure to potential claims associated with our International Engineering Contracting Business through contractual limitations of liabilities, indemnities from project owners, subcontractors and suppliers, and purchase of construction, installation and engineering all-risks insurance and third-party liability insurance. These measures, however, may not always be effective due to various factors, many of which may be out of our control. These factors include, among others:

- in some of the jurisdictions in which we operate, including the PRC, we assume environmental and workers' compensation liabilities as a matter of law and may not be limited through contracts and insurance policies;
- project owners and subcontractors may not have adequate financial resources to satisfy their indemnity obligations to us;
- losses may derive from risks not covered in our indemnity agreements or insurance policy; and
- our insurance coverage may not be sufficient in scope because it may not be possible to obtain insurance against some risks on commercially reasonable terms, or at all.

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Insurance policies, in particular, have become increasingly expensive and are sometimes difficult to obtain from the market. Moreover, there may be circumstances where we are not fully covered or compensated, or at all, under insurance policies for environmental liability, business interruption, loss of profit, or other liabilities or losses arising from disruptions of operations, industrial accidents, demonstrations or other activities by our employees or third parties.

If we fail to adequately protect ourselves or third parties against these potential liabilities, we could be forced to incur substantial costs for these potential liabilities which could have a material adverse effect on our financial condition and results of operations. Furthermore, any harm caused by our operations could damage our reputation and relationship with the governmental authorities, regulators and our clients, which may materially hinder our chance to win new business and clients.

We face significant competition in certain markets in which we operate, which could adversely affect our business.

We face significant competition in certain markets in which we operate and, in particular, in the Core Sectors. Our competition comes from various sources, including large state-owned enterprises and leading international companies, as well as potential new competitors.

For our International Engineering Contracting Business, our main source of competition is PRC enterprises, who may have advantages over us in terms of design and construction capability and management experience while their services are still competitively priced. Our market position depends on our ability to anticipate and respond to various competitive factors, including pricing strategies adopted by the competitors, changes in customer preferences and access to capital and financing resources. Our foreign competitors may have greater financial, technical, management or other resources and may provide a wider range of services than we do, and could possibly form mergers or joint ventures with some of our domestic competitors or other foreign competitors to our detriment. Suppliers or subcontractors may merge with our competitors which may limit our choices of suppliers and subcontractors and hence the flexibility of our overall project execution capabilities. See “Business – International Engineering Contracting Business – Competition” for more details.

For our Trading Business, competition with Chinese companies engaged in the international trading business stems from competition in terms of price, range of products, suppliers and customers, whereas competition with foreign companies stems from the competitiveness of the products in terms of price and quality generally manufactured by the PRC suppliers and the foreign suppliers. See “Business – Trading Business – Competition” for more details.

There can be no assurance that our current or potential competitors will not offer services or products comparable or superior to those that we offer at the same or lower prices or adapt more quickly than we do to evolving customer preferences, industry trends or changing market conditions. Increased competition may result in price reductions, reduced profit margins and loss of market share.

Sino-foreign cooperation between the PRC Government and foreign governments affects the financing provided by financial institutions in the PRC to certain project owners of our projects for our International Engineering Contracting Business.

Certain project owners of our projects rely on financing provided by financial institutions in the PRC in keeping with the support of the PRC Government for the development of certain countries, especially the developing countries. We have in the past been involved in sino-foreign cooperative projects whereby the PRC financial institutions provided financing to the government of a country

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which in turn supported the infrastructure projects undertaken by the project owners which were affiliated to or owned by that government. For example, the power infrastructure project in the Republic of Angola which we completed in October 2010 in Luanda, capital city of the Republic of Angola, was owned by an Angolan state-owned enterprise and financed by export buyer's credit provided by the Export-Import Bank to the Angolan government. See "Business – International Engineering Contracting Business – Our Major Engineering Contracting Projects – Power Projects – Completed Projects" for further details of that project. We cannot assure you this kind of sino-foreign cooperation between the PRC Government and foreign governments will continue or at all, or we will continue to be involved in the projects supported by this kind of sino-foreign cooperation, which will affect the financing available for our engineering contracting projects and thereby materially affect our business performance, financial condition and results of operations.

Any acquisitions or strategic investments we undertake may not be successful or may not achieve our anticipated economic results or commercial viability and may negatively impact our results of operations and financial condition.

We may in the future acquire other business or companies whose assets, capabilities and strategies we believe are complementary to and are likely to enhance or expand our business operations. Acquisitions involve numerous risks, including potential financing pressures, difficulties in retaining and assimilating personnel and integrating the operations and corporate culture of the acquired business, diversion of management's attention and other resources, and insufficient or lack of experience and knowledge in the industry and market in which the acquired business operate.

In addition, as part of our business strategies, we have in the past undertaken and may in the future undertake strategic investments in new business or companies or new contracting models (such as BOT, BT and PPP), which involve large amounts of capital expenditure and take years to complete. Our equity investment in COMIBEL was an example of strategic equity investment made by us. See "Business – Other Businesses – Certain Strategic Equity Investment" for more details. Strategic investments may be adversely affected by a number of risks or uncertainties, including those relating to market conditions, policies and regulations of the PRC and other relevant jurisdictions, availability of sufficient funding, disputes with business partners, technology and equipment suppliers and other contractors, natural disasters, availability of technology or human resources, and war or other significant adverse developments in international relationships.

We may not be able to identify suitable targets for acquisition or strategic investment. Extensive pre-feasibility studies on potential acquisition or strategic investment may require significant capital outlays and may not ultimately be implemented or generate any profits. Even if we do identify suitable targets for acquisition or strategic investment, we may not complete those transactions on terms commercially acceptable to us or at all, or we may fail to obtain the required governmental and other approvals for such acquisitions or strategic investments. The inability to identify suitable targets for acquisition or strategic investment or the inability to complete such transactions may adversely affect our competitiveness and/or our growth prospects. Moreover, actual costs for our acquisition or strategic investment may exceed our original budgets due to reasons such as delays in schedule, increases in funding costs and changes in original acquisition or investment plan. Acquisitions or strategic investments may result in the incurrence and inheritance of debts and other liabilities, assumption of potential legal liabilities in respect of the acquired business or investments, and incurrence of impairment charges relating to goodwill and other intangible assets, any of which could harm our financial condition and results of operations. As a result, there can be no assurance that we will be able to achieve the objective of any acquisition or strategic investment, the desired level of operational integration or our investment return target.

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We may encounter unforeseen or unforeseeable difficulties and uncertainties in our expansion into potential new markets and sectors.

International engineering contracting contracts we enter into are usually considered key projects of the relevant government in a country or region where these projects are located. These governments have different ways of managing their economic and governmental policies. Hence we may encounter unforeseen or unforeseeable difficulties and uncertainties in our expansion into potential new markets. Furthermore, to further grow our business and increase our competitiveness and profitability, we plan to increase our presence in various sectors in our International Engineering Contracting Business, such as the renewable energy sector in regions such as Eastern Europe. See “Business – Our Business Strategies – Strengthen our leading position in the power sector and enlarge our market share in the transportation and telecommunications sectors as well as other sectors and countries” for more details. Expansion into new sectors and markets has inherent risks, including risks relating to insufficient operating experience in such sectors and markets and changes in governmental policies and regulations and other adverse developments affecting such sectors and markets. Expansion may also significantly stretch our capital, personnel and management resources and, as a result, we may fail to manage our growth effectively, which in turn could have a material adverse impact on our business, financial condition, results of operations and prospects. In addition, there may be many established incumbent players in these sectors and markets which already enjoy significant market share, and it may be difficult for us to win market share from them. Furthermore, some of the overseas markets that we are targeting may have a high barrier of entry for foreign players. There can be no assurance that our expansion plans will materialize or be successful and failure of which may adversely affect our business performance, financial condition and prospect.

We conduct a large part of our business in foreign countries and regions that are subject to foreign economic, regulatory, social and political uncertainties.

We conduct a large part of our business in foreign countries and regions, including developing countries. Our business, especially the International Engineering Contracting Business, is therefore subject to constantly changing international economic, regulatory, social and political conditions, and local conditions in the jurisdictions in which we conduct business, including some countries in Southeast Asia, South Asia and Africa, where economic, regulatory, social and political conditions are subject to instability and uncertainties.

Conducting business in the international marketplaces also exposes us to a number of risks, including:

- political risks, including risks of loss due to civil unrest, acts of terrorism, acts of war, regional and global political or military tensions, and strained or altered foreign relations related to the PRC or other relevant countries;
- economic, financial and market instability and credit risks, including those relating to potential deterioration of the credit markets and other economic conditions in the western and other countries;
- changes in foreign government regulations or policies;
- dependence on foreign governments or entities controlled by such foreign governments for electricity, water, telecommunications, transportation and other utilities or infrastructural needs;
- unfamiliarity with local operating and market conditions, which could result in such unfavorable consequences as inaccurate bidding prices for projects;

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- lack of understanding of local construction, taxation, labor, customs and other laws, regulations, standards and other requirements;
- risks and uncertainties associated with using foreign workers and subcontractors in connection with our overseas operations;
- preferential treatments or corrupt business practices;
- tax increases or adverse tax policies;
- trade protectionism, trade restrictions or embargoes;
- sanctions (economic or otherwise) imposed by certain countries or self-regulated organizations against our transactions with other countries, individuals or entities which may limit our ability to conduct business with such countries, individuals or entities, or to obtain funding for certain overseas projects;
- discrimination against ethnic Chinese or local protectionism against PRC companies;
- adverse labor conditions or strikes;
- stringent environmental protection laws;
- potential disputes with foreign partners, customers, subcontractors, suppliers or local residents or communities;
- cyclical nature and demand of international engineering and trading markets;
- expropriation and nationalization of our assets in foreign countries;
- lack of a well-developed or independent legal system in the foreign countries in which we operate or conduct business, which may create difficulties in the enforcement of contractual or legal rights; and
- foreign currency controls and fluctuations.

In some of the high-risk locations where we have employees, business or operations, we may incur additional costs in safeguarding our personnel and assets, and our measures aimed at protecting our personnel and assets overseas may not always be sufficient and effective. To the extent that our overseas business or operations is affected by unexpected and adverse foreign economic, regulatory, social and political conditions, we may experience project disruptions, losses of assets and personnel, and other indirect losses that could adversely affect our business, financial condition and results of operations.

We are exposed to risks in connection with contracting with governments and other public organizations.

As overseas governments, governmental agencies and public organizations at national, provincial and local levels are the largest group of investors in infrastructure projects, especially those in the power, transportation and telecommunications sectors, they also form our core client base. We are therefore exposed to risks in connection with contracting with governments,

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governmental agencies or public organizations. Due to the fact that most infrastructure projects are funded by governments, governmental agencies and public organizations, these projects are sometimes subject to changes or postponement arising from factors such as changes in governmental budget or public spending on infrastructure projects in the relevant sectors, changes in policy considerations or changes of members of government or decision-making bodies and other political changes in certain overseas jurisdictions.

In addition, disputes with governments, governmental agencies and public organizations could potentially lead to contract termination if unresolved or may take a considerably longer period of time to resolve than disputes with counterparties in the private sector, and payments from these entities and organizations may be delayed as a result. Such public entities and organizations usually have more bargaining powers in negotiating contract terms and may claim sovereign immunity as a defence to any claims we may have against them. Changes in governmental budgets and policies relating to our projects could also result in delays in project completion, adverse changes to such projects or a withholding of, or delay in, payments to us. Governments, governmental agencies and public organizations generally exercise significant discretion in the performance of their contracts with us. If a government, governmental agency or other public organization terminates, breaches or fails to renew a contract with us, our newly effective contract value and backlog could be reduced, our project planning may be hampered and our business, financial condition and results of operations may be materially adversely affected as a result.

Our operations require certain permits, licenses, qualifications and certificates inside and outside the PRC, the loss of which can significantly hinder our business and operations, and we are subject to periodic inspections, examinations, inquiries and audits by regulatory authorities.

We are required to obtain and maintain valid permits, licenses and certificates from various governmental authorities to conduct our business, including, among others, business license for an enterprise as a legal person, tax registration certificates, organization code certificates, engineering contracting certificates, import and export licenses and tender agency qualification certificates inside and outside the PRC. We must comply with the restrictions and conditions imposed by various levels of governmental agencies to maintain our permits, licenses, qualifications and certificates. See “Regulatory Overview” and “Business – Qualifications” for more details. If we fail to comply with any of the regulations or satisfy any of the conditions required for the maintenance of our permits, licenses, qualifications and certificates, our permits, licenses, qualifications and certificates could be temporarily suspended or even revoked, or the renewal thereof, upon expiry of their original terms, may be delayed or rejected, which could materially adversely impact our business, financial condition and results of operations.

In order to ensure our compliance with the restrictions and conditions required for maintaining our permits, licenses, qualifications and certificates for our business and operations, the governmental authorities at various levels conduct routine or special inspections, examinations, inquiries and audits on us. We may be subject to suspension or revocation of the relevant permits, licenses or certificates, fines or other penalties due to any non-compliance uncovered as a result of such inspections, examinations, inquiries and audits. We cannot assure you that we will be able to maintain or renew our existing permits, licenses, qualifications and certificates or obtain future permits, licenses, qualifications and certificates required for our continued operations on a timely basis or at all. In the event that we fail to comply with applicable laws and regulations or fail to maintain, renew or obtain the necessary permits, licenses, qualifications or certificates, our business and operations may be adversely affected.

Availability of bank guarantees could limit our capabilities in providing various kinds of bonds which may have adverse impact on our operation.

We are often required to guarantee our performance as an engineering contractor by providing bank guarantees and bonds such as bid bonds, advance payment bonds, performance

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bonds and retention bonds in favor of our clients. Availability of bank guarantees and bonds such as bid bonds, advance payment bonds, performance bonds and retention bonds depends on various factors, including our capitalization, working capital, existing level of borrowings, past performance, management expertise and external factors such as the financial institutions' evaluation of our credit, the overall market condition and the overall financial capacity of the financial institutions, some of which we cannot control. Furthermore, financial crisis may result in a lower level of liquidity in the financial market and tightened capital adequacy requirements of the PRC financial institutions, which in turn may adversely affect our ability to secure credit facilities and obtain bank guarantees and bonds. We may not be able to continue obtaining sufficient new bank guarantees and bonds to meet our business requirements and sustain our future growth. If our financial condition deteriorates, we may also be required to provide cash collateral or other security to maintain existing bank guarantees, bid bonds, advance payment bonds, performance bonds or retention bonds. If this occurs, our financing costs will be increased, our financial resources may be restrained and our ability to perform our contracts may be adversely affected.

Our project operations, the majority of which take place overseas, may expose us to inclement weather and climate conditions, acts of God and adverse work environments.

A significant amount of our business activities, particularly those in our International Engineering Contracting Business, are conducted in overseas countries and outdoors, and could be materially adversely affected by weather and climate conditions. Unfavorable weather and climatic conditions and natural disasters may prevent us and/or our subcontractors from conducting work at our work sites or delivering equipment and machinery to project owners in accordance with contract schedules, or generally reduce productivity. During periods of curtailed activity, we may continue to incur operating expenses, but the revenue from our operations may be delayed or reduced. We may not be able to receive full compensation from parties with which we enter into contracts and may have to bear some portion of the losses. Moreover, natural disasters and other acts of God which are beyond our control may adversely affect the economy, infrastructure and communities in the countries and regions in which we have business or operation. We may also operate in areas that are under the threat of ice storms, floods, earthquakes, landslides, mudslides, sandstorms, drought or other natural disasters. If inclement weather or climatic conditions or natural disasters occur in areas where our projects and project teams are located, our operations may be hampered and the progress of our projects may be significantly delayed.

In addition, we conduct some of our projects or operation under a variety of undesirable geographical conditions, including on difficult terrain, under harsh site conditions, in busy urban centers where delivery of materials and availability of labor may be affected, and on sites which may previously have been exposed to environmental hazards. Such conditions may result in personal injuries or fatalities or have an adverse effect on our work performance, progress and efficiency.

We are subject to litigation risks.

In the ordinary course of our business, claims involving project owners, clients, suppliers and subcontractors may be brought against us or by us. Claims may be brought against us for alleged defective or incomplete work, liabilities for defective products, personal injuries and deaths, damage to or destruction of property, breaches of warranty, late completion of projects, termination of contracts or delayed payments to our suppliers or subcontractors. We may also bring claims against counterparties to preserve or enforce our contractual rights. For example, in January 2008, we brought claims against a project owner for a declaration of inappropriate encashment of our bid bond. See "Business – Legal Proceedings and Regulatory Compliance" for more details. The

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claims and charges may involve actual damages and contractually-agreed-upon liquidated sums. If we were found to be liable on any of the claims, we would have to incur a loss against earnings to the extent a reserve had not been established for the matter in our financial statements, or to the extent the claims were not sufficiently covered by our insurance coverage. Claims brought by us against project owners may include claims for additional costs incurred in excess of current contractual provisions arising out of project delays and changes in the initial scope of work. Both claims brought against us and by us, if not resolved through negotiation, are often subject to lengthy and expensive litigation or arbitration proceedings. Amounts ultimately realized from project or other claims by us could differ materially from the balances included in our financial statements, resulting in a loss against earnings to the extent profit has already been accrued on a project or other contract. Charges and writedowns associated with claims brought against us have a material adverse impact on our financial condition, results of operations and cash flow. Moreover, legal proceedings resulting in judgments or findings against us may harm our reputation and damage our prospects for future contract awards and business.

As at the Latest Practicable Date, our Group was involved in seven legal proceedings, each of which the disputed amount was more than RMB1.0 million. Out of the seven legal proceedings, there were three proceedings, each of which the disputed amount was more than RMB50.0 million and we acted as claimant in all of them. As for the remaining four proceedings that had a disputed amount less than RMB50 million each, we acted as respondent in all of them, and the aggregate disputed amount of these four proceedings was less than 2% of profit attributable to the equity owners of our Company for the year ended December 31, 2011. See “Business – Legal Proceedings and Regulatory Compliance” for a summary of each of these proceedings with a disputed amount of more than RMB50.0 million. As a result of such claims and disputes, our management’s attention to our business and our reputation may be adversely affected and we may incur substantial liabilities and costs, which may adversely affect our business, financial condition and results of operations.

We may not be able to adequately protect our intellectual property rights, which could reduce our competitiveness.

We rely on a combination of copyrights and trademarks to protect our intellectual properties. As at the Latest Practicable Date, we had 100 trademark registrations and applications and 13 copyrights in the PRC and overseas. We market our International Engineering Contracting Business and to a certain extent our Trading Business under the brand name “CMEC”, which we believe have been critical to our competitiveness and success. We cannot guarantee that the measures we have taken will be sufficient to prevent any misappropriation of our intellectual properties.

Intellectual property laws in the PRC are still evolving and the level of protection and means of enforcement of intellectual property rights in the PRC differ from those in other jurisdictions. Enforcement of our intellectual property rights could be costly, and we may not be able to immediately detect unauthorized use of our intellectual properties and take the necessary steps to enforce our rights over such properties. In the event that the measures taken by us or the protection afforded by law do not adequately safeguard our intellectual property rights, we could suffer losses in revenues and profits due to competing sales of products and services that exploit our intellectual properties. Furthermore, we cannot assure you that any of our intellectual property rights will not be challenged by third parties. Adverse rulings in any litigation or proceedings on intellectual property rights could result in the loss of our proprietary rights and subject us to substantial liabilities, or even disrupt our business and operation.

Fluctuations in foreign currency exchange rates could adversely affect our business.

Our functional currency is RMB, and a major portion of our cost of sales was denominated in RMB during the Track Record Period. We conduct a substantial part of our International

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Engineering Contracting Business and Trading Business overseas, and these business contracts are usually denominated in US dollars or other foreign currencies. For the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue denominated in foreign currency accounted for approximately 88.6%, 82.6%, 80.1% and 85.3% of our total revenue, respectively. For the years ended December 31, 2009, 2010, 2011, our net foreign exchange losses were approximately RMB24.8 million, RMB332.1 million and RMB505.2 million, respectively. For the six months ended June 30, 2012, our net foreign exchange gain was approximately RMB13.9 million. In addition, we incurred foreign currency denominated borrowings equivalent to approximately RMB279.4 million as of June 30, 2012. Furthermore, we currently plan to apply a substantial portion of the net proceeds from this Global Offering to our international engineering contracting projects. See “Future Plans and Use of Proceeds – Use of proceeds” for more details. We are therefore subject to significant risks associated with foreign currency exchange rate fluctuations.

Changes in the value of foreign currencies could increase our RMB costs for, or reduce our RMB revenues from, our foreign business, or affect the prices of our exported and imported products and services. Any increased costs or reduced revenues as a result of foreign exchange rate fluctuations could adversely affect our profit margins. The fluctuation of foreign exchange rates also affects the value of our monetary and other assets and liabilities denominated in foreign currencies, primarily the US dollars. Generally, an appreciation of RMB against US dollars and other relevant foreign currencies could result in a foreign exchange loss for assets denominated in US dollars and other foreign currencies, and a foreign exchange gain for liabilities denominated in US dollars and other foreign currencies. Conversely, a devaluation of RMB against US dollars and other relevant foreign currencies could result in a foreign exchange gain for assets denominated in US dollars and other foreign currencies and a foreign exchange loss for liabilities denominated in US dollars and other foreign currencies. We seek to reduce our foreign exchange rate risk by entering into foreign currency forward contracts, while abiding by 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. See “Financial Information – Qualitative and Quantitative Disclosure about Market Risk – Currency Risk” for more details. As at December 31, 2009, 2010 and 2011 and June 30, 2012, we had foreign currency forward contracts hedging forecast transactions and foreign currency forward contracts on monetary assets and liabilities denominated in foreign currencies with a total net fair value of RMB(0.2) million, RMB(0.8) million, RMB(3.7) million and RMB(23.6) million, respectively, recognized as derivative financial instruments. However, we cannot assure you that we will be able to reduce our foreign currency risk exposure relating to our foreign currency denominated assets and liabilities in an effective manner. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs.

The value of RMB is subject to changes in the PRC’s governmental policies and to international economic and political developments. On July 21, 2005, the PRC Government changed its policy of pegging the value of RMB to US dollars. RMB is now permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC Government has made, and may in the future make, further adjustments to the exchange rate system. On June 19, 2010, the PRC Government announced its intention to further relax its currency policy, and RMB slightly appreciated against US dollars. We cannot assure you that RMB will not experience appreciation against US dollars in the future. In addition, the PBOC made an announcement on April 14, 2012, on enlarging the floating band of RMB’s trading prices against US dollar from 0.5% to 1% with effect from April 16, 2012. There remains significant international pressure on the PRC Government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of RMB against US dollars or other foreign currencies. Fluctuations of RMB could adversely affect the value of our foreign currency denominated

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transactions along with the value of cash flow generated from our operation or any dividends payable on our H Shares in foreign currency terms. Further appreciation of RMB against these currencies may dampen the demand for our international contracting and trading services and hence lead to a decline in the revenues of our overseas operation. Following the Global Offering, our exposure to risks associated with foreign currency fluctuations may further increase as the net proceeds from the Global Offering are expected to be deposited in currencies other than RMB until we obtain necessary approvals from the relevant PRC regulatory authorities to convert the same into RMB. On the other hand, as we expect to expand our international markets, future RMB appreciation could increase our costs and expenses or lead to fluctuations in the exposure of our foreign currency denominated assets and liabilities, thereby adversely affecting our profitability.

Our continued success requires us to hire and retain qualified personnel.

The growth of our business operation is dependent upon the continued service of our senior management team. The industry experience, expertise and contributions of our executive Directors and other members of our senior management whose names are set out in the section headed “Directors, Supervisors, Senior Management and Employees” of this Prospectus are essential to our continuing success. We will require an increasing number of experienced and competent executives in the future to implement our business and growth plans. If we were to lose the services of any of our Company’s key management members or were unable to train or recruit and retain personnel with equivalent qualifications at any time, the management and growth of our business could be adversely affected.

Our future success is dependent upon our ability to train, attract and retain high quality personnel, including executive officers, business development personnel and project managers and key qualified personnel, who have the necessary and required experience and expertise to conduct our business. Particularly, our success in the International Engineering Contracting Business is largely attributable to the qualified and experienced engineering designers, engineers and other business personnel that we have been able to train, attract and retain in the past. We may periodically experience difficulties in recruiting suitable personnel. We may lose these persons to our competitors who are able to offer more competitive packages, or we may have to significantly increase our related staff costs.

Competition for competent personnel in general is intense in the PRC and other markets where we operate our business. We cannot assure you that we will be able to maintain an adequate skilled labor force necessary for us to execute our business or to perform other corporate activities, nor can we guarantee that staff costs will not increase as a result of a shortage in the supply of skilled personnel. If we fail to attract and retain personnel with suitable managerial, technical or marketing expertise or maintain an adequate labor force on a continuous basis, our business and operation could be adversely affected and our future growth and expansions may be inhibited.

We do not possess valid title to certain properties that we occupy.

For some of the properties we occupy in the PRC, we have not yet obtained sufficient title certificates that allow us to use or transfer the properties freely. For our owned properties, as at September 30, 2012, we had not obtained proper building ownership certificates or real estate title certificates for 14 buildings with a total gross floor area of approximately 22,398 square meters. These properties are used for various purposes, including offices, retail, warehouses and dormitories for employees. We cannot predict how our rights as owner, lessee or occupier of these properties, and our operations carried out on or from these properties, may be adversely affected as a result of the absence of vested legal title in these properties or right to lease these properties. We may be required to relocate our business operations carried out on properties that we do not

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have unassailable legal rights to use or occupy temporarily or permanently, and such relocation could adversely affect our financial condition and results of operations. See “Business – Properties” for further details.

We may be subject to product liability exposure which could harm our reputation and materially adversely affect our business, financial condition and results of operations.

Potential product liability claims can be filed if products that we trade or equipment and machinery we employ for our engineering contracting projects fail to perform as expected, or are proven to be defective, or if their use causes, results in, or is alleged to have caused or resulted in personal injuries, project delays or damages or other adverse effects. Any product liability claim, whether relating to personal injuries or project delays or damages, or related regulatory actions could prove costly and time-consuming to defend and could potentially harm our reputation. If successful, product liability claims may require us to pay substantial damages which may not be sufficiently covered by the claims that we are entitled to against the manufacturers or suppliers. We did not experience any significant product liability claims during the Track Record Period and we currently do not maintain product liability insurance to cover potential product liability arising from the use of products that we trade or equipment and machinery that we employ for our engineering contracting projects, and may be unable to obtain sufficient product liability insurance coverage on commercially reasonable terms, or at all.

Moreover, a material design, manufacturing or quality related failure or defect in products that we trade or equipment and machinery we employ for our engineering contracting projects, or other safety issues could each warrant a request for repair or replacement which may result in increased product liability claims. During the Track Record Period, we have not experienced any material request for repair or replacement that adversely impact our reputation, business, operation and financial condition. If the local authorities decide that the products, equipment or machinery fail to conform to applicable quality and safety requirements and standards, we could be subject to regulatory actions. Violation of local laws and regulations relating to product quality and safety may subject us to fines, penalties and prohibition to market or trade. In case of defects, we may be required to repair or replace the defective products, equipment or machinery and effect any modification to render them safe before they can be distributed again on the market or employed in a project, which may also lead to significant expenses. Criminal liability can be triggered by violations of the general obligation to offer safe products or can arise from significant damages caused to the users of any defective products.

We recorded net current liabilities during the Track Record Period.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, our net current liabilities amounted to approximately 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 our EPC projects, some of which have a cash collection period of over one year. Throughout the Track Record Period, a major item 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, amounted to approximately RMB5,077.4 million, RMB8,158.4 million, RMB9,617.2 million and RMB12,582.7 million, respectively. In line with industry and accounting practices, receipts in advance made by our engineering contracting customers to us are classified as current liabilities. In addition, 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 power. Normally, we are not expected to repay these

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receipts in advance. Such receipts in advance are generally recognized as revenue along with the performance and completion of the relevant project and hence there is generally no need to repay such liabilities using our cash flows. We also have treasury and cash management policy and mechanisms to monitor our cash flows and borrowings. See “Financial Information – Qualitative and Quantitative Disclosure about Market Risk – Liquidity Risk” and “Financial Information – Net Current Liabilities” for more details. We cannot assure you that our treasury and cash management policy and mechanisms of managing liquidity risk will continue to be effective in the future or at all, or that our relationship with various banks will not deteriorate, or that our cash flow position will not worsen, which could materially adversely affect our ability of obtaining borrowings for our business, the expansion of our business, financial condition and results of operations.

We are subject to extensive environmental, safety and health laws and regulations, and our compliance with these laws and regulations may be onerous and costly to us.

Our business and operation are subject to numerous environmental, safety and health laws and regulations promulgated by the PRC Government and governments of overseas jurisdictions in which we conduct our business or operate. In addition, the environmental, safety and health laws and regulations in the PRC and such other jurisdictions will continue to evolve. We cannot predict the impact of regulatory developments relating to such industry regulations or environmental, health and safety laws and regulations, nor can we guarantee that the PRC Government or governments of foreign jurisdictions will not impose additional or stricter laws or regulations, compliance with which may cause us to incur significant costs that we may not be able to pass on or pass on in full amount to our clients. Any changes or amendments to such laws or regulations may cause us to incur additional capital expenditures, or other obligations or liabilities. Given the magnitude, complexity and continuous amendments to these laws and regulations, compliance therewith may be onerous or may require substantial financial and other resources to establish efficient compliance and monitoring systems. The liabilities, costs, obligations and requirements associated with compliance with these laws and regulations may therefore be substantial and may delay the schedule of, or cause interruptions to, our business and operation. Non-compliance with the relevant industry regulations or the environmental, health and safety laws and regulations applicable to our business and operation may even result in substantial penalties or fines, suspension or revocation of our relevant licenses or permits, termination of business contracts or suspension of our operation. Such events could impact our business, operating results, financial condition and reputation. Furthermore, some of the new overseas markets or sectors that we are seeking to enter into may have more onerous environmental, safety and health laws and regulations than the PRC and other jurisdictions, and compliance with such laws and regulations may be costly and could hinder our endeavors to enter into these new overseas markets or sectors.

RISKS RELATING TO OUR GROUP STRUCTURE

Failure by SINOMACH to fulfill its obligations to us in connection with the non-competition undertakings and pre-emptive rights may materially and adversely impact our business and operating results.

In connection with the Global Offering, SINOMACH as our Controlling Shareholder entered into the Non-competition Agreement with our Company, pursuant to which SINOMACH undertook that, so long as SINOMACH remains as our Controlling Shareholder, it and its subsidiaries which are engaged in the Excluded International Engineering Contracting Business (except for CAMC Engineering) shall not compete with our Group in respect of the Core Sectors conducted by our Group. SINOMACH also made certain non-competition undertaking with respect to SUMEC in relation to our Trading Business. See “Relationship with Controlling Shareholder – Non-competition Agreement” for more details. If, for any reason, the Non-competition Agreement were

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to be terminated or changes detrimental to us were to be made to the Non-competition Agreement, our business and results of operations could be materially and adversely affected.

We will be controlled by our Controlling Shareholder, whose interests may differ from those of our other shareholders.

Upon the completion of the Global Offering, assuming the Over-allotment Option is not exercised, our Controlling Shareholder, SINOMACH, will ultimately control approximately 80.34% of our share capital. Subject to the Articles of Association, SINOMACH will continue to have the ability to exercise a controlling influence over the management, policies, business and affairs of our Company such as the composition of our Board, the timing and amount of dividend distributions, material transactions, our annual budgets and the Articles of Association. We cannot guarantee that SINOMACH will not cause us to enter into transactions, to take or fail to take any other actions or make decisions that conflict with the best interests of our other Shareholders.

In addition, SINOMACH has retained its Excluded International Engineering Contracting Business and Excluded Trading Business which compete or are likely to compete with our business. SINOMACH will continue to operate its Excluded Business after the Global Offering, which may materially and adversely affect our business, operation and growth prospects. See “Relationship with Controlling Shareholder – Delineation of Business and Competition with SINOMACH Group” for further details.

Our historical declared dividends may not be indicative of our future dividend policy.

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 resolutions of the shareholders’ meeting dated February 14, 2011, we agreed to declare a special distribution (the “**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 of our Company.

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.

The Special Distribution is not indicative of the dividends that our Company may declare or distribute in the future. We cannot guarantee whether and when any dividends will be declared and

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paid in the future and the amount of dividends that we may have declared historically is not indicative of the amount of dividends that we may pay in the future. See “Financial Information – Dividend Policy” for more details of our Company’s dividend policy after the completion of the Global Offering. The declaration, payment and amount of any future dividends are determined at the discretion of our Board and will depend upon general business conditions and strategies, our financial results and capital requirements, the interests of the Shareholders, tax conditions, statutory and regulatory restrictions and other factors that our Board deems relevant.

We may not be able to control the non-controlling interests holders and cause our non-wholly-owned subsidiaries to take all the actions that we believe would be most beneficial to us in the future.

We have, and expect to have in the future, interests and management participation in non-wholly-owned subsidiaries in the normal course of our business. Our ability to direct the actions of or influence the decisions of non-wholly-owned subsidiaries within our Group is dependent on a number of factors, including reaching agreement with other shareholders, business partners with respect to certain decisions, our rights and obligations under the relevant shareholders’ agreements and the decision making process by the board of directors or the shareholders applicable to those subsidiaries. As a result of our non-wholly ownership interest in these subsidiaries, we may not in the future always have the ability to control the non-controlling interests holders and cause such non-wholly-owned subsidiaries to take all the actions that we believe would be most beneficial to us.

Our Group is large and complicated, and has been restructured, and we cannot assure that our efforts to further integrate all our business and coordinate among different subsidiaries will be successful.

As part of the Reorganization in connection with the Global Offering, our Company was established as a joint stock company with limited liability on January 18, 2011 with SINOMACH and China United as the Promoters. We also attempted to streamline our organization structure. Following the Reorganization, our Group consisted of 36 direct and indirect subsidiaries located across the PRC and other jurisdictions. The large scale and scope of our operations makes central coordination of activities a challenging task. There may be overlap in the operating activities of certain of our subsidiaries, in terms of geography, product type and/or business scope. We intend to maintain the independent operation of our subsidiaries, which may result in certain subsidiaries competing directly in certain areas. While we are of the view that such competition amongst some of our subsidiaries would not have a material adverse impact on our overall business operation and market position, the effect of such internal competition on our financial results is uncertain.

We formulated several initiatives to rationalize, integrate and consolidate the duplicated operations conducted by different subsidiaries to further realize the synergies within our Group following the Reorganization. Our proposed business integration initiatives may not be implemented effectively or on a timely basis, or may be adversely affected by certain issues arising from excessive number of employees, inability to obtain sufficient financial resources, technical difficulties, constraints in terms of human resources or other resources, or for other reasons. Moreover, the implementation of these business integration initiatives may be more costly than originally estimated. Should cost overrun, changes in circumstances, negative reaction from our employees or other reasons occur, the operational efficiencies and business synergy, which these business integration initiatives were intended to achieve, may not materialize. Furthermore, managing such internal competition will present challenges to our management team, financial and management information systems and internal control measures which will require continuous improvement and development in order for us to operate more effectively and efficiently as an

RISK FACTORS

integrated entity. If we are not able to successfully implement our business integration initiatives, our business, financial condition, results of operations and prospects may be adversely affected.

RISKS RELATING TO THE PRC

China's economic, political and social conditions, as well as regulatory policies, significantly affect the financial markets in China, as well as our liquidity, access to capital and ability to operate our business.

Our Company was incorporated, and our operation and assets are primarily located, in the PRC. Accordingly, our results of operations, financial condition and prospects are subject to the economic, political and legal developments in China. China's economy differs from the economies of developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors and there is no assurance that such growth can be sustained or is sustainable. The PRC Government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may negatively affect us. For example, our financial condition and results of operations may be adversely affected by government control over currency exchange or changes in tax regulations applicable to us. If the business environment in the PRC deteriorates, our business and operation in the PRC may also be materially adversely affected.

Over the recent years, the PRC Government implemented a number of measures, such as raising bank reserves against deposit rates. This action placed additional limitations on the ability of commercial banks to make loans and raise interest rates in order to decrease the growth rate of specific sectors of the PRC's economy which the PRC Government believed to be overheating. Such actions, as well as other PRC policies, may materially and adversely affect our liquidity and access to capital as well as our ability to operate in the PRC.

The PRC Government's control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares.

Currently, RMB still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by the SAFE.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. If we fail to obtain approval from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and even our business, operating results and financial condition, may be materially adversely affected.

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Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in the PRC could limit the legal protections available to the shareholders.

PRC laws and regulations govern our operation in the PRC. We and most of our subsidiaries are organized under PRC laws. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedent value and can only be used as a reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of the PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the governmental agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to our investors and Shareholders.

The national and regional economies in the PRC and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of SARS or an outbreak of any other epidemics in the PRC, such as the H5N1 avian flu or the human swine flu, especially in the cities where we have operations, may result in material disruptions to our business, which in turn may adversely affect our financial condition and results of operations.

Changes in PRC tax policy may adversely affect our business and financial results.

Prior to January 1, 2008, except for a number of preferential tax treatment schemes applicable to various enterprises, industries and locations, business enterprises in the PRC were subject to a corporate income tax rate of 33% under the relevant PRC enterprise income tax law. On January 1, 2008, the EIT Law (中華人民共和國企業所得稅法) became effective and imposed a tax rate of 25% on business enterprises. Those business enterprises enjoying preferential tax treatment that was extended for a fixed term prior to January 1, 2008 will still be entitled to such treatment until such fixed term expires. Increases in the effective tax rate would increase our tax liability correspondingly.

In addition, the PRC Government from time to time adjusts or changes its policies on value-added tax, business tax, resources tax, fuel and oil tax, property development tax and other taxes. Such adjustments or changes, together with any resulting uncertainty, could have an adverse effect on our business, results of operations and financial position.

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Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares.

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 H Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China'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 China 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 China, or have establishments or premises in China but their income is not related to such establishments or premises, under the EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of 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 China and the jurisdiction of the residence of the relevant Non-PRC Resident Enterprise.

Despite the arrangements mentioned above, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders will be subject to PRC individual income tax at a flat rate of 20%.

In addition, there remains significant uncertainty as to the interpretation and application of applicable PRC tax laws and rules by PRC's tax authorities, including the taxation of capital gains by the Non-PRC Resident Enterprises, individual income tax on dividends to non-PRC resident individual holders of our H Shares and on gains realized on sale or other disposition of our H Shares. PRC's tax laws, rules and regulations may also change. If there is any change to applicable tax laws and rules and interpretation or application with respect to such laws and rules, the value of your investment in our H Shares may be materially affected.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including in periods in which we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

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Moreover, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders, including periods in which we are profitable.

Holders of H Shares may experience difficulties in effecting service of legal process and enforcing judgments against us, our Directors, Supervisors or senior management and to take action on the basis of violations of the Listing Rules.

We are a company incorporated under the laws of the PRC and most of our assets and subsidiaries are located in the PRC. Most of our Directors, Supervisors and senior management reside within the PRC. The assets of these Directors, Supervisors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our Directors, Supervisors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, in the PRC or Hong Kong, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. On July 14, 2006, the Supreme People's Court of Mainland and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under this arrangement, where any designated People's Court of the PRC or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court of PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement remain uncertain.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, there was no public market for our H Shares. The initial issue price range for our H Shares was the result of negotiations among us and the Joint Bookrunners on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied for the listing of, and permission to deal in, our H Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our H Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our H Shares will not decline following completion of the Global Offering. In addition, there can be no assurance that the Global Offering will result in the development of an active and liquid public trading market for our H Shares. Furthermore, the price and trading volume of our H Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows may affect the volume and price at which our H Shares will be traded.

Because the Offer Price is higher than our net tangible book value per Share, you will incur immediate dilution.

The Offer Price of our Offer Shares is higher than the net tangible book value per Share issued to existing holders of our Shares. Therefore, all investors and purchasers of our Offer Shares in the

RISK FACTORS

Global Offering will experience an immediate dilution in pro forma net tangible book value and existing holders of our Shares will receive an increase in net tangible book value per Share of their Shares. If we issue additional Shares or equity-linked securities in the future, investors and purchasers of Shares may experience further dilution in their ownership percentage.

Future sales, or market perception of sales, of substantial amounts of our H Shares or other securities relating to our H Shares in the public market could materially and adversely affect the prevailing market price of our H Shares.

Future sales by our Shareholders of substantial amounts of our H Shares or other securities relating to our H shares in the public markets after the Global Offering, or the perception that these sales may occur, could adversely affect market prices of our H Shares prevailing from time to time. In addition, Domestic Shares can be converted into H Shares after Listing subject to relevant laws and regulations and approvals. See “Information about this Prospectus and the Global Offering – Restrictions on Offer and Sale of Offer Shares” for a more detailed discussion of restrictions that may apply to future sales of our H Shares. After these restrictions lapse, the market price of our H Shares may decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, the issuance of new H Shares or other securities relating to our H Shares, the conversion of substantial amounts of Domestic Shares into H Shares or the perception that such sales, conversion or issuances may occur. This could also materially and adversely affect our ability to raise capital at a time and at a price we deem appropriate.

If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our H Shares, the market price for our H Shares and trading volume may decline.

The trading market for our H Shares will be influenced by research or reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our H Shares or publishes negative opinions about us, the market price for our H Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume of our H Shares to decline.

We strongly caution investors not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

Prior or subsequent to the publication of this Prospectus, there has been or may be press and media coverage regarding us and the Global Offering, in addition to marketing materials published by us in compliance with the Listing Rules. We have not authorized any such press and media reports, and the financial information, financial projections, valuations and other information about us contained in such unauthorized press and media coverage may not truly reflect what is disclosed in this Prospectus or the actual circumstances. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inappropriateness, inaccuracy, incompleteness or unreliability of any such information. To the extent that any such information appearing in the press or media is inconsistent or conflicts with the information contained in this Prospectus or the actual circumstances, we shall not be liable on the same, accordingly, investors should not rely on any such information in making a decision as to whether to purchase our H Shares, and should rely only on the information included in this Prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rules 8.12 and 19A.15 of the Listing Rules require that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Our major business operations are currently based and administered in the PRC, and are primarily conducted overseas. As our executive Directors play very important roles in our Company's business operations, it is in our best interests for them to be based in or near the places where our Group has significant operations. As such, we do not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Ms. LI Taifang and Mr. CHEN Minjian, who are one of our executive Directors, and one of the joint company secretaries of our Company respectively. The alternate to Ms. LI Taifang is Ms. TSANG Fung Chu, the other joint company secretary of our Company, and the alternate to Mr. CHEN Minjian is Mr. WANG Mowei, chief officer of the office of our Board. Each of the authorized representatives (including the alternate authorized representatives) has confirmed that they will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time frame upon request of the Stock Exchange, if required. They will be readily contactable by telephone, facsimile or e-mail and are authorized to communicate on our behalf with the Stock Exchange;
- (b) both authorized representatives (including the alternate authorized representatives) have means to contact all our Directors (including independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of our Board for any matters. To enhance communication between the Stock Exchange, our authorized representatives (including the alternate authorized representatives) and our Directors, we have implemented a policy whereby (i) each Director will have to provide his/her office phone number, mobile phone number, facsimile number and email address to the authorized representatives (including the alternate authorized representatives); (ii) in the event that a Director expects to travel and be out of office, he/she will have to provide the phone number of the place of his/her accommodation or other means of communication to the authorized representatives (including the alternate authorized representatives); and (iii) each Director will provide their mobile phone number, office phone number, facsimile number and email address to the Stock Exchange;

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- (c) we have, in compliance with Rule 3A.19 of the Listing Rules, retained a compliance advisor, who will have access at all times to our Company's authorized representatives (including the alternate authorized representatives), Directors and other officers. The compliance advisor will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after listing and, where the authorized representatives and the alternate authorized representatives of our Company are unavailable, act as an additional channel of communication between our Company and the Stock Exchange at least for the period commencing from the Listing Date and ending on the date that our Company publishes its first full financial year results pursuant to Rule 13.46 of the Listing Rules;
- (d) meetings between the Stock Exchange and our Directors could be arranged through the authorized representatives, the alternate authorized representatives or our compliance advisor, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any change in the authorized representatives, the alternate authorized representatives and our compliance advisor; and
- (e) each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet the Stock Exchange in Hong Kong within a reasonable period.

COMPANY SECRETARY

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint as our company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers (i) a Member of The Hong Kong Institute of Chartered Secretaries, (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)), and (iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)) to be acceptable academic or professional qualifications. In assessing "relevant experience", the Stock Exchange will consider the individual's (i) length of employment with the issuer and other issuers and the roles he played, (ii) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Hong Kong Companies Ordinance, and the Takeovers Code, (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29, and (iv) professional qualifications in other jurisdictions.

We have appointed Mr. CHEN Minjian as one of the joint company secretaries. Mr. CHEN is experienced in strategic management, sales management and administrative work and has a thorough understanding of the operation of our Board and our Company. However, Mr. CHEN does not possess any of the qualifications as stipulated in Rule 3.28 of the Listing Rules and may not be able to solely fulfill the requirements of the Listing Rules. Therefore, we have appointed Ms. TSANG Fung Chu, who meets the requirements under Rules 3.28 and 8.17 to act as another joint company secretary and to provide assistance to Mr. CHEN for an initial period of three years from the Listing Date so as to fully comply with the requirements set forth under Rules 3.28 and 8.17.

Ms. TSANG Fung Chu will work closely with Mr. CHEN to jointly discharge the duties and responsibilities as company secretary and assist Mr. CHEN to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, Mr. CHEN will endeavor to attend relevant training and familiarize himself with the Listing Rules and duties required for a company secretary of a PRC issuer listed on the Stock Exchange, including briefing on the latest changes to the applicable Hong Kong laws and regulations and the Listing Rules organized by our Company's Hong Kong legal advisors on an invitation basis and seminars organized by the Stock Exchange for PRC issuers from time to time.

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We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver under and in respect of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the Listing Date and will be revoked immediately if Ms. TSANG Fung Chu ceases to provide assistance to Mr. CHEN as our joint company secretary during the three years after the Listing Date. Upon the expiry of the initial three-year period, the qualifications of Mr. CHEN will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied. In the event that Mr. CHEN has obtained relevant experience under Rules 3.28 and 8.17 of the Hong Kong Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

CONTINUING CONNECTED TRANSACTIONS

Members of our Group have entered, or will enter, into certain transactions, which would constitute non-exempt continuing connected transactions of our Company under the Listing Rules after the Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, certain waivers from strict compliance with the announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further details of such non-exempt continuing connected transactions and the waivers are set out in the section headed "Connected Transactions" in this Prospectus.

POST BALANCE SHEET DATE ACQUISITION

Pursuant to Rule 4.04(2) and Rule 4.04(4)(a) of the Listing Rules, our accountants' report must include the results of any business or subsidiary agreed to be acquired or proposed to be acquired since June 30, 2012.

In May 2012, we came to knowledge of the opening of a public bid as of April 13, 2012, on Chongqing United Assets and Equity Exchange (重慶聯合產權交易所) (the "**Chongqing Exchange**") in respect of the transfer of 50% equity interest (the "**Zhongnan's Interest**") in China Power Construction Engineering Consulting Zhongnan Company (中國電力建設工程諮詢中南公司) ("**Zhongnan**") that was at that time 100% held by China Power Engineering Consulting Group Zhongnan Power Design Institute ("**Zhongnan Design Institute**") (中國電力工程顧問集團中南電力設計院) (the "**Bid Notice**"), for a total consideration of approximately RMB4.6 million ("**Transfer Price**"). The Transfer Price was determined based on the valuation report of Zhongnan and corresponding to the shareholding percentage of Zhongnan's Interest to be transferred by Zhongnan Design Institute. Zhongnan is a company solely funded by the State (國有獨資公司) with a registered capital of RMB5.0 million. According to the audited reports issued by Continental Certified Public Accountants Co., Ltd., a PRC CPA firm, for the three years ended December 31, 2009, 2010 and 2011, the total revenue of Zhongnan was RMB10.2 million, RMB10.6 million and RMB16.2 million, respectively; the net profit was RMB1.1 million, RMB0.8 million and RMB1.0 million, respectively; the total assets were RMB21.7 million, RMB46.1 million and RMB18.4 million, respectively; and the net assets were RMB9.9 million, RMB6.2 million and RMB7.2 million, respectively. Zhongnan Design Institute owns 100% of the equity interest in Zhongnan. The scope of business of Zhongnan includes: (a) the engineering design, planning, tendering and post-completion consultation of thermal power work, as well as formulating proposals and feasibility studies; (b) consultation services on engineering design, assessment and tendering in respect of geology, hydrogeology, geotechnical engineering and engineering survey, as well as formulating proposals and feasibility studies; (c) tendering agency of various engineering work; (d) consultation services on engineering design, formulating proposals and feasibility studies and assessment in respect of environmental engineering work; and (e) formulating proposals and feasibility studies of construction works. Zhongnan is qualified as a grade A engineering consultation entity as well as a grade A engineering tendering agency entity in the PRC. Both Zhongnan and Zhongnan Design

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Institute are independent third parties. We consider the Transfer Price to be fair and reasonable after our due diligence and our Directors are of the view that the acquisition of the Zhongnan's Interest (the "**Acquisition**") will be beneficial to our future growth and to our Shareholders as a whole. On May 9, 2012, we placed a bid to acquire the Zhongnan's Interest. On May 18, 2012, we received a notification from the Chongqing Exchange that our bid was accepted subject to our payment of the requisite bid bond. On June 4, 2012, our Company and Zhongnan Design Institute entered into a share transfer agreement in relation to the transfer of the Zhongnan's Interest (the "**SPA**").

Our Company fully settled the Transfer Price and all related transactional fees pursuant to the SPA. We have obtained the necessary documents for transfer of title and other related documents, which were required to be filed with the relevant industrial and commercial bureau.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 4.04(2) and Rule 4.04(4)(a) of the Listing Rules on the following grounds:

- i. **Immateriality** – The Acquisition was immaterial to us. Based on the financial information stated in the Bid Notice, the relevant percentage ratios, as defined under Rule 14.04(9) of the Listing Rules, as of, or for the year ended on, December 31, 2011, are approximately as follows:

- (a) Asset ratio: 0.07%
- (b) Profit ratio: 0.06%
- (c) Revenue ratio: 0.08%

The Acquisition was not significant enough that would require us to prepare pro forma financial information in this Prospectus pursuant to Rule 4.28 of the Listing Rules.

- ii. **Insufficient financial information and time** – Since the Acquisition was completed only recently, and we have not been actually involved in the day-to-day management of Zhongnan, we did not have sufficient time to obtain the necessary financial information of Zhongnan. Moreover, even if we did get such information, we and our reporting accountants will need to evaluate the work and time entailed for preparing the consolidated financial information of our Group and Zhongnan pursuant to Rule 4.09 of the Listing Rules. Due to the tight timeframe between the completion of the Acquisition and the Listing, it would be impracticable, if not impossible, for us to disclose the financial information of Zhongnan for each of the three financial years immediately preceding the issue of this Prospectus.
- iii. **Alternative disclosure** – We will disclose in this Prospectus important information pertaining to Zhongnan, including publicly available information contained in the Bid Notice for the Zhongnan's Interest (e.g. its corporate structure, scope of business and business focus), the key financial information including revenue, net profit, asset and net asset, with a view to allowing the potential investors to understand Zhongnan in greater details and the impact of the Acquisition on our Group as a whole.

The detailed information for Zhongnan as required under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules will be disclosed in our annual report in relation to our financial year ending December 31, 2012 once the relevant information becomes available.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Listing Rules require that there must be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s), including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalization at the time of listing of not less than HK\$50 million. Moreover, under Rule 8.08(1)(d) of the Listing Rules, subject to certain criteria, the Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10 billion, where it is satisfied that the number of securities concerned and the extent of their distribution would enable the market to operate properly with a lower percentage.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.08(1) of the Listing Rules to allow a minimum public float for the H shares to be the higher of (i) 17.87% of the total issued Shares; or (ii) such a percentage of the H Shares held by the public immediately after completion of the Global Offering, as increased by the H Shares which may be issued upon the exercise of the Over-allotment Option and the transfer and conversion of the relevant Domestic Shares into H Shares pursuant to the PRC regulations on reduction of Domestic Shares.

The above waiver is subject to the condition that we will make appropriate disclosure of the lower prescribed percentage of public float of the H Shares and confirm sufficiency of public float of the H Shares in successive annual reports after Listing. In the event that the public float percentage falls below the minimum percentage prescribed by the Stock Exchange, we will take appropriate steps to ensure that the minimum percentage of public float prescribed by the Stock Exchange is complied with.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus includes particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy and completeness of the information contained in this Prospectus, and confirm, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Prospectus misleading.

CSRC APPROVAL

The CSRC issued an approval letter on May 28, 2012 for the Global Offering and for the submission of the application to list our H Shares on the Stock Exchange. In granting its approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this Prospectus or in the Application Forms.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered or sold solely on the basis of the information contained and representations made in this Prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this Prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, agents, employees or advisors or any other person or party involved in the Global Offering.

UNDERWRITING

The listing of our H Shares on the Stock Exchange is sponsored by BOCI, also referred to as the Sole Sponsor.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters listed in the section headed "Underwriting," pursuant to the Hong Kong Underwriting Agreement subject to agreement on the Offer Price between us and the Joint Bookrunners (on behalf of the Underwriters).

The International Offering is intended to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement.

For further information about the Underwriters and the underwriting arrangements, see the section entitled "Underwriting" for more information.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by our Company and the Joint Bookrunners (on behalf of the Underwriters) on or around December 15, 2012, and in any event no later than December 18, 2012.

If the Joint Bookrunners (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before December 18, 2012, or such later date or time as may be agreed between the Joint Bookrunners (on behalf of the Underwriters) and our Company, the Global Offering will not become unconditional and will lapse.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this Prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his/her acquisition of Hong Kong Offer Shares to confirm, that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this Prospectus. In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this Prospectus and related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this Prospectus, and any information or representation not contained in this Prospectus must not be relied upon as having been authorized by our Company, the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, the Underwriters, any of their respective directors, supervisors, agents or advisers or any other persons or parties involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, see “Structure of the Global Offering,” “How to Apply for Hong Kong Offer Shares” and the relevant Application Forms.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the Listing of, and permission to deal in, our H Shares, including any shares which may be issued or sold pursuant to the Over-allotment Option.

No part of our share capital is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and our Company’s compliance with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our H Shares to be admitted into CCASS.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements that may affect their rights and interests.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing or holding or dealing in our H Shares, you should consult an expert.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

It is emphasized that none of us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, any of the Underwriters, their respective directors, agents, employees and advisors, nor any other person involved in the Global Offering accepts any responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding or disposing of, dealing in or the exercise of any rights in relation to, our H Shares.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- (b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- (c) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and
- (d) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

H SHARE REGISTER OF MEMBERS

All of the H Shares pursuant to applications made in the Hong Kong Public Offering will be registered on our H Share register of members to be maintained in Hong Kong by our H Share Registrar. Our principal register of members will be maintained by us at our head office in the PRC.

STAMP DUTY

Dealings in the H Shares registered on our Company's H Share register of members will be subject to Hong Kong stamp duty.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the sections headed "Underwriting" and "Structure of the Global Offering" in this Prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedure for the Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this Prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this Prospectus.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in Renminbi and US dollars have been translated, for the purpose of illustration only, into Hong Kong dollars in this Prospectus at the following rates:

HK\$1.00	:	RMB0.8117
HK\$7.75	:	US\$1.00
HK\$0.02	:	XAF1.00

No representation is made that any amounts in Renminbi, US dollars, XAF or Hong Kong dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

MARKET SHARE DATA

The statistical and market share information contained in this Prospectus has been derived from official government publications, market data providers and other Independent Third Party sources. Unless otherwise indicated, the information has not been independently verified by our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Underwriters, or any other parties involved in the Global Offering. This statistical information may not be consistent with other statistical information from other sources within or outside the PRC. Our Directors have reproduced the data and statistics extracted from such official government publications and other sources in a reasonably cautious manner.

LANGUAGE

If there is any inconsistency between this Prospectus and the Chinese translation of this Prospectus, this Prospectus shall prevail. The translated English names of the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations, natural persons or other entities (including certain of our subsidiaries) and the like included in this Prospectus and for which no official English translation exists are unofficial translations for your reference only. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this Prospectus and their English translations, the Chinese names shall prevail.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein or in calculations between figures are due to rounding.

DISCLAIMER ABOUT MAPS

All maps in this Prospectus are provided only for illustrative purposes and are not drawn to scale. They are not intended to accurately show the exact location of our engineering contracting projects.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
YANG Wansheng (楊萬勝)	Room 601, Gate 1, Building No. 6 Xihuangchenggen Street (South) No. 1 Community Xicheng District Beijing, PRC	Chinese
LI Taifang (李太芳)	Unit 601, Gate 2, Building No. 12 Xilijia Baiyun Road Xicheng District Beijing, PRC	Chinese
ZHANG Chun (張淳)	No. 902, Gate 1 Building No. 7 Yard No. 16 Ganyangshujia Chaoyang District Beijing, PRC	Chinese
<i>Non-executive Directors</i>		
PAN Chongyi (潘崇義)	Unit 301, Gate 8, Building No. 10 Fuzeyuan Yihai Garden Fengtai District Beijing, PRC	Chinese
WANG Zhian (王治安)	Room 501, No. 12 Zijinchanan Community Haidian District Beijing, PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Independent non-executive Directors</i>		
LIU Li (劉力)	No. 1301, Building No. 2 Renmin University, Yiyuan Haidian District Beijing, PRC	Chinese
LIU Hongyu (劉紅宇)	No. 15, Shuidaozi Chongwen District Beijing, PRC	Chinese
FANG Yongzhong (方永忠)	3-4-1, No. 80 Tianjin Street (South) Heping District Shenyang City, PRC	Chinese
CHAN Kin Ho Philip (陳建豪)	Flat 2302 Kam Wai House Kam Fung Court, Shatin Hong Kong	Chinese

SUPERVISORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
QUAN Huaqiang (全華強)	Unit 501, Gate 4, Building No. 34 Enjili, Haidian District Beijing, PRC	Chinese
QIAN Xiangdong (錢向東)	No. 506, Unit 3, Building No.3 Guanshanyuan, Shijicheng Haidian District Beijing, PRC	Chinese
BAI Ming (白明)	Unit 13, Gate 1, Building No. 304 Jingsong No. 3 Community Chaoyang District Beijing, PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

OTHER PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Global Coordinator and Sole Sponsor	BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Central Hong Kong
Joint Bookrunners	BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Central Hong Kong
	ICBC International Capital Limited 37/F, ICBC Tower 3 Garden Road Hong Kong
	CIMB Securities Limited Units 7706-08 Level 77, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	ABCI Securities Company Limited Room 701, 7/F One Pacific Place 88 Queensway Hong Kong
Joint Lead Managers	BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Central Hong Kong
	ICBC International Securities Limited 37/F, ICBC Tower 3 Garden Road Hong Kong
	CIMB Securities Limited Units 7706-08 Level 77, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	ABCI Securities Company Limited Room 701, 7/F One Pacific Place 88 Queensway Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisors to our Company

As to Hong Kong Law
King & Wood Mallesons
9th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

As to PRC Law
Jia Yuan Law Offices
F408
Ocean Plaza
158 Fuxing Men Nei Avenue
Beijing 100031
PRC

As to US Sanctions Law
McKenna Long & Aldridge LLP
14th Floor, 300 South Grand Avenue
Los Angeles, CA 90071
United States of America

*As to EU Sanctions Law and UN Security
Council Resolutions*
Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ
United Kingdom

As to Australian Sanctions Law
King & Wood Mallesons
Level 50, Bourke Place
600 Bourke Street
Melbourne VIC 3000
Australia

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisors to the underwriters

As to Hong Kong Law
Shearman & Sterling
12th Floor, Gloucester Tower
The Landmark
15 Queen's Road
Central
Hong Kong

As to PRC Law
Commerce & Finance Law Office
6F NCI Tower, A12
Jianguomenwai Avenue
Chaoyang District
Beijing
PRC

As to US Sanctions Law
Cleary Gottlieb Steen & Hamilton LLP
2000 Pennsylvania Avenue, N.W.
Washington, D.C.
United States

Auditors and reporting accountants

KPMG
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

Receiving bankers

Bank of China (Hong Kong) Limited
1 Garden Road
Central
Hong Kong

Industrial and Commercial Bank of China
(Asia) Limited
33/F, ICBC Tower
3 Garden Road
Central
Hong Kong

CORPORATE INFORMATION

Registered Office and Headquarters	No. 178 Guang'anmenwai Street Beijing PRC
Principal Place of Business in Hong Kong	Room 804, 8/F, Tower 1 South Sea Centre 75 Mody Road Tsimshatsui East Kowloon, Hong Kong
Website Address	<u>www.cmec.com</u> <i>(contents of this website do not form part of this Prospectus)</i>
Joint Company Secretaries	CHEN Minjian TSANG Fung Chu
Authorized Representatives	LI Taifang Unit 601, Gate 2, Building No. 12 Xilijia Baiyun Road Xicheng District Beijing, PRC CHEN Minjian Unit 408, Building No. 6 Lane 1, No.8 Yuquan Road Haidian District Beijing, PRC
Audit Committee	LIU Li (<i>Chairman</i>) WANG Zhian LIU Hongyu
Remuneration Committee	FANG Yongzhong (<i>Chairman</i>) YANG Wansheng LIU Li
Nomination Committee	YANG Wansheng (<i>Chairman</i>) LIU Hongyu FANG Yongzhong
Strategy and Development Committee	YANG Wansheng (<i>Chairman</i>) LI Taifang ZHANG Chun PAN Chongyi LIU Li

CORPORATE INFORMATION

Operation and Risk Management Committee	LI Taifang (<i>Chairman</i>) PAN Chongyi WANG Zhian FANG Yongzhong
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Compliance Advisor	China Galaxy International Securities (Hong Kong) Co., Limited Room 3501-3507 35/F COSCO Tower 183 Queen's Road Central Hong Kong
Principal Banks	Bank of China Limited No. 1, Fuxingmennei Avenue Xicheng District Beijing, PRC The Export – Import Bank of China No. 30, Fuxingmennei Avenue Xicheng District Beijing, PRC China CITIC Bank Investment Square 27A Financial Street Xicheng District Beijing, PRC China Merchants Bank (Beijing Branch) No. 156, Fuxingmennei Avenue Xicheng District Beijing, PRC Bank of Communication (Beijing Dongdan Sub-branch) No. 8, Dayabao Hutong Dongcheng District Beijing, PRC

INDUSTRY OVERVIEW

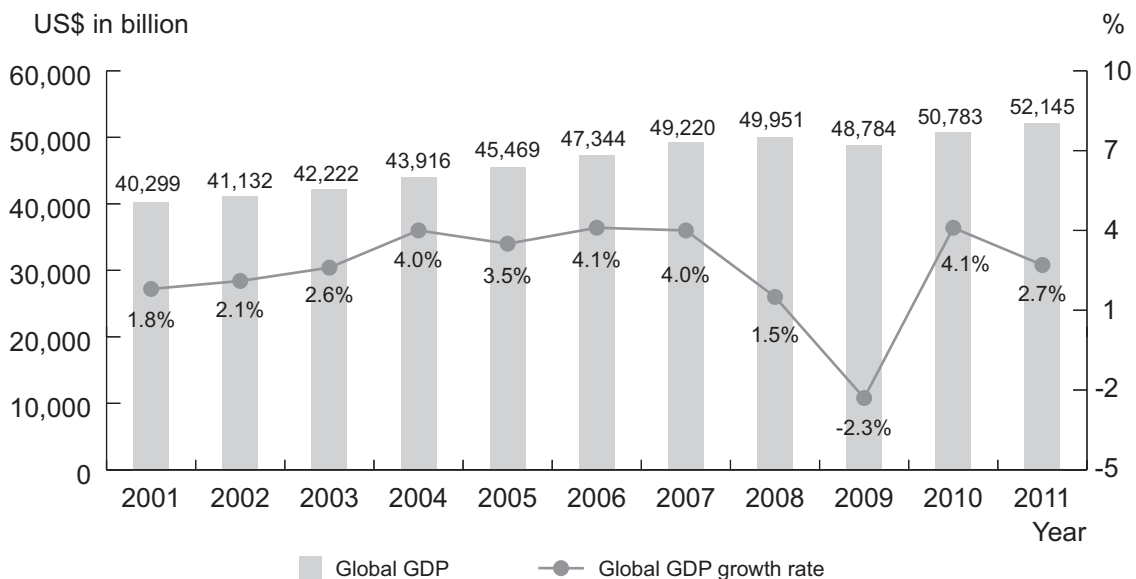
This section contains information and statistics primarily relating to the infrastructure engineering industry and trading industry globally and in particular in the developing countries. We have derived such information and statistics from the Ipsos Report. See “Sources of Information” below. We believe that the sources of such information are appropriate sources for such information and have exercised reasonable care in compiling and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, none of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor, the Underwriters, or any other parties involved in the Global Offering has independently verified the information and statistics derived from the Ipsos Report, nor do they make any representation as to the correctness, accuracy, completeness or fairness of such information and statistics. Accordingly, you should not unduly rely on such information and statistics contained in this section.

OVERVIEW

Overview of Global Economy

The global GDP has grown at a CAGR of approximately 2.6% from 2001 to 2011. In 2009, the global GDP declined by approximately 2.3% mainly due to the economic downturn in the developed countries in North America and Western Europe. Despite the financial crisis in late 2008 and early 2009, the global GDP in 2010 picked up and even exceeded the pre-financial crisis level. The following chart shows the global GDP and the global GDP growth rate for the periods specified.

Global GDP Trend from 2001 to 2011



Note: Gross domestic product at constant price for baseline in billions of 2005 dollars.

Source: Economic Research Service (January 2012), which is a primary source of economic information and research in the US Department of Agriculture

The significant economic growth of the developing countries, especially in Asia, drove the rapid rise in GDP in 2010 at a growth rate of approximately 7.7%. The economic growth in China, India and countries in Asia was the major driving force for the rapid rise of the global GDP growth in 2010. The GDP in the developed countries also increased but at a slower rate of approximately 5.9% due to high unemployment rate and budget deficit.

INDUSTRY OVERVIEW

Sovereign debt crisis that emerged in 2011 impeded the construction development mainly in the US and Europe, and reduced the developed economies' contribution to global growth in the short run. Much of construction-related spending from the economic stimulus programs may be stopped, reduced and/or being replaced by austerity measures to cut debt, especially in the European countries. The market turmoil also limited many countries' ability to invest in costly projects and hampered investors' confidence in new project investment. With national budgets trimmed and the European economies suffering from fiscal burdens, national allocations to development institutions and multilateral agencies were also being scaled back, leaving less allocation to construction projects.

Global Trend of Government Spending on Infrastructure

The onset of financial crisis in late 2008 and early 2009 has increased political risks thereafter, especially in developing countries. Governments worldwide began to stabilize the political environment through accelerating economic growth, in particular, infrastructure spending. This kind of stimulus contributed to approximately 1.4%, 1.9%, 2.0%, 1.4%, 0.8% and 1.5% of the GDP of United Kingdom, United States, China, Japan, Australia and Canada, respectively. Types of infrastructure include power, transportation, telecommunications, water and sewage and other public-works projects.

Asia's economy was less affected by the global financial crisis, and it has been recovering after its own regional crisis. Most regional governments in Asia have announced plans to invest in more than US\$600 billion over the next several years on regional infrastructure after the financial crisis in 2009. Renewable energy projects have also been a growing trend in Asia.

The Middle East's oil-importing countries were affected by the straitened credit conditions as a result of the global financial crisis which diminished investors' appetite. To improve the economy, the Middle East's governments pledged over US\$100 billion on high-speed railway projects and water and renewable engineering.

Africa's economic growth was slowed down during the global financial crisis and it was gradually recovering after the crisis. Several governments, including the Federal Democratic Republic of Ethiopia, the Republic of Mozambique and the Republic of Botswana, aimed to develop infrastructure projects such as water ports, bridges and raw water pumping stations. Moreover, the African Development Bank also proposed to spend US\$10 billion on the development of infrastructure from 2011 to 2015.

GDP in Developing Countries⁽¹⁾

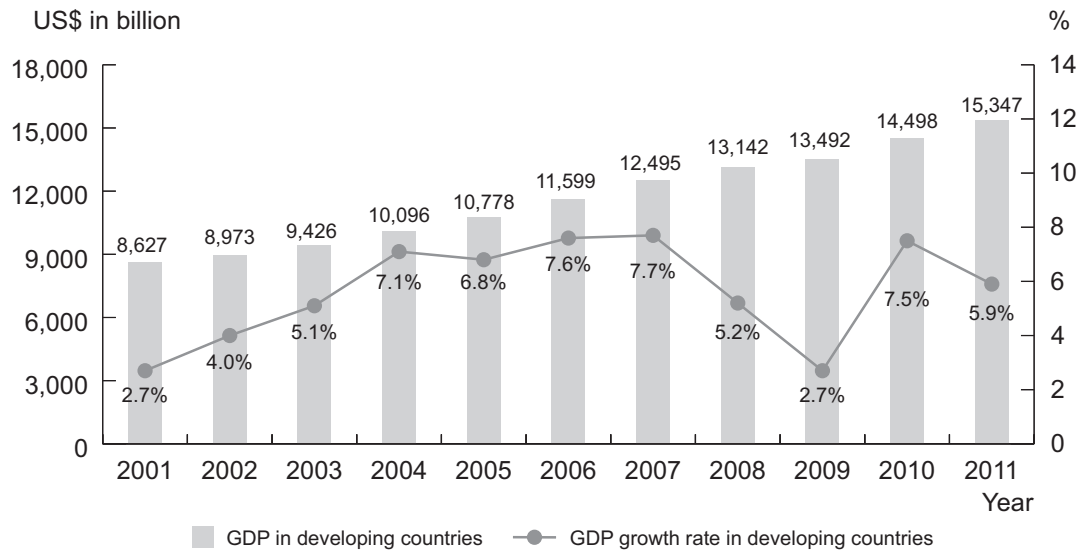
The GDP in developing countries has grown faster than that of developed countries over the past ten years. According to the Ipsos Report, transfers of investments from developed countries, foreign direct investment, shift of labor from agriculture to service industrial industries and trade liberalization fuelled the GDP growth in developing countries. Though adversely impacted by the global financial crisis from 2008 to 2009, a recovery in the GDP growth was supported by resurgence in international and domestic financial flow and higher commodity prices and saw a growth rate at approximately 5.9% as compared to the global GDP growth of approximately 2.7%.

Note (1): According to the World Bank in April 2012, developing countries refer to countries with low- and mid-income economies. The low- and mid-income economies are those with a gross national income per capita of less than US\$12,275. There are 146 developing countries, of which 32 are in East and South Asia and Pacific region (e.g. China, Sri Lanka, Indonesia, Myanmar, Cambodia), 30 are in Latin and Central America (e.g. Brazil, Chile, Colombia, Cuba), 7 are in the Middle East (e.g. Iran, the Republic of Yemen), 54 are in Africa (e.g. Angola, Chad, Republic of Congo, Sudan and Zimbabwe) and 18 are in Europe and Central Asia (e.g. Albania, Belarus, Romania).

INDUSTRY OVERVIEW

The following chart shows the GDP and GDP growth rate of developing countries for the periods specified.

Developing Countries GDP Trend from 2001 to 2011



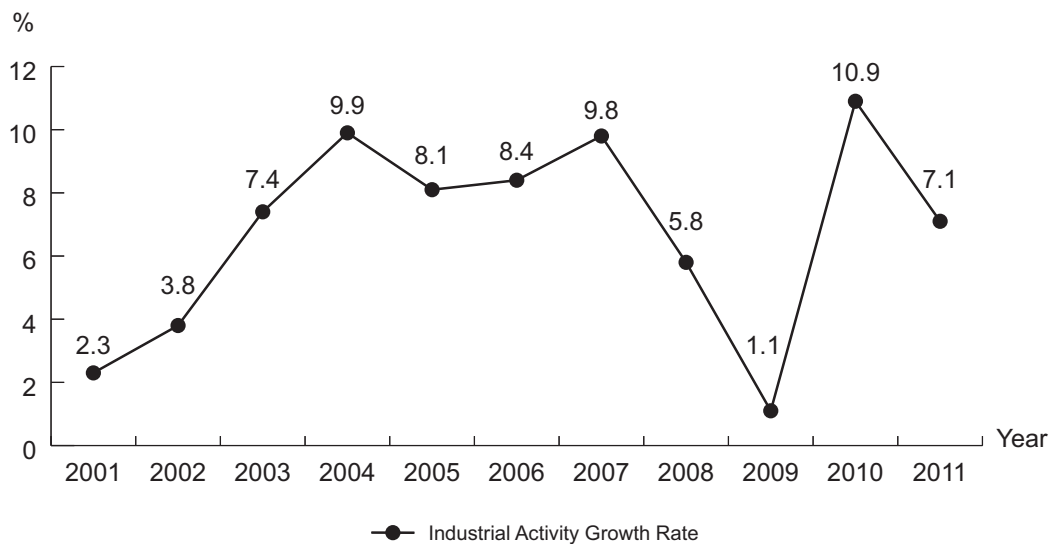
Note: Gross domestic product at constant price

Source: Economic Research Service (January 2012)

Industrial Activities in Developing Countries

As the room for growth for industrial activities in developed countries has narrowed due to the maturity of these markets, the focus of industrial activities has shifted from developed countries to developing countries from 2001 to 2011. The following chart shows the growth rate of the value of output of industrial activities in developing countries for the periods specified.

Growth Rate of Industrial Activities in Developing Countries from 2001 to 2011



Source: World Bank; International Monetary Fund (January 2012)

INDUSTRY OVERVIEW

After the financial crisis and during the global recession, industrial activities in developing countries significantly slowed down, as a result of delayed or reduced investments, expansions and productions. As the global economy had been recovering gradually after the recession, the industrial activities in developing countries saw a fast increase at a growth rate of approximately 10.9% in 2010. The European sovereign debt crisis brought uncertainty to the market which slowed down the growth of industrial activities to approximately 7.1% in 2011.

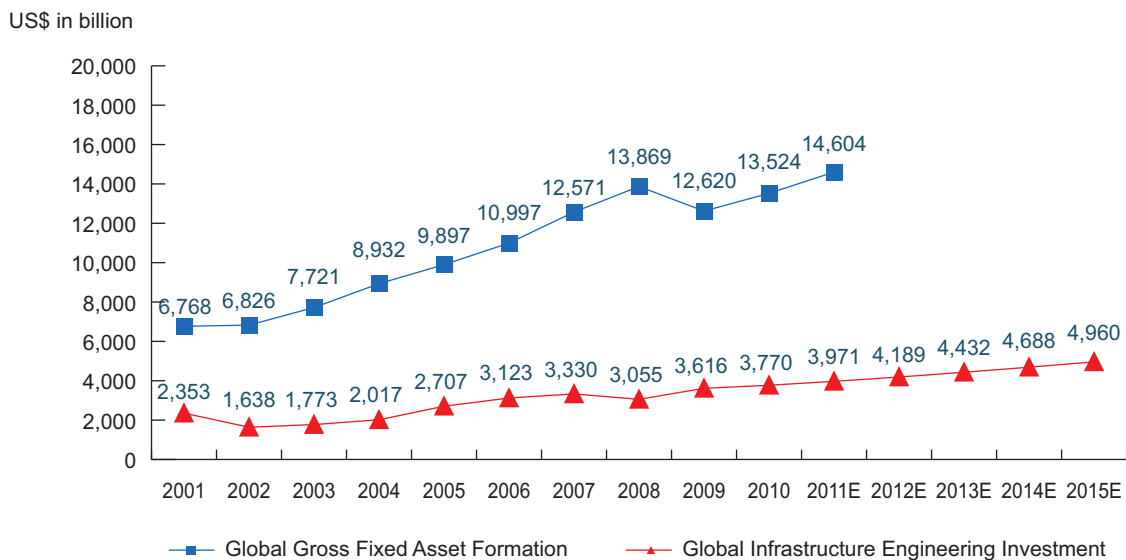
INFRASTRUCTURE ENGINEERING INDUSTRY

Global Investments in Infrastructure Engineering

The gross fixed asset formation measures the net new investment in fixed capital assets. These fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. As infrastructure is a kind of fixed assets, hence, the gross fixed asset formation is a key factor in reviewing infrastructure engineering investment value as it contains any investments made by the governments and the private sector in those assets during the period.

Global gross fixed asset investments grew at CAGR of approximately 8.0% while global investments in infrastructure engineering grew at a CAGR of approximately 5.4% from 2001 to 2011. The following chart shows the historical global fixed asset investment values and the historical and estimated global infrastructure engineering investment for the periods specified.

Global Fixed Asset Investment Value and Infrastructure Engineering Investment Value from 2001 to 2015E



Notes:

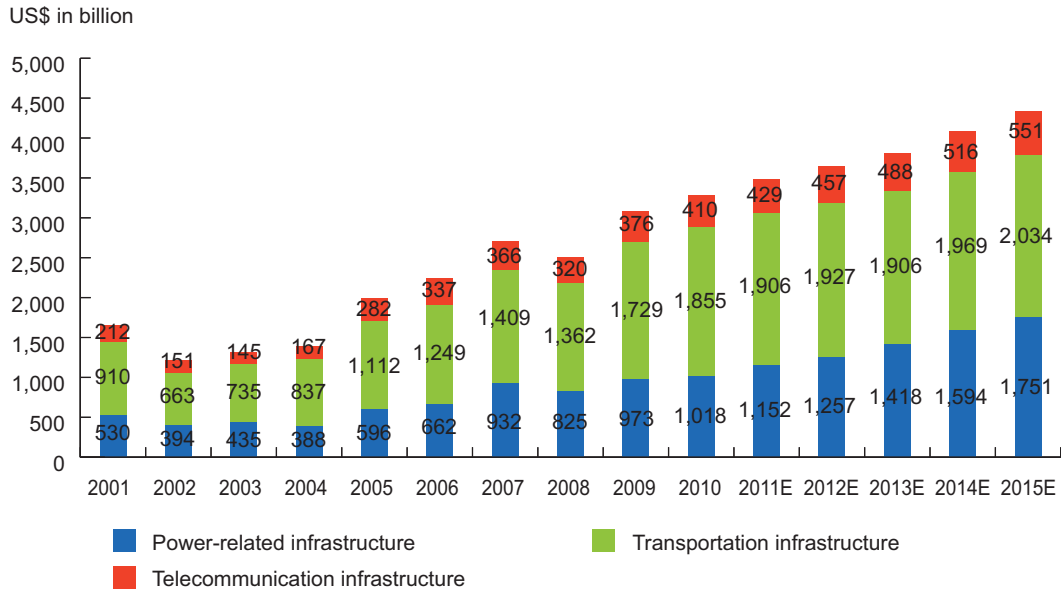
- (1) Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings.
- (2) Global infrastructure engineering investment includes power, transportation, telecommunications, petroleum, water, sewer waste, hazardous waste, industrial process, manufacturing and others.
- (3) E denotes estimated figures.

Source: World Bank (December 2011), Ipsos Report

INDUSTRY OVERVIEW

Among the various types of infrastructure engineering projects are power-related infrastructure engineering, transportation infrastructure engineering, and telecommunications infrastructure engineering which together accounted for approximately 87.8% of the total investment value in global infrastructure engineering for 2011. Investments in power-related infrastructure engineering, transportation infrastructure engineering, and telecommunications infrastructure engineering grew at a CAGR of approximately 8.1%, 7.7% and 7.3%, respectively from 2001 to 2011. The following chart shows the historical and estimated investment values in the global infrastructure engineering by these three infrastructure types for the periods specified.

**Global Infrastructure Engineering Investment Value
by Infrastructure Types from 2001 to 2015E**



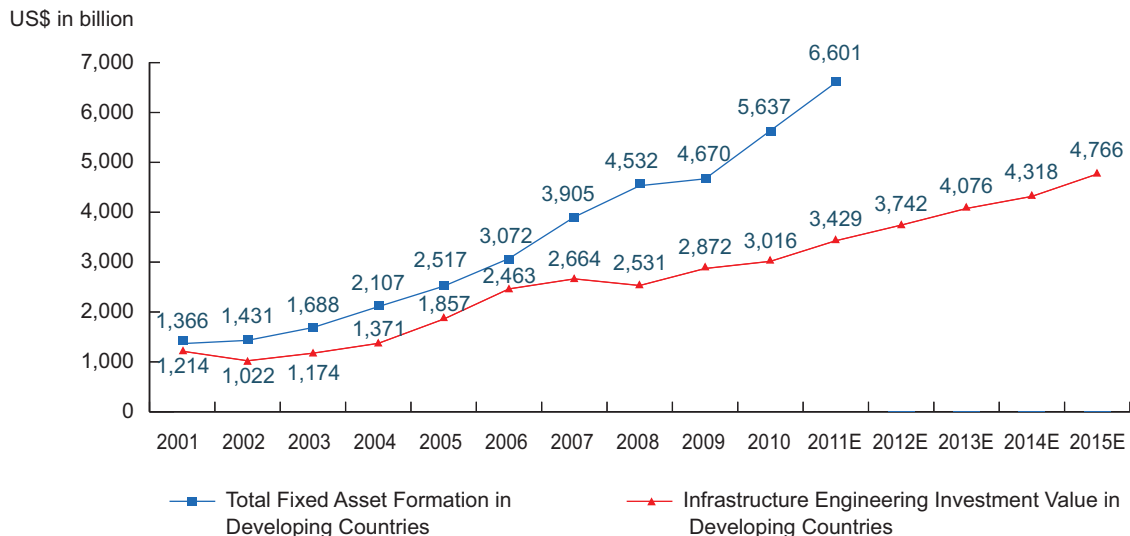
Note: E denotes estimated figures.

Source: Ipsos Report

Investment in Infrastructure Engineering in Developing Countries

The following chart shows the historical fixed asset investment values and the historical and estimated infrastructure engineering investment, both for the developing countries, for the periods specified.

**Total Fixed Asset Investment Value and Infrastructure Engineering
Investment Value in the Developing Countries from 2001 to 2015E**



INDUSTRY OVERVIEW

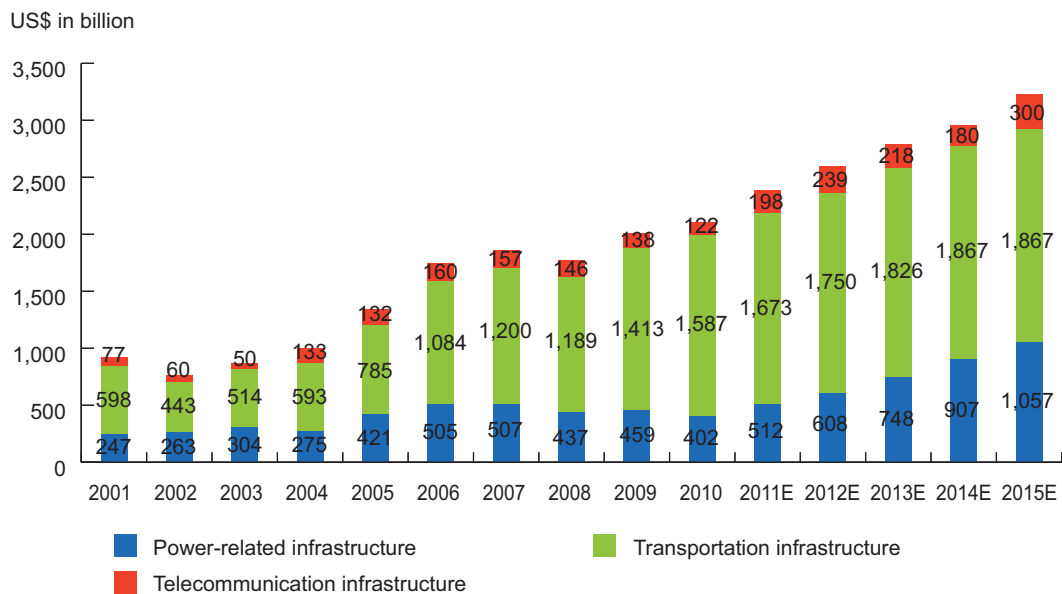
Notes:

- (1) Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings.
- (2) Infrastructure engineering investment includes power, transportation, telecommunications, petroleum, water, sewer waste, hazardous waste, industrial process, manufacturing and others.
- (3) E denotes estimated figures.
- (4) Ipsos' analysis on infrastructure engineering investment.

Source: World Bank (December 2011), Ipsos Report

The following chart shows the historical and estimated investment values in infrastructure engineering by infrastructure types in developing countries for the periods specified.

**Infrastructure Engineering Investment Value by Infrastructure Types
in Developing Countries from 2001 to 2015E**



Note: E denotes estimated figures.

Source: Ipsos Report

Investment value for transportation, power and telecommunications infrastructure engineering grew at a CAGR of approximately 10.8%, 7.6% and 9.9%, respectively, from 2001 to 2011. Investment value for transportation infrastructure engineering in developing countries grew at approximately 48.8% in 2011 and investment value for each of power and telecommunications infrastructure engineering accounted for approximately 14.9% and 5.8%, respectively, of the total investment value in developing countries in 2011.

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Factors affecting development of infrastructure engineering industry in developing countries

According to the Ipsos Report, there are generally six factors identified as affecting infrastructure engineering development in developing countries.

1. *Government policy and investment:* Government investment is almost the only source for the development of infrastructure engineering projects in developing countries, in which government policies direct the types of projects that the investment is applied to.
2. *Economic growth:* Fast growing economy and increase in investment generate the demand for infrastructure engineering and drive development of the developing countries. Fast growing economy also enables the government of a developing country to yearn for investment in the infrastructure engineering projects, in response to the demand in economic growth.
3. *Stability of political and social environment:* Stable political and social environment in developing countries is beneficial to easier financing and smooth launches of infrastructure engineering projects.
4. *Urbanization:* Developing countries are expected to take up nearly three quarters of the world's urban population by 2015. The inadequate infrastructure system of new megacities in developing countries will raise demand for infrastructure engineering development in all areas including power, transportation, water and telecommunications.
5. *Industrialization:* The focus of industrial activities in the past decade had shifted from developed countries to developing countries, especially the BRIC (Brazil, Russia, India, and China). On average, the growth rate of industrial activities in developing countries was at approximately 1.9% in 2001, and fluctuated according to the global economic situations to reach at approximately 11.0% in 2010. The rapid development of the industrial activities will require for the same degree of infrastructure development in all aspects including power, transportation and telecommunications.
6. *Inflation and currency fluctuations:* Inflation and currency fluctuations may increase the risk of investing into infrastructure engineering projects as the economies in developing countries grow, thus increasing the overall difficulty in cost control and affecting the development of the engineering contracting industry.

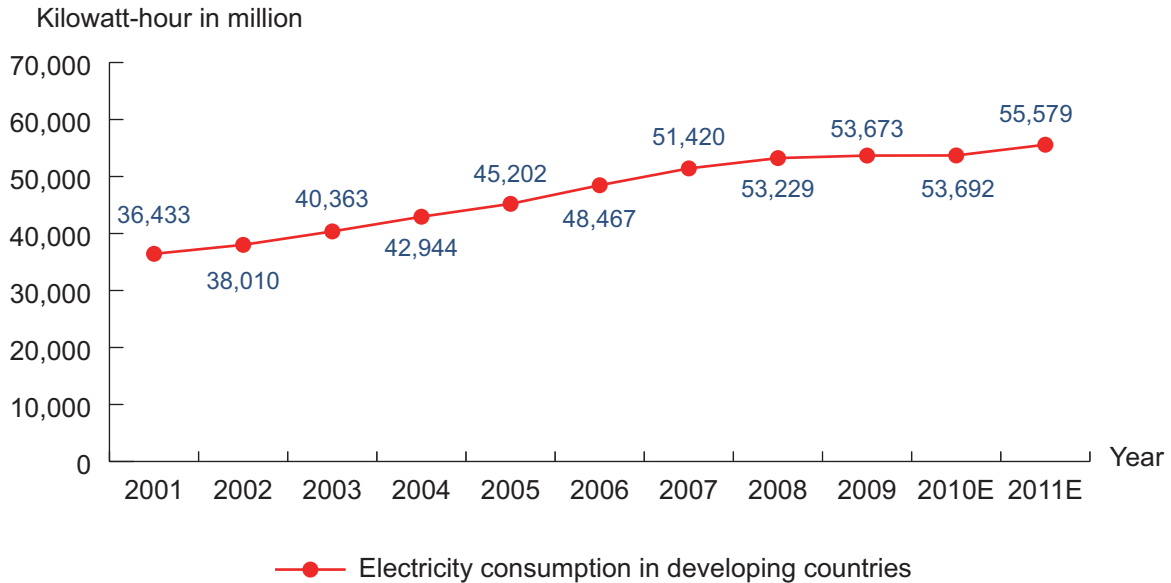
Overview of End-market Demand in Developing Countries

Power Consumption in Developing Countries

Electricity consumption in developing countries increased rapidly from 2001 to 2011 at a CAGR of approximately 4.3% due to the growth in population and rapid economic development, especially in the Asia-Pacific region and Brazil. Growth in electricity consumption slowed down in 2009 as a result of the global financial crisis. It rebounded in 2011 as the economy recovered, where growth increased by approximately 3.5% from 2010. Governments of developing countries especially Brazil and those in the Asia-Pacific region took initiatives to increase the availability of electricity to accommodate the accelerated electricity consumption. Inadequate power-related infrastructure in these developing countries would continue to raise demand for power-related infrastructure engineering in the next ten years. The following chart shows the total electricity consumption in developing countries for the periods specified.

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Total Electricity Consumption in Developing Countries from 2001 to 2011E



Note:

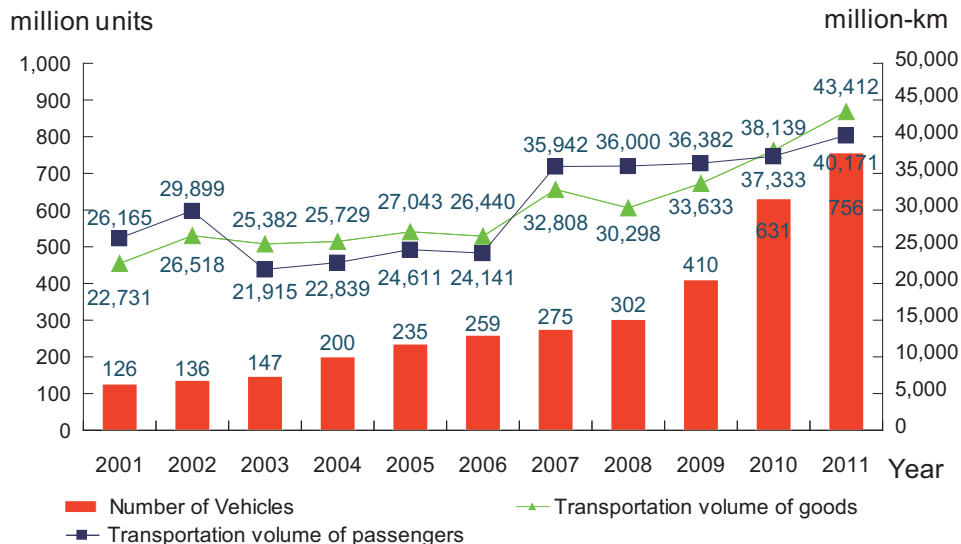
(1) Figures in 2010 and 2011 are estimated by Ipsos Hong Kong Limited.

Sources: World Bank (April 2012); Ipsos Report

Transportation Volume in Developing Countries

The number of vehicles in developing countries increased significantly at a CAGR of approximately 19.6% from 2001 to 2011. Latin America and the Caribbean accounted for approximately 38.0% of the total number of vehicles in developing countries, followed by East Asia and the Pacific at approximately 25.0% in 2011. Transportation volume of goods by railway in developing countries grew at a CAGR of approximately 6.7%, which was faster than that of transportation of passengers by railway at a CAGR of approximately 4.4% from 2001 to 2011. The following chart shows the transportation volume of goods and passengers in developing countries for the periods specified.

Transportation Volume of Goods and People in Developing Countries from 2001 to 2011



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Notes:

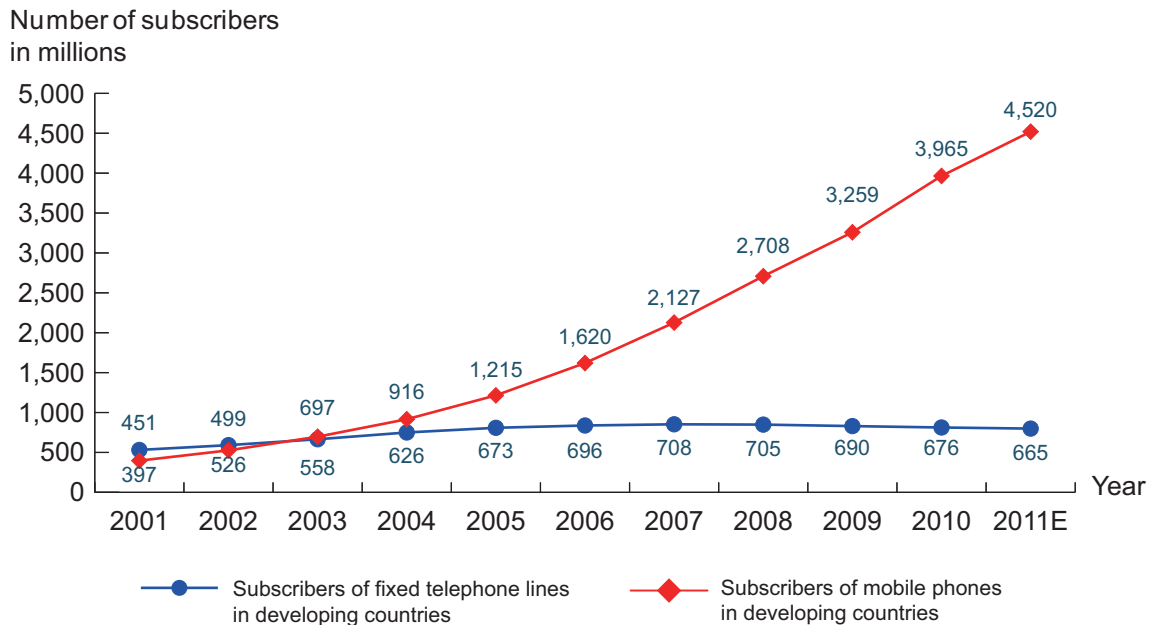
- (1) Goods transported by railway are the volume of goods transported by railway, measured in metric tons times kilometers traveled.
- (2) Passengers carried by railway are the number of passengers transported by rail times kilometers traveled.

Source: Ipsos Report

Telecommunications Service Demand in Developing Countries

The number of subscribers of mobile phones grew faster than that of fixed telephone lines in developing countries, at a CAGR of approximately 27.5% from 2001 to 2011, compared to approximately 3.9% for the same period. In 2010, the number of mobile phone subscribers reached approximately 5.4 billion globally, of which developing countries accounted for approximately 74.0%. Access to mobile networks is now available to approximately 90.0% of the world population. Mobile phone penetration rate in developing countries increased from approximately 7.9% in 2001 to approximately 79.0% in 2011, covering approximately 4.5 billion of subscribers, mainly driven by the growth in Asia Pacific region. The following chart shows the penetration rate of fixed telephone lines and mobile phones in developing countries for the periods specified.

**Subscribers of Fixed Telephones Lines and
Mobile Phones in Developing Countries from 2001 to 2011E**



Notes:

- (1) Fixed telephone lines refers to home-use telephones.
- (2) 2011 figures were estimated by the International Telecommunications Union.

Source: International Telecommunications Union (November 2011), which is the UN's specialized agency for information and communication technologies; Ipsos Report

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Overview of International Engineering Contracting Industry

According to the Ipsos Report, the international engineering contracting industry is constituted by contractors from all over the world, with Chinese, European and American contractors outperforming their counterparts. International engineering contracting industry in the US and Europe was heavily impacted by the global financial crisis in 2008 while that in developing countries in Asia, Africa and Latin America was the engine for growth. Developing countries in Asia and Africa where large-scale infrastructure construction was being carried out, were less affected by the financial crisis. Transportation infrastructure engineering contracting projects alone contributed to approximately 48.0% and 32.1% of the total infrastructure engineering investment and total new contract value, respectively, in 2011. From 2006 to 2011, power-related infrastructure exhibited the strongest growth in new contract value at a CAGR of approximately 17.6% in the global market. Europe and the Middle East dominated in terms of the total value of global international contracting projects while growth in revenue was most significant for Latin America and Africa during the same period.

In terms of project management, EPC, BT (build-transfer), BOT (build-operation-transfer), DDB (develop-design-build), DBFM (Design-Build-Finance-Maintain) and FPDBFM (Finance-Procure-Design-Build-Facility-Management) are widely-used modes in international engineering contracting projects, which require the international contractors having strong project management, technology as well as financing or investment capabilities. In 2010, the general EPC infrastructure projects accounted for approximately 50.0% of the total infrastructure projects from Chinese contractors and a majority of these projects exceeded US\$100 million per project in value on average.

International engineering investors are increasingly looking for a single contracting company with one-stop service offering comprehensive solution instead of assigning different companies with single function. In the bidding process of international contracting projects, capital assets and credibility are becoming increasingly more important to engineering project investors in the selection of the infrastructure contractor. Infrastructure financing practice is replacing traditional cash-based settlement. Export seller's credit and export buyer's credit became progressively commonly used for financing of projects. As such, lack of financial strength will restrict the ability of infrastructure engineering development.

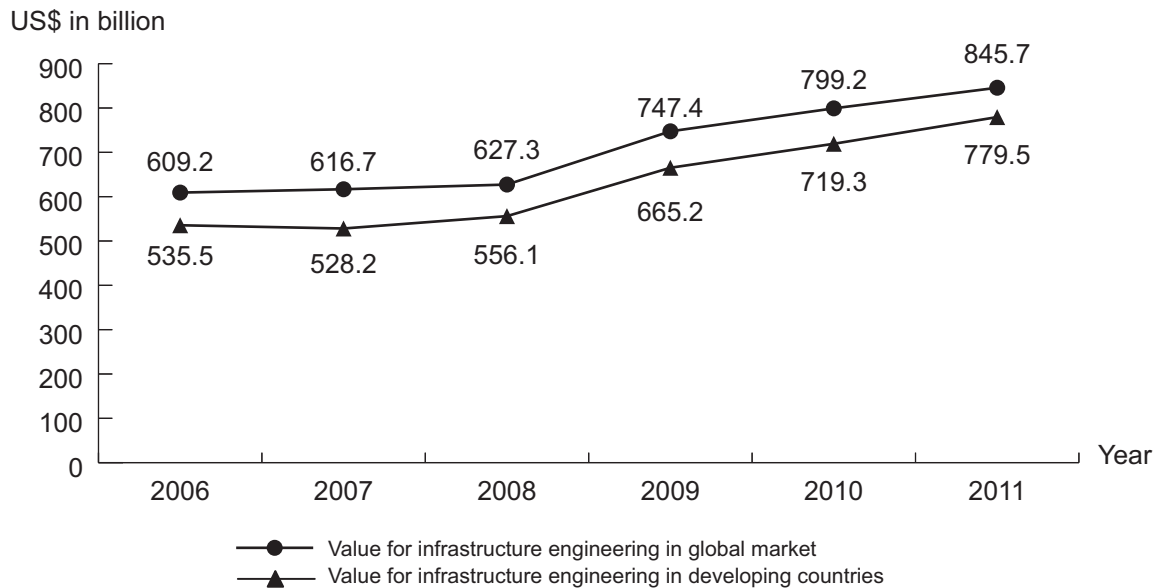
Private sector participation is expected in the long-term to raise the enormous amount of capital required to fund infrastructure engineering projects. The government alone would not be able to meet the expanding demand. Private sector participation accounted for less than 30% of total investment in infrastructure in 2010. In the long run, the demand for infrastructure construction will require greater need for private sector's involvement. In 2010, approximately 61 developing countries had approximately 440 private projects participating in infrastructure projects that were seeking investment commitments of approximately US\$174 billion.

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New Contracts of Infrastructure Engineering

Total new contract value of infrastructure engineering projects for developing countries grew faster than that for the global market from 2006 to 2011 at a CAGR of approximately 7.8%. The economic downturn had minimal impact on developing countries' infrastructure engineering projects because these projects are usually funded by the governments. The following chart shows the total new contract value of infrastructure engineering projects for the global market and in the developing countries for the periods specified.

Total New Contract Value of Infrastructure Engineering Projects for Global Market and in Developing Countries from 2006 to 2011



Note:

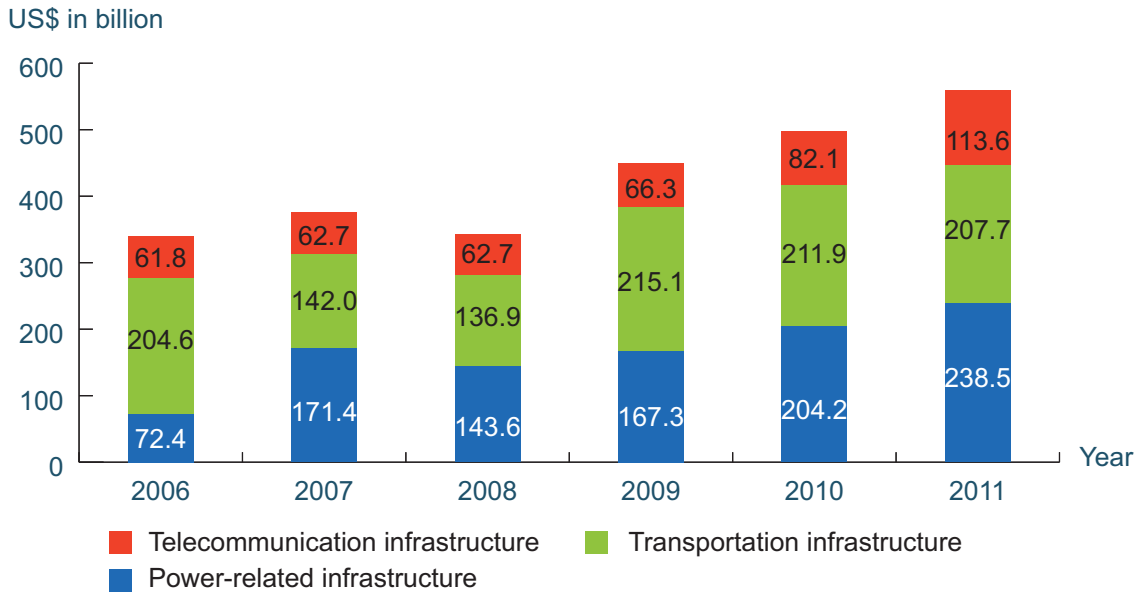
- (1) Infrastructure engineering projects include power, transportation, telecommunications, petroleum, water, sewer waste, hazardous waste, industrial process, manufacturing and others.

Source: Ipsos Report

In developing countries, the total new contract value of infrastructure engineering projects was approximately US\$779.5 billion in 2011. The new contract value of power-related infrastructure engineering projects grew the fastest among these three types of projects (power, transportation, telecommunications) at a CAGR of approximately 26.9% from 2006 to 2011 to reach approximately US\$238.5 billion in 2011. The new contract value of transportation and telecommunications grew at a CAGR of approximately 0.3% and 12.9%, respectively, during the same period. Support from both the government and private sector in infrastructure spending gave a boost to infrastructure work. New contract value of power, transportation and telecommunications projects together accounted for approximately 71.8% of the total new contract value in 2011, of which power, transportation and telecommunications projects each accounted for approximately 30.6%, 26.6% and 14.6% of the total value, respectively. The following chart shows the new contract value of infrastructure engineering projects by infrastructure types in developing countries for the periods specified.

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New Contract Value of Infrastructure Engineering Projects⁽¹⁾ by Infrastructure Types in Developing Countries from 2006 to 2011



Note:

(1) Infrastructure engineering projects include power, transportation, telecommunications, petroleum, water, sewer waste, hazardous waste, industrial process, manufacturing and others.

Source: Ipsos Report

Equipment Export for Engineering

Equipment for power, telecommunications and petrochemical engineering projects is the main export item in the global market. China is one of the main countries in exporting equipment for international engineering projects. Among all types and combinations of equipment export, export of complete sets of equipment played a key role in the growth of China.

Export of mechanical and electrical products was seriously affected by the global financial crisis and declined approximately 13.4% in 2009 while export of complete sets of equipment increased by approximately 13.0% in the same period. In general, developing countries in Southeast Asia, Middle East and North Africa were key export destinations of the engineering equipment in the world.

CHINESE CONTRACTORS IN THE INTERNATIONAL INFRASTRUCTURE ENGINEERING CONTRACTING MARKET

There were approximately 3,000 Chinese contractors operating in over 180 countries worldwide, providing a full spectrum of infrastructure engineering contracting services. According to ENR's top 225 international contractors list, among the top 225 contractors in the world, 50 were Chinese contractors in 2011. In recent years, power, transportation and telecommunications-related infrastructure projects increased rapidly, and together accounted for approximately 80% of the new infrastructure engineering contract value by Chinese contractors in 2011. Power, transportation and telecommunications projects accounted for approximately 21.9%, 19.0% and 10.4% of the total new contract value in international engineering in 2011, respectively. In 2011, there were 498 new projects signed by the Chinese contractors with each worth more than US\$50

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million in value (as opposed to 488 projects in 2010), accounting for approximately 79.0% of the total newly signed contracts among Chinese contractors. Approximately 20 new projects' contract value exceeded US\$1 billion in 2011, as opposed to 14 in 2010.

With strong financial support from the Chinese government, Chinese contractors typically prefer to invest in developing countries where they enjoy some advantages including advanced technological acumen, better business management skills and easier access to capital over their competitors in these countries. On the other hand, China's international engineering contracting business, which began in the Middle East in early 1980s, expanded rapidly into developing Asian markets over the past decade and was moving into the European and American markets.

The following table sets forth the revenue of the Chinese contractors generated from international infrastructure engineering projects in the global market in 2011.

Rank	Region	Revenue of Chinese contractors in 2011	
		(US\$ billion)	(%)
1	Asia Pacific	53.4	51.6
2	Africa	36.1	34.9
3	Latin America	7.9	7.7
4	Europe	4.6	4.4
5	North America	1.4	1.4
Total		103.4	100.0

Source: Ipsos Report

The following table sets forth the new contract value of the Chinese contractors by types of international infrastructure engineering projects in the global market in 2011.

Rank	Type of international infrastructure engineering and construction	New Contract Value	Value Contribution
		(US\$ billion)	(%)
1	Power	31.1	21.9
2	Housing construction	27.8	19.5
3	Transportation	27.1	19.0
4	Petrochemical	18.1	12.7
5	Telecommunications	14.8	10.4
6	Water and sewage	5.7	4.0
7	Manufacturing	5.4	3.8
8	Mining and metals	1.7	1.2
9	Environment protection	0.4	0.3
10	Others	10.2	7.2
Total		142.3	100.0

Source: Ipsos Report

Aside from price, size of contractors, maturity of technology, management capability, capital and adaptability, there are three major reasons driving the development of Chinese contractors in international infrastructure engineering market.

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- *Abundant workforce supply and lower labor cost*

Over the past three decades of China's reform and internationalization, Chinese contractors are able to send more qualified workers and resources to designated infrastructure construction sites worldwide to meet tight deadlines and achieve cost effectiveness. The number of Chinese workers assigned to overseas infrastructure engineering sites was approximately 243,000 in 2011.

- *Fast development of China's infrastructure engineering technology*

In the past, most of the international engineering projects undertaken by the Chinese contractors were low-valued projects such as construction and civil works. Nowadays, the strength of advanced infrastructure technology and skills demonstrated by the Chinese contractors led to a significant increase in the value of projects, which exceeds US\$100 million in value on average.

- *Equipment export by China*

China's complete sets of plants and equipment enjoy comparative advantages such as affordable pricing and simple operation over those of developed countries after several decades of development. Such characteristics offer a great match to the economic and cultural development of other developing countries. Huawei Technologies, Co., Ltd. (華為技術有限公司), Sinohydro Corporation (中國水利水電建設集團公司), China National Electric Engineering Co., Ltd. (中國電力工程有限公司), China Petroleum Engineering & Construction Corporation (中國石油工程建設(集團)公司) and CMEC are key exporters of construction and engineering equipment in China.

Top Chinese Contractors in International Engineering (Non-Sector Specific)

The following table sets forth the ranking of the Chinese contractors of international engineering (non-sector specific) in the global market in 2011.

Top Chinese Contractors of International Engineering in Global Market (Non-Sector Specific) in 2011

Rank	Name of Company	Revenue ⁽¹⁾ of International Engineering in 2011 <i>(US\$ million)</i> ⁽²⁾
1	China Communications Construction Group	4,981
2	Sinohydro Corporation	4,470
3	China State Construction Engineering Corporation	4,349
4	China Railway Group Ltd.	2,760
5	China Railway Construction Corporation	2,665
6	CITIC Construction Co., Ltd.	2,274
7	China Metallurgical Group Corporation	2,165
8	China Petroleum Engineering & Construction Corporation	2,141
9	SEPCO III Electric Power Construction Corporation	2,020
10	Our Company	1,866
	Others	73,729
	Total	103,420

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Notes:

- (1) Revenue of international engineering is the income generated by the Chinese contractors from their business of international engineering contracting in the world excluding China due to the following reasons: (1) consistent with the ranking of ENR's top 225 international contractors list, "international engineering contracting" by nature should only relate to engineering contracting outside of the home country of the contractor in order to be considered "international"; and (2) our Company focuses on international engineering contracting projects outside of the PRC and during the Track Record Period, out of the 53 projects completed by our Company, only two of them were located in the PRC.
- (2) US\$1=RMB6.4594 in 2011.

Source: Annual reports of the corresponding companies in 2010; MOFCOM, China (January 2011); Ipsos Report

Top Chinese Contractors in International Engineering in Power Sector

The following tables set forth the respective rankings of the top five Chinese contractors in terms of international power projects in the global market in each of the past five years from 2007 to 2011.

Top Chinese Contractors by International Power Projects in Global Market in 2007

Rank	Name of Company	Revenue from International Power Projects in 2007 <i>(US\$ million)</i>	Share by Revenue in 2007 <i>(%)</i>
1	Our Company	890.1	19.9
2	Sinohydro Corporation	556.0	12.4
3	Shandong Electric Power Construction Corp.	378.9	8.5
4	Shanghai Electric Group Co., Ltd.	348.7	7.8
5	Harbin Power Engineering Co., Ltd.	230.6	5.2
	Others	2,066.4	46.2
	Total	4,470.7	100.0

Top Chinese Contractors by International Power Projects in Global Market in 2008

Rank	Name of Company	Revenue from International Power Projects in 2008 <i>(US\$ million)</i>	Share by Revenue in 2008 <i>(%)</i>
1	Our Company	1,217.5	14.3
2	Sinohydro Corporation	1,183.0	13.9
3	Shanghai Electric Group Co., Ltd.	742.1	8.7
4	SEPCOIII Electric Power Construction Corporation	710.0	8.4
5	Shandong Electric Power Construction Corp.	433.9	5.1
	Others	4,206.3	49.6
	Total	8,492.8	100.0

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Top Chinese Contractors by International Power Projects in Global Market in 2009

Rank	Name of Company	Revenue from International Power Projects in 2009 <i>(US\$ million)</i>	Share by Revenue in 2009 <i>(%)</i>
1	Our Company	1,514.4	10.3
2	Sinohydro Corporation	1,194.9	8.1
3	SEPCOIII Electric Power Construction Corporation	1,012.7	6.9
4	Shanghai Electric Group Co., Ltd.	847.9	5.7
5	Shandong Electric power construction Corp.	707.9	4.8
	Others	9,486.4	64.2
	Total	14,764.2	100.0

Top Chinese Contractors by International Power Projects in Global Market in 2010

Rank	Name of Company	Revenue from International Power Projects in 2010 <i>(US\$ million)</i>	Share by Revenue in 2010 <i>(%)</i>
1	Sinohydro Corporation	2,567.5	13.9
2	SEPCOIII Electric Power Construction Corporation	1,579.8	8.6
3	Our Company	1,393.4	7.6
4	Shanghai Electric Group Co., Ltd.	925.8	5.0
5	Harbin Electric International Co., Ltd.	886.0	4.8
	Others	11,087.5	60.1
	Total	18,440.0	100.0

Top Chinese Contractors by International Power Projects in Global Market in 2011

Rank	Name of Company	Revenue from International Power Projects in 2011 <i>(US\$ million)</i>	Share by Revenue in 2011 <i>(%)</i>
1	Sinohydro Corporation	2,234.9	11.2
2	SEPCOIII Electric Power Construction Corporation	2,019.6	10.1
3	Shandong Electric Power Construction Corporation	1,535.5	7.7
4	Our Company	1,481.5	7.4
5	Shanghai Electric Group Co., Ltd	999.0	5.0
	Others	11,649.5	58.6
	Total	19,920.0	100.0

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Notes:

- (1) Revenue of international engineering is the income generated by the contractors from their respective business of international engineering contracting in the world excluding China.
- (2) 2007: US\$1=RMB7.6040
 2008: US\$1=RMB6.9415
 2009: US\$1=RMB6.8310
 2010: US\$1=RMB6.7693
 2011: US\$1=RMB6.4594

Sources: Annual reports of the corresponding companies; Ministry of Commerce, PRC (January 2011 and 2012); Ipsos Report

The following table sets forth the rankings of the top five Chinese contractors in terms of international power projects in the global market based on their accumulated revenue from 2007 to 2011.

Top 5 Chinese Contractors in International Power Projects in Global Market based on Accumulated Revenue from 2007 to 2011

Rank	Name of Company	Accumulated Revenue from International Power Projects from 2007 to 2011 <i>(US\$ million)⁽¹⁾</i>	Share by Accumulated Revenue from 2007 to 2011 <i>(%)</i>
1	Sinohydro Corporation	7,736.3	11.7
2	Our Company	6,496.9	9.8
3	SEPCOIII Electric Power Construction Corporation	5,548.6	8.4
4	Shanghai Electric Group Co., Ltd.	4,048.5	6.1
5	Shandong Electric Power Construction	3,800.3	5.8
	Others	38,457.1	58.2
	Total	66,087.7	100.0

Note:

- (1) US\$1=RMB7.6040 in 2007
 US\$1=RMB6.9451 in 2008
 US\$1=RMB6.8310 in 2009
 US\$1=RMB6.7693 in 2010
 US\$1=RMB6.4594 in 2011

Source: Annual reports of the corresponding companies from 2007 to 2011; MOFCOM (January 2012); Ipsos Report

We believe that the above rankings based on accumulated revenue from the international power projects in the past five years present a reasonable, meaningful and balanced result by minimizing the impact of fluctuations in revenue generated by the various Chinese contractors that could be caused by the following reasons:

- Varying duration and relatively long life cycle of each engineering contracting project:*** Engineering contracting projects could last for more than a year from the point when revenue is recognized until the end of the retention period when the project is fully completed. In the case of our Company, the lifecycle of our Company's engineering contracting projects could vary from two years to five years or above.

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2. **Nature of business:** Many of our Company's international engineering contracting projects are infrastructure projects. Infrastructure works are highly affected by external factors, such as the economic cycle and public spending policy, which usually last for an extended period of time and have a delayed impact on the macro-economy as a whole.
3. **Fluctuations in revenue:** Contractors may experience a sporadic increase in revenue in a certain year due to the stream of revenue brought forward by a certain project with high contract value signed in the previous year(s), which may lead to an abrupt increase in ranking.

See "Business – International Engineering Contracting Business – Competition" for more details regarding competition that our Company faces.

Furthermore, based on the financial data of the top 225 international contractors derived from ENR's top 225 international contractors list in 2011, we substituted SINOMACH with our Company in the list using our own revenue generated from our International Engineering Contracting Business in the power sector in 2010 (which is exclusive of the revenue generated by the Excluded Business of SINOMACH) to deduce our ranking among ENR's top 225 international contractors, which is set out in the following table.

Top 10 International Contractors in the Global Power Market in 2011

Rank	Name of Company	International Revenue in Power Market (US\$ million)	Share by International Revenue (%)
1	Abeinsa Sa	2,213.7	5.7
2	Grupo Acs	1,837.5	4.8
3	Sinohydro Corporation.....	1,804.5	4.7
4	Hyundai Engineering & Construction Ltd.	1,637.4	4.2
5	SEPCOIII Electric Power Construction Corporation	1,579.9	4.1
6	Our Company	1,393.4	3.6
7	VINCI	1,324.6	3.4
8	Marie Tecnimont	1,297.1	3.4
9	Iberdrola Ingenieria Y Construction	1,215.9	3.1
10	Grupo Isolux Corsan Sa	1,196.1	3.1
	Others	23,154.1	59.9
	Total	38,654.2	100.0

Notes:

- (1) International revenue refers to revenue generated by the contractors from work outside their home countries in 2010.
- (2) Revenue of the companies (save for our Company) was extracted from ENR.
- (3) Revenue of our Company was derived from our Company.
- (4) US\$1=RMB6.7693 in 2010.

Sources: ENR; our Company

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Financing for Projects

The composition of the offerings in global project finance was quite different after the global financial crisis. After the global financial crisis, the portions of bonds and loans dropped sharply, while the financial products support by governments and multilateral agencies rose significantly.

The size and number of project finance deals also dropped significantly after the global financial crisis. There was a total of approximately US\$168.68 billion worth of global project finance deals in the second half of 2007, of which approximately 10.0% was funded in the form of bonds, approximately 71.0% in the form of loans, and approximately 2.0% in the form of support from the governments and multilateral agencies. In contrast, there was only approximately a total of US\$99.7 billion worth of global project finance deals in the first half of 2010, of which approximately 2.0% was funded in the form of bonds, approximately 62.0% in the form of loans, and approximately 18.0% in the form of support from the governments and multilateral agencies. There were 437, 693 and 677 global project finance deals in 2006, 2007 and 2008, respectively. Deal flow dropped in 2009 with 497 deals but recovered in 2010 with 612 deals due to an increase in non-recourse bank lending at approximately US\$156 billion and the recovery of capital markets in project finance transactions amounting to approximately US\$14 billion.

There are three types of financing for the infrastructure engineering projects, namely: contractor's fund, export seller's credit and export buyer's credit.

1. **Contractor's fund:** contractor uses its own funds to support the infrastructure engineering projects.
2. **Export seller's credit:** it is one of the common financing methods as the Chinese government encourages the Chinese contractors to export complete sets of plants and equipment to overseas engineering sites. The Chinese contractors are typically responsible for credit repayment while the project owners offer the Chinese contractors credible guarantee of repayment and the Chinese contractors purchase export credit insurance to ensure on-time repayment.
3. **Export buyer's credit:** it is one of the common financing methods as the Chinese government encourages the Chinese contractors to export complete sets of plants and equipment to overseas engineering sites. The project owners are typically responsible for credit repayment while the government of the export destination offers export credit insurance to ensure on-time repayment.

Trends and Developments of Global International Engineering Contracting Demand

Increased government infrastructure investment and urbanization will raise demand for infrastructure engineering and engineering contracting subsequently. International engineering contracting demand is expected to increase globally from 2009 to 2015 as governments across the world increase their expenditure on infrastructure, especially in India, Middle East and North Africa.

The global financial crisis in 2008 has hampered infrastructure investment and raised the cost of financing, resulting in diminished private investment in new projects. In particular, investment in Central Asia⁽¹⁾ and Europe fell by approximately 54.0% between July 2008 and March 2009. India's infrastructure development attracted many global investments as its infrastructure sector for the

Note:

(1) Central Asia consists of the former Soviet nations including Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

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11th and 12th Five-Year Plans require investment value of approximately US\$514 billion and US\$1 trillion, respectively. Many governments in the Middle East continued to invest in infrastructure to diversify the structure of their economies. This has drawn demand tremendously for international engineering contracting and will continue to provide business opportunities for the contractors around the world.

Furthermore, global international engineering contracting demand will rise in response to the growing urbanization and urban population, especially in East Asian region. Strong economic growth of developing countries coupled by the aging of infrastructure in developed countries is placing strong emphasis on infrastructure investment and cooperation. Urban population in East Asian region is expected to account for approximately 30.0% of the global urban population by 2030. The rapid development of both developing and developed countries will call for greater need of infrastructure including power, transportation and telecommunications facilities in the next 20 years.

Africa presents the greatest opportunities amongst all developing countries for engineering contracting demand in power, transportation and telecommunications projects. Electricity power constraint is hindering the growth of the African economy. As it stands today, only one in four Africans has access to electricity. A quarter of Africa's installed power generation capacity is not operational. Power constraint is the largest obstacle to doing business in Africa. Insufficient road in Africa is urging for significant infrastructure improvements. High cost of telecommunications services in Africa will raise demand for wider service coverage in the region. The pressing demand for power, transportation and telecommunications-related infrastructure at an annual budget of US\$93 billion is powering demand for engineering contracting, with power accounting for almost half of the entire budget.

Strong economic growth in Southeast Asia countries will prompt for infrastructure engineering in the next ten years. An estimated US\$8.2 trillion is needed for infrastructure investment from 2010 to 2020 in developing countries in Asia, among which approximately 49.0% is needed for power-related infrastructure, approximately 35.0% for transportation-related infrastructure and approximately 13.0% for telecommunications-related infrastructure.

The market downfall in many regions, particularly in Greece, Italy and Spain, has given ways for Chinese contractors with increasing capability to enter unfamiliar markets to exploit the market potential. By and large, more Chinese contractors will look for entry into unexploited markets, in addition to the developed countries such as Europe, in the future.

Competitive Landscape

Price, size of contractors, maturity of technology, management capability, capital and adaptability are important consideration factors in the selection of contracting companies. The competitiveness of Chinese contractors is not only reflected in labor cost and price, but also in areas including technology, complete equipment sets, integration of resources, project management, which have gained the Chinese contractors worldwide recognitions. Chinese contractors are active in developing countries due to the low level of technology and efficiency of engineering work locally available. The market share of the Chinese contractors in developing countries was approximately 22.0% in 2011, compared to less than approximately 2.0% in developed countries. Developed countries such as the US, Europe and Japan are well-developed in power, transportation and telecommunications infrastructure with sufficient technology and supplies.

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Competitive fronts

According to the Ipsos Report, the competitive fronts of our Company in the engineering contracting industry can be categorized as follows:

- **Brand recognition:** With over 30 years of experience in the market, our Company has built high brand awareness both in China and the international market. We ranked second among all Chinese contractors in terms of total accumulated revenue generated from international power projects from 2007 to 2011, out of which we ranked first in the same category for three consecutive years from 2007 to 2009. We also achieved many record breaking projects among Chinese contractors, especially in the power industry. Benefited from our early entrance in the international market, we have accumulated rich experience in international engineering contracting projects and attained strong reputation worldwide.
- **Pricing:** Similar to other Chinese Contractors who are benefited from the lower cost of labor and complete sets of plants and equipment, the price of projects offered by our Company is comparatively lower than that by the international contractors, which allows us to gain competitive advantage, particularly in developing countries.
- **Bargaining power:** A majority of the projects won by our Company is through tender negotiation in which relationship, rather than competitive pricing, is key to securing the project bids. Leveraging on our strong reputation and close relationship with government officials and extensive information sources including our overseas offices, consulates, foreign government agencies etc., we face relatively less competition in the market and have strong bargaining power which enables us to maintain our leading position.
- **Expertise and capacity:** We have one large-scaled comprehensive design and research institute, China Machinery R&D, at the state level which achieved Grade A design certificate whereas certain other PRC contractors engaged in international engineering contracting do not have their own design institute.

INTERNATIONAL TRADING BUSINESS

The aggregate international trading value grew at a CAGR of approximately 10.9% from US\$12,674 billion in 2001 to US\$35,779 billion in 2011. The global import and export value experienced a major decline in 2009 by approximately 22.7% following the financial crisis and global recession. In 2010, the international trading value increased tremendously by approximately 21.4% in terms of growth rate, returning to the pre-financial crisis level in 2007. Such increase was also attributable to the rise in merchandise prices and demand in commodities due to the recovery of the global economy. The following chart shows the international trading value for the global market for the periods specified.

International Trading Value for Global Market from 2001 to 2011



INDUSTRY OVERVIEW

Note:

(1) International trading value refers to the import and export value of merchandise trade.

Source: World Trade Statistics 2011

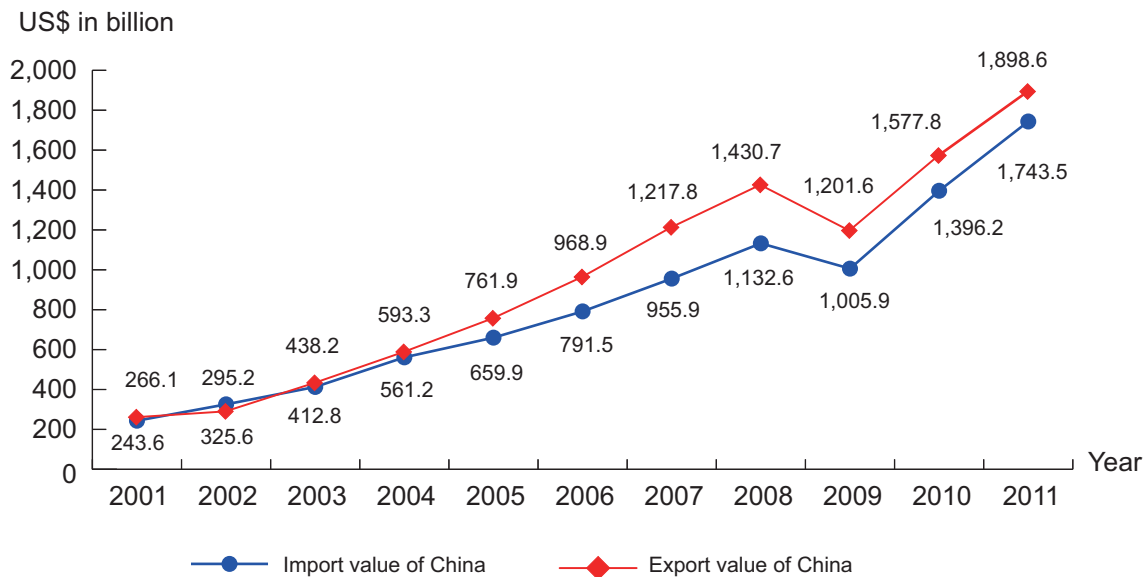
China's International Trading

China ranked first in export value and second in import value in the world in 2010. China's international trade value expanded tremendously from 2001 to 2011.

Import value of China grew at a CAGR of approximately 21.8% while export value grew at a CAGR of approximately 21.7% from 2001 to 2011. With China's accession to the World Trade Organization in December 2001, China has committed itself to additional reforms. Sustained implementation of these commitments further deepened China's internationalization. China experienced substantial decline in import and export values in 2009 by approximately 11.2% and 16.0%, respectively, due to the global financial crisis. The fall was a first in the 11 consecutive years and the biggest drop since 1978, when the country embarked on its reform and opening up.

Export value of China in 2010 returned to its pre-financial crisis level. Despite the recent rise in labor costs, exports from China have remained competitive with limited export price increase and limited gains in market share. China still faces deteriorating trade conditions with increasing trade protection measures from other countries, especially from the developed countries, and economic instabilities during the global recovery. With its competitive advantages in international trade, China will remain a major target for trade protectionism from other countries as its trade continues to grow. The following chart shows the import and export value of China in respect of global trading for the periods specified.

Import and Export Value of China to Global Trading from 2001 to 2011



Source: China statistics yearbook 2011; Ipsos Report

In 2011, there were two main types of products being traded by China, namely machinery and mechanical equipment and electrical equipment. From 2001 to 2011, the trading volume of machinery and mechanical equipment grew at a CAGR of approximately 19.3% and 33.3% in import and export value, respectively, while that for electrical equipment grown at approximately 16.2% and 17.5%, respectively.

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Trend of International Trade for Equipment

The total value of worldwide trade for machinery and transport equipment resumed its growing momentum from the financial crisis, with a growth rate of approximately 26.0% in 2010, compared to approximately -32% in 2009. The recovery of global economy drove the increasing needs for the import of machinery and transport equipment, especially to the developing countries, such as those in Africa, Latin America and the Middle East, which did not have mature technology for domestic production. These regions relied on imported equipment for the completion of infrastructure and construction projects. As the nature of the production and construction and engineering changed from being labor-intensive to automated, the demand for machinery and transport equipment will be sustained by consistent quality output and on-time completion.

Method of Trading and Financing

International trading methods generally include normal trade and processing trade, which shared approximately 36.0% and 64.0%, respectively, of international trading in 2011. Normal trade refers to the business activity of importing finished products from abroad and exporting without further processing, while processing trade refers to importing all or part of the raw materials, parts and components, accessories, and packaging materials from abroad, and re-exporting the finished products after processing or assembly by enterprises within the country of import. Owing to globalization, processing trade tends to be a common practice of international trade because of the share of resources and the gaining of benefits from low labor cost. Normal trade can be transactions between importers and exporters, or involving agencies in between. The demand in the destination markets and the cost of trading are important criteria of the method of international trade. Tariff is used by many countries to protect domestic industries and a key consideration for importers and exporters to do international trade business.

Documentary credit and trade credit insurance are the most common international trade financing in the world. Several methods of international trade financing, including documentary credit, documentary collection, trade credit insurance, export factoring, forfeiting etc., are adopted to reduce transactional risk. Typically, commercial banks or financial institutions and export credit agencies support the work of international trade financing.

Competitive Landscape

Germany, the US and China have been in neck-to-neck competition being the world's largest traders. In particular, China's rise as a major global economy was boosted by its accession to the World Trade Organization in 2001, which drove the reform and opening up of its economy. The integration of China with the global economy over the years, coupled with its low labor cost and currency value has given Chinese business an edge in competition against other developed countries, and improved the ranking of China from the seventh largest exporter in 2000, to the largest since 2008, surpassing the US and Germany. After the financial crisis in late 2008, China became the largest exporter and second largest importer by international trade value, which was approximately 10.4% and 9.5% of the total world export and import, respectively, in 2011. Machinery and electrical equipment was the biggest category of the international trade in China, which was approximately US\$2,295.8 billion and shared approximately 63.0% of the total international trade value of China in 2011.

On the other hand, most countries such as the US, China, and Germany had smaller trade imbalances after the financial crisis than before. The trade deficit of the US in 2011 was approximately 11.0% less than the respective trade deficit in 2008, while the trade surplus of China was approximately 48.0% less than the trade surplus of 2008. The surplus of Germany in 2011 was

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approximately 16.0% less than the surplus of 2008. Factors affecting the international trade (import and export) after the financial crisis include the following:

- **The global economy.** Import demand determined the value and volume of international trade. The global GDP growth rate decreased from approximately 1.5% in 2008, through approximately -2.3% in 2009, and then increased to approximately 4.1% in 2010 and 2.7% in 2011; while the world international trade value growth rate went from approximately 15.3% in 2008, through approximately -22.9% in 2009, and to approximately 21.6% in 2010 and 19.5% in 2011.
- **The exchange rate.** The appreciation of a currency might hinder export and stimulate import of the corresponding region, while the depreciation of a currency might stimulate the export of the corresponding region. The real effective exchange rate of RMB against a broad basket of currencies rose at approximately 2.7% in 2011, while the real effective depreciation of US dollar against trading partner's currencies was at approximately -4.9% across the same period.
- **The prices of raw materials and labor wage.** Inflation, increases in investment activities, and rising minimum wages contributed to the increase in demand for raw materials and cost of labor.

SOURCES OF INFORMATION

In connection with the Global Offering, we have engaged Ipsos Hong Kong Limited, an independent third party, to conduct a study of the global infrastructure engineering industry and international trading industry in general, and the infrastructure engineering industry and international trading industry in developing countries in particular. Ipsos Hong Kong Limited (formerly known as Synovate Ltd.) is part of Ipsos SA and it conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence. Established in 1975, Ipsos SA is a market research and consulting company which employs approximately 16,000 personnel worldwide in over 84 countries and listed on the NYSE Euronext Paris in 1999. We included certain information from the Ipsos Report in this Prospectus because we believe such information facilitates an understanding of the infrastructure engineering and international trading market for potential investors. The Ipsos Report was prepared based on (i) desk research of specialized industry literature, government and regulatory sources, online data sources, third-party reports and surveys, industry reports and analyst reports, industry associations and the database maintained by Ipsos Hong Kong Limited, and (ii) primary research through in-depth interviews with key international engineering contractors, industry association and experts. In particular, to the extent available, the Ipsos Report cited data and statistics from sources including government and regulatory bodies and other international organizations such as the Department of Agricultural of the United States, International Monetary Fund and World Bank, which are generally accepted as reliable sources available in the market and commonly adopted by industry researches. The data and statistics derived from independent publications issued by Economic Research Service, International Monetary Fund and International Telecommunications Union are not commissioned by our Company or any of our connected persons. In addition, the following parameters were considered in the market sizing estimation model adopted in the Ipsos Report: (i) government and private investment in infrastructure globally and in developing countries; (ii) revenues of the leading contractors of infrastructure engineering and their share in the power, transportation and telecommunications sectors respectively; and (iii) revenues of the leading contractors of infrastructure engineering and their share in key markets in the world. We have agreed to pay a total of approximately HK\$452,034 in fees for the preparation of the Ipsos Report.

REGULATORY OVERVIEW

REGULATIONS OF ENGINEERING CONTRACTING

Principal Regulatory Authorities

MOFCOM and provincial departments of commerce in the PRC are responsible for supervising and regulating the enterprises which are engaged in contracting overseas engineering projects, while the Ministry of Housing and Urban-rural Development (“**MOHURD**”) and the local administrative authorities for construction are responsible for supervising the enterprises, which are engaged in contracting engineering projects in the PRC.

Major Governing Laws and Regulations

There is a raft of laws and regulations promulgated by the PRC Government that regulate the contracting of engineering projects overseas that include: (a) the Administrative Regulations on Contracting Foreign Projects (對外承包工程管理條例) (effective on September 1, 2008) issued by the State Council, (b) the Administrative Measures for the Engineering Qualification for Contracting Foreign Projects (對外承包工程資格管理辦法) (effective on November 1, 2009) issued by MOFCOM and MOHURD, (c) the Administrative Measures for the Operational Qualification of Foreign Labor Services Cooperation (對外勞務合作經營資格管理辦法) (effective on August 25, 2004) issued by MOFCOM and State Administration for Industry and Commerce, (d) the Interim Measures for the Bidding (Bid Evaluation) Permit of Contracting Foreign Projects (對外承包工程項目投標(議標)許可暫行辦法) (effective on May 1, 2000 and abolished on January 15, 2012) issued by MOFTEC and PBOC, (e) the Administrative Measures for the Bidding (Bid Evaluation) of Contracting Foreign Projects (對外承包工程項目投標(議標)管理辦法) (effective on January 15, 2012) issued by MOFCOM, CBRC and CIRC and (f) The Relevant Provisions Concerning the Handling of Quality and Safety Issues of Contracting Foreign Projects (關於對外承包工程質量安全問題處理的有關規定) (effective on December 1, 2002) issued by MOFTEC and the former Ministry of Construction regulate PRC companies contracting overseas projects in terms of their technical qualification, foreign labor service cooperation, bidding (bid evaluation) permit of contracting foreign projects and quality and safety of foreign construction projects. In addition, there is another suite of laws and regulations that regulate the contracting of domestic construction projects that include: (a) the Directives on Fostering and Developing Construction General Contracting and Construction Engineering Project Management Enterprises (關於培育發展工程總承包和工程項目管理企業的指導意見) issued by the former Ministry of Construction (effective on February 13, 2003); (b) the Explanatory Letter on Questions Regarding Entry Into the General Contracting Market (關於工程總承包市場准入問題說明的函) (effective on July 13, 2003); and (c) the Administrative Regulations for the Administration of Construction Engineering Survey and Design Qualifications (建設工程勘察設計資質管理規定) (effective on September 1, 2007). These laws and regulations set out requisite requirements in terms of market access for conducting the general engineering contracting business.

Requirements for Relevant Business Qualification and Quality

(1) *Qualification for Contracting Foreign Projects*

According to the Administrative Regulations on Contracting Foreign Projects (對外承包工程管理條例) and the Administrative Measures for the Engineering Qualification for Contracting Foreign Projects (對外承包工程資格管理辦法), enterprises contracted to undertake foreign projects must obtain the requisite qualification for undertaking foreign engineering projects namely, the Engineering Qualification Certificate for Contracting Foreign Projects of the PRC (中華人民共和國對外承包工程資格證書) before being allowed to undertake foreign contracting projects within a permitted scope.

REGULATORY OVERVIEW

(2) Operational Qualification of Foreign Labor Service Cooperation

According to the Administrative Measures for the Operational Qualification of Foreign Labor Service Cooperation (對外勞務合作經營資格管理辦法), enterprises engaged in foreign labor service cooperation shall be approved by MOFCOM and obtain the requisite operational qualification of foreign labor service cooperation, namely the Certificate for Operational Qualification of Foreign Labor Service Cooperation of the PRC (中華人民共和國對外勞務合作經營資格證書) before being allowed to engage in any of such activities.

According to the Notice of MOFCOM for the Issues Related to the Implementation of the Administrative Measures for the Operational Qualification of Foreign Labor Service Cooperation (商務部關於執行<對外勞務合作經營資格管理辦法>有關問題的通知), enterprises which have obtained the operational qualification of contracting foreign projects shall be deemed to have automatically been granted with the qualification of dispatching personnel to work for overseas projects by the enterprises. However, the enterprises will not be allowed to carry out stand-alone labor subcontracting services. If an enterprise intends to carry out the foreign labor services cooperation business other than the provision of labor service under a project contracted by the enterprise, a separate operational qualification of the foreign labor service cooperation must be obtained by the enterprise.

(3) Market Access of General Engineering Contracting and Qualifications of Engineering Design

The Directives on Fostering and Developing of Construction General Contracting and Construction Engineering Project Management Enterprises (關於培育發展工程總承包和工程項目管理企業的指導意見) and the Explanatory Letter on Questions Regarding Entry Into the General Contracting Market (關於工程總承包市場准入問題說明的函) were issued by the former Ministry of Construction in February 2003 and July 2003 respectively, pursuant to which no specific licensing requirements for enterprises which intend to conduct the general engineering contracting business were required. Enterprises holding the general engineering contracting qualification may undertake projects as general contractors within their qualification scopes and grades in engineering surveying, engineering design and engineering contracting.

In accordance with the Administrative Regulations for Construction Surveying and Engineering Design Qualification (建設工程勘察設計資質管理規定) issued by the former Ministry of Construction, enterprises engaged in the engineering design activities shall apply for the requisite qualifications. Once the qualifications are obtained, the enterprises will be issued with a certificate to enable them to engage in the engineering design activities within their qualification scope. The Qualification of Engineering Design is classified into different categories, namely the integrated engineering design qualification, industry-based engineering designing qualification, specialist engineering design qualification and specialist item engineering design qualification. Only a single grade has been created for the integrated engineering design qualification which is Grade A classification, while Grade A and Grade B classifications have been created for the industry-based engineering designing qualification, specialist engineering design qualification and specialist item engineering design qualification. In addition to Grade A and Grade B classifications, a Grade C may also be created for some other sectors, specialties and specialist items that is based on the engineering nature and technical features of project. The construction engineering specialist qualification may also have a Grade D classification.

REGULATORY OVERVIEW

Bidding Permit for Contracting Foreign Projects (Bid Evaluation)

The Interim Measures for the Bidding (Bid Evaluation) Permit of Contracting Foreign Projects (對外承包工程項目投標(議標)許可暫行辦法) provides that enterprises taking part in bidding or bid negotiation of contracting foreign engineering projects must apply to MOFCOM for a permit prior to applying to a bank for a letter of guarantee. MOFCOM will review the project application submitted by the enterprises by taking into account the situations in the countries where the project is situated and other relevant rules and regulations. Once the application is approved, MOFCOM will then issue a bidding (bid evaluation) permit for contracting foreign engineering projects or project permit. The enterprises can then apply to a bank for a letter of guarantee by virtue of the project permit.

The Administrative Measures for the Bidding (Bid Evaluation) of Contracting Foreign Projects (對外承包工程項目投標(議標)管理辦法) provides that enterprises taking part in bidding or bid negotiation of contracting foreign engineering projects must apply to MOFCOM for approval of the bidding (bid evaluation) of contracting foreign projects prior to applying to a domestic financial institution for a letter of guarantee, credit or credit insurance. MOFCOM will review the project applications submitted by the enterprises by taking into account the project application information and will grant online approval to the applicants satisfying the conditions, and then will issue a bidding (bid evaluation) approval certificate for contracting foreign engineering projects (hereinafter referred to as the “**Approval Certificate**”). The enterprises can then apply to a domestic financial institution for a letter of guarantee, credit or credit insurance by virtue of the Approval Certificate.

Quality and Safety Management

The Relevant Provisions Concerning the Handling of Quality and Safety Issues in Contracting Foreign Projects (關於對外承包工程質量安全問題處理的有關規定) provides that if any quality and safety incidents or serious quality and safety issues arises when undertaking engineering projects overseas, the enterprises are contracted to undertake such projects shall, within 24 hours from the time when the incident or safety and quality issues occur, file a report to the economic and commercial sections of the nearest PRC diplomatic missions which in turn should report the same to the governmental instrumentality in charge of construction under the State Council. Also, a copy of the report should be filed with the governmental instrumentality in charge of foreign trade and economic cooperation under the State Council.

Coordination by the China Chamber of Commerce for Import and Export of Machinery and Electronic Products (“CCCME”) (中國機電產品進出口商會)

According to the Administrative Measures on the Export Projects Coordination of Large Scale of Machinery and Complete Sets of Equipment (大型單機和成套設備出口項目協調管理辦法) (effective on January 1, 2002), operators which intend to engage in the export of large scale machinery and complete sets of equipment must apply to the relevant chambers of commerce and industry in respect of the export projects to be undertaken by them. Any industrial projects in relation to the export of completed sets of equipment should be coordinated by CCCME and CCCME should review and verify the qualification of the participating operators and provide written opinions in regard to coordination to the operators. In the meantime, CCCME should send a copy of its written comments to MOFCOM and the commercial and economic section of China’s diplomatic missions for the filing purposes.

REGULATORY OVERVIEW

REGULATIONS GOVERNING INTERNATIONAL TRADE

Principal Regulatory Authorities

The governmental instrumentality in charge of foreign trade under the State Council is responsible for the administration of China's foreign trade according to the PRC law. The PRC customs is responsible for the supervision of the transport vehicles, goods, freight items and other items entering into and departing from the PRC according to the PRC law.

Major Governing Laws and Regulations

The Foreign Trade Law of the People's Republic of China (中華人民共和國對外貿易法) (effective on July 1, 2004) promulgated by the Standing Committee of the National People's Congress, the Administrative Measures for the Record Filing and Registration of Foreign Trade Operators (對外貿易經營者備案登記辦法) (effective on July 1, 2004), the Administrative Measures On Goods Import Licence (貨物進口許可證管理辦法) (effective on January 1, 2005), and the Administrative Measures On Goods Export Licence (貨物出口許可證管理辦法) (effective on July 1, 2008) promulgated by MOFCOM have imposed rules and regulations concerning the filing and registration of foreign trade operators and import and export licences. The Provisions of the Customs of the PRC for the Administration of Registration of Declaration Entities (中華人民共和國海關對報關單位註冊登記管理規定) (effective on June 1, 2005) issued by the General Administration of Customs of the PRC set out the requirements for the registration of customs agents in the PRC.

a. Record Filing and Registration of Foreign Trade Operators

According to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法) and the Measures for the Record Filing and Registration of Foreign Trade Operators (對外貿易經營者備案登記辦法), foreign trade operators engaged in the import and export of goods or the import and export of technology shall register with MOFCOM or its designated entities, except for those exempted for record filing and registration under PRC laws, administrative regulations and MOFCOM.

b. Goods Import and Export Licence

According to the Foreign Trade Law of the PRC (中華人民共和國對外貿易法), the Administrative Measures on Goods Import Licence (貨物進口許可證管理辦法) and the Administrative Measures on Goods Export Licence (貨物出口許可證管理辦法), the PRC permits free import and export of goods and technology, except for those stipulated otherwise under PRC laws and administrative regulations. The PRC adopts a licensing regime for goods which are restricted for import and export.

c. Registration with the Customs Office for Customs Declaration of Import and Export Goods by Importers and Exporters

According to the Administrative Provisions of the Customs of the PRC for the Administration of Registration of Declaration Entities (中華人民共和國海關對報關單位註冊登記管理規定), importers and exporters of the goods to be imported or exported shall contact the local Customs Office with a view to completing the registration formalities as customs clearance agents pursuant to the relevant regulations at the importing and exporting ports. After the completion of such registration, importers and exporters can complete with the customs clearance declaration for the enterprises at any ports or any location with centralized customs operation in the PRC.

REGULATORY OVERVIEW

MISCELLANEOUS REGULATION

Qualification of International Tendering Institutions

According to the Measures for Assessing the Qualification for International Tendering of Mechanical and Electrical Products (機電產品國際招標機構資格認定辦法) issued by MOFCOM (effective on March 1, 2005), enterprises which conduct international tendering business by utilizing foreign loans and domestic funds to procure mechanical and electrical products shall obtain the Qualification of International Tendering of Mechanical and Electrical Products. The Qualification of International Tendering of Mechanical and Electrical Products comprises of the Grade A, Grade B and Grade B Ready classifications.

Qualification of Construction Projects Tendering Agencies

According to the Measures for the Qualification for Tendering Agencies of Construction Projects (工程建設項目招標代理機構資格認定辦法) issued by the former Ministry of Construction (effective on March 1, 2007), entities which act as construction project tendering agencies should obtain the Qualification of Construction Project Tendering Agencies and shall be accredited by the government instrumentality responsible for construction under the State Council or its provincial or municipal counterparts according to the PRC law. The entities shall engage in the particular construction project tendering agency business within the scope permitted by the respective qualifications. The Qualifications of Construction Project Tendering Agencies comprises of Class A, Class B and Probationary classifications.

Qualification of Central Investment Project Tendering Agencies

According to the Administrative Measures for the Qualification of Invitation for Bid Agencies for Projects Invested by Central Government (中央投資項目招標代理資格管理辦法) promulgated by the National Development and Reform Commission (the “NDRC”) (effective on April 2, 2012), all the agencies that conduct the invitation for bid agency business with regard to the projects invested by the central government within the territory of the PRC shall be accredited by the NDRC. The qualifications of such invitation for bid agencies are classified into Grade A, Grade B and Preparatory Grade.

Agency Qualifications of International Cargo Transportation Agencies

According to the (Interim) Measures for the Records of International Cargo Transportation Agency Enterprises (國際貨運代理企業備案(暫行)辦法) issued by MOFCOM (effective on April 1, 2005), any international cargo transportation agencies which are registered with the State Administration for Industry and Commerce of the PRC and their branch entities pursuant to the law, shall register with MOFCOM or its designated entities for record purpose.

Operation of Non-Vessel Operating Common Carrier (NVOCC) Business

According to the Rules for the Implementation of International Maritime Transportation Regulations of the PRC (中華人民共和國國際海運條例實施細則) issued by the former Ministry of Transportation of PRC (effective on March 1, 2003), operators of the NVOCC business in the PRC shall apply to the Ministry of Transportation for the Operational Qualification Registration Certificate for NVOCC (無船承運業務經營資格登記證), and register with the original enterprise registration authorities before they may engage in any operation of NVOCC business.

REGULATORY OVERVIEW

Overseas Economic Trade Exhibition

According to the Administrative Measures for the Administration of Approving the Organizing of Overseas Economic Trade Exhibition (出國舉辦經濟貿易展覽會審批管理辦法) jointly issued by the China Council for the Promotion of International Trade (中國國際貿易促進委員會, “CCPIT”) and MOFTEC (effective on February 15, 2001) and the Notice for the Problems Related to Further Strengthening the Administration of Organizing Overseas Economic Trade Exhibitions (關於進一步加強出國舉辦經濟貿易展覽會管理工作有關問題的通知) jointly issued by the Ministry of Foreign Affairs, the Ministry of Public Security, MOFCOM, General Administration of Customs and CCPIT (effective on June 17, 2003), all proposals for conducting overseas exhibition have to be countersigned by CCPIT and are subject to approval by MOFCOM. Any entity without having obtained approval are prohibited from organizing groups to attend or organizing any overseas exhibition.

Qualifications of Project Supervision Enterprises

According to the Administrative Measures for the Qualification for Project Supervising Enterprises (工程監理企業資質管理規定) issued by the former Ministry of Construction (effective on August 1, 2007), enterprises that engage in the supervision of construction projects shall obtain the requisite construction supervision qualification to conduct related business activities within the scope permitted. Such qualification is classified into three categories, namely, the integrated qualification category, the specialist qualification category and the enterprise qualification category. The specialist qualification category is divided into a number of engineering classifications depending on the nature and technical features of project. No ratings are set under the integrated qualification category and the enterprise qualification category. The specialist qualification category consists of Grade A and Grade B classifications. Grade C classification may be created for sectors such as building construction, water resources and hydropower projects, roads and municipal public utilities.

Qualification of Engineering Consulting Entities

According to the Administrative Measures for the Qualification of Engineering Consulting Entities (工程諮詢單位資格認定辦法) issued by the NDRC (effective on March 4, 2005), engineering consulting services entities shall obtain the Qualification Certificate for Engineering Consulting from NDRC according to law in order to conduct related business activities within the permitted scope. The Qualification of Engineering Consulting Entities consists of a number of segments, namely, qualification grading, consulting specialties and scope of services. The Qualification of Engineering Consulting Enterprises comprises of Grade A, Grade B and Grade C classifications.

Qualification of Project Cost Consulting Enterprises

According to the Measures for the Qualification of the Administration of Project Cost Consulting Enterprises (工程造價諮詢企業管理辦法) issued by the former Ministry of Construction (effective on July 1, 2006), enterprises engaged in the project cost consulting business shall obtain the Qualification of Project Cost Consulting Enterprises, and engage in the project cost consulting business within the permitted scope under their qualifications. The Qualification of Project Cost Consulting Enterprises comprises of Grade A and Grade B classifications.

REGULATORY OVERVIEW

Qualification of Urban Planning

According to the Administrative Measures for the Qualification of Urban Planning Units Supervision (城市規劃編制單位資質管理規定) issued by the former Ministry of Construction (effective on March 1, 2001), enterprises engaged in urban planning units shall obtain the Certificate for Urban Planning Qualification, and shall conduct urban planning business within the permitted scope under such certificate. The Qualification of Urban Planning Enterprises comprises of Grade A, Grade B and Grade C classifications.

REGULATIONS IN RELATION TO OUR BUSINESS ACTIVITIES OVERSEAS

While we, as a PRC-incorporated company, are subject to and in compliance with the relevant PRC regulations applicable to our business, we may also be subject to local regulatory oversight in the geographical markets in which we operate. Prior to entering into a new geographical market, we would conduct appropriate due diligence on the regulatory environment and framework of that market and relevant jurisdiction, and ensure that we would be in compliance with the applicable regulations. In the case of our International Engineering Contracting Business, project owners would also request for and examine our appropriate qualifications during the bidding process to ensure that we have the appropriate qualification as an engineering contractor to undertake the underlying projects. We believe that the engineering contracting industry is not a highly regulated industry and we were not required to apply for any local qualifications or make any application with the local governments in order to undertake engineering contracting work overseas during the Track Record Period. As at the Latest Practicable Date, we have complied with all applicable regulations in relation to our business activities overseas in all material respects. See also “Risk Factors – Risks relating to our business and the industries in which we operate – We conduct a large part of our business in foreign countries and regions that are subject to foreign economic, regulatory, social and political uncertainties” for more details.

HISTORY AND REORGANIZATION

OUR HISTORY AND DEVELOPMENT

We were the first state-owned industrial and trading enterprise in the PRC. In May 1978, we were established in the PRC by the former Ministry of First Machinery Industry (第一機械工業部), and mainly engaged in the export of machinery and electrical products and equipment, and complete sets of plants and equipment. The former Ministry of First Machinery Industry was established by the State Council and subsequently renamed as the Ministry of Machinery & Building Industry (“**MMBI**”), which mainly provided guidance, supervision and administrative management for the enterprises in the PRC civil machinery industry. From that time until 1988, we were a “window” company under MMBI whereby we served as a channel through which the import and export of machinery and electrical products and the import of complete sets of equipment was conducted for MMBI. Between 1978 to 1988, we established 42 branch companies in various provinces and cities in the PRC, which developed into a major foreign trading platform for the PRC’s machinery and electrical products and equipment. Following the PRC foreign trading system reforms, such branch companies were dissociated from our Company in the late 1980s and we operated on our own going forward. In July 1994, we underwent an internal reform pursuant to which the divisions engaging in the Trading Business of our predecessor, China National Machinery & Equipment Import & Export Corporation (中國機械設備進出口總公司), were converted into independent legal entities. Such entities together with us and a number of regional branch companies dissociated from our Company in the late 1980s formed the China National Machinery & Equipment Import & Export Corporation group, which was principally engaged in the International Engineering Contracting Business and Trading Business. With the continued growth and development of the international engineering contracting industry, we have significantly increased our investment in this sector. As such, the International Engineering Contracting Business has become our core business while we continue to conduct our Trading Business.

SINOMACH, a state-owned company under the direct supervision and administration of SASAC, was established on December 31, 1996 with the approval of the State Economic and Trade Commission of the State Council (國務院國家經濟貿易委員會). The purpose for the establishment of SINOMACH was to assume the ownership and management of the various state-owned enterprises previously managed by MMBI, including our Company. In March 1998, we, as a state-owned enterprise, were transferred in our entirety at nil consideration, to SINOMACH and became a core enterprise in SINOMACH Group. As confirmed by our legal advisors as to PRC laws, Jia Yuan Law Offices, the above transfer was properly and legally completed. MMBI was dissolved subsequently in December 1998.

In May 2007, China Machinery R&D, which was then wholly-owned by SINOMACH, was transferred to our Company by SINOMACH at nil consideration to further enhance our R&D and design capabilities. As confirmed by our legal advisors as to PRC laws, Jia Yuan Law Offices, the above transfer was properly and legally completed.

As part of the restructuring of our Group and streamlining of our business, we transferred CMIC, which was then a wholly-owned subsidiary of our Company engaged in engineering contracting business and trading business, to SINOMACH at nil consideration (the “**Transfer**”) in December 2007. As confirmed by our legal advisors as to PRC laws, Jia Yuan Law Offices, the Transfer was properly and legally completed. Prior to the Transfer, China National Machinery & Equipment Import & Export Corporation and CMIC had undergone a series of steps to restructure our Company and CMIC. As part of this, we transferred to CMIC assets that were not suitable for listing, including properties with defective titles and enterprises that had ceased operation. At or around the same time, CMIC transferred to us all operations, employees, assets and liabilities in relation to its engineering contracting business, trading business and other business at nil consideration, with the exception of 77 contracts (with a total contract value of approximately

HISTORY AND REORGANIZATION

US\$693.3 million) which could not be assigned to our Company and were required to remain in the name of CMIC, owing to: (i) the international engineering contracting projects under such contracts had progressed to an advanced stage and the respective project owners did not agree to the assignment of contracts to us as it would have been extremely burdensome from a technical perspective; or (ii) such contracts had provisions that prohibited their assignment. Therefore, we arranged with CMIC that our Company, on behalf of CMIC, would undertake the projects and perform the remaining obligations under such contracts while the contract amounts to be received by CMIC upon completion of various phases of such contracts would be payable by CMIC to our Company. As at October 31, 2012, only seven contracts under the aforesaid arrangement were still ongoing and the remaining contract amounts payable by CMIC and receivable by us, are retention funds of approximately RMB4.1 million in respect of the projects under the relevant warranty periods, which will expire by the end of 2015 according to the project schedules.

On January 18, 2011, we were established as a part of our Reorganization by converting China National Machinery & Equipment Import & Export Corporation, our predecessor, into a joint stock company with limited liability, in preparation for the Listing, under PRC law with registered capital of RMB3.3 billion. Immediately after the Reorganization, our Promoters, SINOMACH and China United, held 99.00% and 1.00% of our share capital, respectively.

Our Important Milestones

With the intensification of the PRC's economic reform efforts in the late 1970s, we experienced a significant growth in our business, in particular our International Engineering Contracting Business in the power sector. We have been involved in over 80 international engineering contracting projects in the power sector since our inception. Since the 1990s, we continued to develop our International Engineering Contracting Business and completed a number of landmark thermal power projects in various developing countries. Also, we expanded our International Engineering Contracting Business from the power sector into the transportation sector, as well as the telecommunications sector. The following are the important milestones of our development:

<u>Month/Year</u>	<u>Event</u>
May 1978	Our predecessor, China National Machinery & Equipment Export Corporation (中國機械設備出口總公司), was established as the first state-owned industrial and trading enterprise in the PRC and developed into an important platform for the import and export of machinery and electrical products.
March 1980	We commenced our International Engineering Contracting Business with our first engineering contracting project in the Philippines in relation to the engineering and procurement of hydropower equipment.
1983.....	We began establishing our overseas presence, with offices in the US, Australia and Japan.

HISTORY AND REORGANIZATION

<u>Month/Year</u>	<u>Event</u>
February 1983	We engaged in an international engineering contracting project in Pakistan in respect of the Guddu thermal power station unit with an installed capacity of 210 MW, which was also the first international engineering contracting project undertaken by a Chinese company and financed by export seller's credit.
1988.....	42 branch companies were dissociated from our Company.
July 1994.....	China National Machinery & Equipment Import & Export Corporation group was established. Since then, the International Engineering Contracting Business has become our core business.
September 1996	We were contracted to build two 12,000 DWT multi-purpose cargo vessels for Myanmar, which was the first international engineering contracting project undertaken by us in the international transportation field.
March 1998	SINOMACH became our Controlling Shareholder.
October 1999.....	We were engaged by the Bangladesh Telegraph and Telephone Board to upgrade the telecom network in Bangladesh by installing and expanding a digital telephone exchange system. This project was the first international engineering contracting project undertaken by us in the international telecommunications field.
January 2011.....	We were established through Reorganization by converting China National Machinery & Equipment Import & Export Corporation, our predecessor, into a joint stock company with limited liability.

Over the 30 years of our development, we have established business networks in more than 150 countries and regions based on our trading experience and business transactions involving export and import of products and services to and from these countries and regions. As of the Latest Practicable Date, our Company had 100 trademark applications and registrations. We believe that our corporate brand, "CMEC", is well-recognized in the industry.

OUR REORGANIZATION

Prior to our Reorganization, our Company was a wholly-owned subsidiary of SINOMACH.

In preparation for the Global Offering, pursuant to the Reorganization Agreement dated May 30, 2011, our principal promoter, SINOMACH transferred to our Company all business (including the associated assets, liabilities and interests) of our predecessor, China National Machinery & Equipment Import & Export Corporation, including:

- all business, operations, assets and liabilities, including, amongst other things, the equity interests in 36 subsidiaries;

HISTORY AND REORGANIZATION

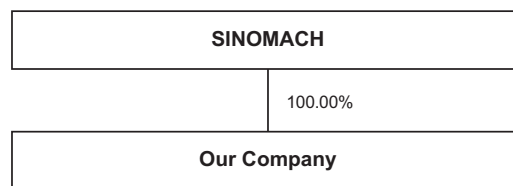
- contractual rights and obligations relating to such business, operations, assets and liabilities;
- employees associated with such business and operations;
- qualifications, licenses and approvals related to such business and operations; and
- business and financial records, books and accounts, and technological data and know-how related to such business and operations.

Pursuant to the Promoters Agreement dated January 10, 2011, the other Promoter, China United, a wholly-owned subsidiary of SINOMACH, contributed cash into our Company⁽¹⁾.

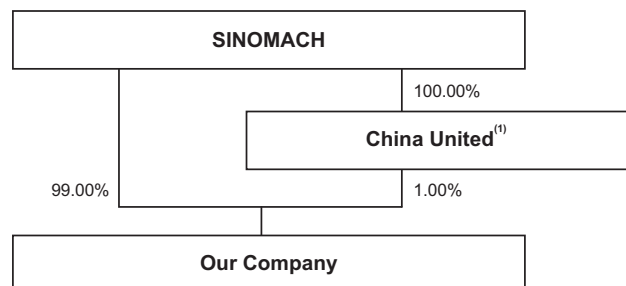
We were established as a part of our Reorganization by converting China National Machinery & Equipment Import & Export Corporation, our predecessor, into a joint stock company with limited liability on January 18, 2011 and had a total of 3.3 billion issued and outstanding Domestic Shares, with a par value of RMB1.00 each. We issued to SINOMACH 3,267 million Domestic Shares, or 99.00% of our total issued and outstanding Domestic Shares, in exchange for all the assets and liabilities. According to China Enterprises Appraisals Co. Ltd., the appraised value of the transferred assets and business was valued at approximately RMB4,646.2 million as of the valuation date of June 30, 2010. We also issued 33 million Domestic Shares, or 1.00% of our total issued and outstanding Domestic Shares, to China United in exchange for a cash contribution of RMB46.9 million. As confirmed by our legal advisors as to PRC laws, Jia Yuan Law Offices, our Reorganization was properly and legally completed and (where applicable) the consideration was settled. See “Appendix VI – Statutory and General Information – Further Information about our Company – Our Reorganization” for details.

The following charts set out the corporate structure of our Company before and after the Reorganization.

Before Reorganization:



After Reorganization:



Note:

- (1) Under PRC law, joint stock companies with limited liability established in the PRC must have at least two promoters. Therefore, China United contributed cash into our Company and became one of our Promoters.

HISTORY AND REORGANIZATION

Upon the completion of our Reorganization, SINOMACH retained its equity interests in the SINOMACH Subsidiaries and its own business and that of its subsidiaries, including the Excluded International Engineering Contracting Business and the Excluded Trading Business, which may be in potential competition with our business. See “Relationship with Controlling Shareholder” for details.

Representations and warranties

Pursuant to the Reorganization Agreement, SINOMACH, as our Controlling Shareholder, has provided certain representations and warranties in favor of our Company in respect of SINOMACH and China United, which mainly include:

- all the information set out in the Reorganization Agreement and its appendices was complete, true and accurate in all material aspects;
- our Promoters are duly incorporated and exist as legal persons in good standing in the PRC and have the rights and power to enter into, and perform all the obligations under, the Reorganization Agreement;
- the execution and performance of the Reorganization Agreement by our Promoters will not conflict with their articles of association, business licenses and other similar constitutional documents or result in breach of any asset restructuring agreement (except where consents have been obtained from other parties), laws, regulations, court judgments, arbitral awards, administrative rulings, and other documents which are binding on our Promoters;
- all the assets and interests injected by our Promoters into our Company were lawfully and beneficially owned by our Promoters under PRC law;
- apart from our Promoters, no third parties own or have an option to acquire any equity interests in our Company and the shares of our Company are free from any liens, mortgages, pledges or other third parties’ rights; and
- there are no litigation, claims, arbitration or other proceedings against our Promoters that may have a material and adverse effect on the business (including the assets and equity interests) that our Promoters have injected into our Company.

Indemnities

Pursuant to the Reorganization Agreement, SINOMACH, as our Controlling Shareholder, has agreed to indemnify us against, among other things, the following:

- all losses and claims incurred in connection with taxes, capital contributions and equity transfers made by our Promoters;
- tax liabilities and related claims arising from the transfer of assets and interests by SINOMACH to us;
- tax liabilities due to the increase in asset value arising from the valuation of the assets transferred to us pursuant to the Reorganization Agreement;
- any claims arising from any negligence, mistake or breach of any law on the part of our Promoters in connection with the performance of any contract on behalf of our Company on or after the date of the Reorganization Agreement;
- before, on or after the date of the Reorganization Agreement, any claims arising from or in connection with SINOMACH’s failure to inject capital or transfer assets into our Company pursuant to the Reorganization Agreement, accountants’ report and other reorganization documents; and
- before, on or after the date of the Reorganization Agreement, any claims arising from or in connection with the capital, equity rights or debts retained by SINOMACH.

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NON-COMPETITION AGREEMENT

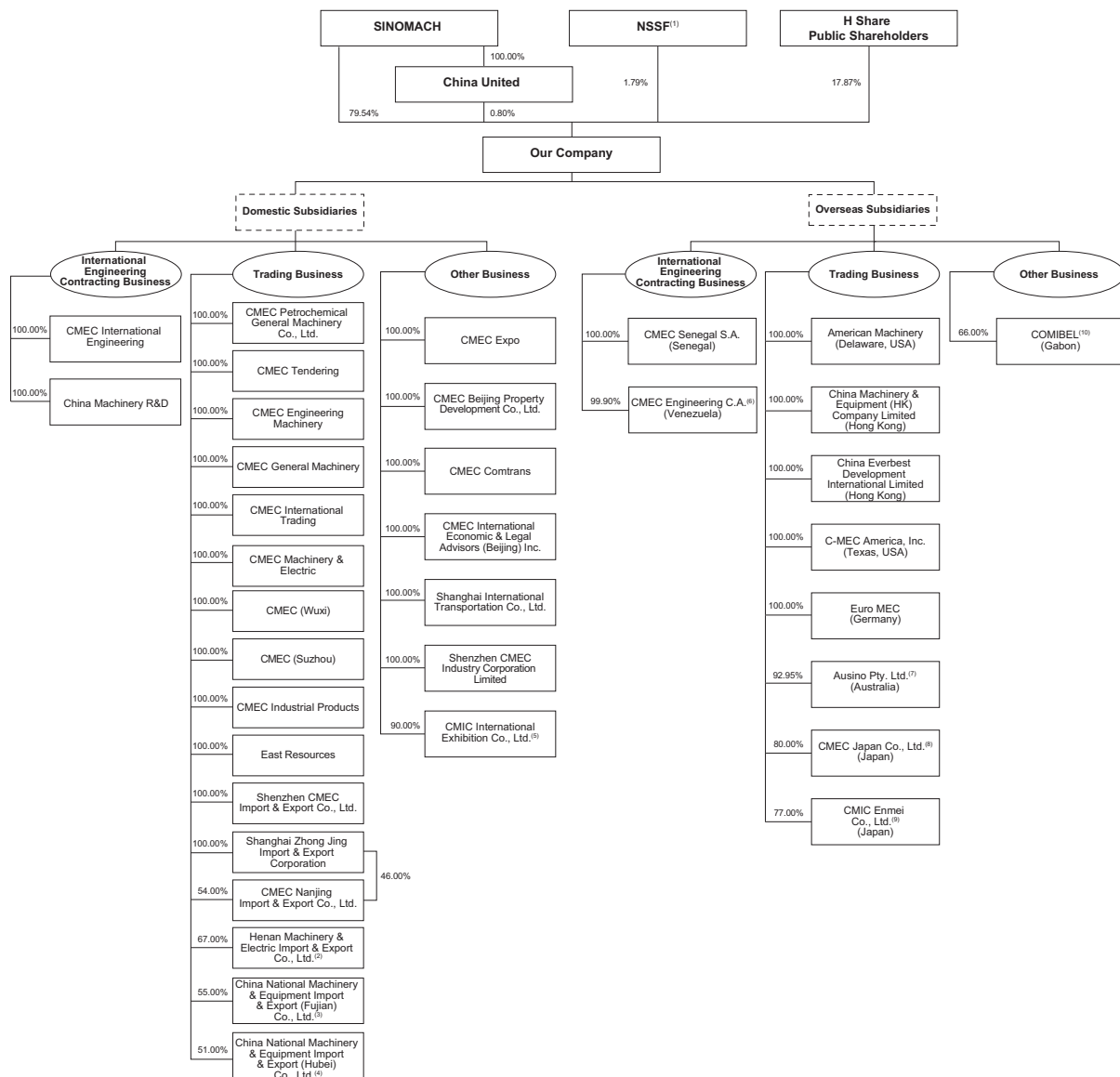
We have entered into the Non-competition Agreement with SINOMACH. See “Relationship with Controlling Shareholder” for details.

APPROVALS

Our Reorganization required approvals from relevant PRC governmental authorities, including, among others, SASAC. We obtained SASAC’s approvals on December 22, 2008, January 17, 2011 and January 18, 2011 respectively. Our PRC legal advisors confirm that we have obtained all the necessary approvals from the relevant PRC governmental authorities in relation to the Reorganization.

OUR CORPORATE STRUCTURE

The following chart sets out our shareholding structure and our principal subsidiaries immediately after the completion of the Global Offering on the assumption that (i) the Over-allotment Option is not exercised and (ii) there is no change in shareholding held by each of the existing shareholders in our Group subsequent to the Latest Practicable Date.



HISTORY AND REORGANIZATION

Notes:

- (1) Upon completion of the Global Offering and assuming the Over-allotment Option is not exercised, 71,800,000 H Shares (converted from Domestic Shares) representing approximately 1.79% of our total share capital will be transferred to and held by NSSF pursuant to relevant PRC regulations regarding the disposal of state-owned shares.
- (2) The remaining shareholder of Henan Machinery & Electric Import and Export Co., Ltd. is an individual holding 33.00% of the equity interest. To the best of our knowledge, apart from being a shareholder of Henan Machinery & Electric Import and Export Co., Ltd., the individual is an independent third party.
- (3) The remaining shareholders of China National Machinery & Equipment Import & Export (Fujian) Co., Ltd. are Fujian Electrical (Holdings) Co., Ltd. (福建省機電(控股)有限責任公司) holding 23.00% of the equity interest and two individuals holding, in aggregate, 22.00% of the equity interest. Fujian Electrical (Holdings) Co., Ltd. is an enterprise in the PRC. To the best of our knowledge, apart from being a shareholder of China National Machinery & Equipment Import & Export (Fujian) Co., Ltd., Fujian Electrical (Holdings) Co., Ltd. and the two individuals are independent third parties.
- (4) The remaining shareholders of China National Machinery and Equipment Import & Export (Hubei) Co., Ltd. are Hubei Hongtai State-owned Assets Management Co., Ltd. (湖北宏泰國有資產經營有限責任公司) holding 20.00% of the equity interest, and 13 individuals holding, in aggregate, 29.00% of the equity interest. Hubei Hongtai State-owned Assets Management Co., Ltd. is an enterprise in the PRC. To the best of our knowledge, apart from being a shareholder of China National Machinery and Equipment Import & Export (Hubei) Co., Ltd., Hubei Hongtai State-owned Assets Management Co., Ltd. and the 13 individuals are independent third parties.
- (5) The remaining shareholder of CMIC International Exhibition Co., Ltd. is Hebei China Machinery Cooperation Co., Ltd. (河北中機合作有限公司) holding 10.00% of the equity interest. Hebei China Machinery Cooperation Co., Ltd. is an enterprise in the PRC. To the best of our knowledge, apart from being a 10.00% shareholder of CMIC International Exhibition Co., Ltd., Hebei China Machinery Cooperation Co., Ltd. is also a subsidiary of SINOMACH. Therefore CMIC International Exhibition Co., Ltd. and Hebei China Machinery Cooperation Co., Ltd. are connected persons of our Group.
- (6) The remaining shareholder of CMEC Engineering C.A. is CMEC Comtrans, a wholly-owned subsidiary of our Company.
- (7) The remaining shareholders of Ausino Pty. Ltd. are China National Automotive Industry Import and Export Corporation (中國汽車工業進出口公司) holding 3.52% of the equity interest, and China National Construction & Machinery Import and Export Corporation (中國工程與農業機械進出口總公司) holding 3.52% of the equity interest. To the best of our knowledge, apart from being a shareholder of Ausino Pty. Ltd., China National Automotive Industry Import and Export Corporation and China National Construction & Machinery Import and Export Corporation are also subsidiaries of SINOMACH, and therefore are connected persons of our Group.
- (8) The remaining shareholder of CMEC Japan Co., Ltd. is Tohodenki Corporation holding 20.00% of the equity interest. Tohodenki Corporation is a company incorporated in Japan. To the best of our knowledge, apart from being a shareholder of CMEC Japan Co., Ltd., Tohodenki Corporation is an independent third party.
- (9) The remaining shareholder of CMIC Enmei Co., Ltd. is an individual holding 23.00% of the equity interest. To the best of our knowledge, apart from being a shareholder of CMIC Enmei Co., Ltd., the individual is an independent third party.
- (10) The remaining shareholders of COMIBEL are the State of Gabon, holding 25.00% of the equity interest and Panzhihua Iron & Steel Group Co., Ltd. (攀枝花鋼鐵(集團)公司), holding 9.00% of the equity interest. Panzhihua Iron & Steel Group Co., Ltd. is a state-owned enterprise in the PRC. To the best of our knowledge, apart from being a shareholder of COMIBEL, the State of Gabon and Panzhihua Iron & Steel Group Co., Ltd. are independent third parties. The business of COMIBEL includes mining, construction and project support facilities management.

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 sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. According to the Ipsos Report, we ranked fourth among all Chinese contractors in terms of revenue generated from international power projects in 2011. Furthermore, based on the financial data derived from ENR's top 225 international contractors list, in 2011, we ranked sixth among the global international contractors in terms of total revenue generated from international contracting work in the power sector performed in the previous calendar year⁽¹⁾, accounting for approximately 3.6% of total revenue from the power sector derived by these 225 companies. With our first engineering contracting project in relation to the engineering and procurement of hydropower equipment that embarked our International Engineering Contracting Business in 1980, we were one of the first Chinese engineering contractors that offered engineering contracting services for international power projects with over 30 years of industry experience. We consider power, transportation and telecommunications sectors to be our Core Sectors.

We also conduct Trading Business through our sales and marketing network which covers over 150 countries and regions. Such network spans primarily in Asia, Europe and Africa and, to a lesser extent, in North America, South America and Oceania. Our sales and marketing network is established through years of international engineering contracting and trading experiences and business transactions involving export and import of products and services to and from these countries and regions. To a lesser extent, we are involved in the Other Businesses that provide logistics services, exhibition services, tendering agency services and other services (including export-import agency services and design services), and we also conduct certain strategic equity investment. 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 total revenue was approximately RMB19,287.7 million, RMB19,077.0 million, RMB20,517.8 million and RMB10,354.1 million, respectively.

International Engineering Contracting Business

We are an international engineering contractor and service provider with a primary focus on EPC projects and particular expertise in the power sector. We began our International Engineering Contracting Business in 1980 through our first international engineering contracting project in the Philippines in respect of the engineering and procurement of hydropower equipment and have since then undertaken engineering contracting projects in more than 45 countries around the world. For the year ended December 31, 2011, approximately 58.7% of our revenue and approximately 79.7% of our gross profit were derived from our International Engineering Contracting Business. In particular, since our inception, we have undertaken over 80 engineering contracting projects in the power sector. With over 30 years of experience in the International Engineering Contracting Business, we are able to provide the project owners with one-stop customized and integrated

Note:

- (1) In 2011, SINOMACH was ranked as one of the top five international contractors in the power sector by ENR's top 225 international contractors list. Before our establishment as a joint stock limited company on January 18, 2011, there was no separate ranking for us as a subsidiary of SINOMACH in relation to the power sector. Based on the financial data of the top 225 international contractors derived from ENR's top 225 international contractors list, we substituted SINOMACH with our Company in the list using our own revenue generated from our International Engineering Contracting Business in the power sector in 2010 (which is exclusive of the revenue generated by the Excluded Business of SINOMACH) to deduce our ranking among ENR's top 225 international contractors.

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turnkey solutions and services to manage and implement the engineering contracting projects, including preliminary project consultation, financing solutions for projects, project design, procurement, logistics, construction, installation, commissioning and related works, in a combination of any of the above services in keeping with the needs of the project owners.

We consider power, transportation and telecommunications sectors to be our Core Sectors. See “Relationship with Controlling Shareholder – Non-competition Agreement” for further details. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, engineering contracting projects in our Core Sectors in aggregate accounted for approximately 93.0%, 89.7%, 88.6% and 91.7%, respectively, of the total revenue of our International Engineering Contracting Business during the same periods. In addition, we are also engaged in engineering contracting projects in the non-Core Sectors such as water supply and treatment, building and construction, manufacturing and processing plants, mining and resources exploitation. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, 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, respectively, representing approximately 70.8%, 63.0%, 58.7% and 62.1%, respectively, of our total revenue during the same periods.

Through years of experience and proven track record in the International Engineering Contracting Business, we have established a well-known “CMEC” brand name in many countries and regions, especially in Asia and Africa. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our total revenue generated from Asia and Africa in aggregate represented approximately 70.4%, 77.1%, 88.7% and 60.1%, respectively, of the total revenue of our International Engineering Contracting Business during the same periods.

Trading Business

We are also engaged in the Trading Business. With extensive sales and marketing networks built through experiences and transactions in our International Engineering Contracting Business and Trading Business in more than 150 countries and regions, 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 Company as well as our subsidiaries in the PRC and other countries (such as Germany, the United States, Australia, Japan and Hong Kong) and overseas representative offices, we principally export and, to a lesser extent, import and domestically trade complete sets of plants and equipment and various machinery, 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, respectively, representing approximately 25.8%, 33.0%, 37.5% and 34.0%, respectively, of our total revenue during the same periods.

Other Businesses

In addition to our International Engineering Contracting Business and Trading Business, we also operate the Other Businesses that provide logistics services, exhibition 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 provide a marketing platform for our International Engineering Contracting

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Business and Trading Business through participation in exhibitions for the engineering and trading industries. Our tendering agency services promote our Trading Business by providing opportunities to meet potential suppliers and customers of our Trading Business and to understand their needs. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenue generated from our Other Businesses was approximately RMB661.9 million, RMB761.9 million, RMB774.0 million and RMB405.8 million, respectively, representing approximately 3.4%, 4.0%, 3.8% and 3.9%, respectively, of our total revenue during the same periods.

The following table sets out, for the periods indicated, the amount and percentage of our total revenue by each of our three business segments:

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)
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

For the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our total gross profit amounted to approximately RMB1,759.6 million, RMB2,942.4 million, RMB3,659.1 million and RMB1,903.9 million, respectively.

OUR COMPETITIVE STRENGTHS

We believe that our success to date and our potential for future growth are built on the following strengths:

We have maintained our leading position in the power sector among international engineering contractors and are well-positioned to capture the opportunities in the fast-growing international engineering contracting market.

We are a leading international engineering contractor and service provider with a primary focus on EPC projects and particular expertise in the power projects. With our first EPC project in relation to a hydropower station that embarked our International Engineering Contracting Business in 1980, we were one of the first Chinese engineering contractors that offered engineering contracting services for international power projects with over 30 years of industry experience. According to the Ipsos Report, we ranked fourth among all Chinese contractors in terms of revenue generated from international power projects in 2011, and we ranked second among all Chinese contractors in terms of total accumulated revenue generated from international power projects from 2007 to 2011, out of which we ranked first in the same category for three consecutive years from 2007 to 2009. Furthermore, based on the financial data derived from ENR's top 225 international contractors list, in 2011, we ranked sixth among the global international contractors in terms of total revenue generated from international contracting work in the power sector performed in the previous calendar year, accounting for approximately 3.6% of total revenue from the power sector derived by these companies.

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While we have maintained our leading position as an international engineering contractor in the power sector, our fast development was sustained by our ability in seizing opportunities in the international engineering contracting market and increasing our market share in the international transportation and telecommunications sectors. Furthermore, we intend to leverage our strength in the power sector to expand into related sectors, such as the renewable energy sector. See “ – Our Business Strategies – Strengthen our leading position in the power sector and enlarge our market share in the transportation and telecommunications sectors as well as other sectors and countries” for more information.

Capitalizing on the fast growing infrastructure engineering contracting industry in the developing countries, especially the power engineering contracting projects, and on the back of rising global energy demand, the newly effective contract value of our International Engineering Contracting Business in the power sector has recorded an increase from approximately US\$788.6 million in 2009 to US\$1,582.8 million in 2011, representing a CAGR of 41.8%.

We have in-depth experience and well-recognized brand in the international engineering contracting industry with our projects spanning over a broad geographic area.

We were one of the first PRC enterprises engaged in the business of international engineering contracting since our first international engineering contracting project in 1980, and have accumulated over 30 years of experience in the industry, in particular the EPC industry, in more than 45 countries around the world. See “– International Engineering Contracting Business – International Coverage” for more information on our international engineering contracting experience.

Over the years, we have gained recognition of our “CMEC” brand. During the Track Record Period, we completed 53 engineering contracting projects, a majority of which are EPC projects. We have built strong relationships and strategic partnerships with governments and corporate clients through co-operation, quality services and highly international profile and status as one of the PRC pioneers in the international EPC market. We believe that we have benefited and will continue to benefit from the synergies created through our customers’ satisfaction and broader market recognition of our brand, which have helped increase our opportunities and ability of securing project bids. Additionally, with our various industry qualifications and successful collaborations with various governments, governmental agencies and state-owned enterprises on large scale infrastructure projects, we have reinforced our reputation among these governments, governmental agencies and state-owned enterprises as well as other corporate clients as a reliable contractor, which has enabled us to draw on their support for new, related or follow-up projects. For example, we have been engaged in the water plant supplementary project in Angola by an existing client, the government of the Republic of Angola.

As at June 30, 2012, we had 50⁽¹⁾ ongoing engineering contracting projects, which spread across more than 25 countries. The broad international coverage of our International Engineering Contracting Business enables us to better secure high margin engineering contracting projects and diversify the risks associated with inclement weather and climate, natural disasters, economic, political and other uncertainties as compared to our competitors which have specific or concentrated geographical focus. See “Risk Factors – Risk relating to our business and the industries in which we operate” for more information on the risks we face.

Note:

(1) The number of on-going projects for our International Engineering Contracting Business would have been 49 if the Restructuring had happened on or prior to June 30, 2012.

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We offer one-stop customized and integrated engineering contracting solutions and services, while our asset-light operating model enables us to focus on providing high quality project management services and effective financing options for projects.

Throughout our years of international operations, we have developed upstream and downstream strategic partnerships, and are able to provide our customers with a full spectrum of integrated turnkey services across different phases of a project, such as customized financing solutions, design, procurement, logistics, construction, installation, commissioning and related works.

In particular, in terms of procurement of complete sets of plants and equipment, we maintain close access to the supply chains by leveraging our long-established business relationships with the PRC manufacturers which have strong manufacturing capabilities on a full range of quality boilers, power generators, steam turbines and power transformation equipment at lower cost. PRC manufacturers that we have worked with include Dongfang Electric Corporation (中國東方電氣集團有限公司), Shanghai Electric Group Co., Ltd. (上海電氣集團股份有限公司), Harbin Electric Corporation (哈爾濱電氣集團公司), Hangzhou Steam Turbine Co., Ltd. (杭州汽輪機股份有限公司) and Tebian Electric Apparatus Stock Co., Ltd. (特變電工股份有限公司) which in aggregate accounted for a considerable amount of our total equipment purchase cost in the first half of 2012. We have established long-term business relationships with various subcontractors and product suppliers in the PRC, including supervision companies, construction companies, ship manufacturing companies and telecommunications equipment providers. We have worked with design institutes such as Central Southern China Electric Power Design Institute of China Power Engineering Consulting Group Corporation (中國電力工程顧問集團中南電力設計院), Northeast Electric Power Design Institute of China Power Engineering Consulting Group (中國電力工程顧問集團東北電力設計院) and Changjiang Institute of Survey, Planning, Design and Research (長江勘測規劃設計研究有限責任公司). Our stable and long-term cooperative relationships with subcontractors and suppliers have allowed us to benefit in terms of timely delivery, quality assurance, cost-effective supplies and efficient services.

Moreover, we are able to collaborate with domestic suppliers in providing our clients with customized solutions. For example, we have cooperated with a PRC design institute in providing the project owner of the “next generation network” telecommunications project in Angola with a customized design and implementation program. Additionally, our long-standing cooperation with subcontractors and knowledge of the players in the subcontracting market allow us to select subcontractors which represent the best fit for our projects. We believe that we are able to transfer our cost benefits, derived from a combination of lower costs and rising technology standards in the PRC manufacturing sector, to our clients, giving us a competitive pricing edge over our competitors.

Furthermore, we adopt an asset-light operating model as we subcontract substantially all of the construction works, which enables us to focus on project execution, management and supervision of our projects as well as achieving high internal efficiency. Our aggregate amount of property, plant and equipment, investment properties and lease prepayments as a percentage of our total assets was below 8% during the Track Record Period and was lower than the major listed construction companies in the PRC. Our average net profit per employee⁽¹⁾ for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 was approximately RMB297,755, RMB525,871, RMB601,676 and RMB414,537, respectively, which was significantly higher than the major listed construction companies in the PRC and continued to display an upward trend.

Note:

- (1) Average net profits generated per employee equal to our annual net profits divided by the total number of our full-time employees as at the relevant year end. Our net profit for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 was approximately RMB610.1 million, RMB1,132.2 million, RMB1,472.3 million and RMB989.5 million, respectively, while the number of full-time employees as of December 31, 2009, 2010 and 2011 and June 30, 2012 was 2,049, 2,153, 2,447 and 2,387, respectively.

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To ensure delivery of quality services to our customers, we adopt strict internal control and risk management systems throughout the entire process of a project, from the project origination stage, involving project evaluation and project team designation, to the project implementation stage, involving the selection of subcontractors and suppliers and eventually the project transfer stage involving commissioning, personnel training and maintenance. To ensure the soundness and continuous implementation of our internal control and risk management systems, professionals, including, accounting personnel, lawyers and business management personnel, are involved throughout the entire process of a project. Our ability to utilize internal and external management and technological expertise has bolstered our high quality engineering contracting services to our clients as well as good and long-term relationships with them.

We possess effective and innovative capabilities in assisting project owners to obtain financing for their projects. The ability of providing financing solutions to project owners has become one of the keys to securing and operating international engineering contracting projects. Our experience in assisting our project owners in obtaining financing, in the form of export buyer's credit (買方信貸) and export seller's credit (賣方信貸) supported by export credit insurance has supported the development of our International Engineering Contracting Business, whereby we have built and developed long-term, stable and strategic cooperative relationships with various PRC financial institutions such as the Export-Import Bank, China Development Bank, Bank of China, China CITIC Bank, China Merchants Bank, China Minsheng Bank as well as Sinosure. See “– International Engineering Contracting Business – Financing for projects” and “– International Engineering Contracting Business – Export credit insurance” for more details. In addition, our unutilized banking facilities amounted to RMB16,554.6 million as of June 30, 2012, which could facilitate our issuing of various kinds of letters of guarantee and bonds throughout the business process of our projects. See “– International Engineering Contracting Business – Payment and settlement terms” for more details.

We have extensive worldwide business networks and a professional business team with deep industry knowledge.

Following the implementation of the PRC's “Going Out” strategy and with the international operations of our International Engineering Contracting Business and Trading Business, we have established wide international business networks in over 150 countries and regions and we conduct our International Engineering Contracting Business and Trading Business in regions across Asia, Africa, Europe, North America, Central and South America and Oceania.

In addition, with our long history of relationship with the PRC Government, we are better-positioned to leverage on the close sino-foreign cooperative relationships between the PRC and other developing countries to effectively promote our international engineering contracting capabilities in these countries with governmental and regulatory support. Over the years, our active involvement in and successful undertaking of a wide range of cross-border engineering contracting projects have assisted us to further strengthen such governmental ties, hence establishing a mutual process of relationship building which is advantageous to our business development. By way of example, our thermal power plant project in Sri Lanka was the largest cooperative project between the PRC and Sri Lanka at the time when the said project commenced in 2007.

Our business team, which has acquired acute business sense through years of experience in the engineering contracting market, is able to identify and respond quickly to existing and potential business opportunities. Our business personnel are industry-focused and are equipped with the relevant technical skills, know-how and experience within their respective industries. We have, since the inception of our business, identified and trained business development talent within our workforce, most of whom have further enhanced their skills and knowledge through participation in

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our international projects. Overall, we believe that we possess a stable and experienced business team with a deep understanding of our operations and the industries in which we operate, allowing us to continue to expand our businesses.

We have also enhanced our awareness in business development through our exhibition services, which provides us with a synergized and integrated marketing platform for our International Engineering Contracting Business and Trading Business and offer access to new contacts of potential customers and suppliers. Through key memberships in the China International Contractors Association (中國對外承包工程商會) and the China Chamber of Commerce for Import and Export of Machinery and Electronic Products (中國機電產品進出口商會), we are able to raise our Company's profile, obtain market information and industry information beneficial to our International Engineering Contracting Business and Trading Business, and engage in the relevant industries in which we operate.

We have an experienced and innovative senior management team and a strong technical team of professional experts.

Our senior management team has an average of over 20 years of industry experience. The team has extensive management skills, operating experience, industry expertise and knowledge, which, among others, provides our Company with innovative ideas and proposals as well as business acumen. Among our Directors and members of our senior management, four of them are professor-level senior engineers, four are senior engineers, two are certified public accountants, two are senior accountants and three are senior economists in the PRC. In particular, our senior management and technical teams have extensive participation in the management of the engineering contracting projects, export of complete sets of plants and equipment, and trading of machineries and electrical products, which enables them to accumulate a wide spectrum of experience and knowledge on project management, business development, cost control and risk management.

As at the Latest Practicable Date, we had a technical team of 1,201 engineers, out of which there were 40 professorial engineers, 310 senior engineers, 507 engineers and 344 assistant engineers. Furthermore, among these engineers, 704 of them are designers, 19 are certified architects, 20 are certified budgeting specialists and 163 are international project management professionals (IPMP), possessing different expertise and qualifications in different areas required for our businesses. We believe that both our senior management team and our highly specialized technical personnel have been and will continue to be a core element to our success.

OUR BUSINESS STRATEGIES

Strengthen our leading position in the power sector and enlarge our market share in the transportation and telecommunications sectors as well as other sectors and countries.

We will continue to maintain and strengthen our leading position as an international engineering contractor and service provider with a primary focus on EPC projects and particular expertise in the power sector while globally enlarging our market share in the transportation and telecommunications sectors as well as other sectors and countries and exploring new contracting models. We intend to do the following:

- Continue to maintain and strengthen the competitiveness of our International Engineering Contracting Business in the power sector by promoting reforms and innovations. We intend to enhance our engineering contracting capabilities in the power sector by entering into the renewable energy sector, and by developing specialties in

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energy management and similar new business lines. We believe this will not only promote environmental protection which is in line with global economic and business trends but also provide us an opportunity to be ahead of the competition and help pursue a sustainable development of our power-related engineering contracting business. We will explore ways to collaborate with international corporations with related expertise in the renewable energy sector as well as design institutes.

- Enlarge the market share of our International Engineering Contracting Business in the transportation and telecommunications sectors. We intend to capitalize on the opportunities arising from the increasing demand in these two sectors in both developed and developing countries. We intend to leverage on our leading position in the power sector to further expand into the transportation and telecommunications sectors by benefiting from the PRC's relatively cost-effective manufacturing capabilities, utilizing our well-recognized "CMEC" brand and existing client relationship, maintaining and enhancing our quality, promoting our professional, efficient and integrated engineering contracting services, and enhancing our innovative business strategies.
- Continue to increase our market share globally by leveraging on our experience in business development and project management accumulated from our business in the countries and regions we currently operate. In particular, we plan to increase our business development efforts in regions such as Eastern Europe, and engage in power projects with higher profit margins. In consolidating our strategic alliances and business cooperation efforts, we will continue to expand our regional network, technology, and professional partnerships which will enable us to maintain close cooperation and communications with local governments.
- Continue to explore new contracting models to grow our business and gain global market share. In addition to our existing capabilities in providing financing solutions, we intend to build upon our competitive strengths in our International Engineering Contracting Business by continuing to explore and invest in new contracting models, such as BOT, which is increasingly favored by the market, and other contracting models such as BT and PPP. We believe that adopting these alternative contracting models will likely involve leveraging on our existing relationships with upstream and downstream strategic partners (such as design institutes, equipment manufacturers and other subcontractors) in the form of joint ventures or other cooperative arrangements. We believe this will help exploiting the profitability of the PRC's engineering supply chain, operating strategically and realizing our business collaboration and turnkey capabilities.
- Continue to improve our international project coordination, management and implementation capabilities. We will continue to focus on identifying or attracting, retaining and training high quality project managers and technical personnel. We also intend to increase our product integration level as well as our service quality. To do this, we intend to focus on enhancing our current engineering technology and capabilities in terms of on-site construction, comprehensive project planning, R&D and design. We also intend to set up a database of experts in the power sector which will allow us to select the most suitable experts for our international power projects.

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Consolidate our strengths and enlarge our market share in our Trading Business.

In terms of our Trading Business, we intend to target our marketing efforts on overseas governmental organizations, business associations, industry organizations and large corporate customers in various ways, including business visits, publicity and other marketing methods. We expect to capitalize on the synergies that are potentially enjoyed between our International Engineering Contracting Business and Trading Business and to increase the size of each transaction by capitalizing on our ability in sourcing complete sets of plants and equipment and various mechanical, electrical and instrumental products as well as our leading position in the international engineering contracting industry. We also plan to increase our value-adding services to the customers of our Trading Business by improving our supply chain oriented services. We intend to improve our product knowledge and expand the databases of our core products which will provide our customers with more comprehensive and customized advice and recommendations related to the entire supply chain, procurement (including product type, model, price and quality) and logistical arrangements. We believe this will increase our customers' awareness and recognition of our trading services and the products we trade and, in doing so, promote transactions in sizeable quantities or bulk purchases, increase the market share of our Trading Business and transform our Trading Business into a one-stop trading platform.

Selectively undertake international projects in our non-Core Sectors.

We will continue to stay on top of development trends and characteristics of the international engineering contracting industry, and utilize our competitive strengths in our International Engineering Contracting Business to explore new business opportunities in the non-Core Sectors, such as manufacturing and processing plant projects, environmental protection projects and mineral and resources exploitation projects. We believe this will help us achieve our aim of growing our International Engineering Contracting Business in a diversified yet balanced manner.

Utilize local resources to improve our profit margin and efficiency.

We intend to control our labor costs, improve project implementation and increase our project operational efficiency by utilizing engineering and construction resources both locally on the project sites and from locations in close proximity of the project sites. We also plan to establish an international procurement network. Wherever possible, we will consider reducing costs by making suitable procurements in and engaging subcontracting services from the relevant countries which accord with our project requirements.

Increase our profitability through efficient fund usage and capital structure management.

We intend to further centralize our fund management system, which we believe will efficiently allocate our available funds, limit the amount of potentially idle funds and manage currency risks. We believe that, through this Global Offering, we can establish presence in the international capital market, which we can use as a platform to conduct various corporate fund-raising activities, optimize our capital structure and maintain our credit standing with the financial institutions. We also plan to improve our capital management system in areas such as procurement and internal operations, which we believe will allow us to accelerate our cost recovery rate and increase our return on investment from our projects. While we will continue to purchase equipment from the PRC suppliers with which we have long-established business relationship, we intend to continue to manage our currency risks by utilizing local currencies to locally purchase certain products or services.

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Strengthen our information system, increase our operational efficiency and improve our risk management system.

We plan to strengthen our integrated information system which contains the information of our various business divisions and departments. We believe this will strengthen our information management capability, raise our service standard and productivity in the areas of engineering technology management and enhance our project management with seamless operations throughout our marketing efforts, supply chain and financial system. Furthermore, we expect to constantly improve the quality of our supply chain and customer relationship, as well as the efficiency of our on-site management system and financial information management system. We intend to continuously evaluate our internal management to improve our internal control systems and ensure efficient allocation of resources. We aim to enhance our service capabilities in the areas of marketing, cost control, project management, technology, quality control, procurement, construction and logistics. We also plan to strengthen our risk management and internal controls. In order to achieve the aforementioned goals, we are building a comprehensive risk management system covering areas such as strategy, finance, business development and operations and compliance to enhance the depth and scope of our risk management.

Continue to advance and enhance the quality of our personnel.

We intend to continue providing systematic and ongoing training in areas including project management (e.g. IPMP), technical skills, business development aptitude and foreign language to our business team and project team. Together with our plan to continue attracting good quality personnel to our Company, we believe this will enable us to build and nurture an internationalized workforce and culture, and to continue to improve our technical and management qualities.

We also intend to implement our strategy of localizing our human resources, by increasing the proportion of employment of local staff in countries and regions where our projects and businesses are located. We believe this will help to mitigate the rising cost of labor in the PRC and help to strengthen our international project management capability. Furthermore, we plan to enhance the management of our design teams and subcontractors to increase our profit margins by way of strengthening our in-house design capabilities and transferring or sharing the risks with our subcontractors to better control the risks inherent to undertaking engineering contracting projects.

INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

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 sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. According to the Ipsos Report, we ranked fourth among all Chinese contractors in terms of revenue generated from international power projects in 2011. Furthermore, based on the financial data derived from ENR's top 225 international contractors list, in 2011, we ranked sixth among the global international contractors in terms of total revenue generated from international contracting work in the power sector performed in the previous calendar year, accounting for approximately 3.6% of total revenue from the power sector derived by these 225 companies. With our first international engineering contracting project in relation to the engineering and procurement of hydropower equipment that embarked our International Engineering Contracting Business in 1980, we were one of the first Chinese engineering contractors that offered engineering contracting services for international power projects with over 30 years of industry experience. We consider power, transportation and telecommunications to be our Core Sectors. See "Relationship with Controlling Shareholder –

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Non-competition Agreement” for further details. We are also engaged in the non-Core Sectors, such as water supply and treatment projects, building and construction projects, manufacturing and processing plant projects, environmental protection projects and mining and resources exploitation projects.

As a leading international engineering contractor and service provider with established presence in the EPC industry, we offer a full spectrum of turnkey solutions to our governmental and corporate customers around the world, especially in developing countries. Over the years, we have operated in more than 45 countries, primarily in Asia and Africa. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, approximately 70.4%, 77.1%, 88.7% and 60.1%, respectively, of our revenue from the International Engineering Contracting Business was generated from Asia- and Africa-based projects.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, we completed 53 international engineering contracting projects in total and our International Engineering Contracting Business generated revenue of approximately 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%, respectively, of our total revenue during the same periods.

As at June 30, 2012, the total value of our backlog from our International Engineering Contracting Business, which represents our estimate of the contract value of work that remains to be completed as at a certain date, amounted to approximately US\$6,051.4 million⁽¹⁾, and we had 50 ongoing international engineering contracting projects in total. See “– Backlog and Signed Contracts Pending to be Effective – Backlog” for further details.

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

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>
Revenue										
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	–	–	–	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

Note:

- (1) The aggregate value of projects in our backlog from our International Engineering Contracting Business would have been US\$6,034.2 million if the Restructuring had happened on or prior to June 30, 2012.

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The following table sets forth a breakdown of the international engineering contracting projects completed by us in the power, transportation and telecommunications sectors and the non-Core Sectors during the Track Record Period:

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
Power	6	10	11	7
Transportation	4	4	–	1
Telecommunications	–	1	1	–
Non-Core Sectors	3	3	2	–
Total	13	18	14	8

The following table sets forth a breakdown of the international engineering contracting projects that were ongoing as at June 30, 2012, in the power, transportation and telecommunications sectors and the non-Core Sectors:

	Six Months Ended June 30, 2012
Power	28
Transportation	8
Telecommunications	2
Non-Core Sectors	12 ⁽¹⁾
Total	50⁽¹⁾

In line with the industry trend of decreasing investment in the telecommunications sectors in the developing countries from 2006 to 2010 (see the chart entitled “Infrastructure engineering investment value by infrastructure types in developing countries from 2001 to 2015E” in the section headed “Industry Overview” in this Prospectus), our revenue generated from the telecommunications sector displayed a downward trend during the Track Record Period. Nonetheless, we consider the telecommunications sector one of our Core Sectors for the following reasons:

- As at the Latest Practicable Date, we have a track record of undertaking 18 telecommunications projects since inception (with our first telecommunications project undertaken in 1999).
- We have a track record of undertaking engineering contracting projects in numerous developing countries, while telecommunications infrastructure engineering is one of the three main types of infrastructure engineering projects in developing countries. We consider that we are well-positioned to entrench our market position in developing countries by enlarging our market share in the telecommunications sector.

Note:

- (1) The aggregate number of our projects in the non-Core Sectors would have been 11 and the aggregate number of our on-going projects for the International Engineering Contracting Business would have been 49 if the Restructuring had happened on or prior to June 30, 2012.

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- We consider that the telecommunications sector has considerable potential for future growth and ample business opportunities. Newly effective contract value of telecommunications infrastructure engineering in developing countries grew at a CAGR of 13.0% from 2006 to 2011 (see the chart entitled “New contract value of infrastructure engineering projects by infrastructure types in developing countries from 2006 to 2011” in the section headed “Industry Overview” in this Prospectus).

Scope of Our International Engineering Contracting Business

We manage and implement our engineering contracting projects by providing all of the following services on a turnkey basis or a combination of any of the following services based on the needs of individual project owners and circumstances and requirements of individual projects:

- preliminary project consultation;
- financing solution management;
- project design;
- engaging and supervising qualified and suitable subcontractors;
- construction;
- procurement, logistics and installation of complete sets of plants and equipment;
- commissioning;
- personnel training;
- quality control and quality assurance; and/or
- warranty services and maintenance.

See “– Business Process” and “– Financing for Projects” for details.

Our Major Engineering Contracting Projects

We have accumulated extensive experience in international engineering contracting projects, particularly in EPC projects, since 1980. We have been involved in landmark projects across various countries and regions, including projects that contributed significantly to the overall infrastructure of certain cities or regions within some developing countries. 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 eight projects, respectively. This section provides an overview of the types of engineering contracting projects as well as some representative projects that we have completed during the Track Record Period and those that were ongoing as at June 30, 2012. Our selection of these representative projects was based on a combination of factors including contract value, project profile, landmark significance and geographical coverage, in order to provide a synoptic and meaningful understanding of the portfolio, capabilities and recent experiences of our International Engineering Contracting Business.

Power Projects

We are a leading international engineering contractor and service provider in the power sector. We have extensive experience in engineering contracting projects, in particular, EPC projects, in relation to thermal power stations, hydropower stations and power transformation stations and transmission lines. Our power projects are predominantly power-related infrastructure works contracted with overseas governments (including governmental agencies) and state-owned enterprises.

(1) Thermal Power Stations

Since our inception, we have been involved in various international EPC projects of thermal power stations, which include conventional thermal power generation and engine/steam combined cycle power generation (which is more power-efficient than conventional thermal power generation). We are capable of providing a full spectrum of services ranging from designing the power station, constructing the roads and ports (for transporting coal as fuel for boilers) and the power plants, procuring and installing all plants and equipment including boilers, generators and steam turbines, commissioning of the power stations as well as training the operation personnel.

(2) Hydropower Stations

Hydropower stations utilize water to propel water turbine and generator to generate electricity. We are capable of designing and constructing the hydropower plants and dams, procuring and installing the water turbines and generators, commissioning the power stations as well as training the operation personnel.

(3) Power transformation stations and transmission lines

Power transformation stations and transmission lines are designed to transmit the electricity generated by the thermal power stations or hydropower stations which are usually situated far away from the inhabited areas, to the end-users. We are capable of designing, procuring, constructing and installing the power transformation stations and transmission lines as well as electricity grids and other necessary electricity meters and systems in order to transmit electricity to the inhabited areas for the use of all end-users.

Completed Projects

We completed six, ten, 11 and seven power projects for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively.

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The following table shows some of the representative projects we completed in the power sector for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012:

Project	Completion Date	Brief Description	Contract Value ⁽¹⁾ (US\$ million)
Thermal Power			
Thermal power stations in Turkey	December 2011	We contracted with a private Turkish conglomerate for two EPC projects in relation to two thermal power stations with an installed capacity of 1 x 600 MW each in the power plant situated in Catalagzi, Turkey. These two EPC projects were the largest thermal power project undertaken by a PRC contractor outside the PRC at the time and represented the first export from the PRC of a 600 MW supercritical thermal power unit.	612.6



Thermal power station in Pakistan	July 2010	We contracted with a leading industrial conglomerate in Pakistan for an EPC project in relation to a thermal power station with an installed capacity of 200+ MW in Sahiwal, Pakistan.	161.2
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Note:

- (1) Contract values of completed projects are calculated in accordance with the actual amounts received by us for the respective projects as recorded in our financial information.

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Project	Completion Date	Brief Description	Contract Value ⁽¹⁾ (US\$ million)
Thermal power station in Malaysia	September 2010	We contracted with a Kuala Lumpur-listed enterprise for an EPC project in relation to a thermal power station with an installed capacity of 2 x 135 MW in Sarawak, Malaysia. Prior to this project, we had completed two projects in Kuching, Sarawak, Malaysia in relation to the construction of two thermal power stations with an installed capacity of 2 x 50 MW and 2 x 55 MW, respectively.	200.6



Thermal power station in Indonesia	November 2009	We contracted with the Indonesian government for an EPC project in relation to a thermal power station with an installed capacity of 2 x 115 MW in Sumatera, Indonesia.	224.3
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Note:

- (1) Contract values of completed projects are calculated in accordance with the actual amounts received by us for the respective projects as recorded in our financial information.

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Project	Completion Date	Brief Description	Contract Value ⁽¹⁾ (US\$ million)
Hydropower			
Hydropower station in India	July 2011	We contracted with a stated-owned electricity company in India for an EPC project in relation to a hydropower station in India which includes 6x39 MW turbine hydrogenerator units and other auxiliary machinery.	64.7
Hydropower station in the Republic of Congo	November 2010	We contracted with the government of the Republic of Congo for an EPC project in relation to a hydropower station with an installed capacity of 120 MW in Brazzaville, the Republic of Congo. It was the largest engineering project undertaken by a Chinese contractor in the Republic of Congo at the time and the largest hydropower station in the Republic of Congo built.	306.8



Power transformation stations and transmission lines

Power infrastructure in the Republic of Angola	October 2010	We contracted with an Angolan state-owned enterprise for two EPC projects in relation to two 15kV power transformation stations and 60kV transmission lines as well as the household electricity lines in Luanda, capital city of the Republic of Angola.	39.2
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Note:

- (1) Contract values of completed projects are calculated in accordance with the actual amounts received by us for the respective projects as recorded in our financial information.

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Project	Completion Date	Brief Description	Contract Value⁽¹⁾ <i>(US\$ million)</i>
Power transformation station in the Republic of Equatorial Guinea	May 2011	We contracted with the government of the Republic of Equatorial Guinea for an EPC project in relation to a 66kV power transformation station in Malabo, Equatorial Guinea.	81.3
Transmission lines and power transformation project in Sudan	June 2011	We contracted with the government of Sudan for an EPC project in relation to 220kV transmission lines and three 220/33/11kV power transformation substations respectively.	219.7



Note:

- (1) Contract values of completed projects are calculated in accordance with the actual amounts received by us for the respective projects as recorded in our financial information.

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Ongoing Projects

As at June 30, 2012, we were involved in 28 ongoing power projects and the aggregate value of these power projects in our backlog was approximately US\$5,144.3 million.

The following table shows some of the representative ongoing power projects in which we were involved as at June 30, 2012:

Project	Commencement Date	Expected Completion Date	Brief Description	As at June 30, 2012		
				Contract Value	Recognized Revenue <i>(US\$ million)</i>	Estimated Backlog
Thermal Power						
Thermal power station in Turkey	February 2011	June 2014	We contracted with a private Turkish enterprise for an EPC project in relation to a thermal power station with an installed capacity of 2 x 135 MW.	244.8	40.5	204.3
Thermal power plant in Sri Lanka (Phases I and II)	July 2007	April 2014	We contracted with the government of Sri Lanka for two EPC projects in relation to a thermal power plant on Kalpitiya Peninsula, Sri Lanka in two phases. Phase I involved the construction of one thermal power station with an installed capacity of 1 x 300 MW, and phase II involved the construction of two thermal power stations each with an installed capacity of 2 x 300 MW. It was the largest cooperative project between the PRC and Sri Lanka and the largest government infrastructure project in Sri Lanka at the time. This project won us the "PRC Project Management Accomplishment Award" (中國項目管理成就獎) awarded by the project management and research committee of the Chinese Society for Optimization, Overall Planning and Economics Mathematics (中國優選法統籌法與經濟數學研究會項目管理研究委員會) on November 17, 2012, for our accomplishments on excellent project management and implementation on the basis that the said accomplishments were highly recognized by the government of Sri Lanka.	1,346.0	914.3	431.7



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Project	Commencement Date	Expected Completion Date	Brief Description	As at June 30, 2012		
				Contract Value	Recognized Revenue	Estimated Backlog
Thermal power station in Brest and Vitebsk, the Republic of Belarus	February 2011	January 2014	We contracted with two state-owned power enterprises for two EPC projects in relation to two thermal power stations, each with an installed capacity of 427 MW, in Brest and Vitebsk.	746.0	(US\$ million) 173.9	572.1
Hydropower						
Hydropower station in Pakistan	April 2008	June 2016	We formed a consortium with a PRC state-owned enterprise specialized in hydropower infrastructure construction, and contracted with the Pakistani government for an EPC project in relation to a hydropower station with an installed capacity of 972 MW in Muzaffarabad, Pakistan. Our consortium partner was responsible for the construction of civil engineering works at Nauseri, Thotha and Agar Nullah while we were responsible for the procurement and installation of the machinery and electrical equipment as well as the design of the metallic structure of the hydropower station.	497.3	39.8	457.5
Hydropower station in Myanmar	October 2010	December 2013	We contracted with the government of Myanmar for an engineering contracting project in relation to a hydropower station with an installed capacity of 3x40 MW in Myanmar.	51.4	36.2	15.2
Power transformation stations and transmission lines						
Power transmission and transformation station in the Republic of Chad	October 2011	January 2014	We contracted with the government of the Republic of Chad for an EPC project in relation to a 90kV loop transmission line, four sets of 90/15kV power substations and a distribution network.	130.4	5.7	124.7
Reconstruction and expansion of electricity grid in the Republic of Angola (Phases I and II)	November 2008	March 2013	We contracted with an Angolan state-owned enterprise for an EPC project in relation to the restructuring and expansion of the electricity grid in Luanda in two phases. The restructuring and expansion work involved eight power transformation stations, 60kV transmission lines in a total distance of 37.5 km, 125 substations with capacity of 1,000 KVA each and other residential electricity supply systems.	177.1	115.9	61.2

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Transportation and Telecommunications Projects

In addition to the power sector, we are also engaged in engineering contracting projects, in particular, EPC projects, in the transportation and telecommunications sectors. In terms of the transportation sector, we are capable of undertaking EPC projects in relation to railways and highways as well as shipbuilding. In terms of the telecommunications sector, we are capable of undertaking EPC projects in relation to television broadcasting stations as well as wired and wireless networks.

Completed Projects

We completed four, five, one and one transportation and telecommunications projects for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively.

The following table shows some of the representative projects we have completed in the transportation and telecommunications sectors for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012:

<u>Project</u>	<u>Completion Date</u>	<u>Brief Description</u>	<u>Contract Value⁽¹⁾</u> <i>(US\$ million)</i>
<i>Transportation</i>			
Shipbuilding projects in Germany	January 2010	We contracted with a German company for two projects in relation to the design and construction of two 4,250 TEU (twenty-foot equivalent unit) container vessels respectively. These vessels were approximately 261 meters' long and weighed approximately 50,000 tonnes.	124.0



Note:

- (1) Contract values of completed projects are calculated in accordance with the actual amounts received by us for the respective projects as recorded in our financial information.

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Project	Completion Date	Brief Description	Contract Value ⁽¹⁾ (US\$ million)
Railway project in the Republic of Angola	May 2009	We contracted with an Angolan railway company for two EPC projects in relation to the redeveloping and reconstructing of three railroads spanning from Bongo-Baia, Luanda Harbor Area and Viana-Baia.	115.9
Shipbuilding projects in the Republic of Angola	December 2010	We contracted with the government of the Republic of Angola for three projects in relation to the design and procurement of 3,000 canoes.	117.8
Highway reconstruction and asphalt paving in the Republic of Congo	October 2011	We contracted with the government of the Republic of Congo for an EPC project in relation to a highway reconstruction and asphalt paving construction. The highway was 125 km long and situated in North Congo running across Obouya, Boundji and Okoya and linked the Republic of Congo with the Republic of Gabon. We were responsible for site clearance, earthworks, road construction, bridge construction, drainage structures, incorporation of signal transmission facilities, construction of schools and medical centers in the suburban area extending from the highway and placement of gas stations every 100 km along the highway.	123.7
Telecommunications			
Telecommunications projects in the Republic of Angola	March 2011	We contracted with an Angolan telecommunications enterprise for four EPC projects of the "Next Generation Network" ("NGN") in Angola which was a packet-based network that offered telecommunications services. The NGN project covered 15 states of Angola.	274.8

Ongoing Projects

As at June 30, 2012, we were involved in ten ongoing transportation and telecommunications projects and the aggregate values of the transportation and telecommunications projects in our backlog were approximately US\$388.5 million and US\$165.6 million respectively.

Note:

- (1) Contract values of completed projects are calculated in accordance with the actual amounts received by us for the respective projects as recorded in our financial information.

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The following table shows some of the representative ongoing transportation and telecommunications projects in which we were involved as at June 30, 2012:

Project	Commencement Date	Expected Completion Date	Brief Description	As at June 30, 2012		
				Contract Value	Recognized Revenue	Estimated Backlog
<i>(US\$ million)</i>						
Transportation						
Highway construction in the Republic of Cote d'Ivoire	November 2011	December 2015	We contracted with the government of the Republic of Cote d'Ivoire for an EPC project in relation to the construction of a 23km highway. We were responsible for site clearance, earthworks, road construction, bridge construction, drainage structures, tollbooths construction, incorporation of signal transmission facilities, etc.	135.0	1.5	133.5
Reconstruction of the Naypyidaw Airport in Myanmar	January 2011	July 2014	We contracted with the government of Myanmar for an EPC project in relation to the expansion of the Naypyidaw Airport of Myanmar to handle 3.5 million passengers annually. We were responsible for: (i) the procurement of building materials for the construction of the terminals; (ii) procurement, installation, examination, adjustment and transfer of part of the mechanical and electrical equipment of the terminals; and (iii) construction of the terminals, walkways, elevated highway and approach road.	94.8	83.5	11.3
Highway reconstruction and asphalt paving in the Republic of Congo	December 2011	March 2015	We contracted with the government of the Republic of Congo for an EPC project in relation to a highway reconstruction. The highway was 87 km long and ran across Okoyo, Lekety and Gaboneses border and would link the Republic of Congo with the Republic of Gabon.	90.5	11.7	78.8
Telecommunications						
2.5G network expansion and 3G network project in Bangladesh	January 2012	January 2014	We contracted with a Bangladeshi telecommunications enterprise for an EPC project in relation to the expansion of a 2.5G network and the construction of a 3G network in Bangladesh.	211.0	55.0	156.0

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Other Projects

Other than power, transportation and telecommunications projects in our Core Sectors, we are also engaged in other engineering contracting projects in the non-Core Sectors, including water supply and treatment, building and construction, manufacturing and processing plants and mining and resources exploitation.

Completed Projects

We completed three, three, two and nil engineering contracting projects in the non-Core Sectors for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively.

The following table shows some of the representative projects we have completed in the non-Core Sectors for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012:

<u>Project</u>	<u>Completion Date</u>	<u>Brief Description</u>	<u>Contract Value⁽¹⁾</u> (US\$ million)
Reinforcement of water supply network in the Republic of Angola (Phase I)	October 2010	We contracted with the government of the Republic of Angola for phase I of an EPC project in relation to the reinforcement of the water supply system in Huambo, Angola which involved the construction of 20 water stations, water supply pipes and connecting pipelines to individual households.	9.6
Expansion of alkali mine in Turkey (Phase III)	August 2011	We formed a consortium with a PRC enterprise and contracted with a Turkish enterprise for phase III of an EPC project as a follow-up project in relation to the expansion of an alkali mine in Beypazari, Turkey with 16 vertical wells and 16 horizontal wells. We completed the first two phases of the project which involved the construction of 30 pits.	15.5



Notes:

- (1) Contract values of completed projects are calculated in accordance with the actual amounts received by us for the respective projects as recorded in our financial information.

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Ongoing Projects

As at June 30, 2012, we were involved in 12⁽²⁾ ongoing engineering contracting projects in the non-Core Sectors and the aggregate value of the projects in the non-Core Sectors in our backlog was approximately US\$353.0 million.⁽³⁾

The following table shows some of the representative ongoing engineering contracting projects in the non-Core Sectors which we were involved in as at June 30, 2012:

Project	Commencement Date	Expected Completion Date	Brief Description	As at June 30, 2012		
				Contract Value	Recognized Revenue	Estimated Backlog
					<i>(US\$ million)</i>	
Water supply system enhancement in the Republic of Congo	November 2008	April 2014	We contracted with the government of the Republic of Congo for an EPC project in relation to the enhancement of the water supply system of Brazzaville, capital city of the Republic of Congo. We were responsible for the repairs of the old water plant and the construction of a new water plant to increase their production capacity.	305.0	210.5	94.5
Reconstruction of water supply network in the Republic of Angola (Phase II)	October 2009	June 2013	We contracted with the government of the Republic of Angola for phase II of an EPC project as a follow-up project in relation to a water supply network in Luanda, the Republic of Angola.	69.9	49.3	20.6
Cement plant in the Republic of Yemen	May 2009	December 2014	We contracted with the government of the Republic of Yemen for an EPC project in relation to the expansion of a cement factory by setting up a clinker production line with a daily clinker capacity of 2,500 tonnes as well as a 32 MW power station.	133.9	83.4	50.5
Construction of 1,000 residential units in Hulhumale, Maldives	September 2010	June 2013	We contracted with the government of the Republic of Maldives for the construction of 1,000 residential units in Hulhumale.	76.0	55.8	20.2

Notes:

- (2) The total number of our projects in the non-Core Sectors would have been 11 if the Restructuring had happened on or prior to June 30, 2012.
- (3) The aggregate value of projects in the non-Core Sectors in our backlog would have been US\$335.8 million if the Restructuring had happened on or prior to June 30, 2012.

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Backlog and Signed Contracts Pending to be Effective

Backlog

Backlog represents our estimate of the contract value of work that remains to be completed as at a certain date (which, among others, includes the newly effective contract value during a specific period but excludes the contract value of the contracts that have been entered into but have not become effective). The contract value of a project represents the amount that we expect to receive under the terms of the contract if the contract is performed in accordance with its terms. Backlog is not a measure defined by generally accepted accounting principles, and our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlogs. Backlog may not be indicative of future operating results. Not all of our revenue is recorded in backlog if the projects begin and end within a short period of time. Contracts may not provide for a fixed amount of work to be performed and may be subject to modification or termination by the customers. The termination or modification of any one or more sizeable contracts or the addition of other contracts may have a substantial and immediate effect on our backlog. Please see “Risk Factors – Risks Relating to Our Business and the Industries in which We Operate – Our backlog is subject to unexpected adjustments and cancellations and may, therefore, not be indicative of our future results of operations.”

The aggregate value of the engineering contracting projects in our backlog as at December 31, 2009, 2010 and 2011 and June 30, 2012 amounted to approximately US\$3,652.5 million, US\$4,881.6 million, US\$5,285.0 million and US\$6,051.4 million⁽¹⁾, respectively.

The following table sets forth a breakdown of the aggregate value of the engineering contracting projects in our backlog by sectors as at December 31, 2009, 2010 and 2011 and June 30, 2012:

	As at December 31,			As at June 30,
	2009	2010	2011	2012
	<i>(US\$ million)</i>	<i>(US\$ million)</i>	<i>(US\$ million)</i>	<i>(US\$ million)</i>
Power	2,862.8	4,012.0	4,161.8	5,144.3
Transportation.....	262.0	233.6	468.8	388.5
Telecommunications	67.3	5.0	210.6	165.6
Non-Core Sectors	460.4	631.0	443.7	353.0 ⁽²⁾
Total backlog.....	3,652.5	4,881.6	5,284.9	6,051.4⁽¹⁾

Signed contracts pending to be effective

We consider contracts that are signed during the Track Record Period and up to the Latest Practicable Date and are pending to be effective as at the Latest Practicable Date as “signed contracts pending to be effective.” The signed contracts pending to be effective will come into effect

Notes:

- (1) The aggregate value of the engineering contracting projects in our backlog would have been US\$6,034.2 million if the Restructuring had happened on or prior to June 30, 2012.
- (2) The aggregate value of the engineering contracting projects in the non-Core Sectors in our backlog would have been US\$335.8 million if the Restructuring had happened on or prior to June 30, 2012.

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upon satisfaction of the relevant conditions precedent to which a particular contract may be subject. Conditions precedent may include (among others) granting of an export buyer's credit, receipt of an advance payment or performance bond, governmental or regulatory approvals. In view of the length of time normally involved in satisfying the conditions precedent, the actual commencement of performance of our engineering contracting contracts typically does not occur in the same fiscal year as the contracts were signed. As at the Latest Practicable Date, the aggregate contract value of our signed contracts pending to be effective was approximately US\$12,404.2 million, which included approximately US\$5,254.4 million in the power sector, approximately US\$2,575.4 million in the transportation sector, approximately US\$133.0 million in the telecommunications sector and approximately US\$4,441.4 million in the non-Core Sectors, representing approximately 42.4%, 20.8% 1.0% and 35.8%, respectively, of the aggregate contract value of the signed contracts pending to be effective during the same periods. The signed and pending to be effective contract value is not a measure defined by generally accepted accounting principles, and is not counted towards our revenue, completed projects, ongoing projects, backlog or newly effective contract value. We regularly monitor the status of the signed contracts pending to be effective and examine and address any material changes of circumstances (including estimated costs of the projects) prior to these contracts becoming effective. See also "Risk Factors – Our Engineering Contracting Contracts that are Signed and Pending to be Effective may Encounter Delays in Becoming Effective or may not Become Effective" for more details.

Newly Effective Contract Value

Newly effective contract value represents the aggregate value of the signed contracts that have become effective during a specified period. The value of a contract is the amount that we expect to receive under the terms of the contract if the contract is performed in accordance with its terms.

Our 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.

The following table sets forth the aggregate newly effective contract value of our International Engineering Contracting Business by sectors for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012:

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	<i>(US\$ million)</i>	<i>(US\$ million)</i>	<i>(US\$ million)</i>	<i>(US\$ million)</i>
Power	788.6	2,515.1	1,582.8	2,138.9
Transportation.....	–	112.3	406.8	2.5
Telecommunications	–	–	209.0	10.1
Non-Core Sectors	311.6	327.9	28.2	7.1
Total newly effective contract value	1,100.2	2,955.3	2,226.8	2,158.6

Subsequently, since June 30, 2012 and up to the Latest Practicable Date, our aggregate newly effective contract value amounted to approximately US\$1,578.5 million.

International Coverage

As at June 30, 2012, we have operated our International Engineering Contracting Business in more than 45 countries and regions, primarily in Asia and Africa. The following map indicates the locations of our engineering contracting projects during the Track Record Period:



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The following table provides a breakdown of the revenue from our engineering contracting projects by geographic locations of our customers and sectors during the Track Record Period:

	Year Ended December 31,						Six Months Ended June 30,	
	2009		2010		2011		2012	
	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)
Asia⁽¹⁾	3,521.3	25.8	2,346.7	19.5	3,771.4	31.3	1,609.9	25.1
Power.....	3,159.0	23.1	1,431.6	11.9	2,619.9	21.7	769.8	12.0
Transportation.....	–	–	376.4	3.1	692.9	5.8	276.0	4.3
Telecommunications ⁽⁵⁾	–	–	–	–	2.3	–	342.5	5.3
Non-Core Sectors.....	362.3	2.7	538.7	4.5	456.3	3.8	221.6	3.5
Africa⁽²⁾	6,090.9	44.6	6,915.6	57.5	6,927.1	57.4	2,252.8	35.0
Power.....	4,311.4	31.6	5,690.0	47.3	5,598.4	46.4	1,896.0	29.5
Transportation.....	590.9	4.3	171.3	1.4	411.5	3.4	40.6	0.6
Telecommunications.....	734.9	5.4	410.1	3.4	–	–	3.2	–
Non-Core Sectors.....	453.7	3.3	644.2	5.4	917.2	7.6	313.0	4.9
Europe⁽³⁾	3,985.6	29.2	2,757.3	23.0	1,349.6	11.2	1,605.2	25.0
Power.....	2,874.5	21.1	2,310.8	19.2	1,347.0	11.2	1,396.6	21.7
Transportation.....	1,022.3	7.5	390.9	3.3	–	–	207.4	3.3
Telecommunications ⁽⁵⁾	–	–	–	–	–	–	–	–
Non-Core Sectors.....	88.8	0.6	55.6	0.5	2.6	–	1.2	–
Others⁽⁴⁾	48.9	0.4	–	–	7.1	0.1	958.2	14.9
Total	13,646.7	100.0	12,019.6	100.0	12,055.2	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 China.
- (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.
- (5) No revenue was recorded for any telecommunications projects in Asia and Europe during the Track Record Period since there were no ongoing or completed telecommunications projects in those regions during the said period for which revenue was recognized.

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Engineering contracting projects completed by us in different geographic regions during the Track Record Period are set forth in the table below:

	Year Ended December 31,			Six Months
	2009	2010	2011	Ended June 30, 2012
Asia ⁽¹⁾	4	3	9	–
Africa ⁽²⁾	4	10	4	6
Europe ⁽³⁾	5	5	1	2
Total	13	18	14	8

Notes:

- (1) Includes Bengal, Pakistan, Malaysia, Yemen, India, Indonesia, Vietnam, Laos, Sri Lanka and Iraq.
- (2) Includes Angola, Equatorial Guinea, Republic of Congo, Sudan and Zambia.
- (3) Includes Germany, Turkey and Italy.

A majority of our International Engineering Contracting Business was generated in Asia, Africa and Europe. Set out below are descriptions of our engineering contracting operations in these three regions.

Engineering contracting projects in Asia

We have been involved in a number of engineering contracting projects in Asia. Over the Track Record Period, we have undertaken engineering contracting projects in countries such as Malaysia, Pakistan, Indonesia and Sri Lanka. The revenue of our International Engineering Contracting Business generated from Asia constituted approximately 25.8%, 19.5%, 31.3% and 25.1%, respectively, of the total revenue of our International Engineering Contracting Business for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. Our International Engineering Contracting Business generated from this region mostly derived from projects in our Core Sectors.

Engineering contracting projects in Africa

We have been involved in a number of significant engineering contracting projects in Africa. Over the Track Record Period, we have been engaged in engineering contracting projects in countries such as the Republic of Angola, the Republic of Congo, the Federal Republic of Nigeria, the Republic of Equatorial Guinea and the Republic of Chad. The revenue of our International Engineering Contracting Business generated from Africa constituted approximately 44.6%, 57.5%, 57.4% and 35.0%, respectively, of the total 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. Our International Engineering Contracting Business in this region mostly derived from power projects for the African governments and state-owned enterprises.

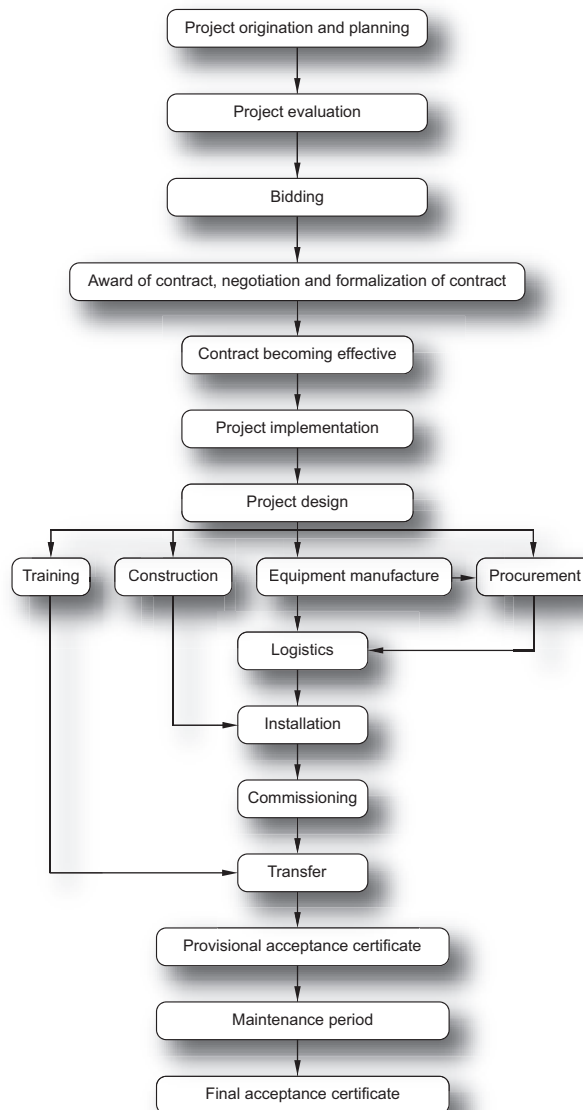
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Engineering contracting projects in Europe

We have been involved in shipbuilding and transportation projects in the European countries, such as Germany, Italy and Greece. We have also been involved in power projects as well as projects in other non-Core Sectors such as the expansion project of an alkali processing plant in Turkey. The revenue of our International Engineering Contracting Business generated from Europe constituted approximately 29.2%, 23.0%, 11.2% and 25.0%, respectively, of the total revenue of our International Engineering Contracting Business for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively.

Business Process

The general business process of our International Engineering Contracting Business is illustrated by the diagram below:



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The duration for each step of the business process (except for maintenance period which generally lasts for 12 to 24 months after project transfer) and the entire business process vary from one project to another depending on the project nature (e.g. complexity and technical requirements of the projects), state of affairs pertaining to the project owners (e.g. dealings with governments and dealings with private enterprises) and other circumstances which are beyond our control. Generally, the lifecycle of our engineering contracting projects could vary from two years to five years or above.

Project origination and planning

A project typically begins when we receive details of a potential project from one or more sources. We utilize our business team, overseas sales and distribution network, referrals from previous project owners, relationships with overseas local governments, local sources of public information, overseas engineering exhibitions as well as relationships with overseas business liaison organizations as our sources of project origination. We then compile information on aspects including the nature, size, and scope of the project, payment terms, technical requirements of both the structure and equipment for the project, geography, anticipated length of construction and possible competitors.

Project evaluation

After we become aware of a potential bid for a project or are invited to tender for a bid, we will conduct an initial project evaluation to assess various factors including (a) our compatibility with the qualification criteria specified for the project; (b) sufficiency of our resources; (c) costs and potential profitability of the project; (d) project compliance with our internal compliance programs and applicable laws and regulations; and (e) availability of financing, prior to deciding whether to pursue such project.

If our initial evaluation of a potential project is favorable, our business team will then conduct a detailed assessment of the technical and commercial characteristics of the project, which may involve onsite inspections to allow us to accurately estimate the timing and resource requirements of the potential project in order to prepare a competitive and profitable bid. Such an assessment usually involves the following analyses:

- requirements for equipment and raw materials, labor, legal, tax and insurance and costs analysis;
- site analysis with respect to water supply, electricity supply, transportation and other infrastructure;
- capital expenditure analysis on the equipment needed and the projected length of use;
- credit analysis on the project owner and the terms of payment; and
- performance analysis on the allocation of our internal resources in performing the project.

After our business team determines the project's feasibility in principle, preliminary discussions are conducted with various third parties including subcontractors, equipment suppliers, insurance companies and financing banks, in order to further and better understand the project and determine whether the project can and should be undertaken.

Bidding process and award of contract

Our projects are usually awarded through one of the following bidding processes: (i) tender negotiation (議標); (ii) tender invitation (邀標); or (iii) public bid invitation (招標). Tender negotiations are one-on-one negotiations between a contractor and a project owner. It is non-public and it does not involve competition with other engineering contractors. Terms and conditions of the project are not predetermined, and the parties are contractually bound based on private negotiations. Contrary to tender negotiations, the terms and conditions of a project under tender invitations and public bid invitations are predetermined. In particular, contract terms and technical qualifications are non-negotiable. The key difference between tender invitations and public bid invitations is that tender invitations are targeted invitations to a defined group of engineering contractors while public bid invitations are open to public bidding by all engineering contractors. Among the projects that we undertook during the Track Record Period, approximately 73.6% of the projects were obtained through tender negotiations, approximately 16.0% through tender invitations and approximately 10.4% through public bid invitations.

The bidding process – pre-qualification and clarification

If the proposed project involves a pre-qualification stage, our business team will prepare a pre-qualification proposal, which may include our financial resources, organizational structure, track record and projects undertaken, current workload, and manpower and equipment resources. There may also be a clarification from the project owner on certain questions relating to pre-qualification, such as the type of documents required to be submitted.

The bidding process – bidding strategy

If we are pre-qualified for a project, the next step is to submit a bid. Prior to submitting a bid document, we carry out a detailed study of the proposed project, including performing a detailed study of the technical and commercial conditions and requirements of the tender followed by a site visit. Our business team also invites quotations from suppliers and subcontractors for fulfilling various requirements in respect of the tender. Our estimates are based on both the project owners' estimates of the project requirements and our own experience in estimating project costs. There are a number of factors that can influence the final project costs as compared to the original bidding price. The most important factors include site and environmental conditions that differ from those assumed in the original bid document, geographic location of the project, availability and pricing of equipment, accuracy of the bidding price and inclement weather conditions. Information gathered is then analyzed to arrive at the cost of items included in our bill of quantities and then marked up to arrive at the bidding price to be submitted to the project owner.

The bidding process – cooperation

To increase our competitiveness in pre-qualifying for any landmark or major projects which are typically of higher contract value, we may form a consortium or adopt other forms of cooperation with another international engineering contractor. For example, for our hydropower station project in Pakistan which was an ongoing project as at June 30, 2012, we formed a consortium with a PRC state-owned enterprise specialized in hydropower infrastructure construction to undertake the project. With a view to achieving optimal result, we and our consortium member utilized our respective strengths, experience and capabilities in different parts of the project: our consortium partner undertook the hydropower civil engineering work while we undertook the procurement and installation of the machinery and electrical equipment as well as the design of the metallic structure of the hydropower station.

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The bidding process – site visit, clarification and invitation to bid

After being pre-qualified, a site visit by our engineers and other relevant personnel will be arranged. The site visit is intended to give us a better understanding of the relevant project and to reinforce our understanding of the scope of the project and specifications to produce a project proposal. At this stage, the project owner will clarify any issues or questions which may arise as a result of the site visit. Our review group assesses the project proposal and decides on whether a bid should be submitted.

Award of contract, negotiation, formalization and fulfillment of conditions of contract

After we submit a bid document, there is a bid evaluation and negotiation process, which to a certain extent may lead to a letter of award issued by the project owner or a contract being signed directly. Project signing could take place in the country where the project is located or a location that the project owner may so direct. Our engineering contracting contracts typically provide for terms that govern the entire lifecycle of an engineering contracting project, including provisions on (1) our scope of work and obligations, (2) project transfer and performance acceptance test, (3) liquidated damages and (4) payment and settlement terms. See “– Business Process – Project implementation”, “– Business Process – Project transfer”, “– Liquidated damages” and “– Payment and settlement terms” for further details.

At this stage, a pre-payment of no less than 10% of the total contract value is generally paid by the project owner. Upon fulfillment of the conditions precedent to the engineering contracting contract (if any), such as obtaining the requisite governmental approvals or securing financing arrangement, the contract becomes effective.

Project implementation

Designating a project team

We appoint a project manager and several assistant project managers from our business team to lead a dedicated project team to be responsible for overseeing all project activities. We assign our project teams to different projects and allocate resources based on both the location of the projects and the type of sector involved. As at the Latest Practicable Date, we had 131 project managers and 60 assistant project managers. The industry experience of our project managers ranged from seven to over 40 years and that of our assistant project managers ranged from three to over 40 years. Among these project managers and assistant project managers, there were 33 professorial engineers, 102 senior engineers, 24 engineers, 8 assistant engineers, and 7 economists as at the Latest Practicable Date.

We divide work on a project into distinct components and assign each component to a responsible unit based upon the nature of such work. Our project managers typically prepare a detailed plan for the project as follows:

- working schedule in line with the payment conditions and payment schedule;
- labor deployment in line with the skill level and the estimated number of workers for each type of work;
- provision of temporary office and public utilities, for example, water, electricity and telephone; and

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- working programs detailed for each phase of the project.

Overall project management and work scope modification

In order to carry out our work in accordance with the agreed timeline, price and scope of work as set out in the tender documents and contracts, we utilize a comprehensive internal control system which assists in managing and controlling every stage of a project, including project implementation, financial management, labor management, monitoring of equipment and materials, quality and cost control, safety measures and compliance /certification. Nevertheless, pursuant to the provision for change order under the engineering contracting contracts, project owners may from time to time request to modify the agreed work scope of a project during the construction phase due to design alteration or adjustment in the scope of project. We then negotiate adjustments in price or project timetables with the project owners to account for any modification to our agreed work scope.

Engaging subcontractors

Once we are awarded a contract, while we focus on overall project management, we engage subcontractors to carry out different parts of the overall contract work including design, exploration, logistics, installation, construction and supervision. Generally, our contracts with project owners would either provide for explicitly permissible subcontracting arrangement whereby project owners agree that we as contractor may subcontract certain portions of the contract, or provide that we may make subcontracting arrangement upon prior approval of the project owners. We would also provide project owners with a list of subcontractors engaged (to keep them informed of our subcontracting arrangements expressly provided for) or to be engaged (to obtain project owners' prior approval on the engagement of the subcontractors). We generally engage subcontractors from the PRC. We had also in the past subcontracted some construction work locally at the project sites to benefit from the proximity of labor resources. See “– Subcontracting Arrangement” for further details.

Project design

Project design is a key part of engineering contracting contracts, particularly EPC contracts, and involves a variety of designs throughout the life of a project, for example, in relation to equipment manufacturing, construction, software development and commissioning. We engage both third-party design institutes as well as our own design teams to undertake designs for our engineering contracting projects. We have long-established relationship with the third-party design institutes, and we supervise the overall design. For the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, third-party design fee payment was approximately RMB171.7 million, RMB190.1 million, RMB194.2 million and RMB45.9 million, respectively.

Our in-house design teams are specialized in plants, machineries, production facilities and electronic and electrical designs. In particular, our subsidiary, China Machinery R&D possesses design capabilities in manufacturing and processing industry design. See “– Research and Development” for more details.

Procurement and logistics

Procurement and logistics refer to the process of placing orders to purchase equipment and machinery, following up on the orders, inspection, transportation, materials management, delivery and management of the entire procurement process. We procure the equipment and machinery

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which form part of the construction of the projects (for example boilers, generators and steam turbines for our power projects) while our subcontractors engaged for installation and construction are generally responsible for providing the necessary construction tools, equipment and raw materials for carrying out the construction and installation works. As such, the amount of raw materials procured by us is insignificant. For some EPC projects, we may also undertake the work of supervising the manufacture of equipment and machinery to ensure that the quality of the equipment and machinery reaches the standard as required under the EPC contracts. We oversee and manage the entire procurement and logistics process such that the equipment and materials required for the construction of the project are procured appropriately in terms of price, quantity and quality and are delivered in a timely manner.

Construction and installation

We supervise and manage the overall construction and installation of our projects while substantially subcontracting all the construction and installation work to independent subcontractors that have relevant qualifications. Construction and installation work may involve road paving, port reinforcing, infrastructure construction, installation of equipment and other related construction work. We supervise and manage construction and installation work to control the construction cost as well as to increase the efficiency and ensure quality of the construction and installation work.

Commissioning and training

Commissioning occurs immediately prior to the operation of a project. It involves testing and trial testing the operation of, as well as connecting and integrating, each part of the project work. We can also train the operational personnel for the project owners to ensure that the project owners can independently operate the projects after the project transfer stage.

Project transfer

Maintenance

Generally, our engineering contracting contracts provide for a contractual maintenance period of 12 to 24 months from the date of the project owner's signing of a provisional acceptance certificate (PAC) for the projects. During this maintenance period, we are liable in accordance with the terms of the contracts for any defective work.

Warranty provision and maintenance cost

According to our warranty provisioning policy, warranty provision was made based on the best estimate of the costs expected to be incurred during the maintenance period, which historically were mainly the costs of exchanging spare parts, labor costs and other related costs. For the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the actual amount of cost incurred during the maintenance period was approximately RMB18.3 million, RMB31.3 million, RMB27.7 million and RMB31.8 million, respectively. The cost as shown above reflected a greater number of completed projects in the relevant periods coupled with increasing standard of living in certain African countries (where we completed the most engineering contracting projects during the Track Record Period) that had an impact on our cost of maintaining employees to work in the region during the maintenance period. Our Directors believe that our warranty provision made was sufficient during the Track Record Period and the actual amount of maintenance cost incurred was immaterial to our Company's results of operations for the same periods.

Completion

Upon expiry of the warranty, project owners sign a final acceptance certificate (FAC) which represents completion of a project.

Subcontracting Arrangement

We generally engage subcontractors through tenders, whereby the subcontractors participating in the tenders must either be on our list of qualified and reliable subcontractors maintained by us, or have passed our internal evaluation. Our list of qualified and reliable subcontractors had more than 350 subcontractors in the areas of design, exploration, logistics, installation, construction and supervision as at the Latest Practicable Date, and it is regularly updated by our business team during the course of operating our International Engineering Contracting Business. From the tenders we select a subcontractor primarily based on its qualifications, track record, financial strength and proposed subcontracting fees. During the Track Record Period, the subcontractors we engaged were mostly independent third parties and to a certain extent SINOMACH Group (see “Connected Transactions – Non-exempt Continuing Connected Transactions – Receipt of engineering services and products from SINOMACH Group by our Group” for more details). The number of years a subcontractor has worked with us varies, as in general we do not have fixed subcontractors. The subcontracting agreements primarily set forth the principal terms relating to fees, scope of work, technological standards or service quality, delivery time, payment, project management, bonds, insurance, liabilities and compensation, which generally reflect the terms and conditions of our engineering contracting contract with the project owner. Subcontracting arrangements are made on a project-by-project basis, and the duration of each subcontracting agreement generally depends on the progress, scope and other requirements of each project.

While the roles and nature of work undertaken by each type of subcontractors depend on the subcontracting services for which the subcontractors are engaged, our typical subcontracting arrangement generally includes the following features:

- The subcontractor undertakes that it has conducted a comprehensive review of the main engineering contracting contract between the project owner and our Company essential to the execution of their subcontracting arrangement, and agrees to accept all the relevant contents and conditions of the main engineering contracting contract between us and the project owner;
- The subcontractor agrees to comply with the prevailing industry standard, relevant laws and regulations and applicable technical requirements;
- The subcontractor agrees to provide qualified and experienced personnel to perform the relevant services;
- The subcontractor shall not further subcontract its obligations under its subcontracting arrangements with us, in whole or in part, to any third parties, failing which our Company shall be entitled to terminate the subcontracting arrangements;
- The subcontractor shall submit to the supervision of our Company (including any entity hired by our Company for this purpose), and agrees to adopt and implement any reasonable proposal or recommendation suggested by our Company. However, any such proposal or recommendation would not exonerate the subcontractor from its obligations or responsibilities under its subcontracting arrangement with us;

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- Our Company shall make payment to the subcontractor first by way of advance payment and in return the subcontractor shall provide us with an advance payment bond to guarantee its refunding of the advance payment if it does not fulfil its obligations pursuant to the relevant subcontracting contract. Our remaining payment obligations vary according to the extent or volume of work or services rendered by the relevant subcontractor and the project phase. We may also inspect the quality and quantity of the work or services provided by the subcontractor before making the payment;
- The subcontractor shall provide unconditional performance guarantee or performance bond in favor of our Company as security for full performance of its obligations under the subcontracting arrangement;
- Upon termination of the subcontracting arrangement, except with prior written consent of our Company, the subcontractor, on its own or jointly with other third parties, shall not provide services for other projects that are originated from or closely related to the project for which we have engaged the same subcontractor; and
- If the subcontractor breaches its obligations under the subcontracting arrangement, it shall be liable for our Company's damages and losses resulting from such breach. Our Company is entitled to deduct the corresponding amount from the contract price under the subcontracting arrangement. Our Company is entitled to, upon serving a written notice to the subcontractor, suspend all relevant payments to the subcontractor and request the subcontractor to suspend some or all of the subcontractor's work.

We have a number of measures to manage and monitor the performance of our subcontractors in terms of both quality and delivery time and to ensure compliance with the applicable safety and other requirements. For example, we generally have on-site supervisors and hold regular on-site meetings with the subcontractors to monitor the subcontractors' work to ensure the projects progress according to the schedule and adhere to the quality standards. We also have internal control policy on monitoring the progress and quality of the projects, pursuant to which we conduct periodic inspection to examine project implementation and quality standards compared to our project planning and prepare periodic reports for the review and approval by various departments of our Company. If we identify any quality or progress issues which are attributable to the work of the subcontractors, we will have further follow-up discussions with the subcontractors and monitor their rectification work.

We also place great emphasis on work safety and we require our subcontractors for construction and installation to comply with our internal production safety rules and policies. We examine and keep records of the safety production-related documentation of the subcontractors and insurance policies maintained by them. All production-related tools and equipment used by our subcontractors must be compliant with and certified by applicable national standard. We specify that measures must be taken to avoid any possible collateral damages in the course of construction and installation. Our subcontractors should also regularly provide us with their internal records relating to production safety (for example safety production training and safety inspections), and we also conduct regular safety supervision and inspection on the subcontractors. Should we find the subcontractors fall short of our safety standards, we have the right to penalize the subcontractors including halting the work of the subcontractors and imposing monetary penalty.

In addition, pursuant to the subcontracting agreements, we are generally entitled to compensation if the subcontractors fail to meet the prescribed requirements under the subcontracting agreements as a means of controlling the quality of the subcontractors' work. During the Track Record Period, we decided to enforce and encash a performance bond provided

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by a subcontractor. However, the issuing bank of the said bond refused to make the payment and we brought a lawsuit against the issuing bank. See “– Legal Proceedings and Regulatory Compliance” for further details. Save for the above, during the Track Record Period, no significant compensations were received from our subcontractors which had a material impact on the financial condition or operations of our Company.

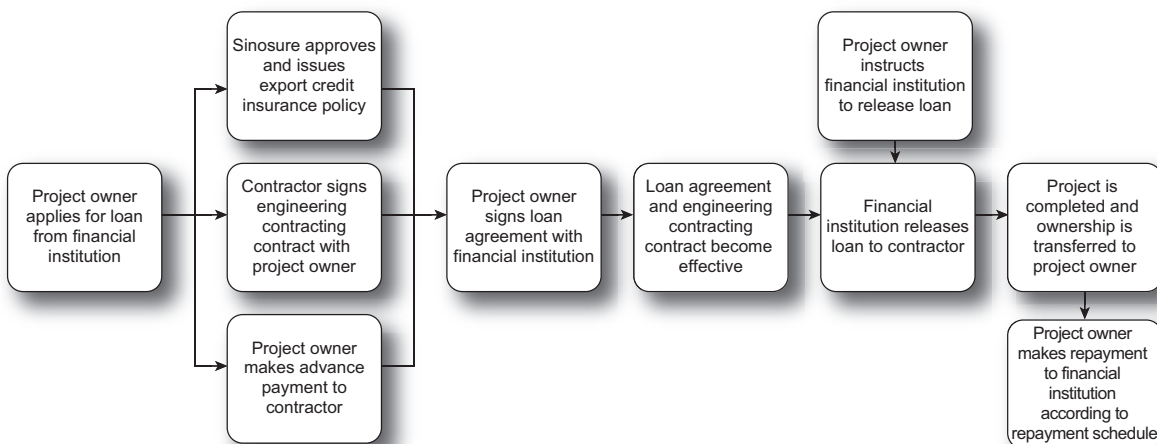
For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our subcontracting cost was approximately RMB3,267.9 million, RMB4,323.2 million, RMB4,320.3 million and RMB1,915.7 million, respectively, accounting for approximately 26.1%, 43.6%, 47.3% and 38.4% of the cost of sales of our International Engineering Contracting Business during the same periods.

Financing for Projects

As large infrastructure projects require significant capital, project owners of large infrastructure projects, in particular in some developing countries, may not have sufficient capital to finance a project without external financing sources. See “Industry Overview – Infrastructure Engineering Industry – Financing for Projects” for further information. We can assist project owners in obtaining financing for projects from the PRC financial institutions or development funds provided by the PRC government to other developing countries, which further enhances our chances of winning project bids. At an initial stage, we can enter into discussions with financing banks on the availability and terms of the export seller’s credit or export buyer’s credit. In addition, we approach relevant departments of MOFCOM to discuss whether the proposed project complies with the relevant guidelines and regulations.

During the Track Record Period, where the engineering contracting projects which we undertook were in need of financing, they were generally provided through one of two ways described below:

Export buyer’s credit – This was a type of financing arrangement whereby a loan was provided by the PRC financial institutions to the project owners and advanced to the project owners in installments. To protect themselves against the risk of default by the project owners, the banks usually required the project owner to purchase an export credit insurance with the banks as beneficiary from Sinasure (which might require for a guarantee) or to directly secure the loan with a guarantee in favor of the banks. The guarantee requested by Sinasure or the financial institutions was usually provided by the government to which the project owner was affiliated or the parent company of the project owner or the project owner itself. Under this type of financing arrangement, we assisted the project owner in obtaining the loan from the financial institutions and the project owner will pay the insurance premium directly to Sinasure or through us. The contractors would not be a party to any loan, insurance policy or guarantee agreement under an export buyer’s credit. The following chart demonstrates a general overview of an export buyer’s credit.



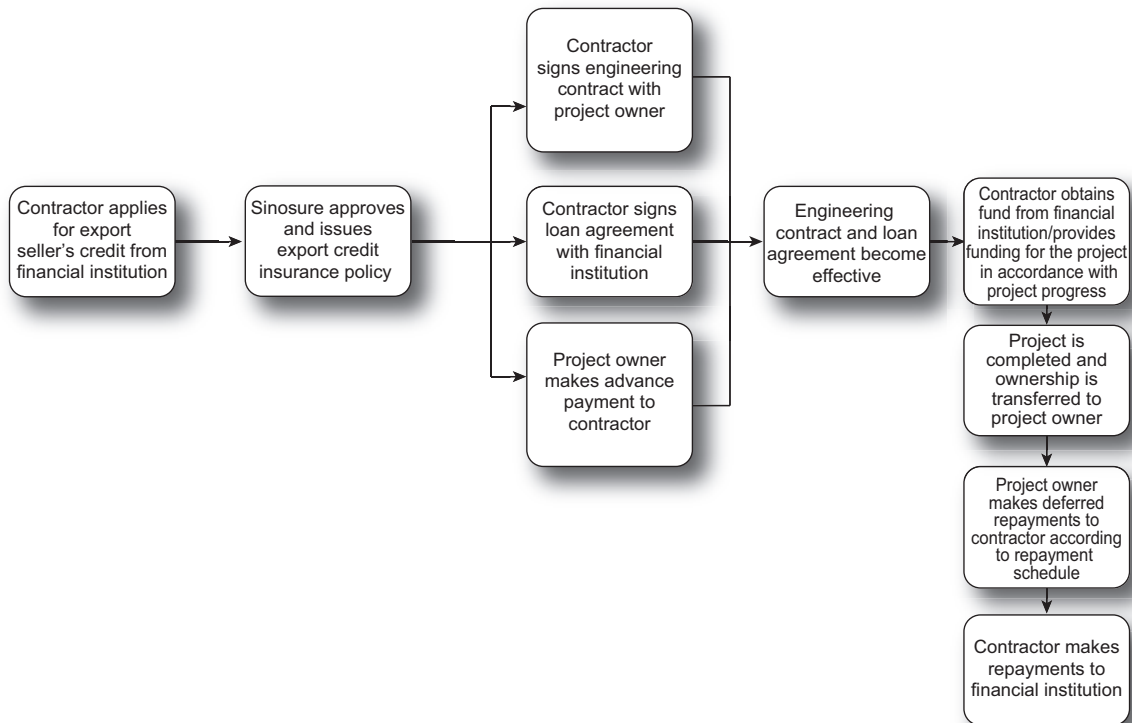
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Export seller's credit – This was a type of financing arrangement whereby we as contractor provided funding to a project principally with loans or credit facilities provided by financial institutions and, to a lesser extent, with our Company's own financial resources, such that the project owner would make payments to us for the funding on a deferred basis. In return, as a matter of policy, an insurance policy from Sinasure would be taken out by us to insure against any risk of default by the project owner. Save for the advance payments received from the project owners, we provided the remaining required funding for the entire projects in advance, and the project owners would make deferred repayments to us by installments according to the repayment obligations set out in our contract with the project owner. Where we had a loan arrangement with a financial institution for our export seller's credit provided, the payment schedule of the project owner pursuant to the underlying engineering contracting contract was designed to generally match with that by our Company to the financial institution. Contrary to the arrangement under an export buyer's credit, under an export seller's credit, the contractors would be involved in the loan, insurance and guarantee arrangements. While the arrangement of an export seller's credit would not affect the pricing of the relevant project per se, interest cost would be factored into the contract value. The interest rates charged by the financial institutions and the interest cost that was factored into the contract value vary according to the specific circumstances of a project and our commercial considerations at the time of tendering. For some projects, the interest cost factored into the contract value was generally on par with or slightly lower than the bank interest in order to increase the competitiveness of our bid as compared to other contractors during the tendering stage, whereas for some other projects the interest cost could be higher than the bank interest taking into consideration the circumstances pertaining to the whole project including the financial position of the project owner. Our PRC counsel, Jia Yuan Law Offices, confirmed that since the export seller's credit arrangement does not involve direct provision of funds by our Company to projects owners, such arrangement is not in contravention of the applicable PRC laws and regulations (including the General Loan Provision (貸款通則) promulgated by the PBOC).

During the Track Record Period, ten of our engineering contracting projects were financed by export seller's credit. For these ten projects, most of the project owners were either governments or state-owned entities, and the project locations were in developing countries including Sudan, the Republic of Yemen, Angola and the Republic of Congo. In particular, export seller's credit was encouraged at the time following the implementation of China's "Going Out" strategy to increase the competitiveness of the PRC contractors such as our Company to participate in international engineering contracting projects, which would in turn promote business for other PRC industry players such as large-scale equipment manufacturers. For two of these ten projects, under our loan arrangement with the financial institution, in order to fulfil the request of the financial institution in providing a guarantee for the loan, SINOMACH provided a guarantee to secure our repayment. For those ten projects financed by export seller's credit, the underlying engineering contracts were signed in as early as 2002 and the last one was signed in 2006. As at June 30, 2012, only two out of our 50 ongoing engineering contracting projects were financed by export seller's credit and the total outstanding amount due from customers under export seller's credit was approximately RMB6,516.2 million, which will be settled by the project owners according to the contracts between us and the project owners. Bank borrowings related to projects financed by export seller's credit were recorded as long-term borrowings (including current portion) in our Group's financial information. The total balance of such borrowings as at June 30, 2012 was approximately RMB252.1 million. Such amount was lower than the amounts due from customers under export seller's credit because historically we had repaid a certain portion of these bank borrowings by way of our own financial resources to reduce the finance expenses to be paid to the financial institutions, taking into consideration our then financial position.

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As of the Latest Practicable Date, based on current project schedules and assuming no material adverse effect that would delay the project schedules would occur, we expected that one of the two ongoing projects financed by export seller's credit would be completed by the end of 2014 while the other one was assigned to CMIC pursuant to the Restructuring (see "– Restructuring of Business in the Sanctioned Countries – Restructuring of our International Engineering Contracting Business – Ongoing Projects in the Sanctioned Countries – Water Supply Contract" for more details). During the Track Record Period, we did not experience any defaults that resulted in material losses under the export seller's credit arrangement. See also "– Export credit insurance" for more details. During the Track Record Period and up till the Latest Practicable Date, none of our new engineering contracting projects was financed by export seller's credit. Under normal circumstances and in view of the existing factors (including general economic conditions, government investment plans, interest rates, exchange rates, inflation and government policies for the engineering contracting industry) as at the Latest Practicable Date, we do not expect to adopt the export seller's credit arrangement for our engineering contracting projects in the future. See also the risk factor headed "Decrease of investment in the industries and countries in which we operate or serve and deterioration in global economic conditions may adversely affect our business" in the section headed "Risk Factors" for more details of factors that could adversely affect our business, in particular our International Engineering Contracting Business, which in turn could affect the availability of financing arrangements for our projects. The following chart demonstrates a general overview of an export seller's credit.



Export credit insurance

For all our projects which were financed by export seller's credits, to safeguard against default on the part of the project owners in making deferred repayments to us as stipulated under the engineering contracting contracts, we purchased export credit insurance from Sinosure. Such export credit insurance compensated for our losses under the engineering contracting contracts in circumstances including: the bankruptcy of the project owner or its guarantor; delayed repayment

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by the project owner or its guarantor for more than six months; project owner making repayment in currencies other than the one stipulated under the contract under the law or decree of its country; occurrence of political issues, economic difficulties, legislation or administrative policy or decree outside the PRC leading to the inability or delay of the project owner in transferring funds; and unrest in or outside the PRC causing the impossibility of performance of part or all of the engineering contracting contract.

Payment and settlement terms

Bid deposit or bid bond

When we bid for a project, a bid deposit (in the form of cash) or bid bond (in the form of a letter of guarantee) is usually required to be delivered with the bid as a guarantee that we will enter into the engineering contracting contract with the project owner should our bid be accepted. The bid deposit or bid bond is generally for a fixed amount, or a percentage of the bid price, which is variable according to the requirement of the bid document. If we are awarded the project but subsequently decide not to enter into the relevant contract, the project owner can forfeit the bid deposit or bid bond. After a successful bid and upon the signing of an engineering contracting contract, the bid deposit or bid bond is returned to us.

Advance payment and advance payment bond

Typically prior to the commencement of a project, based on the standard FIDIC contractual terms, we require project owners to make an advance payment equal to not less than 10% of the contract value. Advance payments are recorded in our Group's balance sheets when they are received by us before the related work is performed and are utilized by recognizing revenue in accordance with project progress. In return, we procure a bank to issue an advance payment bond in the project owner's favor to guarantee our refunding of the advance payment if we do not complete the project pursuant to the engineering contracting contract. During the Track Record Period, we were not required to refund any advance payments nor were our advance payment bonds enforced by the project owners.

Performance guarantee or performance bond

To safeguard our performance of the obligations under an engineering contracting contract, another typical contractual term based on standard FIDIC contractual terms generally requires us to arrange for the provision of a performance guarantee (in the form of cash) or a performance guarantee bond (in the form of a letter of guarantee) (usually in an amount of 5% to 10% of the contract value) to the project owner. In this regard, upon contracts becoming effective, we typically arrange for the provision of performance guarantee or performance bond that would be confiscated by the project owner or presented for payment by the project owner to the bank issuing the bonds in the event of our default. To minimize our risks, we typically enter into similar arrangements with our subcontractors where we procure a performance bond from our subcontractors to be granted in our favor. The relevant performance bonds are returned to us after the project owner confirms satisfactory completion of the project through the signing of a provisional acceptance certificate (PAC).

Letter of credit and progress payments

In respect of engineering contracting projects, payment settlement by project owners can be made to us through an irrevocable letter of credit. The project owners' banks can issue a letter of credit either on approval of a standard loan underwriting process or by the project owners funding the payment directly with their deposits kept with such banks.

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Most of our contracts provide for monthly or periodic payments in advance of the commencement of a project phase according to the progress or completion stages of a project. Each phase of a project is certified to be completed by the project owner or its engineer. We monitor closely the cost of a project throughout its life to protect us against, and minimize, cost overruns.

Retention fund or retention bond

During the maintenance period, the project owner usually retains an amount equal to 5% of the contract value as retention fund (in the form of cash) or we provide a retention bond (in the form of a letter of guarantee) equal to 5% of the contract value, which will be returned to us (in the case of a retention fund) or expire (in the case of a retention bond) upon the end of the maintenance period for typically 12 to 24 months after a final acceptance certificate is issued. During the Track Record Period, the retention funds retained were expected to be recovered after more than one year, all retention funds as mentioned were collected and no retention bonds issued were enforced by the project owners. As at December 31, 2009, 2010 and 2011 and June 30, 2012, the amount of retentions receivable from customers, recorded within "construction contracts" of our Group's consolidated financial information was RMB117,505,000, RMB156,411,000, RMB188,756,000 and RMB210,766,000, respectively, which was expected to be recovered after more than one year.

Liquidated damages

Pursuant to our engineering contracting contracts, if a project is delayed which is attributable to the project owner, we will normally be granted an extension to complete the project which is equal to such delay. However, if there is a delay which is attributable to our fault or under-performance, then we may be required to pay liquidated damages, typically at an agreed rate per day of delay and up to a maximum of 10% of the contract value. We may also be required to pay liquidated damages up to a maximum of 10% of the contract value if our work fails to meet the guaranteed performance as stipulated in the contract. In case of delay which is attributable to our fault or under-performance of our work, the project owner may also have the right to appoint a third party to complete the work and deduct additional costs or charges incurred for completion of the work from the contract value. We believe that we have a reputation on completing projects on schedule. Project owners, or engineers or supervision companies hired by project owners, would typically be responsible for the assessment of the defaults involved. We have not experienced or been subject to any material claims for defective work or for losses resulting from default on our part. In 2009, we paid the project owners a total amount of RMB52,257,000 due to the delay in two engineering contracting projects in the power sector, which accounted for approximately 0.4% of the revenue of our International Engineering Contracting Business in 2009. The delay was due to the rectification work for certain parts of the power stations. Save for the foregoing, we did not pay any liquidated damages during the Track Record Period.

Risk management

We recognize that risk management is critical to the success of any engineering contracting project. Project risks may include delays in receiving accounts receivables and progress payments, enforcement of various bonds, not meeting the project timetable or quality standards, fluctuation in settlement currency, disputes with consortium members or business partners, cost overruns, or delays in engineering contracting projects, environmental or properties damage and/or personal injury, adjustments and cancellations of backlogs and counterparty risk arising from government agencies and public organisation claiming sovereign immunity in the event of a contractual dispute. In order to meet these challenges, we normally take measures to manage various types of risks, including market risks, operational risks and other financial risks.

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Market risks

- Establishing a review group, consisting of representatives from business, finance, legal, construction and engineering and technology experts and personnel, for authorizing and reviewing the feasibility of potential business opportunities, terms for bidding projects and overall profitability. A report on the findings is then presented to our senior management for review and approval; and
- Shifting major market risks relating to engineering contracting contracts undertaken by us to subcontractors by mirroring or requiring stricter terms in the subcontracting contracts and by simultaneously entering into the subcontracting contracts and locking the price of the products or services to be provided by the subcontractors while the subcontracting contracts do not become effective until our contracts with the project owners become effective.

Operational risks

- Dedicating a quality assurance team to oversee project progress and to help ensure early detection of potential problems and preventive measures being in place;
- Promoting control and accountability of the project managers in order to enhance overall supervision of the projects; and
- Requiring a performance bond in respect of both project completion and work quality from major subcontractors and/or suppliers.

See “Financial Information – Qualitative and Quantitative Disclosure about Market Risk – Currency Risk”, “– Interest Rate Risk”, “– Credit Risk” and “– Liquidity Risk” for other financial risks.

During the Track Record Period and up till the Latest Practicable Date, we did not encounter any project risks that materially affected our business, operations or financial position.

Competition

We compete with both Chinese and foreign contractors for international engineering contracting business. Competition largely focuses on price, design, variety of services provided, service quality, financial solutions, business models and environmental standards. As with other Chinese contractors that are engaged in the international engineering contracting business, we face competition from engineering contractors with leading technology from developed countries such as the US, Japan and various European countries as the latter have relatively large competitive advantages in global branch networks, information collection, management and construction capabilities, adaptability and brand name recognition, among other areas. Nevertheless, Chinese engineering contractors have a competitive advantage in pricing, especially in the developing countries, due to lower labor cost and price of the equipment. Based on our technological capabilities, price and experiences in our Core Sectors, we plan to maintain our established presence in Asia and Africa while expanding into other developing countries and territories that have larger room for economic development. We will also continue to leverage the sino-foreign cooperation between the PRC Government and the foreign governments (especially those of the developing countries) to compete with both Chinese and foreign contractors. We endeavor to compete effectively with our competitors in these overseas markets.

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We are a strong player among other Chinese engineering contractors in the international engineering contracting business. We ranked sixth among the global international contractors in terms of total revenue generated from international contracting work in the power sector performed in the previous calendar year based on the financial data derived from ENR's top 225 international contractors list in 2011. With over 30 years of experience in the market since 1980, we achieved several first-of-a-kind landmark projects and over 80 engineering contracting projects in the power sector, which we believe helped us attaining strong reputation and brand recognition worldwide. As we have a track record of winning bids through tender negotiation where relationship and bargaining power play a key role, we believe that we can continue to leverage our strong reputation, close relationship with government agencies and extensive sources of information. At the same time, we face competition in terms of project design from our peers who have stronger design capabilities. With our plan of establishing a new office building for China Machinery R&D in Changsha, we will continue to enhance our design capabilities in the years ahead.

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Overview

With our extensive sales and marketing network in more than 150 countries and regions around the world, we also engage in the business of international trading. Our Trading Business bridges the demands of domestic and overseas purchasers and suppliers who wish to source or sell products outside or in the PRC for a wide range of products.

We primarily export and, to a lesser extent import and domestically trade, complete sets of plants and equipment and various machinery, electrical, and instrumental products including mining equipment, ship components, automobile parts, medical instrument, household appliances, office equipment, electrical hardware and construction materials, for customers in the PRC and overseas. We conduct our Trading Business through our Company as well as subsidiaries in the PRC and other countries and regions (including Germany, the United States, Australia, Japan and Hong Kong) and overseas representative offices. Such international operation affords us geographic focus and access to purchasers and suppliers around the world, which we believe is advantageous to a more diversified trading platform and a closer interface with the purchasers and suppliers in the region.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our Trading Business generated a revenue of approximately RMB4,979.1 million, RMB6,295.5 million, RMB7,688.6 million and RMB3,522.2 million, respectively, accounting for approximately 25.8%, 33.0%, 37.5% and 34.0%, respectively, of our total revenue during the same periods.

Trading Business by Companies and Product Types

In view of different business needs and sources of the customers and suppliers of our Trading Business, we strategically manage our Trading Business through different members of our Group.

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Set out below are the scopes of principal products that are traded by our Company and our principal subsidiaries that operate our Trading Business.

Name of Company	Scope of Principal Products
CMEC.....	<p>Conducts the trading business which are incidental to our International Engineering Contracting Business.</p> <p>Occasionally, we may identify other trading opportunities or needs of the project owner of our engineering contracting projects or governmental authorities to which the project owner is affiliated. For example, our procurement contract for the supply of locomotives, coaches, wagons and other automotive accessories for the government of the Republic of Angola was a result of the trading needs that we identified when we were undertaking the railway project in Angola in relation to the redevelopment and re-construction of three railroads; furthermore, these two projects were financed by the same export buyer's credit. We also provide trading services of electrical and mechanical parts or accessories for the maintenance of certain sets of plants and equipment for our engineering contracting projects.</p>
CMEC (Wuxi)	Conducts the trading of automobile parts, measuring equipment, transportation equipment, compressors, pumps, mechanical bearings, lightings, micromotors, solar products, vessels, machinery manufacturing equipment and processing materials.
CMEC (Suzhou)	Conducts the trading of mechanical and electrical products such as automobile parts, valves, optical equipment and complete sets of equipment.
CMEC Engineering Machinery	Conducts the trading of machinery equipment, power equipment, products of electric light source, instruments, meters and light industry products.
East Resources	Conducts the trading of parts of household appliances, automobile parts, sets of power generators, metal casting and forging, sports facilities, mining equipment, mechanical bearings, construction materials, agricultural machinery and equipment as well as medical instruments and devices.
CMEC Industrial Products	Conducts the trading of castings, forgings and other machinery parts of mining and engineering equipment, heavy-duty vehicles, ships and trucks.
CMEC International Trading	Conducts the trading of electrical and mechanical equipment including telecommunications equipment, electricity meters, solar power batteries, transmission gear, plastic pipe etc.
CMEC General Machinery	Conducts the trading of manufacturing machinery such as complete beverage production line, complete plastic machinery production line, pharmaceutical machinery, paper machinery and packaging machinery.
CMEC Machinery & Electric	Conducts the trading of complete sets of equipment and importing of licensed technology.

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Export, Import and Domestic Trading Services

In a market where most PRC suppliers do not have the requisite reputation, language capabilities, network, means, resources and qualifications to directly contact overseas buyers, and where most overseas buyers do not have the resources and expertise to find the right suppliers which meet their volume and quality demands, we provide export service to (i) overseas purchasers who wish to source products from the PRC, and (ii) domestic suppliers who wish to sell their products overseas.

To a lesser extent, we provide import service to (i) our PRC customers who wish to source products from overseas, and (ii) our overseas suppliers who wish to sell their products in the PRC, and we also conduct domestic trading, with our extensive network of sales in the PRC.

As opposed to the export-import agency services which we provide based on an agency fee, the export, import and domestic trading services under our Trading Business are conducted on a self-operated basis such that we assume responsibility for our own profits or losses, formulate our own pricing and marketing strategies, manage our exposure to product liability risks and manage our own clientele. See “ – Other Businesses – Other Services – Export-Import Agency Services” for more details on our export-import agency services.

International Coverage

Our Trading Business provides export, import and domestic trading services covering countries and regions in Asia, Africa, Europe, North America, Central/South America and Oceania. Among these regions, revenue generated from Asia, Europe and North America in aggregate accounted for approximately 86.0%, 81.7%, 92.0% and 76.8% of the total revenue generated from our Trading Business for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. The following table provides a breakdown of the revenue from our Trading Business by geographic location of our customers during the Track Record Period:

	Year Ended December 31,						Six Months Ended June 30,	
	2009		2010		2011		2012	
	<i>(RMB millions)</i>	(%)	<i>(RMB millions)</i>	(%)	<i>(RMB millions)</i>	(%)	<i>(RMB millions)</i>	(%)
Asia ⁽¹⁾	2,264.0	45.4	3,015.4	47.9	4,874.3	63.4	1,604.5	45.6
Africa ⁽²⁾	348.8	7.0	924.9	14.7	131.8	1.7	740.2	21.0
Europe ⁽³⁾	874.5	17.6	987.7	15.7	883.9	11.5	455.4	12.9
North America ⁽⁴⁾	1,144.7	23.0	1,138.8	18.1	1,310.2	17.1	645.7	18.3
Central/South America ⁽⁵⁾	281.9	5.7	140.0	2.2	371.8	4.8	50.2	1.4
Oceania ⁽⁶⁾	65.2	1.3	88.7	1.4	116.6	1.5	26.2	0.8
Total	4,979.1	100.0	6,295.5	100.0	7,688.6	100.0	3,522.2	100.0

Notes:

- (1) Includes United Arab Emirates, Pakistan, East Timor, Philippines, Korea, Cambodia, Laos, Malaysia, Bengal, Japan, Taiwan, Thailand, Uzbekistan, Hong Kong, Singapore, Iran, Israel, India, Vietnam and China.
- (2) Includes Egypt, Tunisia and Angola.
- (3) Includes Denmark, Germany, Russia, France, Finland, Netherlands, Czech Republic, Norway, Sweden, Switzerland, Spain, Italy and Britain.
- (4) Includes Canada, the United States and Mexico.
- (5) Includes Panama, Brazil, Cuba, Peru and Chile.
- (6) Includes Australia and New Zealand.

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General Operation Process

Export Service

Generally, whether we provide export service to (i) overseas purchasers who wish to source products from the PRC, or (ii) domestic suppliers who wish to sell their products overseas, we first enter into export contracts with the overseas purchasers. We obtain letters of credit or other forms of payment from the overseas purchasers and enter into supply contract with the PRC suppliers to place order of products. Upon our inspection and quality control of the products procured from the PRC suppliers, we arrange for delivery and logistics of the products including the clearance of the products by the PRC customs and excise. After the products are delivered, we present delivery documents to the negotiating banks of the letters of credit to effect payment and arrange for foreign exchange settlements and payments to the PRC suppliers. The general operating process of our export service is illustrated by the diagram below:



Import Service

Generally, whether we provide import service to (i) the PRC purchasers who wish to source products from overseas, or (ii) overseas suppliers who wish to sell their products in the PRC, we first enter into purchase contracts with the PRC purchasers. We then enter into import contracts with the overseas suppliers to place order of products and upon receipt of certain portion of or full payment of the import contract value, we arrange for letters of credit to be issued by banks and present them to the overseas suppliers to arrange for delivery of products. Upon the arrival of the products from overseas, we arrange for clearance of the products by the PRC customs and excise and also for payments of customs duty and value added tax made by the PRC purchasers. After our inspection and quality control over the products, we arrange for foreign exchange settlements and clearance with SAFE. The general operating process of our import service is illustrated by the diagram below:



Domestic Trading

In the case of our domestic trading service, its operation process is similar to the operation process of our export and import services, with the exception that no PRC customs and excise and foreign exchange settlements will be required of because all products are sourced and sold domestically within the PRC.

Core Components of our Trading Business

Sourcing – One of the key services that we provide is to source suitable PRC/overseas suppliers which can provide the requisite product with such quality and quantity demanded by the overseas/PRC purchasers. For our export service, we do sourcing of PRC suppliers for overseas

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buyers or sourcing of overseas purchasers for PRC suppliers. For our import service, we do sourcing of overseas suppliers for PRC purchasers or sourcing of PRC purchasers for overseas suppliers. For our domestic trading service, we do sourcing for PRC suppliers and buyers within the PRC.

We attend industry exhibitions to promote our trading services, from which we can source potential customers. From time to time, we may get referrals from existing customers, or market information from existing business relationships or from our other businesses including our International Engineering Contracting Business, exhibition services and tendering agency services, whereby we can deploy our trading experiences to identify potential suppliers or purchasers for our Trading Business. Furthermore, we participate in public tendering for various products including complete sets of plants and equipment and large-scale mechanical products. “Complete sets of plants and equipment” (成套設備) refer to the full set of plants and equipment integral to a project whereby project owners or operators would not need to purchase different parts of the project from different plant and equipment manufacturers (for instance, in the case of a power station, complete sets of plants and equipment would include all bulk plants, machines and equipment such as boilers, power generators and steam turbines and other equipment necessary to operate the power station).

We have an experienced and professional team that has a deep understanding of a variety of potential supply sources in the PRC and overseas, which enables us to better fulfill our customers’ quality, volume and other requirements in light of the changing market trends. In addition, we maintain an updated list of qualified and reliable suppliers with a proven track record with which we have established long-term relationships. This allows us to find suitable suppliers for our customers and maintain our business relationships without entering into long-term agreements.

Pricing and Payment – Pricing of the products that we trade is determined by a combination of factors including the availability of and demand for the products in the market, market price, extent of value-adding services that we provide, industry trend and other fees that we may need to bear in providing the trading services. We accept letters of credit from customers for our Trading Business. Furthermore, from time to time, we accept deferred payments such as deferred payment letters of credit which is a form of extended letter of credit whereby we deliver the products to our customers first and we receive payments after an extended period of time, to facilitate business transactions. We hedge the credit risks by purchasing insurance from Sinasure, which over the years has become familiar with the operations of our Trading Business as well as our customers. We have hence fostered a long-term relationship with Sinasure which is conducive to our capabilities in providing financing solutions to our customers. During the Track Record Period, we did not experience any defaults in receiving deferred payments that had a material adverse impact on our Trading Business, operations or financial position.

Supply procurement – We examine the supply levels of the various suppliers to ensure that our customers’ orders can be fulfilled on time and in adequate quantities.

Quality assurance and control – We effect quality control over the products we source either by inspecting the products internally in accordance with the trading contracts or engaging different independent certification and inspection organizations such as China Entry-Exit Inspection and Quarantine Bureau (出入境檢驗檢疫局) and SGS-CSTC Standards Technical Services Co., Ltd. (通標標準技術服務有限公司) (a subsidiary of SGS Société Générale de Surveillance SA which is headquartered in Geneva, Switzerland). Our Company and most of our principal trading subsidiaries have established ISO 9001 compliant quality management system and received ISO certificates. In addition, our trading subsidiaries such as CMEC Industrial Products, CMEC International Trading and CMEC General Machinery have had on-site personnel at the suppliers’

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factories to monitor and supervise the production of medium to large-scale products to ensure the products satisfy specific quality requirements of the purchasers.

Logistics management – We also provide comprehensive logistics management and handle all logistics within the PRC in order to deliver the relevant goods from the domestic suppliers to the relevant port for export or to collect them from the port and deliver to the customers for import. If required, we also arrange and handle the logistics overseas and deliver the relevant goods from the relevant ports to the warehouse specified by the overseas purchasers.

PRC customs and excise – We are an authorized customs declaration agent and can handle PRC customs and excise declarations by ourselves. Our experience in this area means that we are familiar with all the relevant administrative processes and regulations which are required for a smooth and timely export or import of products, which allow our customers to focus their resources on their own production process. We also ensure that the products we source are properly inspected and cleared by the relevant governmental authority where compulsory inspections are required under the applicable PRC laws and regulations.

Marketing and distribution – One of the key services we provide to our domestic/overseas customers is to market and sell the relevant products to overseas/domestic purchasers. We have an experienced and professional team that has a deep understanding of the PRC market and a variety of overseas markets. With our PRC subsidiaries as well as overseas subsidiaries and representative offices that engage in our Trading Business and an extensive sales and marketing network, we are able to distribute products overseas on behalf of the domestic suppliers or domestically on behalf of the overseas suppliers. Our sales and marketing network which covers more than 150 countries and regions around the world is established through years of trading experience and business transactions involving export and import of products and services to and from these countries and regions. Such sales and marketing network of more than 150 countries and regions spans primarily in Asia, Europe and Africa and to a lesser extent in North America, South America and Oceania, with 38, 42, 40, 18, 11 and eight countries and regions in the respective continents. Such network is however not necessarily all established by a physical presence in a country/region in the form of a subsidiary.

After-sales services – We provide after-sales services to our customers depending on their different needs and requirements. One such service is our quality control feedback system, in which the overseas purchasers can directly raise any quality concerns to our business managers. The quality concerns will be analyzed and any alleged defects will be conveyed immediately to the suppliers. In some cases, our technical personnel may visit the purchasers on-site to provide value-adding technical assistance. We have in the past cooperated with the suppliers in providing after-sales services to the purchasers which strategically enhance our market development efforts and deepen our client relationships. In terms of product liabilities, as we conduct trading with counterparties as principal, we are generally liable for product defects which we in turn have the right to claim against the suppliers. During the Track Record Period, we did not incur significant warranty expenses for our Trading Business nor did we experience any significant product liability claims where we in turn claimed against our suppliers.

Competition

We compete with both Chinese and foreign companies for international trading business. Competition with Chinese companies engaged in the international trading business stems from competition in terms of price, range of products, suppliers and purchasers, whereas competition with foreign companies stems from the competitiveness of the products in terms of price and quality generally manufactured by the PRC suppliers and the foreign suppliers.

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Although competition in the international trading market is intense, given that this market is considerably large, we will continue to compete with the Chinese and foreign companies by capitalizing on our financing capabilities and value-adding services. We will continue to provide financing solutions tailored to the needs of the customers of our Trading Business. We will also continue to cooperate with our suppliers in providing after-sales services and carrying out on-site maintenance services. With more than 30 years of operating history in the international trading business, we have an edge over our peer PRC competitors in terms of our extensive sales and marketing networks, long-established experiences in the international trading market, trained commercial capabilities, strong capabilities in providing financing solutions and reputation.

OTHER BUSINESSES

Overview

In addition to our International Engineering Contracting Business and Trading Business, we also operate the Other Businesses, including the provision of logistics services, exhibitions services, tendering agency services, and other services (including the export-import agency services and design services), and conducting certain strategic equity investment. Our logistics services support our International Engineering Contracting Business by providing logistics consultations and services. Our exhibition services provide a marketing platform for our International Engineering Contracting Business and Trading Business through participation in the exhibitions. Our tendering agency services promote our Trading Business by providing opportunities to meet potential suppliers or purchasers for our Trading Business and to understand their needs. 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 respectively, accounting for approximately 3.4%, 4.0%, 3.8% and 3.9% of our total revenue in the respective periods. The following table sets forth our revenue by type of services from our Other Businesses for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>
Logistics services.....	172.6	129.3	192.0	106.8
Exhibition services	134.8	159.5	199.1	113.9
Tendering agency services.....	109.3	133.9	42.6	15.9
Export-import agency services	103.9	154.8	75.2	27.7
Design services.....	101.0	134.8	233.7	101.0
Other	40.3	49.6	31.4	40.5
Total	661.9	761.9	774.0	405.8

Logistics Services

Our logistics services are conducted mainly through our subsidiary, CMEC Comtrans. CMEC Comtrans, which was a business division of the predecessor of our Company established in 1978, has over 30 years of experience in providing worldwide logistics consultations and solutions for

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industries such as power, transportation, telecommunications, mining, metallurgy and water supply and sewage. It also supports our International Engineering Contracting Business by providing logistics consultation and services for our international engineering contracting projects.

We have forged strategic partnerships with local and regional logistics companies (which are all independent third parties) in overseas countries through long-term business relationships. As such, we can provide our customers with complete logistics services both domestically and abroad. We are able to conduct detailed planning with subcontractors possessing local knowledge to formulate appropriate transportation means and routes, storage, customs clearance and supervision of the entire logistics process in providing door-to-door and efficient logistics services.

Exhibition Services

Our exhibition services involve hosting exhibitions, conferences, and other promotional activities in the PRC and overseas as well as organizing enterprises to participate in the like individually or as a group. We have more than 30 years of experience in the exhibition industry. Our exhibition service covers the engineering industry as well as the trading industry for products including industrial and construction machinery, metal, printing and packaging machinery, refrigeration and air conditioning, auto parts, heavy machinery, electric lighting, building materials, sanitary ware, valves and water treatment system.

Our experienced team with design and organization capabilities in respect of exhibitions can be in charge of the overall theme, layout and decoration of the exhibitions, providing a cost-effective and comprehensive service to exhibition organizers and participants.

We regularly organize groups of PRC companies to attend major industry exhibitions around the world, including but not limited to India, Vietnam, Malaysia, Japan, South Africa, Germany, Spain, Italy, France, United Kingdom, Russia, Turkey, the United States, Egypt, Pakistan, the United Arab Emirates, Iran, Brazil, Mexico, Chile and Argentina. For some of these exhibitions, we must obtain authorization from MOFCOM to organize exhibition groups to attend these international exhibitions. For certain exhibitions held by MOFCOM, sponsorships are granted to the PRC enterprises that are engaged in business affiliated to the subject matter of the relevant exhibitions such that we can arrange for them to attend those exhibitions at a lower exhibition fee under the financial aid of MOFCOM. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the amount of sponsorship fees received from MOFCOM amounted to approximately RMB2.7 million, RMB3.0 million, RMB4.0 million and nil, respectively.

For example, we hosted the India (Mumbai) International Machinery Industry Exhibition sponsored by the Trade Developing Bureau of MOFCOM for four consecutive years since the inception of the exhibition in 2008. The exhibition was aimed to promote bilateral trading between China and India. We also hosted the China Engineering Technology Exhibition (Venezuela) in November 2011 which was sponsored by MOFCOM and aimed to promote the history and capabilities of the PRC engineering contracting industry.

Our exhibition services also provide us with the opportunity to network with potential clients for our International Engineering Contracting Business and Trading Business.

Tendering agency services

Our tendering agency services undertake mandatory bidding processes for the PRC Government, as well as other bidding processes for large corporations wishing to invite bids. The services that we provide include preparing pre-qualification tendering documents, bid preparation and evaluation, advertising bids online, and publishing notices in the most relevant media platforms.

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We have been in the tendering agency business since 1996, and we have the expertise and industrial knowledge to provide quality tendering agency services to our customers. Our tendering agency services enable us to meet potential suppliers and customers of our Trading Business and to understand their needs.

Other Services

Export-Import Agency Services

We provide export-import agency services to our customers in the PRC who wish to import products from overseas suppliers or to export products to overseas purchasers. Typically under an agency agreement, our customer as consignor consigns us as consignee to import or export certain product(s) of specified specification, quantity and price. We enter into an import or export contract with the supplier or purchaser, which forms an integral part of the agency agreement such that our rights and obligations under the import or export contract are the rights and obligations of our consignor customer under the agency agreement. The consignor is also responsible for all incidental costs pertaining to the import or export, such as customs duties and customs inspection fees. We obtain agency fee from our customers with reference to the import or export contract value.

Design services

Our subsidiary, China Machinery R&D, provides engineering design services for residential, industrial, commercial, hospital and town planning projects in the PRC. See “– Research and development” for further details on the background, design capabilities and qualifications of China Machinery R&D.

Certain Strategic Equity Investment

In the course of developing our International Engineering Contracting Business in the African countries, we identified investment opportunities in the mineral resources sector in Belinga, Gabon. Considering that such investment opportunities could potentially provide us with exposure to engineering contracting projects associated with mine development, we made a strategic equity investment in COMIBEL in 2007. COMIBEL has a share capital of XAF 2.4 billion which is divided into 240,000 shares of XAF 10,000 each and is a subsidiary of our Company. We contributed US\$3,740,000 to the share capital of COMIBEL and hold 66% of the equity interest in COMIBEL while the Government of the Republic of Gabon and Panzihua Iron & Steel Group Co. (攀枝花鋼鐵(集團)公司) (both of which being independent third parties) respectively hold the remaining 25% and 9% of the equity interest. The equity interests of the three shareholders were determined based on commercial negotiation at arm’s length. In accordance with the Mining Code in force in Gabon, through a decree signed by the President of the Republic of Gabon dated December 21, 2007, a mining concession for the exploitation of iron ores in the area of Belinga was granted to COMIBEL for a duration of 25 years and has become effective. Further to the granting of the mining concession, in accordance with the Mining Code, the State of Gabon and COMIBEL, as holder of the mining concession, signed a mining convention on May 24, 2008. As of the Latest Practicable Date, COMIBEL had engaged a consulting company to prepare a study of the impact of the exploitation and the complementary activities on the environment and the local population (the “**Environmental Impact Study**”). The Environmental Impact Study covered the mine in Belinga, the port for exporting the iron ore, the railway that would link up the mine to the port and the hydropower station and transmission line. The Environmental Impact Study was filed with the relevant environmental ministry of the State of Gabon for review and assessment. In addition, COMIBEL engaged another engineering consulting company to prepare feasibility study in relation

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to the mine in Belinga and its auxiliary infrastructure facilities. As of the Latest Practicable Date, COMIBEL had not commenced any exploration or extraction activities. Our Company would not be deemed as a “Mineral Company” as defined under Chapter 18 of the Listing Rules as our equity investment in COMIBEL would not be considered as a “major activity⁽¹⁾” as defined under Rule 18.01 of the Listing Rules, nor would we consider exploration for and/or extraction of minerals to be our “major activity” in the foreseeable future. Our core business remains focused on the International Engineering Contracting Business and Trading Business and we have no intention to deviate from our core business or actively pursue other non-core mining business or otherwise. We were in discussions with potential investors who have extensive experience in the operation of iron mines for sale of a majority of our equity interest in COMIBEL such that we would remain as a minority shareholder and a passive investor following the sale and we intend to leverage such strategic relationship to pursue opportunities for the International Engineering Contracting Business through the operation of the mining concession. As of the Latest Practicable Date, no legally binding agreement had been entered into in respect of the transfer of our equity interest in COMIBEL.

Competition

Logistics services

Enterprises engaging in the logistics business primarily compete in price and services. We have cultivated our logistics skill set and accumulated experiences through our participation in our international engineering contracting projects and hence have established our position as a logistics agent that can provide comprehensive and one-stop logistics solutions from logistics cost estimation, customs clearance to on-site surveying of the road and port conditions and feasibility of the transportation means.

Exhibition services

Enterprises engaging in the exhibition business primarily compete in the range of exhibitions that the enterprises can organize and the capabilities in exhibition engineering. We will continue to leverage on the brand name of “CMEC” and introduce and organize overseas exhibitions in the PRC. We are also building on our exhibition engineering capabilities to provide one-stop exhibition services to our customers from design and setting up of the exhibition venues to advertising and administering the exhibitions.

Tendering agency services

Price of tendering agency service is regulated in the PRC with a relatively small room for price deviations. As such, enterprises providing tendering agency services mainly compete in the breadth of the tendering agency service they can provide. In light of the regulatory oversight, we believe that our established and standardized set of operation procedures is crucial to ensuring compliance of our tendering agency service with the relevant PRC laws and regulations, which is a key to the continuation of our tendering agency business. We will explore business opportunities in the renewable energy market such as offshore wind energy and solar energy to expand our tendering agency services.

Note:

- (1) Major Activity is defined under Rule 18.01 of the Listing Rules as an activity of an issuer and/or its subsidiaries which represents 25% or more of the total assets, revenue or operating expenses of the issuer and its subsidiaries; reference should be made to the issuer's latest audited consolidated financial information.

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OUR CUSTOMERS

Our customers cover a wide range of business, geographical locations and industries. Our major customers are primarily project owners of our engineering contracting projects for our International Engineering Contracting Business, and many of them are governments, governmental agencies or state-owned entities of overseas countries. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our five largest customers in aggregate accounted for approximately 42.3%, 34.0%, 36.1% and 25.5% of our total revenue, respectively, and our largest customer for each period accounted for approximately 12.2%, 10.1%, 10.6% and 9.3% of our total revenue, respectively. We have established relationships of between one and 14 year(s) with these customers. Our Controlling Shareholder, SINOMACH, was one of our top five customers in 2009 and 2010 and accounted for approximately 5.9% and 4.9% of our total revenue respectively in those two years. Save for SINOMACH, all of the remaining five largest customers for each period during the Track Record Period were independent third parties.

To the knowledge of our Directors, none of our Directors, Supervisors, their respective associates or any Shareholders holding more than 5% of our issued share capital, held any interest in any of the above five largest customers as of the Latest Practicable Date.

OUR SUPPLIERS AND SUBCONTRACTORS

In almost all of our engineering contracting projects, we act as the main contractor managing and overseeing the entire project while we procure equipment and machinery for the construction of our projects from various suppliers and subcontract works to subcontractors in areas including design, exploration, logistics, installation, construction and supervision. We plan to continue using this asset-light business model in order to focus our resources on higher value-adding tasks and better manage the overall process of our projects. We maintain an updated list of qualified and reliable suppliers and subcontractors with a proven track record and long-term relationship with us. We believe that our experienced and professional team has a deep understanding of a variety of potential supply sources and subcontractors in the PRC and overseas, which enables us to locate the right suppliers and subcontractors for our customers in light of the changing market trends.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, purchase from our five largest suppliers (which include subcontractors) accounted for approximately 13.2%, 13.0%, 13.8% and 18.9%, respectively, of our cost of sales. Our largest supplier for the same periods accounted for approximately 3.3%, 3.5%, 4.2% and 6.9%, respectively, of our cost of sales. We have established relationships of between one and 21 year(s) with these suppliers. All of the above suppliers (which include subcontractors) are independent third parties. To the knowledge of our Directors, none of our Directors, Supervisors, their respective associates or any Shareholders holding more than 5% of our issued share capital, held any interest in any of the above five largest suppliers (which include subcontractors) as of the Latest Practicable Date.

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EMPLOYEES

As of June 30, 2012, we had a total of 2,387 employees. The following table sets forth the number of employees according to different job functions and by geographical location:

	Asia	Africa	Europe	North America	South America	Oceania	Number of Employees
Business staff							2,094
International Engineering							
Contracting Business	1,175	89	32	–	24	–	1,320
Trading Business	550	–	–	4	–	1	555
Other Businesses	219	–	–	–	–	–	219
Management, finance and administration	250	–	–	–	–	–	250
Others	43	–	–	–	–	–	43
Total	<u>2,237</u>	<u>89</u>	<u>32</u>	<u>4</u>	<u>24</u>	<u>1</u>	<u>2,387</u>

In compliance with the local regulations applicable to our subsidiaries in various countries and regions in which we operate, we make contributions to various pension contribution plans, medical insurance plans, unemployment insurance plans, maternity insurance plans and personal injury insurance plans. The amount of our contributions is based on the specified percentages of the employee's aggregate salaries as provided for under the relevant regulations. We also make contributions to an employee housing fund according to applicable PRC regulations. Our employees who are stationed overseas are also entitled to overseas allowances, the amount of which is dependent on, among other factors, the local environment, living costs and job position.

For the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our total expense on employee remunerations and benefits amounted to approximately RMB770.2 million, RMB756.2 million, RMB932.2 million and RMB498.7 million, respectively. We currently have no share option schemes for our employees.

Currently, all of our employees are employed on a full-time basis and pursuant to the terms of a written employment contract usually with a term of three years or longer. These employment contracts and our internal policies typically include provisions on wages, employee benefits, training programs, health and safety, confidentiality obligations for commercial secrets, employee's position, responsibilities and grounds of termination. Our employees are protected by labor unions in the PRC. We encourage employee participation in the management of our Company. The operating entities of our Company and our PRC subsidiaries have separate branches of the labor union. We have not experienced any strikes or other labor disturbances which have materially interfered with our operations, and we believe that we have positive relations with our employees.

We provide training for our employees. We invest in continuing education and training programs for our management staff and technical staff with a view to continuously upgrading their skills and knowledge. We also maintain policies and procedures in ensuring that our employees abide by laws and practice of honest and clean business ethics in the operations of our Company and our business.

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RESEARCH AND DEVELOPMENT

We believe that the development of our R&D capabilities will play a significant role in our future growth. In May 2007, China Machinery R&D was transferred to our Company by SINOMACH which we believe further enhanced our technical R&D and design capabilities. Prior to the transfer, China Machinery R&D principally focused on providing engineering design services to projects located within the PRC. It was specialised in the design of factories and town planning. Since the transfer, China Machinery R&D further expanded their capabilities in the engineering design of power projects and other construction projects. For example, they were responsible for design and construction of our project in Maldives in relation to 1,000 residential units. With a view to further expanding China Machinery R&D, we will establish a new office building for China Machinery R&D in Changsha with a capital commitment of approximately RMB297.2 million which we plan to fund with our own internal financial resources. Out of the 53 qualifications that we held as of the Latest Practicable Date, China Machinery R&D held 13 of the qualifications which included engineering design certificates, engineering consultation qualification and license for design of special equipment (pressure pipelines). Furthermore, as of the Latest Practicable Date, out of the 1,201 engineers of our technical team, 704 of them were from China Machinery R&D (being 17 professorial engineers, 140 senior engineers, 281 engineers and 266 assistant engineers). Our Company's R&D focuses on engineering design and project management which does not involve invention of any intellectual property. During the Track Record Period, we did not incur any significant R&D costs.

QUALIFICATIONS

As of the Latest Practicable Date, we held a total of 53 qualifications of various types in the PRC. These included 15 qualifications for engineering contracting, 27 qualifications for trading, 3 qualifications for tendering agency services, 3 qualifications for logistics services and 5 qualifications for other operations. The following table is an overview of our major qualifications and the relevant granting authorities in the PRC by industry as at the Latest Practicable Date. The date of grant shows the earliest date that a qualification was granted in the relevant category and the date of expiry shows the earliest date that a qualification will expire in the same category. Our Company manages and monitors the validity of our qualifications and has been taking and will continue to take appropriate steps to renew the relevant qualifications ahead of time as and when they become expired. See "Regulatory Overview" for more details on the PRC regulatory regime in relation to these qualifications.

<u>Total Number of Qualifications in the Relevant Category</u>	<u>Granting Authorities in the PRC</u>	<u>General Scope</u>	<u>Date of Grant</u>	<u>Date of Expiry</u>
15 qualifications for engineering contracting	Commissions of Commerce (商務委員會) at municipal level; Departments of Commerce (商務廳) at municipal level; Bureau of Foreign Trade and Economic Cooperation (對外貿易經濟合作廳)	Qualification for contracting foreign engineering projects to (1) participate in overseas project contracting and domestic tendering for international projects, (2) import required equipment and materials for overseas projects, and (3) dispatch required personnel for overseas projects	December 2009	May 2013

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Total Number of Qualifications in the Relevant Category	Granting Authorities in the PRC	General Scope	Date of Grant	Date of Expiry
	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)	Engineering design certificate for engaging in project design for various industries including the construction industry, metallurgical industry, landscape architecture engineering, environmental engineering, electronic communication and broadcasting industry, chemical, power industry, and agriculture and forestry industry	January 2010	December 2012
		Engineering supervision certificate for (1) building construction supervision, (2) municipal public work supervision, and (3) electrical and mechanical engineering installation work supervision		
		Qualification for project cost consultation		
	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)	Engineering consultation qualification in areas such as construction, thermal power, chemical engineering and town planning	December 2007	December 2012
	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)	License for design of special equipment (pressure pipelines)	December 2011	December 2015
27 qualifications in trading	Local department administering foreign trading	Foreign trade operator registration certificate for engaging in importing or exporting of goods or technologies	March 2005	Not applicable
	Administration of Work Safety (安全生產監督管理局)	Hazardous chemical operation licence for wholesaling hazardous chemical	November 2010	November 2013
	Food and Drug Administration (食品藥品監督管理局)	License for business dealing in medical equipment	August 2009	April 2014
	General Administration of Quality Supervision, Inspection and Quarantine of the PRC	Certificate of registration as consignee for importing solid waste convertible into fuel	March 2009	February 2014

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Total Number of Qualifications in the Relevant Category	Granting Authorities in the PRC	General Scope	Date of Grant	Date of Expiry
	Economic and Information Technology Commission (經濟和信息化委員會) at municipal level; Commissions of Commerce at municipal level	License for coal wholesale	December 2010	December 2013
	Administration for Industry and Commerce (工商行政管 理局) at municipal level	License for pre-packaged food wholesale	March 2010	March 2013
3 qualifications in tendering agency	MOFCOM	Qualification for engaging in tendering business for mechanical and electrical products	February 2011	February 2014
	Ministry of Housing and Urban-Rural Development	Certificate for engaging in construction tendering agency business	July 2009	July 2014
	National Development and Reform Commission of the PRC	Certificate for engaging in bidding agency businesses for all projects financed by the PRC Government	June 2011	June 2014
3 qualifications in logistics	MOFCOM; International Freight Forwarders Association (國際貨運代理行 業協會) at municipal level	License for undertaking international transportation agency businesses for shipping and air cargo import and export, including clearance of goods, examination and consulting services	November 2006	March 2013

QUALITY, SAFETY AND ENVIRONMENTAL PROTECTION CONTROL

We are in compliance with all applicable laws on safety, health and environmental matters.

We regard occupational health and safety as one of our important corporate and social responsibilities. Our business operations involve significant risks and hazards that could result in damage or destruction of property, death and personal injury, business interruption and possible legal liabilities. See “Risk Factors – Risks Related to Our Business and the Industries in which We Operate – We may cause substantial damage to persons, properties or the environment in the course of our business operation, which could harm our reputation and cause us to incur substantial costs.”

Our Company and our subsidiary, CMEC International Engineering, have established and implemented a unified quality, safety and environmental protection control management system pursuant to the requirements of ISO 9001:2008 (for quality management), ISO 14001:2004 (for environmental management) and OHSAS 18001:2007 (for occupational health and safety management).

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We are subject to different levels of local environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and treatment and other environmental matters depending on the relevant local jurisdiction in which we operate. In particular, for our International Engineering Contracting Business, generally the project owners are responsible for carrying out environmental assessments in respect of a project and submitting environmental impact assessment documents to the relevant government authorities for approval before the project can be initiated. Through our quality, safety and environmental protection control management system, we ensure compliance with safety and environmental requirements through various stages: (1) at the design stage, we ensure that our design is compliant with applicable safety and environmental laws, regulations and mandatory standards and enhance environmental awareness and professional ethics of the designers through education and trainings; (2) at the procurement stage, we check and control the equipment and materials used by ourselves and our subcontractors and ensure that the procurement meets safety and environmental requirements; and (3) at the construction stage, we seek to manage factors that may affect safety and environmental protection during the construction process through establishing safety and environmental management objectives, identifying hazardous substances, and abiding by preventive measures and trainings. During the Track Record Period, our Company did not incur significant cost of compliance with the applicable environmental rules and regulations and we do not expect to incur significant cost of compliance going forward in light of the prevailing conditions including the applicable environmental laws and regulations, our operations and business model.

We place great importance on compliance with applicable foreign laws and regulations and the specific contract terms we enter into. Such compliance affects our success in any particular engineering contracting project and, therefore, is one of the many factors which we consider prior to our decision to undertake or bid for a project. We have in the past engaged local counsels to conduct legal due diligence exercise in respect of markets in which we intended to enter into or before entering into a contract. We will continue to do so and obtain legal advice from local counsels as and when necessary in the future.

INTERNAL CONTROL

Our Board is responsible for monitoring our internal control system and for reviewing its effectiveness. In accordance with applicable laws and regulations, we have stipulated internal procedures with a view to establishing and maintaining our internal control systems, which cover our operational, managerial and financial aspects, taking into account the nature and background of the industries in which we operate. Our Directors believe our current procedures on internal control are designed to promote the completeness, reasonableness and effectiveness of such system. As we have recently undergone the Reorganization and will become a publicly listed company as a result of the Global Offering, our internal control system has recently been updated and may require refinement over time.

INTELLECTUAL PROPERTY

We rely on a combination of copyrights and trademarks to protect our intellectual properties. Our intellectual properties are important to our business. As at the Latest Practicable Date, we had 100 trademark applications and registrations in the PRC and overseas. We also had 13 copyrights relating to the softwares that China Machinery R&D employs. See “C. Further Information about our Business – 2. Our Intellectual Property Rights” in Appendix VI to this Prospectus. We are not aware of any material infringement of any of our intellectual properties by any third parties.

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INSURANCE

Pursuant to the contractual terms of the engineering contracting projects and in accordance with the local regulations in the relevant jurisdiction where we carry out our International Engineering Contracting Business and our internal control policy on insurance for our engineering contracting projects, we purchase insurance for the projects we undertake. Generally, we purchase construction, installation and engineering all-risks insurance, transportation insurance and third-party liability insurance according to different project needs and requirements. Construction, installation and engineering all-risks insurance and third-party liability insurance are required where we are involved in the construction and installation work and such insurance policies generally extend for the entire contract period, including the maintenance period following the completion of the project. The subcontractors also independently purchase additional insurance for their own equipment and employees based on their own needs and/or the contractual requirement under the subcontracting arrangement with us in view of the specific requirements of each project. We also purchase transportation insurance if we are responsible for the logistics of the equipment, machinery or trading products. We engage insurers through tenders by each project and the insurers participating in the tender must be on our list of qualified insurers maintained and annually examined by us. During the Track Record Period, we purchased insurance for all projects we undertook commensurate with the project needs, status and requirements, and the insurance premium typically ranged from 0.05% to 0.2% of the insurance coverage which was linked to the contract value of those projects. Our expense on project-related insurance (for purchasing construction, installation and engineering all-risks insurance, third-party liability insurance and transportation insurance) was approximately RMB28.9 million, RMB30.0 million, RMB39.4 million and RMB9.9 million, respectively, for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012. The insurance expense for project-related insurance independently purchased by our subcontractors was accounted for under the subcontracting fee and hence not separately accounted for in our financial information.

Owing to the international nature of our business, we also purchase travel insurance for our employees travelling overseas which provides coverage on areas including medical expenses, medical emergency and hospital care and accidental death. We also purchased credit insurance from Sinasure for our export seller's credits and other business transactions where we accept deferred payments from our clients. During the Track Record Period, our expense on purchasing credit insurance from Sinasure was RMB281.5 million, RMB171.6 million, RMB36.8 million and RMB59.2 million, respectively, the decrease of which was a result of the decrease of our undertaking projects that were financed by export seller's credit. As for other operation-related insurance, during the Track Record Period, our expense was RMB0.9 million, RMB0.7 million, RMB2.2 million and RMB1.5 million, respectively.

In compliance with the local regulations applicable to our subsidiaries and enterprises in various countries and regions in which we operate, we make contributions to various pension contribution plans, medical insurance plans, unemployment insurance plans, maternity insurance plans and personal injury insurance plans. We also make contributions to an employee housing fund according to applicable PRC regulations.

Consistent with what we believe to be customary practice in the PRC, we do not carry any business interruption insurance, key-man insurance or insurance covering potential environmental damage claims. Such insurance is not mandatory under the laws and regulations of the PRC, and such insurance is either unavailable in the PRC or requires substantial cost.

Our Directors believe that we maintain sufficient insurance coverage that is consistent with our risk of loss and industry practice.

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PROPERTIES

As at September 30, 2012, we owned a total of 108 properties (including 8 parcels of land, 83 buildings and 17 ancillary facilities) in the PRC, Hong Kong, US, Germany, Australia, Brazil, Pakistan and Romania with an aggregate GFA of approximately 143,672 square meters. The total carrying amounts of our property interests is less than 15% of our total assets. Of our 83 self-owned properties, 28 properties (with the GFA ranging from approximately 35 square meters to 34,654 square meters) were for office purpose, 20 properties (with the GFA ranging from approximately 52 square meters to 12,553 square meters) were for storage purpose, four properties (with the GFA ranging from approximately 22 square meters to 650 square meters) were for retail purpose, six properties (with the GFA ranging from approximately 24 square meters to 1,050 square meters) were for ancillary purpose, 24 properties (with the GFA ranging from approximately 47 square meters to 4,802 square meters) were for staff accommodation purposes, and the remaining property (with the GFA of approximately 5,009 square meters) was for production purpose.

As at September 30, 2012, we leased eight properties in the PRC. Our leased properties are all used as offices, and their GFA range from approximately 53 square meters to 1,850 square meters. The term of our leases ranges from a minimum of 12 months to five years.

For some of the properties we occupy in the PRC, we have not yet obtained sufficient title certificates that allow us to use or transfer the properties freely. For the parcel of vacant land which we owned with a site area of approximately 12,370 square meters, we were in the process of obtaining land use right certificate. We have signed a land grant contract with the relevant land bureau and paid a substantial portion of the relevant land premium, while we were in discussion with the relevant authority in respect of the reduction of the land premium. Our PRC legal advisors confirmed that there will be no legal obstacle for us to obtain such certificate once the discussion on the reduction of the land premium is concluded. For our owned properties, as at September 30, 2012, we had not obtained proper building ownership certificates or real estate title certificates for 14 properties with an aggregate GFA of approximately 22,398 square meters. These properties are used for various purposes, including offices, retail, warehouses and dormitories for employees. In particular:

- For eight properties with an GFA of 18,468 square meters in Shanghai, they were located on land which was assigned for road purposes in municipal planning and could not be transferred. Local land bureau issued an opinion that reasonable compensation would be given for the land and properties attaching to the land should the municipal planning be implemented.
- For two properties with an GFA of 1,199 square meters in Beijing, they were located on land which was assigned as allocated land, and property ownership certificates for these properties could not be obtained. They are currently used as dormitories for employees.
- For four properties with an GFA of 2,731 square meters located in Beijing, Zhuhai and Shenzhen, respectively, we are unable to ascertain when we can obtain the property ownership certificates owing to historical reasons which cannot be resolved in a foreseeable future. They are currently used as office and dormitories for employees.

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Furthermore, according to the Reorganization Agreement, SINOMACH as our Controlling Shareholder has undertaken that it will assist us in obtaining property ownership certificates and will indemnify us against any losses, claims, charges or expenses arising from such title defects. Our PRC legal advisors confirmed that the above undertakings given by SINOMACH are legal, valid and enforceable. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenue generated from the properties with title defects was approximately RMB1.0 million, RMB1.0 million, RMB1.0 million and RMB0.4 million, respectively, representing less than 0.01% of our revenue during the same periods. Our PRC legal advisors confirmed that these properties with title defects would not have any material adverse effect on the business and operations of our Company. Our Directors believe that these properties with title defects are not crucial to, and will not have a material impact on our operations because: (1) for eight of them, we will be compensated should the municipal planning be implemented; (2) for six of them, we would be able to relocate to comparable alternative buildings without any material adverse effect on our operations; and (3) for all of the 14 properties, we are indemnified by SINOMACH for any losses, claims, charges or expenses arising from such title defects.

Construction of new buildings

To meet our business development needs, we will construct our new headquarters in Beijing and three office buildings in Shanghai, Shenzhen and Changsha principally for our operational use. The construction of our headquarters in Beijing is expected to be completed by the end of 2013. As for the other construction plans, as of the Latest Practicable Date, we had not commenced any construction as our construction plans were still undergoing the process of obtaining governmental approval. We expect to fund these payments with cash generated from our operations. See “Financial Information – Indebtedness, Contingent Liabilities and Capital Expenditures – Capital Expenditures” for more details. The table below sets out further information on these construction plans:

	<u>Planned GFA</u> <i>(square meters)</i>	<u>Planned usage</u>
Building location		
Beijing	99,800	For operational use
Shanghai	67,740	For operational use and rental
Shenzhen	40,840	For operational use and rental
Changsha	102,460	For operational use and rental
Total	<u>310,840</u>	

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

We have occasionally been involved in legal proceedings arising in the ordinary course of our business. As at the Latest Practicable Date, we were involved in seven legal proceedings, each of which the disputed amount was more than RMB1 million: (1) four of them had a disputed amount less than RMB50 million each; and (2) three of them had a disputed amount equal to or more than RMB50 million each.

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For the four proceedings that had a disputed amount less than RMB50 million each, they were in the nature of contractual and civil disputes that arose from the ordinary course of our business and we acted as respondent in all of them. No judgment was handed down for any of these four proceedings as at the Latest Practicable Date. Since the aggregate disputed amount of these four proceedings was less than 2% of profit attributable to the equity owners of our Company for the year ended December 31, 2011, we were of the view that they would not individually and/or in aggregate have a material adverse effect on our business, results of operations and financial condition. We believe we have made adequate provisions based on our best estimates with respect to potential losses from the legal proceedings where appropriate.

For the three proceedings that had a disputed amount equal to or more than RMB50 million each, we acted as claimant in all of them. A brief summary of each of these three legal proceedings is as follows:

- In March 2009, our subsidiary, CMEC International Trading initiated a lawsuit against Shanghai Ludi Petroleum Sales Company Limited* (上海陸地石油銷售有限公司) (“**Shanghai Ludi**”) in the Beijing Municipal High People’s Court (北京市高級人民法院) claiming for payment of an outstanding contract amount of approximately RMB170 million and related interest. In February 2008, CMEC International Trading had entered into an agency agreement (the “**Original Agreement**”) with Sanxing Jiateng Company* (三興加騰公司) and Hebei Dagang Company* (河北大港公司) (together the “**Requestors**”) whereas CMEC International Trading acted as agent of the Requestors in importing 41,000 tonnes of fuel oil for an amount of RMB200 million. Upon the Requestors’ failure to pay CMEC International Trading in full, CMEC International Trading obtained ownership of the fuel oil pursuant to the Original Agreement. Subsequently, in September 2008, CMEC International Trading entered into a sales agreement with Shanghai Ludi for the sale of 30,000 tonnes of fuel oil in an amount of RMB165 million. CMEC International Trading delivered 30,000 tonnes of fuel oil to Shanghai Ludi, but Shanghai Ludi failed to pay the contract amount. After the discovery stage of the legal proceedings, the Beijing Municipal People’s High Court joined the Requestors as third parties in May 2010 as a matter of court procedures. As at the Latest Practicable Date, the lawsuit was still in progress, and no judgment has been handed down.
- In January 2008, we initiated a lawsuit against Chhattisgarh State Electricity Board of India (the “**Electricity Board**”) in the Court of VIIth Additional District Judge Raipur seeking, *inter alia*, a declaration that the Electricity Board had no right to cash a bid bond of US\$8 million (the “**Bid Bond**”). We submitted a bid in December 2006 pursuant to the Electricity Board’s invitation of bids for its power project. In view of excessive delay on the part of the Electricity Board in finalizing the bidding process, we agreed to extend our bid on the condition that further discussion regarding the technical requirements of the power project and some other commercial issues would be effected. Nonetheless, while the conditions of our extension were unsatisfied, the Electricity Board sent us a letter of award in July 2007, which we did not accept. In October 2007, despite our request to resolve the pending issues before the conclusion of a legal and binding contract, the Electricity Board encashed the Bid Bond. The Electricity Board has filed its defense in June 2008. However, as of the Latest Practicable Date, no further progress has been made by the Indian court, and no judgment has been handed down.

* For identification purposes

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- In January 2011, our Company initiated a lawsuit against the Hangzhou Baoshi Branch of the China Construction Bank (“**CCB**”) for the encashment of a performance bond amounting to RMB56,153,348 (the “**Performance Bond**”). Pursuant to an EPC contract signed between us and a subcontractor in November 2005, the subcontractor arranged for CCB to issue the Performance Bond in favor of us, one of the terms of which was that should it fail to fulfill any of its obligations under the EPC contract, regardless of any objections that it may have, CCB should pay us the Performance Bond upon receipt of a notice of breach from us. Subsequently, due to the subcontractor’s failure in fulfilling certain of its obligations, we issued a notice of breach to CCB for the payment of the Performance Bond. CCB refused to make the payment. As at the Latest Practicable Date, the lawsuit was still in progress, and no judgment has been handed down.

Our Directors and PRC legal advisors confirmed that none of the aforesaid three legal proceedings with a disputed amount equal to or more than RMB50 million, individually or in aggregate, would have a material effect on our business and operations. Furthermore, our Directors believe that the outcome of these legal proceedings will not have a material impact on our financial position given the fact that these proceedings arose from the ordinary course of our business, for which proper accounting treatment has been made to recognise the financial loss arisen from the relevant transaction, as applicable, and that we acted as claimant in these proceedings for which no provisions are required to be made.

During the Track Record Period, we entered into a settlement agreement with a private company for an amount of US\$9,988,775. The claim originated from a framework cooperation agreement in October 2001 relating to our procurement of services on project planning and market development in Nigeria. The settlement amount was paid by us on September 30, 2011. Save for the above, no other significant provisions related to legal proceedings were made during the Track Record Period.

Except as described herein, as at the Latest Practicable Date there were no current legal or arbitral proceedings against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

Legal and compliance matters

Our PRC counsel, Jia Yuan Law Offices, has confirmed that during the Track Record Period and up to the Latest Practicable Date, we were not in breach of all relevant PRC laws and regulations in all material respects and have obtained all necessary licenses, approvals and permits from relevant and appropriate regulatory authorities for our business operations in the PRC.

We also have 11 overseas subsidiaries incorporated in eight jurisdictions. We were advised by respective local counsels that during the Track Record Period and up to the Latest Practicable Date, the operations of our overseas subsidiaries were not in breach of applicable laws and regulations of the relevant jurisdictions. In view of the advice of the respective local counsels, our Directors also confirm that our overseas subsidiaries’ business operations were in compliance with the applicable laws and regulations of the jurisdictions where the overseas subsidiaries were incorporated during the Track Record Period.

RESTRUCTURING OF BUSINESS IN THE SANCTIONED COUNTRIES

The US and other jurisdictions have comprehensive or broad economic sanctions targeting the Sanctioned Countries. For the three years ended December 31, 2009, 2010 and 2011 and the

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six months ended June 30, 2012, revenues generated from our International Engineering Contracting Business and Trading Business in the Sanctioned Countries amounted to approximately RMB744.0 million, RMB1,382.0 million, RMB1,665.2 million and RMB315.6 million, accounting for approximately 3.9%, 7.2%, 8.1% and 3.0%, respectively, of our total revenue during the same periods. Prior to Listing, we underwent a restructuring of our International Engineering Contracting Business and Trading Business in the Sanctioned Countries by terminating or transferring to parties outside of our Group all ongoing and future business in the Sanctioned Countries such that we will not conduct business or operate in the Sanctioned Countries after Listing (the “**Restructuring**”).

Restructuring of our International Engineering Contracting Business

In terms of our International Engineering Contracting Business, prior to the Restructuring, we had two types of projects in the Sanctioned Countries, namely (a) two projects that were under construction, and (b) two signed contracts incapable of becoming effective (collectively, the “**Sanctioned Country Contracts**”). Separately, we had four completed projects which were financed by export seller’s credit with all revenue for the project work recognized as at June 30, 2012 but we will continue to receive deferred payments including certain interest in connection with these projects after Listing.

Projects under Construction in the Sanctioned Countries

Prior to the Restructuring, we had two engineering contracting projects under construction in Sudan. For one of the projects, we assigned our rights and liabilities under the underlying contract to a subsidiary of SINOMACH by entering into an assignment agreement. For the other project, we issued a notice of termination to the project owner and validly terminated the contract.

The following table shows the two engineering contracting projects which were assigned or terminated prior to Listing:

Project and brief description	Commencement Date	As at June 30, 2012			Termination/Assignment
		Contract Value	Recognized Revenue	Estimated Backlog	
		(US\$ million)			
Water supply project on EPC basis in Sudan (“ Water Supply Contract ”)	January 2007	40.3	23.1	17.2	An assignment agreement (the “ Assignment Agreement ”) was signed on December 4, 2012 between our Company and CMIC, a subsidiary of SINOMACH (the “ Assignee ”), with nil assignment fee.
Thermal power plant on EPC basis in Sudan (“ Power Plant Contract ”)	November 2009	680.3	291.4	388.9	On January 12, 2012, our Company issued a notice of termination to the project owner pursuant to the contractual provision of the Power Plant Contract.

No costs (including subcontracting cost) relating to the estimated backlog of the Water Supply Contract and the Power Plant Contract as at June 30, 2012 were paid or incurred by our Group up to the Latest Practicable Date.

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Water Supply Contract

The works under the Water Supply Contract in Sudan had been suspended since August 2008 and up to the Latest Practicable Date due to various reasons including local security and safety reasons and lack of site access. For the recognized revenue of approximately US\$23.1 million as at June 30, 2012, approximately US\$13.8 million has been paid and settled while the remainder of approximately US\$9.3 million was recorded in our balance sheet as “accounts receivable” and “construction contracts”. Taking into account the interest receivable of approximately US\$1.6 million generated from the export seller’s credit and the outstanding receivable of US\$9.3 million, and deducting the bad debt allowance and foreseeable loss of approximately US\$3.7 million, the net receivable amount was approximately US\$7.2 million as at June 30, 2012.

Under the Assignment Agreement, the Assignee agreed to be bound by all the provisions of the Water Supply Contract as if it were named in the Water Supply Contract in place of our Company, and to perform, discharge and observe all obligations and liabilities on the part of our Company under the Water Supply Contract which would, but for the Assignment Agreement, fall to be performed, discharged or observed by our Company. Furthermore, under the Assignment Agreement, the Assignee agreed to indemnify and hold harmless our Company against and from all liabilities, demands, claims, actions, causes of action, assessments, costs, damages, losses and expenses (including legal fees and expenses), including but not limited to any claims by the project owner, arising out of, in connection with, in the course of or by reason of (i) its performance (or non-performance) and discharge (or non-discharge) of the obligations and liabilities under the Water Supply Contract which it has undertaken to perform, discharge and observe in the Assignment Agreement, and (ii) the performance (or non-performance) of the Water Supply Contract by our Company (if any) prior to the date of the Assignment Agreement (the “**Indemnity**”).

In respect of the Assignment Agreement that was governed by Sudanese law, our Sudanese counsel advised us that under Sudanese law, (1) a party to a contract can assign the contract without the written consent of the other party provided that the contract does not prohibit assignment without consent and the contract does not require the obligations thereunder to be performed personally by the assignor; (2) the Water Supply Contract does not contain such prohibition against assignment without consent, nor any provision which requires the contract to be performed personally by our Company; it also expressly allows our Company to subcontract the works to be performed by the subcontractor on its behalf; (3) the Assignment Agreement constituted legal, valid, binding and enforceable obligations on our Company and the Assignee; and (4) the Indemnity was legal, valid, binding and enforceable under the Sudanese Law. Our Sudanese counsel also advised us that under the Sudanese law, the project owner may also seek specific performance of the Water Supply Contract by us. However, our Directors believe that it will be unlikely for the project owner to enforce a specific performance order in Sudan as we have no assets or operations in Sudan. Our Directors have undertaken to the Stock Exchange and the Underwriters that our Group will not perform any of the obligations under the Water Supply Contract under any circumstances. Furthermore, in view of the above, our Controlling Shareholder, SINOMACH, has 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.

Taking into consideration the transferring of assets and liabilities to the Assignee of RMB45.6 million (which include the total net receivables amount of US\$7.2 million) and RMB2.8 million, respectively, of the project as a whole, our Company incurred a loss of RMB42.8 million as a result of the assignment of the Water Supply Contract, which was recognized directly in equity as a deemed distribution to shareholder upon the completion of the Assignment Agreement and the incurred loss was less than 3% of profit attributable to the equity owners of our Company for the

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year ended December 31, 2011. In addition, the estimated backlog of the Water Supply Contract of approximately US\$17.2 million only accounted for approximately 0.3% of our aggregate backlog as at June 30, 2012. Our Directors were of the view that the impact of the assignment of the Water Supply Contract was immaterial to our aggregate backlog and the Water Supply Contract would not be sanctionable under current US law and there would be no risk that SINOMACH or our Company would be targeted by US indirect sanctions as a result of the assignment or the continuation of the Water Supply Contract by the Assignee. Based on the foregoing, our Directors believe that the assignment of the Water Supply Contract had no material adverse impact on the reputation, operations and financial position of our Company.

Power Plant Contract

For the Power Plant Contract, since certain contractual obligation was not performed by the project owner, our Company was contractually entitled to terminate the Power Plant Contract and issued a notice of termination to the project owner on January 12, 2012 pursuant to the contractual provision. We were advised by our Sudanese counsel that the Power Plant Contract was validly terminated. Furthermore, our Controlling Shareholder, SINOMACH, has 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. The recognized revenue of approximately US\$291.4 million as at June 30, 2012 has been fully paid and settled. The estimated backlog in relation to the Power Plant Contract of approximately US\$388.9 million was not included in our aggregate backlog of US\$6,051.4 million as at June 30, 2012 and no further costs (including subcontracting cost) relating to the estimated backlog of the Power Plant Contract as at 30 June 2012 were paid or incurred by us up to the Latest Practicable Date. Therefore, no provision or write off has been made. Based on the foregoing, our Directors believe that the termination of the Power Plant Contract had no material adverse impact on the reputation, operations and financial position of our Company.

Signed Contracts Incapable of Becoming Effective in the Sanctioned Countries

There were two signed contracts incapable of becoming effective in Sudan prior to Listing. Since the relevant conditions precedent of the underlying contracts could not be satisfied (the satisfaction of which was not the obligation of our Company), these contracts did not come into effect and hence we were not obliged to and will not perform any part of these contracts after Listing. Since the obligation of fulfilling the condition precedent stipulated in the two contracts does not fall on our Company and the contracts never became effective, there was no contractual relationship between our Company and the project owners, and the project owners had no right to seek for any compensation, damages, losses or specific performance. No revenue was recognized for any of these contracts.

Completed Projects Financed by Export Seller's Credit

We had four completed projects which were financed by export seller's credit and the revenues for the project work completed were fully recognized before June 30, 2012. As these projects were completed already, we had no obligation to make any performance under these projects. Also, as at the Latest Practicable Date, the maintenance period for these four projects expired already and we are not required to provide maintenance service for these projects. According to the repayment schedules of these four projects, after Listing, we will continue to receive deferred payments including certain interest from the project owners and the last deferred payment under these four completed projects was scheduled in December 2018. The aggregate amount of the deferred payments including interest from these four projects for the period from July 1, 2012 to December 31, 2018 was estimated to be approximately US\$311.7 million according to the latest repayment schedules for the projects.

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The deferred payments will either be made in currencies other than US dollars or be transferred on the books of the Chinese financial institutions without actions within the US jurisdiction that could serve as a basis for application of US sanctions regulations to the transfer and hence such transfer would have no impact from the perspective of US sanctions on our Company, the investors of our H Shares, the Stock Exchange, HKSCC and HKSCC Nominees.

The following table shows the four completed projects which were financed by export seller's credit:

<u>Project and brief description</u>	<u>Project Completion Date</u>	<u>Contract Value</u>	<u>As at June 30, 2012</u> <u>Estimated Deferred Payments Including Interest to be received</u>
		<i>(US\$ million)</i>	<i>(US\$ million)</i>
Thermal power plant in Sudan with a state-owned enterprise	December 2010	132.2	72.6
Thermal power plant in Sudan with a state-owned enterprise	April 2011	183.3	116.0
Power transmission and transformation project in Sudan with a state-owned enterprise	March 2010	219.7	112.4
Grain depot in Sudan with the government of Sudan	November 2009	22.9	10.7

Representative Offices in Iran and Sudan

In addition, our Company previously maintained a representative office in each of Tehran, Iran and Khartoum, Sudan to offer local support for our project teams responsible for the engineering contracting projects in Iran and Sudan. Following the Restructuring, we commenced the procedures to close these two representative offices and will not have any project teams or employees working in these offices after Listing.

Restructuring of our Trading Business

In terms of our Trading Business, prior to Listing, we completed the trading contracts with the counterparties in Sudan and Iran and had no other ongoing projects or signed contracts pending to be effective with any counterparties in the Sanctioned Countries.

Following the Restructuring, save for the four projects financed by export seller's credit, we currently do not have any ongoing business with any person or entity of, or conduct any business in, any Sanctioned Countries. Given historically for the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue generated in the Sanctioned

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Countries only accounted for approximately 3.9%, 7.2%, 8.1% and 3.0% of our total revenue, respectively, our Directors believe that the Restructuring will not have any material adverse impact on our Company as a whole in the future.

Impact of US Sanctions Law

Certain of the countries in which we conducted business, including Sudan, Iran, Cuba and Syria, are the target of comprehensive sanctions administered by OFAC and, in the case of Iran, separate sanctions imposed pursuant to the ISA and the Executive Order (among others). We note that some of our past business activities covered by the ISA or the Executive Order could, if pursued by the US government, limit our ability to engage in certain trade transactions in the United States or obtaining certain types of financing from the United States or US companies and financial institutions, although we do not believe this risk to be material. Our activities were generally not related to the development of the Iranian petroleum industry, although we have had limited supply relationships with companies that are involved in that industry as described under “Risk Factors – Risk Relating to our Business and the Industries in which we Operate – We could be adversely affected as a result of our historical operations in certain countries that are subject to economic sanctions or if the US government were to determine that our prior Iran-related business activities are sanctionable under US Iranian sanction laws and regulations.” In addition, our activities are not related to the development of petroleum refining capacity in Iran, the exportation of refined petroleum products to Iran or Iran’s domestic production of petrochemical products, and we do not sell to or in Iran any technology that is useful in the development of nuclear energy, nuclear weapons, weapons of mass destruction or advanced conventional weapons. As noted above, pursuant to the Restructuring, all ongoing and future business in the Sanctioned Countries was terminated prior to Listing. Although this action will minimize the risk of our violating OFAC regulations or engaging in sanctionable activity in the future, it does not fully eliminate the risk of such penalties being imposed on us in relation to past actions. We have no reason to believe such penalties are likely.

We also note that the United States asserts jurisdiction over the re-export of US-origin goods and services by non-US persons, either because those goods or services are subject to “dual-use” export controls or because the recipient or the recipient’s jurisdiction is subject to US sanctions. If we were to violate those restrictions, any such violation could lead to the imposition of civil or criminal sanctions and to the imposition of restrictions barring the export or re-export of US-origin goods and services to our Company and its affiliates.

OFAC

As a non-US corporation, we are generally not subject to sanctions administered by OFAC. In the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenues generated from our business in the Sanctioned Countries in aggregate amounted to approximately RMB744.0 million, RMB1,382.0 million, RMB1,665.2 million and RMB315.6 million, accounting for approximately 3.9%, 7.2%, 8.1% and 3.0%, respectively, of our total revenue for the same periods. We have restructured our business to terminate future activities in these countries, although we will continue to receive certain payments relating to four completed projects financed by export seller’s credit. See “Business – Restructuring of Business in the Sanctioned Countries” for more details. Although the relevant regulations are generally applicable only to US persons and certain other persons subject to US jurisdiction and therefore have a limited effect on us, if any of our transactions is conducted in or through the United States, or otherwise involves US persons, US dollar clearing in the United States, or US-origin goods, US sanctions regulations may be applicable to some or all of such transaction. We believe that our limited activities in the US and our decision to terminate existing business with the Sanctioned Countries

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substantially mitigate any risk to our Company of future violations of US sanctions regulations targeting the Sanctioned Countries. We have various internal control measures on sanctions and export control with a view to ensuring our compliance with the applicable sanctions laws and regulations. See “Business – Internal control on sanctions and export control” for more details. Nevertheless, the restrictions under US sanctions regulations are far-reaching and complex, and we cannot provide absolute assurance that our compliance efforts will be completely effective. If we were to violate those restrictions, any such violation could lead to the imposition of civil or criminal sanctions.

Iran-Iraq Arms Non-Proliferation Act of 1992, the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991, and the Iran Nonproliferation Act of 2000

On July 25, 2002, our predecessor, China National Machinery & Equipment Import & Export Corporation (中國機械設備進出口總公司), and one of our subsidiaries, CMEC Machinery & Electric, were listed in a notice appearing in the Federal Register of the United States as parties determined by the US Department of State (the “**Department of State**”) to have engaged in conduct sanctionable under the Iran-Iraq Arms Non-Proliferation Act of 1992 (the “**1992 Act**”) and the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the “**1991 Act**”). On January 24, 2002, and May 16, 2002, variations of the name of CMEC Machinery & Electric were listed in Federal Register notices as parties determined by the Department of State to have engaged in conduct sanctionable under the Iran Nonproliferation Act of 2000 (the “**2000 Act**”). Other than these Federal Register notices, our Company has not received any official notification of the sanctions or explanation of their basis. However, based on our internal investigation, we have identified that the sanctions may be based on a transaction in 2002 by our subsidiary, CMEC Machinery & Electric, which acted as an agent in exporting to Iran spare parts of enamel glass-lined reactor and insulation materials valued at US\$5,000. The purpose stated by the Iranian buyer, which was an independent third party, was for the production of herbicide. At that time of the transaction, the equipment exported was cleared by the PRC customs authority and was not controlled under PRC law. Furthermore, our PRC legal advisors did not identify any then applicable PRC export control laws that were violated by the export of the equipment. See “– Legal Proceedings and Regulatory Compliance – Legal and compliance matter” for more details.

As advised by our Company’s US legal advisors on US economic sanctions, pursuant to the sanctions imposed under the 1991 Act, the US government will not procure or enter into any contract for the procurement of any goods or services from China National Machinery & Equipment Import & Export Corporation, CMEC Machinery & Electric, or their respective successors (including our Company), and importation into the United States of any products produced by China National Machinery & Equipment Import & Export Corporation, CMEC Machinery & Electric, or their respective successors (including our Company) is prohibited. According to the Federal Register Notice, these sanctions against us under the 1991 Act remain in force until further notice. Under the 1992 Act, the Department of State imposed the following measures upon the listed entities and any successor entities, parents or subsidiaries thereof, for a period of two years, (i) the US government would not procure, or enter into any contract for the procurement of, any goods or services from the listed entities; and (ii) the US government would not issue any license for any export by or to the listed entities. Under the 2000 Act, the Department of State imposed the following measures upon the listed entities and any successor, sub-unit, or subsidiary thereof, for a period of two years, (i) the US government would not procure, or enter into any contract for the procurement of, any goods or services from the listed entities; (ii) the listed entities were barred from receiving any assistance from the US government; (iii) the US government would not sell any item on the United States Munitions List to the listed entities, and all sales of defense articles or defense services under the

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Arms Export Control Act were terminated; and (iv) for a period of two years, no licenses to export goods controlled under the Export Administration Regulations to the listed entities were available. By the terms of the relevant Federal Register notices, these additional sanctions under the 1992 Act and the 2000 Act expired in 2004.

Status of sanctions

Save for the sanctions under the 1991 Act, we are not currently subject to any other US sanctions. Also, no new US sanctions have been imposed on us by any other agency of the US government. Pursuant to the 1991 Act, the above-mentioned sanctions can only be removed when the President of the United States or his designee certifies to the United States Congress that reliable information indicates that the sanctioned person has ceased the sanctionable activity. We can provide no assurances that the sanctions will be removed, and we have no reason to expect that the sanctions will be lifted in the near future. As this matter may involve political and diplomatic considerations between the PRC and the United States, our Directors consider that the prospects for removal of the sanctions will remain uncertain for the foreseeable future.

We further note that the US economic sanctions laws, including the sanctions under the 1991 Act, the 1992 Act, and the 2000 Act, impose no restrictions on the listing or trading of shares on the Stock Exchange solely on the basis of economic activity of the issuer in Iran, where the issuer is not itself designated as or owned by any targets of US sanctions. Rather, in order for US sanctions to apply to such listing or trading, such activity would have to involve facilitation by a person subject to US jurisdiction of the issuer's activities with US-sanctioned parties activity or facilitation by a non-US person of activity sanctionable under US sanctions ("**Proscribed Activity**"). We have covenanted to the Stock Exchange and the Underwriters that we will not apply any of the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to any activity with any US-sanctioned person or in any Sanctioned Country. Under US economic sanctions regulations and practice, for facilitation liability to be applied to an investor who is a US Person in a context in which an issuer does not use the proceeds specifically to finance business with a US-sanctioned party, we believe that the issuer would have to engage in substantial business with such parties, which our Company will not do (see "– Internal Control on Sanctions and Export Control – On-going Monitoring of Sanctions Risk – II. Undertakings with respect to sanctions") for our sanctions-related undertakings, and so, although limited official guidance and precedent are available with respect to this subject, we see no practical risk of an enforcement action against such investors. We also do not believe that US authorities would have any factual or legal basis to find that the Stock Exchange or investors in the Global Offering had knowingly facilitated Proscribed Activity by participating in the Global Offering. Secondary trading in our Company's shares also would not appear to involve any Proscribed Activity by buyers and sellers of our Shares if our Company does not receive any funds in the connection with that share transaction (assuming no person subject to US sanctions had an interest in the secondary trade). For these reasons, and because our Company is not itself designated as or owned by a target of US economic sanctions, we do not believe that US sanctions restrict US Persons from purchasing share in our Company, either directly or, through HKSCC Nominees, preclude HKSCC Nominees or HKSCC from acting as nominee for our Company's H Shares.

See "– Internal Control on Sanctions and Export Control – Internal Compliance Program on Export Control" for more information on the internal control measures relating to export controls we have in place.

Impact of Sanctions Law of the EU and Security Council Resolutions of the United Nations

The EU applies non-comprehensive economic sanctions (restrictive measures) in relation to certain countries including Iran, Sudan and Syria. EU sanctions in relation to those countries comprise targeted sanctions aimed at designated persons and entities and at particular activities. Our Directors believe that, after consulting with external legal counsel: (i) we are a non-EU incorporated entity and therefore EU sanctions do not apply to us with respect to our business interests or dealings outside of the EU (including in the Sanctioned Countries); (ii) in view of (i) above, we did not breach EU sanctions laws in relation to Iran, Sudan or Syria in entering into, performing or continuing to perform, or subsequently terminating the Sanctioned Country Contracts, nor in maintaining or having once maintained offices in Tehran, Iran and Khartoum, Sudan nor in relation to any of our other past activities in the Sanctioned Countries; (iii) we are not a designated target of EU sanctions; (iv) in light of considerations (i) – (iii) and as we will not conduct any business with and will not operate in the Sanctioned Countries, EU investors are not prohibited by EU sanctions in relation to Iran, Sudan or Syria from investing in us or holding our H Shares, whether directly or through HKSCC Nominees; (v) since the Stock Exchange, HKSCC and HKSCC Nominees are not EU-incorporated entities, EU sanctions do not apply to them; and (vi) therefore EU sanctions impose no applicable restrictions on the listing or trading of our H Shares on the Stock Exchange, and HKSCC Nominees would not breach any EU sanctions laws by acting as nominee for Shareholder.

The United Nations Security Council imposes sanctions through Security Council Resolutions, in accordance with which UN Member States apply relevant measures to give effect to the Resolutions (“**UN Sanctions**”). UN Sanctions currently apply in relation to various countries, including Iran, Sudan and Syria. These are non-comprehensive sanctions and include targeted sanctions aimed at designated persons and entities and at particular activities. Our Directors believe that, after consulting with our external legal counsel: (i) none of the Sanctioned Country Contracts or any of our other past activities in the Sanctioned Countries fall within the scope of activity subject to UN Sanctions; (ii) we are not a designated target of UN Sanctions; and (iii) UN Sanctions include no applicable restrictions on investors in relation to investing in or holding our H Shares, whether directly or through HKSCC Nominees; or on the listing or trading of our H Shares on the Stock Exchange, or on HKSCC Nominees acting as nominee for any Shareholder.

Impact of Sanctions Laws of Australia

Australia applies economic sanctions under the *Charter of the United Nations Act 1945* (Cth), the *Autonomous Sanctions Act 2011* (Cth) and associated regulations (collectively, the “**Australian Sanctions Laws**”). The offences created by the Australian Sanctions Laws are mainly in relation to the making of assets or financial services available, directly or indirectly, to a person or entity that is either itself subject to Australian Sanctions Laws or is controlled by a person subject to Australian Sanctions Laws.

Our Directors believe, after consulting with our external legal advisors, that our Company's historical activities in connection with certain persons or entities in the Sanctioned Countries under the Australian Sanctions Laws (including the Sanctioned Country Contracts) and maintaining representative offices in Iran and Sudan are unlikely to have breached the Australian Sanctions Laws. This is because the relevant jurisdictional link cannot be established as both the historical activities and the results flowing from those activities occurred outside of Australia. Following Listing, our Company will continue to receive payments from four completed projects financed by export seller's credit in Sudan. These payments will be made to our Company in the PRC and not in Australia or through our Australian subsidiary. In relation to the receipt of deferred payments under these completed projects, we consider that in receiving these funds our Company will not commit an offence under the Australian Sanctions Laws because there is no relevant jurisdictional link with Australia.

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Furthermore, our Directors believe, after consulting with our external legal advisors, that the Australian Sanctions Laws do not apply to the Global Offering. The primary reason for this is that the necessary jurisdictional link with Australia cannot be established because: (A) our Company is not incorporated in Australia and our Company's business in the Sanctioned Countries under the Australian Sanctions Laws is not conducted from or through Australia (including by involving our subsidiary incorporated in Australia); and (B) the result of any breach of the Australian Sanctions Laws that could be committed cannot, or is unlikely to, occur in Australia.

In addition, our Directors also believe, after consulting with our external legal advisors, that:

- (a) the risk to our investors of breaching the Australian Sanctions Laws in connection with the Global Offering is remote because our Company will not issue the H Shares in the Global Offering for the purposes of funding any transactions that would be prohibited under the Australian Sanctions Laws (if they were to have the relevant jurisdictional link); and
- (b) none of the Stock Exchange, HKSCC or HKSCC Nominees will breach the Australian Sanctions Laws in connection with the Global Offering. This is primarily because the relevant jurisdictional link to Australia cannot be established.

INTERNAL CONTROL ON SANCTIONS AND EXPORT CONTROL

Internal Compliance Program on Export Control

On August 8, 2002, our Company issued the "Notice Relating to Strengthening the Management of Import and Export Business (《有關加強進出口業務管理的通知》)" to strengthen the management of exporting export-sensitive products and services (including our International Engineering Contracting Business and Trading Business), to carry out business in sensitive regions and to establish strict regulations for internal reviewing and approval system with the corresponding penalties for violation of the regulations. In August 2007, MOFCOM promoted the establishment of the internal compliance program on export control ("ICP") by the PRC corporations. With the assistance of the China Arms Control and Disarmament Association and its partner, Center for International Trading & Security of the University of Georgia (which, according to publicly-available information, is a leader in the field of strategic trade control analysis, having conducted assessments of national strategic trade control systems in many countries), since 2008, our Company had begun establishing our ICP. According to our PRC counsel, Jia Yuan Law Offices, our ICP has complied with PRC laws and regulations relating to export control in all material respects. Based on the aforesaid, we believe that our ICP accords with the PRC and US standards and business practices. The ICP is currently included in the corporate risk control system. Specifically, our ICP includes the following seven features:

(1) *Issue of policy statement*

Since the establishment of the ICP, each legal representative of our Company signed a statement of the export compliance regulations policy when he or she first assumes office. Our Company publishes internally and externally the statement for the purpose of proclaiming our support to and compliance with the PRC Government's law and regulations in relation to export control as well as the PRC Government's commitment in relation to the export control internationally and the respective resolutions of the United Nations Security Council which the PRC signed and recognized.

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(2) *Signing of the “Letter of the Responsibility in Export Control” (《出口管制責任書》)*

To ensure the implementation of the ICP in an organized and highly efficient manner, our president and the general manager of each business division, as well as the general managers of subsidiaries, each signed the Letter of the Responsibility in Export Control at the beginning of each year. Being responsible for the export control in each business unit, the general manager of each business division and each subsidiary undertakes to comply with the national laws and our Company’s regulatory system in relation to export control and to stringently control export control risk. Each subsidiary of our Company is required to integrate management systems related to internal compliance into its management system.

(3) *Establishment of the Export Control Organizational Structure*

To ensure the implementation of the ICP in an organized manner within our Company, we established a top-to-bottom, three-level export control organizational structure, which consists of an export control committee and export control office formed at our Company’s headquarter level, together with export controller in each business division and subsidiary.

Our Company has established an export control committee, which has the highest authority in our export control to conduct a compliance audit of our Company’s export operations. The president of our Company (ZHANG Chun) is the chairman of the committee and the vice president (LI Chaoyang) is the vice chairman. The committee consists of heads of principal functional departments, including the export control office, legal and compliance department, general department of business management, general department of finance, financial settlement department, corporate office and human resources department as well as other business divisions and representatives from our subsidiaries.

Our Company also established an independent export control office, formalizing the internal export control system and regulations as a part of our Company’s risk management system. The export control office is responsible for project approval, risk management for compliance with export control regulations and day-to-day communication with domestic and foreign government departments relating to export control. The export control office consisted of three members who all received education in laws and legal trainings. Moreover, two of the members received trainings at the Center for International Trade & Security at the University of Georgia on international export control policy in 2009.

Each of the business divisions and subsidiaries has an internal export controller (who is not a member of the export control office) for assisting with the initial audit of the business (including our International Engineering Contracting Business and Trading Business) of respective division and communication with the export control office, etc.

(4) *Formation of the Export Control Management System*

Our Company has formed various internal management system and implementation procedures for export control. Simultaneously, we have compiled the “Handbook of CMEC’s Export Control” (《CMEC出口管制管理手冊》), which is divided into three sections: (1) internal documents of export control, (2) PRC laws and regulations relating to export control and (3) information relating to international export control. The first section of the handbook sets out our Company’s internal ICP regulations and policies which are to provide a systematic guidance and framework to various business divisions and subsidiaries (including those that operate our International Engineering Contracting Business and Trading Business) regarding their internal export control, while the second and third sections set out an overview of the PRC and other international export control

efforts. For updated details regarding the PRC and international export control efforts and export control lists (for example, for items or counterparties subject to export control), we keep abreast with and follow them closely through publicly accessible information administered and updated by the relevant authorities or organizations to ensure that our internal export control efforts and criteria are on par with the international ones when conducting our export control reviews and project approval process. The management system and audit system have also been formed and are in operation.

(5) Employee training of export control

To enhance our employees' understanding of our internal compliance effort and to strengthen their understanding of the application of the export control system, our Company provides annual export control training to our employees.

(6) Record keeping and maintenance of information

Business-related information generated from the operation of our ICP, including but not limited to the "Review Form of Control on Export Orders" (《訂單出口管制審核表》), professional advice kept by the export control office and conclusions drawn by the export control committee shall be kept and maintained.

(7) Emergency procedures

For a project (including projects for our International Engineering Contracting Business and Trading Business) which has been approved and is ongoing, if the products, counterparties or other related factors of the project are included in the export control restriction list or sanction list or subject to the risk of other export control, or any event relating to a specific country or region occurs which would cause political or foreign affairs tension, subject to our Company's internal risk estimation and assessment, the export control committee has the right to request the business divisions and subsidiaries to terminate the project immediately so as to ensure that the risk will be eliminated in the initial stage. The export control committee can decipher emergency measures to be executed by the business divisions and subsidiaries in accordance with any change in the international landscape and emergencies in relation to export control, to strengthen management and to address any emergencies.

In setting up and operating the ICP, our Company adheres to strict control principles and incorporates the principles in the employee trainings, heightening the employees' awareness of export control and self-discipline in avoiding sensitive projects of any nature in the daily operation. We considered related factors of international organizations and key countries relating to export control while complying with the PRC laws and regulations in our operation in order to ensure a smooth, lawful, and safe operation. Based on the foregoing, our Directors believe that sufficient export control policies and system are in place to monitor compliance with applicable laws and regulations on export control.

On-going Monitoring of Sanctions Risk

With a view to continuously monitoring and evaluating our Company's exposure to sanctions risk, protecting our Shareholders' interests and maintaining our listing status on the Main Board of the Stock Exchange, we will implement or continue to implement measures, safeguards and undertakings which can be categorized into four main groups, namely (1) existing internal control platform and training, (2) undertakings with respect to sanctions, (3) risk management on exposure to sanctions risk, and (4) continuing disclosure.

I. Existing internal control platform and training

By virtue of the existing ICP, we already have an established and comprehensive platform for overseeing and regulating our business involving exporting products and services to overseas countries with a view to reducing sanctions risk. The export control committee will continue to conduct a compliance audit of our Company's export operations including our ICP.

The export control office consists of three members who have all received education in laws and legal trainings. On a day-to-day basis, it will continue to be involved in reviewing potential projects or business opportunities at the project origination stage before any substantive work commences, and approving all projects in ensuring that no exporting services or products to the Sanctioned Countries or involving individuals and entities targeted by the sanctions regimes will take place. Where appropriate or required, members of the export control office can seek external legal advice from their existing external legal advisers.

Should the export control office identify any actual or potential sanctions risk in the future (which may not lead to immediate actionable sanctions but may raise concern or cause scrutiny from risk management perspective), it will report such risk to our export control committee which will then report to our Operation and Risk Management Committee. See “– III. Risk management on exposure to sanctions risk” below.

The export control office will organize regular trainings for our senior management and the relevant personnel of the export control office on the sanctions and export control laws of the PRC and on US sanctions and export control laws, including those administered by OFAC, with the help of external legal advisors, relevant experts or non-governmental organizations who have expertise on the relevant topics.

Our ICP platform is integral to our monitoring system with respect of our business in the Sanctioned Countries as shown below.

II. Undertakings with respect to sanctions

Our Company and our Directors have covenanted to the Stock Exchange and the Underwriters that we will not, directly or indirectly, (1) use any of our proceeds from the Global Offering, or make such proceeds available to any individual or entity, to fund any activities in or business of or with (i) any individual or entity or (ii) in any country or territory, that at the time of such funding, is the target of any sanctions administered by OFAC, or (2) engage in any activity that is sanctionable under the ISA (as amended by CISADA) or the Executive Order for so long as the ISA and Executive Order remain in effect (the “**Sanctions Undertakings**”). We also restructured our business to terminate existing and future activities in the Sanctioned Countries. See “Business – Restructuring of Business in the Sanctioned Countries” for details.

We are aware that if we breach any undertaking we gave to the Stock Exchange and the Underwriters in relation to the Global Offering, our H Shares may be delisted from the Stock Exchange.

Upon Listing, we will deploy further measures to ensure our compliance with the Sanctions Undertakings, which include:

- (i) **Proceeds Accounts** – We will open and maintain separate designated banks accounts for the proceeds from the Listing in the PRC and Hong Kong as appropriate (the “**Proceeds Accounts**”). The Proceeds Accounts will be segregated from other normal bank accounts of our Company and designated for the sole use of deposit and deployment of the proceeds from Listing. With such segregation and designation, the Proceeds Accounts will record all transactions and activities within these bank accounts and trace the flow of funds in and out of the Proceeds Accounts.

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- (ii) **Accounting measures** – We will ensure that separate books and records will be adopted to monitor the activities, including deposits and disbursements, of the Proceeds Accounts.
- (iii) **Internal control policies** – We will formulate a new set of internal control policies particularly in respect of the Proceeds Accounts to regulate various aspects of operating the Proceeds Accounts, such as the designated use, record keeping (e.g. the underlying documents for projects or transactions towards which the proceeds will be applied), regular review (monthly, quarterly, half yearly and annually), responsible personnel to be appointed (being the senior officer of each of the finance department and the export control office), accountability and reporting line (responsible personnel reporting to the Operation and Risk Management Committee which in turn report to the Board of Directors) and other necessary operational procedures.
- (iv) **ICP** – With our Company’s existing ICP platform, the export control office will continue to be responsible for project approval from an export control perspective to ensure the nature and location of the activities or business, as well as the identity of the counterparties involved, would not violate the Sanctions Undertakings.
- (v) **External advice** – Our Company will ensure that both the export control office and the Operation and Risk Management Committee will have access to independent professional advice, including legal advice, necessary for the compliance with the Sanctions Undertakings.

III. Risk management on exposure to sanctions risk

Our Operation and Risk Management Committee will monitor on an ongoing basis our Company’s exposure to sanctions risk. One of its functions is to monitor the use of the net proceeds of the Global Offering under the Sanctions Undertakings. After Listing, if the export control office identifies any actual or potential sanctions risk in our existing or potential business, our Operation and Risk Management Committee will seek advice from appropriate legal counsel and gauge and formulate the risk management measures to be taken. If our Operation and Risk Management Committee as advised by the external legal counsel considers that the existing or potential business will expose our Company, our Shareholders as a whole, the Stock Exchange, HKSCC or HKSCC Nominees to any sanctions risk, our Operation and Risk Management Committee will either mandate the relevant business department to terminate the existing business forthwith, or veto the potential business or business opportunity.

IV. Continuing Disclosure

After Listing, we will make continuing disclosure in the website of both the Stock Exchange and our Company pursuant to the Listing Rules regarding our business as well as our monitoring system from sanctions risk perspective which will include:

- (i) Publishing an announcement should we come to a view that any of our business, or any violation or potential violation of any applicable sanctions law by our Group, could reasonably be expected to have a material adverse effect on our Group’s business as a whole, operations, financial positions, earnings or future prospects; and
- (ii) Disclosing in our interim and annual reports our efforts on monitoring our exposure to sanctions risk, including our compliance with the Sanctions Undertakings.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

OVERVIEW

We are a leading international engineering contractor by revenue with particular expertise in the power sector. We consider power, transportation and telecommunications sectors to be the Core Sectors of our International Engineering Contracting Business, while all other sectors which we may also engage in for our International Engineering Contracting Business but do not fall within the Core Sectors are considered to be the non-Core Sectors. Apart from the International Engineering Contracting Business, our Group is also principally engaged in the Trading Business. Our Company was established as a part of our Reorganization by converting China National Machinery & Equipment Import & Export Corporation, our predecessor, into a joint stock company with limited liability under the PRC law on January 18, 2011 with SINOMACH and one of its wholly-owned subsidiaries, China United, as our Promoters. Prior to the Global Offering, SINOMACH and China United respectively held 99.00% and 1.00% of our issued share capital. Immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), SINOMACH will ultimately control approximately 80.34% of our issued capital and will continue to be our Controlling Shareholder.

The principal business of SINOMACH Group is manufacturing and R&D of machinery and equipment, engineering contracting, as well as trading and services. Its business covers a broad range of industries such as agriculture, transportation, energy, construction, light industries, automobile, mining, metallurgy, aviation, etc.

DELINEATION OF BUSINESS AND COMPETITION WITH SINOMACH GROUP

SINOMACH is a PRC state-owned company under the administration of SASAC and was established with the approval of the State Economic and Trade Commission of the State Council (國務院國家經濟貿易委員會) to assume ownership and management of a part of the state-owned enterprises portfolio, including our Company, previously managed by the MMBI in December 1996. Our Company was transferred in its entirety at nil consideration to SINOMACH at the time of the establishment of SINOMACH. Subsequent to the said assumption of ownership by SINOMACH, the MMBI was dissolved in 1998.

SINOMACH is a holding company, the business of which is carried out by its subsidiaries. Some of the SINOMACH Subsidiaries are engaged in business which competes or is likely to compete, either directly or indirectly, with the business carried out by our Group. Please see “Delineation of Business and Competition with SINOMACH Group – Excluded International Engineering Contracting Business in Potential Competition with Business Carried Out by Our Group” and “Delineation of Business and Competition with SINOMACH Group – Excluded Trading Business in Potential Competition with Business Carried Out by Our Group” for details. The subsidiaries of SINOMACH have independent operations and management in excess of 20 years, and have established their unique business focuses, expertises and strengths in their respective fields and industries.

In order to safeguard the interests of our Company and Shareholders in light of certain business carried out by some of the SINOMACH Subsidiaries, which compete or are likely to compete, either directly or indirectly, with our business, we have entered into the Non-competition Agreement with SINOMACH. Please see “Non-competition Agreement” for details.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

Excluded International Engineering Contracting Business in Potential Competition with Business Carried out by Our Group

The audited/unaudited revenues of the Excluded International Engineering Contracting Business and the audited revenue of our International Engineering Contracting Business, respectively, and each expressed as a percentage of the total revenue of the Excluded International Engineering Contracting Business and our International Engineering Contracting Business during the Track Record Period are set out below:

Revenue	Year ended December 31,						Six months ended June 30,	
	2009		2010		2011		2012	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million)	%
Excluded International Engineering Contracting Business	6,586.9	32.6	8,558.4	41.6	10,628.1	46.9	5,601.0	46.6
International Engineering Contracting Business	13,646.7	67.4	12,019.6	58.4	12,055.2	53.1	6,426.1	53.4
Total	20,233.6	100.0	20,578.0	100.0	22,683.3	100.0	12,027.1	100.0

Source: Audited (for our Company and CAMC Engineering) or unaudited (for SINOMACH Subsidiaries engaged in the Excluded International Engineering Contracting Business other than CAMC Engineering) financial statements and management accounts of respective companies

Upon Listing, equity interests in the following SINOMACH Subsidiaries which conduct the Excluded International Engineering Contracting Business, namely CAMC Engineering, CNEEC, CHMC, CGME, CMCEC and CACS, will continue to be retained by SINOMACH.

For reasons of non-inclusion specific to each of the SINOMACH Subsidiaries, please refer to the following overview.

Listed SINOMACH Subsidiary

CAMC Engineering

Scope and size of business

CAMC Engineering, an A-share company being listed on the SZSE in the PRC since June 19, 2006, was owned as to approximately 68.09% by SINOMACH according to CAMC Engineering's third quarterly report for 2012 as published on the SZSE. Since CAMC Engineering is a listed company, all the information pertaining to CAMC Engineering is derived from publicly available information published by CAMC Engineering on the website of the SZSE. The business of CAMC Engineering includes undertaking engineering contracting projects in relation to water supply and sewage, agricultural engineering, civil engineering, plant building, power and transportation. According to the annual reports and interim report of CAMC Engineering during the Track Record Period, its revenue of engineering contracting business was approximately RMB3,128.4 million, RMB4,666.8 million, RMB5,271.3 million and RMB2,888.0 million, respectively. To a smaller extent, CAMC Engineering conducted some trading business. According to the annual reports of

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CAMC Engineering in 2010 and 2011, its revenue of trading business was approximately RMB377.4 million and RMB1,892.5 million, respectively. According to the interim report of CAMC Engineering in 2012, its revenue of trading business was approximately RMB1,479.9 million for the six months ended June 30, 2012. There was no publicly available information regarding CAMC Engineering's revenue of trading business in 2009. As at December 31, 2011 and June 30, 2012, the audited net assets of CAMC Engineering were approximately RMB2,518.0 million and RMB2,600.9 million, respectively. For the year ended December 31, 2011 and the six months ended June 30, 2012, the audited revenue of CAMC Engineering was approximately RMB7,175.2 million and RMB4,372.1 million, respectively.

Management

None of the members of the board of directors, board of supervisors and senior management of CAMC Engineering holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

Reasons for Non-inclusion of CAMC Engineering in Our Group

Our Directors are of the view that CAMC Engineering should not be included into our Group for the following reasons:

1. Listing Status of CAMC Engineering

It is not practically feasible to include the business of CAMC Engineering into our Group as CAMC Engineering is a listed company and its operational and investment decisions are decided by its board of directors and management team, which are independent of its controlling shareholder, SINOMACH, as well as different from ours. As a listed company, CAMC Engineering not only needs to comply with the listing requirements and rules of the SZSE, but also must act in the best interest of its own shareholders concerning the affairs of the company at all times and shall seek independent shareholders' approval, if required. SINOMACH is not able to control all business decisions of CAMC Engineering simply by virtue of its shareholding in the same, including on whether or not to compete with us or include it in our Group. Furthermore, the inclusion of CAMC Engineering will be subject to the PRC regulatory approvals, shareholders' approval, as well as independent opinion from a qualified financial advisor, the processes of which are difficult to predict as to when and whether the approvals and the opinion will be obtained.

2. Different business focus

Our International Engineering Contracting Business focuses on the Core Sectors and we mainly conduct our engineering contracting projects overseas, in particular Africa and Asia. Although CAMC Engineering is also engaged in the power and transportation sectors, according to SINOMACH, these two sectors are not CAMC Engineering's business focuses. As advised by SINOMACH, the focus of CAMC Engineering is on the agriculture and irrigation sectors which fall outside of our Core Sectors. Also, CAMC Engineering undertakes engineering contracting projects in other sectors other than the power and transportation sector, such as factory construction and water supply.

Although there is no public information available relating to CAMC Engineering which discloses a complete list of the projects undertaken by it, nor is there any segment reporting (including those of the power and transportation segments) of CAMC Engineering's engineering contracting business, based on the available annual reports and interim report of CAMC Engineering during the Track Record Period, the differences in business focus between CAMC

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Engineering and our Company can be demonstrated by the comparisons below on the new projects with a contract value over US\$100 million each during the Track Record Period between CAMC Engineering and our Company.

The following table sets forth the 18 newly signed projects, each of which with a contract value over US\$100 million, entered into by CAMC Engineering during the Track Record Period according to the annual reports and interim report of CAMC Engineering.

<u>General description of project⁽¹⁾</u>	<u>Contract value</u>	<u>Location</u>
	<i>(US\$ million)</i>	
Six months ended June 30, 2012		
Sugar refinery project	168.0	Bolivia
Year ended December 31, 2011		
International airport project ⁽¹⁾	1,057.0	Chad
Ore dressing plant project.....	270.0	Iran
School projects	240.0	Angola
Highway construction project ⁽¹⁾	180.0	Zambia
Irrigation project	176.0	Sri Lanka
Irrigation area rehabilitation project.....	140.0	Sudan
Year ended December 31, 2010		
Thermal power station project ⁽¹⁾	1,045.0	Venezuela
Pulp mill project.....	769.0	Belarus
Industrial park project (Agricultural by-products processing equipment manufacturing plant).....	484.0	Venezuela
Water pipelines project	294.0	Iran
Sugar refinery project	185.0	Tanzania
Integrated agricultural development project.....	196.0	Venezuela
Integrated agricultural development project.....	179.0	Venezuela
Integrated agricultural project	167.0	Venezuela
Airport terminal project ⁽¹⁾	105.0	Sierra Leone
Irrigation system repair and expansion project	101.0	Venezuela
Year ended December 31, 2009		
Irrigation system repair and expansion project	464.3	Venezuela

Note:

- (1) Except for the international airport project in Chad, the highway construction project in Zambia, the thermal power station project in Venezuela and the airport terminal project in Sierra Leone which fell into our Core Sectors, the rest of the above listed projects fell into our non-Core Sectors.

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The following table sets forth the 19 newly effective projects, each of which with a contract value over US\$100 million, entered into by us during the Track Record Period.

General description of project ⁽¹⁾	Contract value <i>(US\$ million)</i>	Location
Six months ended June 30, 2012		
Power project	455.5	Venezuela
Power project	1,463.8	Venezuela
Telecommunications project on 2.5G network expansion and 3G network in Bangladesh	211.0	Bangladesh
Year ended December 31, 2011		
Thermal power station project	378.0	Belarus
Thermal power station project	368.0	Belarus
Thermal power station project	244.8	Turkey
Thermal power station project	222.9	Turkey
Transportation project on highway construction	135.0	The Republic of Cote d'Ivoire
Power transmission and transformation project	130.4	Chad
Hydropower station project	123.8	Ecuador
Year ended December 31, 2010		
Power stations project	891.0	Sri Lanka
Power project	695.0	Turkey
Power station project	471.7	Nigeria
Water plant project ⁽¹⁾	205.5	The Republic of Congo
Electricity grid renovation project	177.1	Angola
Power station expansion project	124.4	Equatorial Guinea
Ship building projects	122.8	Singapore
Year ended December 31, 2009		
Power station project	680.3	Sudan
Cement plant project ⁽¹⁾	133.9	Yemen

Note:

- (1) Except for the water plant project in the Republic of Congo and the cement plant project in Yemen which fell into our non-Core Sectors, the rest of the above listed projects fell into our Core Sectors.

As shown from the comparisons above on the new projects with a contract value over US\$100 million each during the Track Record Period between CAMC Engineering and our Company, our focus remains in the Core Sectors while CAMC Engineering's focus is mainly in sectors that can be categorized into our Company's non-Core Sectors. During the Track Record Period, we undertook and completed only one water supply project in Africa in 2010, which fell into the core sector of CAMC Engineering. This water supply project had a contract value of US\$9.6 million, which only accounted for approximately 0.5% of our Company's revenue of the International Engineering Contracting Business in 2010.

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During the Track Record Period, in terms of projects in our Core Sectors, CAMC Engineering undertook one highway construction project in Zambia in 2011, two airport projects in Africa in 2010 and 2011, one in Chad and the other one in Sierra Leone, and a power project in Venezuela in 2010, respectively. Whilst these projects fell into the Core Sectors of our Company, during the Track Record Period, our Company did not undertake any project in the transportation sector in Zambia. In respect of the two airport projects, we did not undertake any airport projects in Chad or Sierra Leone during the Track Record Period. As such, the business of CAMC Engineering and that of our Company were delineated by these two companies operating in different geographical locations during the Track Record Period.

The different business focuses of CAMC Engineering and our Company can be further demonstrated by the revenue of CAMC Engineering generated from its top five customers.

A large portion of the revenue of CAMC Engineering's principal business (i.e., engineering contracting and trading businesses) was derived from its top five customers alone for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012. In 2009, the revenue of CAMC Engineering's principal business derived from its top five customers constituted 75.1% of its total revenue from its principal business, of which 36.4% was derived from a single customer located in South America. In 2010 and 2011, the revenue of its principal business from its top five customers constituted 79.3% and 82.8% of its total revenue from its principal business, respectively (of which 46.4% and 66.6% were derived from the customer(s) located in South America, respectively). For the six months ended June 30, 2012, the revenue of its principal business from its top five customers constituted 56.9% of its total revenue from its principal business (of which 38.3% was derived from the customers located in South America). Conversely, revenue from our top five customers constituted a much lower percentage of our total revenue (being 42.3%, 34.0%, 36.1% and 25.5%, respectively, during the Track Record Period), and only one of our top five customers during the Track Record Period was located in South America, which accounted for 9.3% of our total revenue for the six months ended June 30, 2012. It is apparent that while CAMC Engineering is more reliant on a smaller group of customers, our Company has a broader and different base of customers since none of the top five customers of CAMC Engineering (which generated a substantial portion of CAMC Engineering's revenue) for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 are customers of our Company. Based on the annual reports and interim report of CAMC Engineering during the Track Record Period, there was no overlapping between our top five customers and the top five customers of CAMC Engineering.

Given (i) the different focus in sectors as shown by the new contracts of CAMC Engineering and our Company during the Track Record Period, (ii) the different geographical location and different level of reliance of the top five customers and the different base of customers derived from the revenue percentages of the top five customers, (iii) the fact that our Company and CAMC Engineering have been independently operating for years and our Company has been operating at a significant level of profit even after the listing of CAMC Engineering in 2006, and (iv) the listing status of CAMC Engineering and that of our Company upon Listing, the competition between CAMC Engineering and our Company is not an extreme case.

3. *Different geographical focus*

In addition to the different focuses of business, the respective geographical focus of CAMC Engineering and our Company is significantly different.

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The table below sets out the revenue from both the engineering contracting business and the trading business of CAMC Engineering for the year ended December 31, 2011 and the six months ended June 30, 2012 by regions, based on the 2011 annual report and 2012 interim report of CAMC Engineering:

	Year ended December 31, 2011		Six months ended June 30, 2012	
	(RMB million)	(%)	(RMB million)	(%)
Africa	437.6	6.1	232.9	5.4
South America	3,460.3	48.3	2,027.9	46.4
Asia (excluding the PRC)	1,249.5	17.4	546.2	12.5
The PRC	1,990.2	27.8	1,327.0	30.4
Europe	26.2	0.4	58.0	1.3
North America	–	–	175.9	4.0
Total	7,163.8	100.0	4,367.9	100.0

The table below sets out the revenue from our International Engineering Contracting Business and Trading Business for the year ended December 31, 2011 and the six months ended June 30, 2012 by regions:

	Year ended December 31, 2011		Six months ended June 30, 2012	
	(RMB million)	(%)	(RMB million)	(%)
Africa	7,058.9	35.8	2,993.0	30.1
South America	313.9	1.6	994.6	10.0
Asia (excluding the PRC)	5,317.3	26.9	2,342.5	23.5
The PRC	3,328.4	16.9	871.9	8.8
Europe	2,233.5	11.3	2,060.6	20.7
North America	1,310.2	6.6	645.7	6.5
Others ⁽¹⁾	181.6	0.9	40.0	0.4
Total	19,743.8	100.0	9,948.3	100.0

Note:

(1) Mainly includes Cuba, Australia, New Zealand and Trinidad and Tobago

As illustrated in the tables above, CAMC Engineering's revenue generated from the engineering contracting business from our Company's key regions (i.e., Africa, Asia (excluding the PRC) and Europe) was significantly low. While a majority of CAMC Engineering's revenue was generated in South America (in particular, Venezuela has historically been its principal market according to CAMC Engineering's 2011 annual report), our revenue generated from South America for the year ended December 31, 2011 and the six months ended June 30, 2012 was significantly low, which was only approximately RMB313.9 million and RMB994.6 million, respectively, and which accounted for 1.6% and 10.0%, respectively, of the aggregate revenue of our International

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Engineering Contracting Business and Trading Business for the same periods. In addition, our revenue from Africa for the year ended December 31, 2011 and the six months ended June 30, 2012 was approximately RMB7,058.9 million and RMB2,993.0 million, respectively, which accounted for 35.8% and 30.1%, respectively, of the aggregate revenue of our International Engineering Contracting Business and Trading Business for the same periods, where CAMC Engineering's revenue from Africa was approximately RMB437.6 million and RMB232.9 million, respectively, which accounted for 6.1% and 5.3%, respectively, of its revenue for the same periods. As such, the geographical focus of CAMC Engineering and our Company is significantly different.

4. Different scale and profit margin

The revenue of our International Engineering Contracting Business was approximately RMB13,646.7 million, RMB12,019.6 million, RMB12,055.2 million and RMB6,426.1 million for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. In comparison, the revenue of CAMC Engineering derived from its engineering contracting business was approximately RMB3,128.4 million, RMB4,666.8 million, RMB5,271.3 million and RMB2,888.0 million, respectively, for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012.

Set out below are the revenue and gross profit margins of CAMC Engineering and our Company by business segments for the year ended December 31, 2011 and the six months ended June 30, 2012:

Company	Business segment	Year ended December 31, 2011		Six months ended June 30, 2012	
		Revenue (RMB million)	Gross profit margin (%)	Revenue (RMB million)	Gross profit margin (%)
CAMC Engineering	Engineering contracting and complete sets of plant and equipment business	5,271.3	14.2	2,888.0	16.2
	Trading	1,892.6	8.4	1,479.9	3.1
Our Company	International Engineering Contracting Business	12,055.2	24.2	6,426.1	22.4
	Trading Business	7,688.6	5.7	3,522.2	7.6

As shown in the above table, no matter by separate business segment or in aggregate amount, the scale of the engineering contracting business of CAMC Engineering is significantly smaller than that of our Group.

In addition, our Company had a much higher gross profit margin from the International Engineering Contracting Business than CAMC Engineering from its engineering contracting and complete sets of plant and equipment business in 2011, which were 24.2% and 14.2%, respectively, as well as for the six months ended June 30, 2012, which were 22.4% and 16.2%, respectively.

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5. *Differences in trading business*

CAMC Engineering's principal trading business was trading of commodities such as coal, steel and ore in 2011. Trading of commodities was the focus of CAMC Engineering's development in trading business in 2010. There was no relevant disclosure in the 2009 annual report of CAMC Engineering nor publicly available information regarding CAMC Engineering's principal trading business for the six months ended June 30, 2012. On the other hand, our Company's Trading Business mainly consists of the international export trading of sets of power generators, complete set of plants and equipment, construction materials, medical instruments and devices and manufacturing equipment. In view of the above, there is a substantial difference between the types of principal trading products of CAMC Engineering and our Company.

In addition, the scale of the trading business of CAMC Engineering is significantly smaller than that of our Group. The revenue from the trading business of CAMC Engineering in 2011 was approximately RMB1,892.5 million whereas the revenue from our Trading Business in 2011 was approximately RMB7,688.6 million. The revenue from the trading business of CAMC Engineering for the six months ended June 30, 2012 was approximately RMB1,479.9 million whereas the revenue from our Trading Business for the six months ended June 30, 2012 was approximately RMB3,522.2 million.

In view of the different types of principal trading products and different scale of the trading business, the trading business of CAMC Engineering and the Trading Business of our Company are significantly different.

Furthermore, the international trading market is a sizeable market with a large number of participants. In the case of our Group, we have over 29,000 customers and suppliers in aggregate. As such, any competition between our Group and CAMC Engineering in the international trading market will be of no difference to other competitions encountered by our Group with other independent third parties.

Since our Company will continue to focus on the Core Sectors while the non-Core Sectors accounted for a significantly smaller portion of our business in terms of revenue and profit during the Track Record Period, the business scope, business focus, geographical focus, scale and profit margin of business between CAMC Engineering and our Company are also different. For these reasons, the business of CAMC Engineering was not injected into our Group.

Non-listed SINOMACH Subsidiaries under SINOMACH's Intention of Injection

CNEEC

Scope and size of business

CNEEC is a PRC state-owned enterprise, as well as a wholly-owned subsidiary of SINOMACH. The business of CNEEC focuses on the engineering contracting of domestic and international power projects. As at June 30, 2012, the unaudited net assets of CNEEC were approximately RMB955.9 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CNEEC was approximately RMB3,754.3 million and RMB2,433.6 million, respectively.

Different geographical focus

During the Track Record Period, CNEEC primarily operated in Malaysia, Indonesia, Thailand, Myanmar, the Philippines, Vietnam and Uzbekistan, which in aggregate accounted for 52.0%, 34.9%, 45.0% and 43.7%, respectively, of its total revenue of the Excluded Business. The following table sets forth the amount and percentage of the total revenue of the Excluded Business operated by CNEEC by countries for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012:

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	Years ended December 31,						Six months ended June 30,	
	2009		2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	<i>(RMB million)</i>	(<i>%</i>)	<i>(RMB million)</i>	(<i>%</i>)	<i>(RMB million)</i>	(<i>%</i>)	<i>(RMB million)</i>	(<i>%</i>)
South-east Asia								
Indonesia	1,173.7	41.7	690.7	23.0	956.4	25.5	552.4	26.1
Thailand	196.0	7.0	–	–	33.6	0.9	–	–
Malaysia	23.9	0.8	227.3	7.6	157.1	4.2	63.5	3.0
Vietnam	36.7	1.3	16.5	0.5	–	–	1.3	0.1
The Philippines	–	–	61.8	2.1	495.8	13.2	452.2	21.4
Laos	14.6	0.5	–	–	–	–	124.1	5.9
Myanmar	14.3	0.5	21.0	0.7	9.5	0.3	–	–
Sub-total	<u>1,459.2</u>	<u>51.8</u>	<u>1,017.3</u>	<u>33.8</u>	<u>1,652.4</u>	<u>44.0</u>	<u>1,193.5</u>	<u>56.5</u>
Asia								
Pakistan	–	–	32.6	1.1	–	–	6.1	0.3
Azerbaijan	382.7	13.6	357.7	11.9	208.3	5.5	165.0	7.8
Bangladesh	12.3	0.4	8.5	0.3	–	–	–	–
Iran	79.6	2.8	16.1	0.5	41.2	1.1	–	–
PRC	607.4	21.6	802.9	26.7	851.3	22.7	82.5	3.9
Uzbekistan	19.4	0.7	29.7	1.0	32.4	0.9	–	–
Sub-total	<u>1,101.4</u>	<u>39.2</u>	<u>1,247.5</u>	<u>41.5</u>	<u>1,133.2</u>	<u>30.2</u>	<u>253.6</u>	<u>12.0</u>
Africa								
Botswana	169.8	6.0	568.8	18.9	867.5	23.1	473.2	22.4
The Republic of Congo	18.7	0.7	–	–	–	–	–	–
Sudan	63.4	2.3	57.1	1.9	67.7	1.8	–	–
Zambia	–	–	–	–	–	–	15.3	0.7
Sub-total	<u>251.9</u>	<u>9.0</u>	<u>625.9</u>	<u>20.8</u>	<u>935.2</u>	<u>24.9</u>	<u>488.5</u>	<u>23.1</u>
Others								
Papua New Guinea...	–	–	45.4	1.5	–	–	–	–
Cuba	–	–	70.6	2.3	33.5	0.9	–	–
Russia	–	–	–	–	–	–	178.0	8.4
Sub-total	<u>–</u>	<u>–</u>	<u>116.0</u>	<u>3.9</u>	<u>33.5</u>	<u>0.9</u>	<u>178.0</u>	<u>8.4</u>
Total	<u>2,812.4</u>	<u>100.0</u>	<u>3,006.7</u>	<u>100.0</u>	<u>3,754.3</u>	<u>100.0</u>	<u>2,113.6</u>	<u>100.0</u>

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Conversely, during the Track Record Period, although our Company undertook power projects in South-east Asia including Vietnam, Malaysia, Indonesia, Thailand and Myanmar, our Company did not undertake any projects in Central Asia. During the Track Record Period, our revenue from the power projects in the respective countries in Asia (including the PRC) and Central Asia only accounted for 23.1%, 11.9%, 21.7% and 12.0%, respectively, of the total revenue of our International Engineering Contracting Business. The following table sets forth our Company's revenue of the International Engineering Contracting Business generated from the respective countries and the percentage of our total revenue during the Track Record Period:

	Years ended December 31,						Six months ended June 30,	
	2009		2010		2011		2012	
	Revenue (RMB million)	Percentage of total revenue (%)	Revenue (RMB million)	Percentage of total revenue (%)	Revenue (RMB million)	Percentage of total revenue (%)	Revenue (RMB million)	Percentage of total revenue (%)
South-east Asia								
Indonesia	63.4	0.3	32.2	0.2	12.3	0.1	2.0	0.0
Thailand	-	-	-	-	-	-	41.4	0.4
Malaysia	599.4	3.2	100.5	0.5	24.8	0.1	2.7	0.0
Vietnam	146.4	0.8	34.2	0.2	22.7	0.1	-	-
The Philippines	-	-	-	-	-	-	-	-
Laos	141.1	0.7	105.2	0.6	114.7	0.6	-	-
Myanmar	-	-	-	-	629.5	3.1	145.8	1.5
Sub-total	950.3	5.0	272.1	1.5	804.0	4.0	191.9	1.9
Asia								
Pakistan	296.4	1.5	99.3	0.5	68.7	0.3	26.4	0.3
Bangladesh	-	-	35.4	0.2	24.1	0.1	342.4	3.3
Azerbaijan	-	-	-	-	-	-	-	-
Iran	-	-	0.2	0.0	93.0	0.5	52.9	0.5
PRC	39.2	0.2	47.9	0.3	62.9	0.3	13.1	0.1
Uzbekistan	-	-	-	-	-	-	-	-
Sub-total	335.6	1.7	182.8	1.0	248.7	1.2	434.8	4.2
Africa								
Botswana	-	-	-	-	-	-	-	-
The Republic of Congo	2,030.8	10.5	1,931.1	10.1	1,566.6	7.6	379.9	3.7
Sudan	478.9	2.5	1,189.2	6.2	1,110.3	5.4	98.5	0.9
Zambia	-	-	-	-	27.1	0.1	13.0	0.1
Sub-total	2,509.7	13.0	3,120.3	16.3	2,704.0	13.1	491.4	4.7
Others ⁽¹⁾	15,492.1	80.3	15,501.8	81.2	16,761.1	81.7	9,236.0	89.2
Total	<u>19,287.7</u>	<u>100.0</u>	<u>19,077.0</u>	<u>100.0</u>	<u>20,517.8</u>	<u>100.0</u>	<u>10,354.1</u>	<u>100.0</u>

Note:

- (1) Includes Afghanistan, Maldives, Sri Lanka, Singapore, Yemen, Iraq, India, Angola, Equatorial Guinea, Gabon, Cameroon, Nigeria, Senegal, Belarus, Germany, Turkey, Italy, Trinidad and Tobago, Ecuador, Côte d'Ivoire, Venezuela and Chad from which CNEEC did not generate any revenue of the Excluded Business during the Track Record Period.

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Management

None of the members of the board of directors, board of supervisors and senior management of CNEEC holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

CMCEC

Scope and size of business

CMCEC is a company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. According to SINOMACH, CMCEC's business focuses on civil engineering projects and property development. As at June 30, 2012, the unaudited net assets of CMCEC were approximately RMB110.0 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CMCEC was approximately RMB1,457.0 million and RMB828.0 million, respectively.

Management

None of the members of the board of directors, board of supervisors and senior management of CMCEC holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

CACS

Scope and size of business

CACS is a PRC state-owned enterprise in the PRC, as well as a wholly-owned subsidiary of SINOMACH. According to SINOMACH's yearbook of 2010 and publicly available information, although the engineering contracting business of CACS also covers the power and transportation sectors, the business of CACS principally focuses on traditional automation technologies and supply of electrical cables and wires and other related equipment. As at June 30, 2012, the unaudited net assets of CACS were approximately RMB220.0 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CACS was approximately RMB1,526.0 million and RMB582.0 million, respectively.

Management

CACS does not have a board of directors or a board of supervisors and none of the senior management of CACS holds any concurrent position in our senior management, and vice versa.

Reasons for Non-inclusion of CNEEC, CMCEC and CACS in Our Group prior to Listing

CNEEC, CMCEC and CACS are currently undergoing a reform relating to resolving the benefit plan of retired employees that require approvals from relevant PRC governmental authorities. As such, it is impracticable to include CNEEC, CMCEC and CACS in our Group until the reform is completed and approvals are obtained from the relevant PRC governmental authorities. Hence, the reform and the transfer of the relevant equity to our Company cannot be completed in line with the timetable of the Listing. For these reasons, the business of CNEEC, CMCEC and CACS were not injected into our Group prior to Listing.

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SINOMACH's Intention of Injection

SINOMACH intends to transfer all its equity interest in CNEEC, CMCEC and CACS to us within three years after Listing. SINOMACH will commence the relevant work for the proposed transfer after Listing, including, without limitation, the procedure to obtain relevant governmental approvals. According to the Listing Rules, SINOMACH as our Controlling Shareholder is a connected person of our Company. If the transaction were to proceed, it would constitute a connected transaction after the Listing and according to the applicable ratios of the Listing Rules, it would also constitute a notifiable transaction of our Company. Our Company will make announcements pursuant to the Listing Rules in relation to the injection after Listing. Therefore, it would only proceed after compliance with the relevant requirements under the Listing Rules, including the announcement and independent shareholders' approval requirements. See “– Non-competition Agreement” for more details regarding SINOMACH's future intention to transfer its equity interest in CNEEC, CMCEC and CACS to us.

As regards the potential competition between CNEEC, CMCEC and CACS and our Company in the Core Sectors during the transition period before the intended injection and after Listing, it will be managed through the mechanism as stipulated in the Non-competition Agreement.

In the event that SINOMACH is not able to transfer its respective equity interest in CNEEC, CMCEC and CACS to our Company within three years after Listing because the requisite approvals have not been granted by the relevant PRC governmental authorities, the potential competition between CNEEC, CMCEC and CACS and our Company will be managed through the mechanisms as stipulated in the Non-competition Agreement, which include, among others, the right of first refusal in respect of International Engineering Contracting Business. Please see “– Non-competition Agreement” for more details.

Other Non-listed SINOMACH Subsidiaries

CHMC

Scope and size of business

CHMC is a company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. According to SINOMACH's yearbook of 2010 and the publicly available information, although the engineering contracting business of CHMC also covers power and transportation sectors, the business of CHMC principally focuses on metallurgy, contracting of mining projects, manufacturing of complete sets of plants and equipment, manufacturing and sale of large-scale casting and forging products. In addition, a majority of CHMC's projects are located in the PRC and as advised by SINOMACH, it mainly acts as a subcontractor rather than a general contractor. As at June 30, 2012, the unaudited net assets of CHMC were approximately RMB616.9 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CHMC was approximately RMB1,414.5 million and RMB353.4 million, respectively.

Management

None of the members of the board of directors, board of supervisors and senior management of CHMC holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

CGME

Scope and size of business

CGME is a company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. According to SINOMACH's yearbook of 2010, the business of CGME focuses on waste water treatment and infrastructure projects in the PRC. CGME operates extensively in the PRC. As at June 30, 2012, the unaudited net assets of CGME were approximately RMB66.0 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CGME was approximately RMB620.6 million and RMB326.0 million, respectively. As advised by SINOMACH, CGME acts as a subcontractor in most cases and has a focus within the PRC instead of the international markets. For the year ended December 31, 2011, and the six months ended June 30, 2012, the revenue generated by CGME in the PRC was approximately RMB558.5 million and RMB326.0 million, respectively, which represented approximately 90.0% and 100%, respectively, of its total revenue.

Management

None of the members of the board of directors, board of supervisors and senior management of CGME holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

Reasons for Non-inclusion of CHMC and CGME in Our Group

CHMC conducts business in areas such as metallurgy and contracting of mining projects which fall into the non-Core Sectors of our Group. These sectors are not the major target sectors of our Group. Furthermore, CHMC conducts its engineering contracting business primarily in the PRC. In addition, the size of the business conducted by CHMC is in significantly smaller scale given its unaudited revenue for the year ended December 31, 2011 and for the six months ended June 30, 2012 was only 11.7% and 5.5%, respectively, of the revenue of our International Engineering Contracting Business and it mainly acts as a subcontractor. Owing to the strategic planning of SINOMACH, which includes retaining CHMC's brand name for other business development which does not relate to the Core Sectors of our Group, SINOMACH currently has no intention of transferring CHMC to us.

CGME principally acts as a subcontractor in the PRC, whereas our Company principally acts as a general contractor in overseas countries (with revenue from our International Engineering Contracting Business outside the PRC accounting for 99.7%, 99.6%, 99.5% and 99.8%, respectively, of the aggregate revenue of our International Engineering Contracting Business during the Track Record Period). The size of the business conducted by CGME is in significantly smaller scale given its unaudited revenue for the six months ended June 30, 2012 was only 5.1% of our Company's revenue from the International Engineering Contracting Business for the same period. Since the business focus of CGME falls outside of our Core Sectors, CGME was not injected into our Group. In light of the clear delineation of business model and geographical focus, SINOMACH currently has no intention of transferring CGME to us.

In light of the above, our Directors are of the view that the Excluded International Engineering Contracting Business conducted by CHMC and CGME does not fit squarely into our International Engineering Contracting Business due to their significantly smaller scale and their business model of principally acting as subcontractors. Our Group aims to become the largest international engineering contractor in the Core Sectors in the PRC. If we include the Excluded International Engineering Contracting Business conducted by CHMC and CGME, it may diverge our Group's focus from achieving such aim and lead to inefficient allocation of our valuable resources.

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Due to the reasons for non-inclusion of the non-listed SINOMACH Subsidiaries under SINOMACH's intention of injection (i.e. CNEEC, CMCEC and CACS), and the reasons for non-inclusion of the other non-listed SINOMACH Subsidiaries (i.e. CHMC and CGME), our Directors are of the view that the inclusion of the Excluded International Engineering Contracting Business prior to the completion of the Global Offering is not in the best interest of our Company and the Shareholders.

Excluded International Engineering Contracting Business in Future Potential Competition with Business in the non-Core Sectors Carried Out by Our Group

Our revenue generated from the International Engineering Contracting Business in the non-Core Sectors during the Track Record Period only accounted for 7.0%, 10.3%, 11.4% and 8.3% respectively of the aggregate revenue of our International Engineering Contracting Business. During the Track Record Period, international engineering contracting projects that our Company undertook in the non-Core Sectors include, among others, water supply and treatment, building and construction, manufacturing and processing plants and mining and resources exploitation. The following table sets forth the international engineering contracting projects completed by us in the non-Core Sectors during the Track Record Period:

<u>For the year/ period ended</u>	<u>Number of projects completed</u>	<u>Sector</u>	<u>Aggregate contract value</u> <i>(US\$ million)</i>
December 31, 2009	3	General construction, industrial and manufacturing	123.2
December 31, 2010	3	Water supply, mining, industrial and manufacturing (metallurgy)	83.1
December 31, 2011	2	Petrochemical, industrial and manufacturing	53.3
June 30, 2012	Nil	–	Nil

In terms of the significance of the business generated from our non-Core Sectors, since the Core Sectors are the primary focus of our International Engineering Contracting Business, where business opportunities arise in the non-Core Sectors, our management would decide whether to take on such business opportunities based on commercial, strategic and operational considerations. However, as shown by the historical figures during the Track Record Period, business from the non-Core Sectors is relatively insignificant as compared to the business generated from our Core Sectors. As such, any overlapping of the engineering contracting business in the non-Core Sectors between us and the SINOMACH Subsidiaries that conduct the Excluded International Engineering Contracting Business would not be regarded as competition that would affect our capability of carrying on our International Engineering Contracting Business independently of, and at arms length from, the Excluded International Engineering Contracting Business. Based on our Company's historical financial data and the mechanism in place regarding any future competition in the non-Core Sectors (see "– Non-competition Agreement – Undertakings in relation to the non-Core Sectors of the International Engineering Contracting Business" for more details), any potential competition in the non-Core Sectors between our Company and the SINOMACH Subsidiaries would be insignificant and manageable.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

Excluded Trading Business in Potential Competition with Business Carried Out by Our Group

The Excluded Trading Business involves trading of a broad range of products domestically and internationally, including various industrial products and consumer goods (such as antennas, cookers, motorcycle, etc). SINOMACH itself does not conduct or actively pursue any trading business activities nor does it have any trading operational capabilities. The Excluded Trading Business is primarily carried out by SUMEC, a subsidiary of SINOMACH, which is located in Nanjing, Jiangsu province. SUMEC's contribution to the total revenue from Excluded Trading Business for the year ended December 31, 2011 and the six months ended June 30, 2012 were approximately RMB38,788.5 million and RMB22,360.4 million, respectively, which represented approximately 86.7% and 88.9%, respectively, of the Excluded Trading Business.

The unaudited revenue of the Excluded Trading Business and the audited revenue of our Trading Business, respectively, and each expressed as a percentage of the total revenue of the Excluded Trading Business (excluding that of CAMC Engineering due to the lack of publicly available information) and our Trading Business during the Track Record Period are set out below:

Revenue	Year ended December 31,						Six months ended June 30,	
	2009		2010		2011		2012	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million)	%
Excluded Trading Business	19,282.0	79.5	33,179.1	84.1	44,740.7	85.3	25,164.0	87.7
Trading Business	4,979.1	20.5	6,295.5	15.9	7,688.6	14.7	3,522.2	12.3
Total	24,261.1	100.0	39,474.6	100.0	52,429.3	100.0	28,686.2	100.0

Source: Audited (for our Company) or unaudited (for SINOMACH Subsidiaries engages in the Excluded Trading Business) financial statements and management accounts of respective companies

SUMEC

Scope and size of business

SUMEC is a PRC state-owned enterprise held by SINOMACH as to 80% of the equity interest. According to SINOMACH's yearbook of 2010, one of the principal business of SUMEC is manufacturing and international export trading of machinery and electrical products, including electric power tools and gardening tools, as well as textiles and clothing products. SUMEC is also engaged in the international import trading of commodities, including minerals and wool, and other materials such as steel products and chemicals pursuant to its customers' orders and specifications and the subsequent domestic trading of such products in the PRC. As at June 30, 2012, the unaudited net assets of SUMEC were approximately RMB2,216.4 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of SUMEC was approximately RMB38,788.5 million and RMB22,360.4 million, respectively.

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Reasons for non-inclusion of Excluded Trading Business in Our Group

Our Trading Business is different from the Excluded Trading Business in the following aspects:

1. Different business nature

Our Company is not engaged in any manufacturing; an integral and important aspect of the Trading Business is sourcing. Our Company sources suitable PRC/overseas suppliers which can provide the requisite product with such quality and quantity demanded by our overseas/PRC customers. A supplier may obtain the sourcing services of our Company for locating potential customers who may need the product produced by such supplier. Alternatively, a customer may obtain the sourcing services of our Company for locating potential suppliers who may produce the product that such customer is in need of. Hence, the business model and nature of our Company's Trading Business is to bridge the gap between the demand and supply of virtually all suppliers and customers over the world whenever and wherever there is such sourcing need. In contrast, the Excluded Trading Business of the SINOMACH Subsidiaries (especially SUMEC) has manufacturing capability, which is different in nature compared to the Trading Business and to a large extent more capital-intensive than the Trading Business. In particular, SUMEC possesses manufacturing capabilities and many products traded by SUMEC are designed, processed and/or manufactured by its own production lines and facilities. On the other hand, in line with our asset-light operating model, we do not own any manufacturing enterprises, nor do we manufacture any products.

2. Different product types

Our Company's Trading Business mainly consists of the international export trading of sets of power generators, complete set of plants and equipment, construction materials, medical instruments and devices and manufacturing equipment. On the other hand, SUMEC focuses on ship-building, R&D in respect of electric tools, gardening tools, solar photovoltaic modules, textiles and clothing, power machinery, etc.

Regarding business sectors, our Group principally engages in the trading of electronic products, power equipment, steel products, telecommunications equipment, and construction materials in its Trading Business while SUMEC principally engages in the trading of machinery, various types of ships, electric tools, gardening tools, textiles and clothing.

3. Different supply and sales channels

We have our own supply channels and offices for our Trading Business, which is separated from and independent of those controlled or occupied by the SINOMACH Group for the Excluded Trading Business.

In addition, there was no overlapping between our top ten customers in our Trading Business and the top ten customers of SUMEC during the Track Record Period.

Save for commodities, steel products, etc., which were imported by SUMEC from overseas and then traded domestically, textiles, power tools, ships, etc., were either manufactured or built by SUMEC and then international export trading overseas during the Track Record Period. However, all of the products traded by our Company were sourced from other companies, as our Company does not have any manufacturing capabilities.

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4. Different mode of trading and business focus

During the Track Record Period, SUMEC focused on domestic trade while our Company focused on international export trading. For the six months ended June 30, 2012, our Group's revenue from international import trading, international export trading and domestic trade accounted for 6.9%, 74.0% and 19.1%, respectively, of the revenue of our Trading Business, while SUMEC's revenue from international import trading, international export trading and domestic trade accounted for 22.9%, 14.4% and 62.8%, respectively, of its revenue of its trading business. In 2011, our Group's revenue from international import trading, international export trading and domestic trade accounted for 6.2%, 61.6% and 32.2%, respectively, of the revenue of our Trading Business, while SUMEC's revenue from international import trading, international export trading and domestic trade accounted for 18.9%, 22.3% and 58.8%, respectively, of its revenue of its trading business. In 2010, our Group's revenue from international import trading, international export trading and domestic trade accounted for 8.9%, 69.2% and 21.9%, respectively, of the revenue of its Trading Business, while SUMEC's revenue from international import trading, international export trading and domestic trade accounted for 14.4%, 30.2% and 55.4%, respectively, of its total revenue of its trading business. In 2009, our Group's revenue from international import trading, international export trading and domestic trade accounted for 14.2%, 75.5% and 10.3%, respectively, of the revenue of its Trading Business, while SUMEC's revenue from international import trading, international export trading and domestic trade accounted for 19.0%, 48.3% and 32.7%, respectively, of its revenue of its trading business.

5. Different management team and operational staff

We have our own independent board of Directors, management team and operational staff for our Trading Business, which is completely separated from those of SINOMACH Group for the Excluded Trading Business.

SUMEC does not have a board of directors or a board of supervisors and none of the senior management of SUMEC holds any concurrent position in our senior management, and vice versa.

Finally, our Directors are of the view that the international trading market is a sizeable market with a large number of participants. In the case of our Group, we have over 29,000 customers and suppliers in aggregate. As such, any competition between our Group and SINOMACH Group in the international trading market will be of no difference to other competitions encountered by our Group with other independent third parties. Apart from the regulatory hurdles to be overcome, our Directors are of the view that it is not in our interest to include the Excluded Trading Business into our Group.

As discussed above, our Trading Business is different from the trading business of SUMEC in various aspects. In addition, any competition between our Company and SUMEC in the trading business will be of no difference to other competitions encountered by us with other independent third parties. However, in order to minimize any potential competition between the trading business of SUMEC and our Company, we have entered into the Non-competition Agreement with SINOMACH. See “– Non-competition Agreement – Undertakings in relation to the Trading Business” for details.

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NON-COMPETITION AGREEMENT

Undertakings in relation to the Core Sectors of the International Engineering Contracting Business

For the purpose of the listing of the Shares on the Stock Exchange, SINOMACH has entered into the Non-competition Agreement with our Company, pursuant to which SINOMACH has undertaken that, during the period for which the Non-competition Agreement is in force, it shall not, and shall procure its subsidiaries which are engaged in the Excluded International Engineering Contracting Business (excluding CAMC Engineering) not to, compete with our Group in respect of the Core Sectors conducted by our Group. Please see “– Listed SINOMACH Subsidiary – CAMC Engineering – Reasons for Non-inclusion of CAMC Engineering in Our Group” for the reasons of non-inclusion of CAMC Engineering in the Non-competition Agreement. As such, for the purpose of this section headed “Non-competition Agreement”, the definition of SINOMACH Subsidiaries should exclude CAMC Engineering unless otherwise specified.

The principal terms of the Non-competition Agreement are as follows:

- (a) SINOMACH intends to transfer its equity interest in CNEEC, CMCEC and CACS, which will be evaluated by independent valuers, to our Company in the following three years after the Listing (“the **Transfer**”). The Transfer will be completed within three years after the Listing. Upon completion of the Listing, SINOMACH will take steps to commence the work in respect of the Transfer, which includes but not limited to completing the corporate reform (where applicable), evaluating the assets and obtaining the relevant approvals from the relevant PRC authorities. During the transition period, which is the period between the completion of Listing and before the completion of the Transfer, any potential competition between CNEEC, CMCEC and CACS and our Company in the Core Sectors will be resolved by the Committee (as defined below) in accordance with the right of first refusal mechanism. Please see “Non-competition Agreement – Right of First Refusal in respect of any International Engineering Contracting Business Opportunity” for details;
- (b) SINOMACH undertakes that, so long as SINOMACH remains as our Controlling Shareholder, CHMC will not compete directly or indirectly with the business of our Company in the Core Sectors. CHMC can only track or undertake such a business opportunity when we give up the right of first refusal in writing.

If CHMC breaches the above SINOMACH’s undertaking by participating in projects in the Core Sectors and its annual revenue or gross profit generated from the Core Sectors, based on the latest audited financial accounts of CHMC provided by SINOMACH to us on a yearly basis, exceeds, 10% of its annual revenue or gross profit, or 10% of our Company’s annual revenue or gross profit in the Core Sectors, based on the latest audited financial accounts of our Company, our Company will have an option to acquire CHMC’s business and assets which overlap with our Company’s International Engineering Contracting Business in the Core Sectors, provided that it is made in compliance with the relevant PRC laws and the Listing Rules and/or other regulatory requirements applicable to our Company, as well as a right of claiming reasonable damages against SINOMACH. SINOMACH also grants the right of first refusal to our Company in respect of the business of CHMC which overlapped with our Company’s International Engineering Contracting Business in the Core Sectors in the event that SINOMACH wishes to assign (including but not limited to transfer, reorganize or dispose of) its interest in CHMC.

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Our Company will make announcements pursuant to the Listing Rules should we decide to exercise the above-mentioned option or right after Listing;

- (c) Save for the circumstances below, SINOMACH Group will not be involved in the international engineering contracting projects in our Core Sectors:
- (i) SINOMACH will not be involved in the international engineering contracting projects in the Core Sectors in which our Company participates by any means, including by way of tender negotiation (議標), tender invitation (邀標) and bid invitation (招標). SINOMACH can only participate in the tendering for an international engineering contracting project in the Core Sectors in its own name when we cannot meet the tendering qualifications or voluntarily give up our right. In the event that SINOMACH bids for the project and wins the tendering, then SINOMACH will consider in priority our Company as the lead general contractor of the project and will allow CNEEC, CACS, CHMC and CMCEC to undertake the project only if we give up such rights in writing. For the avoidance of doubt, our Company has no obligation or responsibility under any circumstances to notify or report to SINOMACH or any SINOMACH Subsidiaries (including CAMC Engineering) on our bidding processes; and
 - (ii) In the case of the SINOMACH Subsidiaries engaged in the Excluded International Engineering Contracting Business other than CNEEC, CACS, CHMC and CMCEC (including CGME), so long as SINOMACH remains as our Controlling Shareholder, SINOMACH will procure that each of these SINOMACH Subsidiaries will not be involved in international engineering contracting projects in the Core Sectors in which our Company participates. For competition between CNEEC, CACS, CHMC and CMCEC and us in respect of the International Engineering Contracting Business in the Core Sectors, please see “Right of First Refusal in respect of any International Engineering Contracting Business Opportunity” for details.

SINOMACH further undertakes to use its best endeavor to provide us with, on a half yearly basis, details of all newly signed contracts and business transactions entered into, and other related information on the newly obtained businesses, by the SINOMACH Subsidiaries engaged in the Excluded International Engineering Contracting Business, which will then be reviewed by the Committee (as defined below) in accordance with the Non-competition Agreement.

Furthermore, our Company will establish a special committee (the “**Committee**”) which shall consist of all our independent non-executive Directors, one representative of our Company and one representative of SINOMACH. The Committee will coordinate and establish supervision measures to monitor competition which may occur between our Group and SINOMACH Group, to implement the arrangements under the Non-competition Agreement when any competitions occur in respect of our International Engineering Contracting Business and to ensure that any competition is conducted fairly, openly and transparently; and

- (d) During tendering or bidding processes, if the Committee is of the view that undertaking of certain projects will create an intra-sector competition between our Group and SINOMACH Group, SINOMACH will offer to our Company a right of first refusal in respect of such international engineering contracting projects.

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Right of First Refusal in respect of any International Engineering Contracting Business Opportunity

To eliminate competition between SINOMACH, CNEEC, CACS, CHMC and CMCEC and us in respect of International Engineering Contracting Business, the Non-competition Agreement also stipulates that:

- (i) during the bidding (投標) and tendering (招標) process for international engineering contracting projects, where our Company is invited for a bidding or has participated in a bidding and where any of SINOMACH, CNEEC, CHMC, CACS and CMCEC is qualified and wishes to participate in the bidding or is invited for bidding, such a company must submit relevant documents to the Committee for consideration, and our Company will conduct a qualification review by our independent external international engineering contracting expert(s). If our Company is qualified, the Committee will then decide whether to exercise its rights of first refusal to bid for the project. In such circumstances, any SINOMACH's representative who has interests in the relevant projects will abstain from voting. Once the majority of the Committee members decides that there is in existence an intra-sector competition between our Group and SINOMACH Group, our Company shall have the right of first refusal to bid for the international engineering contracting projects in question. SINOMACH or CNEEC, CHMC, CACS or CMCEC (as the case may be) will use its best endeavor to assist our Company in obtaining such business opportunity. If (i) the majority of the Committee members decides that any of SINOMACH, CNEEC, CHMC, CACS and CMCEC may participate in the bidding and (ii) there is no objection from any of our independent non-executive Directors, then such a company may participate in the bidding for that project;
- (ii) in addition, during the period for which the Non-competition Agreement is in force, in the event that our Company is not aware of, and any of SINOMACH, CNEEC, CHMC, CACS and CMCEC is aware of, any opportunities in an international engineering contracting project in the Core Sectors or the bidding has commenced or it is invited for the bidding, such a company must notify our Company in writing immediately. Our Company will then conduct a qualification review within a reasonable period of time by our independent external international engineering contracting expert(s). If our Company is qualified and the majority of the Committee members decide that it is in the overall interests of our Company and the Shareholders to participate in the bidding for the project, then our Company shall have the right of first refusal to be involved in the business opportunity or participate in the bidding for the project. Any SINOMACH's representative who has interests in the relevant projects will abstain from voting. Simultaneously, any of SINOMACH, CNEEC, CHMC, CACS and CMCEC which is tracking, or has participated in, or is invited for, the bidding must immediately give up its participation in or tracking of the bidding; and
- (iii) during the period for which the Non-competition Agreement is in force, should the Committee resolve there be an intra-sector competition between our Group and SINOMACH Group, our Company shall have the right of first refusal to participate in the international engineering contracting projects in the Core Sectors. Any SINOMACH's representative who has interests in the relevant projects will abstain from voting. If (i) the majority of the Committee members takes the view that any of SINOMACH, CNEEC, CHMC, CACS and CMCEC may participate in the bidding and (ii) there is no objection from any of our independent non-executive Directors, then such a company may participate in the bidding for that project.

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Reasons for non-inclusion of CGME under the right of first refusal mechanism

As discussed in the “– Other Non-listed SINOMACH Subsidiaries – Reasons for Non-inclusion of CHMC and CGME in Our Group”, according to SINOMACH’s yearbook of 2010, the business of CGME focuses on waste water treatment and infrastructure projects in the PRC. In addition, CGME principally acts as a subcontractor in the PRC, whereas our Company principally acts as a general contractor in overseas countries. As such, the core business of CGME falls outside of our Core Sectors, and there exists clear delineation of business by geographical focus (i.e., the PRC for CGME and overseas countries for our Company). Furthermore, the unaudited revenue of CGME for the six months ended June 30, 2012 was only 5.1% of our Company revenue from the International Engineering Contracting Business for the same period. In view of the above, any potential competition between CGME and our Company will not constitute a material effect on our business. Therefore, the right of first refusal mechanism under the Non-competition Agreement (which applies to SINOMACH, CNEEC, CHMC, CACS and CMCEC) is not applicable to CGME.

However, pursuant to the Non-competition Agreement, so long as SINOMACH remains as our Controlling Shareholder, CGME will not be involved in international engineering contracting projects in the Core Sectors in which our Company participates. Please see “– Undertakings in relation to the Core Sectors of the International Engineering Contracting Business” for details.

In relation to the Committee, the quorum for every meeting of the Committee shall be five, of which at least one member shall be the representative from our Company, one member shall be the representative from SINOMACH and three members shall be independent non-executive Directors. Our Company will be represented by Ms. LI Taifang at the Committee. Please see “Directors, Supervisors, Senior Management and Employees – Directors” for her biography. SINOMACH will be represented by Mr. WANG Bo (王博) at the Committee, who currently serves as general manager of the investment department of SINOMACH. Mr Wang graduated from Northern Jiaotong University, the predecessor of Beijing Jiaotong University majoring in technical economics in July 1990 and completed his postgraduate studies at the Peking University majoring in business administration in June 2004. Mr. WANG served at the representative office of China Civil Engineering Construction Corporation (中國土木工程集團有限公司) (“CCECC”) in Israel, as vice director of the corporate planning department, vice general manager and general manager of the corporate management department of CCECC from November 1998 to February 2005. Mr. WANG also served as vice general manager of CAMC Engineering from February 2005 to August 2011. The chairman of the Committee will be Mr. Fang Yongzhong. The representative from SINOMACH shall abstain from voting in the event of conflict of interest.

The Committee will meet quarterly and on an ad hoc basis where necessary.

All resolutions considered by the Committee shall only be approved by the affirmative vote of a majority of the Committee members attending the meeting of the Committee in person. If the meeting of the Committee fails to be convened for the reason that a quorum cannot be met, resolutions may be adopted in the form of a written resolution signed by a majority of the Committee members, provided that a copy of such written resolution shall have been circulated to each of the Committee members prior to signing. If a deadlock arises when a resolution is under consideration by the Committee, the chairman of the Committee shall have a casting vote in respect of the deadlock.

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Undertakings in relation to the non-Core Sectors of the International Engineering Contracting Business

SINOMACH further undertakes that if the following circumstances arise in respect of the International Engineering Contracting Business for three consecutive years:

- (i) The total revenue of our International Engineering Contracting Business from the non-Core Sectors exceeds 25% of the total revenue of its International Engineering Contracting Business; and
- (ii) The revenue generated from a business sector that falls within the non-Core Sectors exceeds 10% of the total revenue from our International Engineering Contracting Business,

our Company and SINOMACH will both have the right to request our Company, SINOMACH and the Committee (which has been established to deal with any competition which may arise in the Core Sectors) to negotiate in good faith with a view to formulating a new mechanism to control any competition that may occur in the non-Core Sectors, which may include but not limited to the following measures:

- (i) our Company has a right of first refusal in respect of business arising from a singular business sector in the non-Core Sectors;
- (ii) SINOMACH Group and SINOMACH Subsidiaries relinquish the right of pursuing all prospective project opportunities in a singular business sector in the non-Core Sectors;
- (iii) our Company relinquishes its right of pursuing all prospective project opportunities in a singular business sector in the non-Core Sectors; and/or
- (iv) other measures to resolve any competition issue between our Company and SINOMACH in the non-Core Sectors.

Furthermore, in such circumstances, any representative from SINOMACH in the Committee shall abstain from voting in relation to the matter.

Undertakings in relation to the Trading Business

In order to minimize any potential competition between the trading business of SUMEC and our Company, pursuant to the Non-competition Agreement:

- (i) SINOMACH undertakes that, upon the Listing, it shall procure SUMEC not to enter into transactions with any of our top ten customers in our Trading Business;
- (ii) our Company undertakes that, upon the Listing, it shall not enter into transactions with any of the top ten customers of SUMEC in its trading business; and
- (iii) in order to implement the above undertakings, both SINOMACH and our Company undertake that, upon the Listing, they will provide the respective list of their top ten customers to each other on a half yearly basis; and the parties will convene a meeting, attended by the representatives from the relevant business division of SUMEC and our Company, the representatives from the relevant corporate management department of

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SINOMACH and the respective senior management of SINOMACH, SUMEC and our Company, within one month upon receipt of the list of the top ten customers from the other party to resolve any existing competition issues in accordance with (i) and (ii) above.

Other undertakings

Under the Non-competition Agreement, SINOMACH has further undertaken to and covenanted with our Company that:

- it shall allow, and shall procure that the relevant associates (excluding us) to allow our independent non-executive Directors to review and examine whether SINOMACH is in compliance with the Non-competition Agreement;
- it shall provide all information necessary for the review and examination by our independent non-executive Directors pertaining to the enforcement of the Non-competition Agreement; and
- it shall provide our Company with a confirmation annually in respect of its compliance with the terms of the Non-competition Agreement for disclosure in our annual report.

Our Company has agreed under the Non-competition Agreement to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Non-competition Agreement either through its annual report or by way of public announcement.

The Non-competition Agreement shall take effect from the Listing Date and shall continue to be effective and be terminated upon the earliest of:

- on the day when SINOMACH and its associates, taken together, holding less than 30% of the issued share capital of our Company;
- on the day when our Shares no longer being listed on the Stock Exchange or another recognized stock exchange (other than any trade suspension of our Company for any reasons); or
- on the day when SINOMACH beneficially holding or being interested in the entire issued share capital of our Company.

Finally, our Directors are of the view that the above-mentioned mechanisms are adequate to prevent competition, considering:

- our Company's Core Sectors contribute to 93.0%, 89.7%, 88.6% and 91.7% of our revenue from the International Engineering Contracting Business during the Track Record Period; and
- our Company will continue to focus our business on the Core Sectors and from our Company's perspective, the competition from the non-Core Sectors is not expected to be significant in the future.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

NON-COMPETITION UNDERTAKING LETTER TO THE CSRC

In order to completely resolve the competition issue and to safeguard investors' interests and to consolidate international engineering contracting business carried out by SINOMACH Group, SINOMACH has given the following undertakings to the CSRC:

SINOMACH undertakes that it will ensure to prevent competitions from occurring between CMEC and other subsidiaries of SINOMACH including CAMC Engineering by way of delineation of their respective business segments and devising a pertinent decision-making mechanism.

This undertaking shall continue to be effective until SINOMACH ceases to be our Controlling Shareholder, or the dissolution, of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on our business independently of SINOMACH Group after the Global Offering.

Management Independence

There is no overlapping of our Board of Directors and that of the SINOMACH Group, nor is there any overlapping of our senior management and that of SINOMACH. Our Board currently consists of three executive Directors, two non-executive Directors, and four independent non-executive Directors. Our Directors were all elected at the Shareholders' meetings for a term of three years, which is renewable upon re-election and re-appointment.

Our Directors have confirmed that they do not have any interests in any business which directly or indirectly competes or is likely to compete with our business as of the Latest Practicable Date.

We believe that our Directors and our senior management are able to perform their roles in our Company independently and our Group is capable of managing our business independently of SINOMACH Group after the Global Offering for the following reasons:

- the decision-making mechanism of our Board set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflict of interest, such as consideration of resolution in relation to transactions with SINOMACH Group, our relevant Director(s) who are connected with SINOMACH Group will abstain from attending in regard to such resolution, abstain from voting and not be counted in the quorum. Further, when considering connected transactions and competition matters, the independent non-executive Directors will review the relevant transactions and matters;
- the day-to-day operation of our Group is managed by our senior management who do not hold any position in SINOMACH Group and are all full time employees of our Group;
- none of our Directors or senior management has any shareholding interest in SINOMACH Group; and
- we have appointed four independent non-executive Directors, comprising over 40% of our Board, to provide a balance between the number of interested and independent Directors with a view to promoting the interests of our Company and the Shareholders as a whole.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

Based on the above, our Directors are of the view that our Company operates independently of SINOMACH Group from management perspective.

Operational Independence

Our Company does not rely on SINOMACH in bidding and tendering of engineering contracting projects. We have our own “CMEC” trademark and we have independent access to sources of suppliers for the operation of our business, as well as independent access to our customers. We have also established a set of internal control procedures to facilitate the effective operation of our business. Currently, we engage in our business independently, with the independent right to make operational decision and implement such decisions.

The amount of transactions between our Company and SINOMACH Group is not excessive and SINOMACH Group has been a reliable and stable supplier of subcontracting services and a supplier of goods at reasonable price. Although it was possible to seek either independent providers of subcontracting services, or suppliers of goods, our Directors considered that it would not be commercially sensible to discontinue using such services and goods provided by SINOMACH Group. In addition, our Directors are of the view that these transactions have been entered into in the ordinary and usual course of business of our Group, that such transactions have been negotiated on arms' length basis on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole. Please see “Connected transactions – Non-exempt continuing connected transactions” for more details.

Our Group has our own registered trademarks for which we are able to utilize in marketing our products and services. There is no shared intellectual property between our Group and SINOMACH Group. Our Group owns our tangible assets and intangible assets, as well as registered trademarks, licenses, good-will, brands, know-how and other intangible assets independently of SINOMACH Group, which enable our Group to operate in our business independently of SINOMACH Group.

We have our own organizational structure with independent departments, each with specific areas of responsibilities. In addition to a set of comprehensive internal control procedures to facilitate the effective operation of our business, we have protective measures to avoid conflicts or potential conflicts of interest and to safeguard the interests of the Shareholders as a whole. We have also adopted protective measures to ensure the enforceability of the Non-competition Agreement between our Company and SINOMACH. Please see “– Non-competition Agreement” for details of enforceability.

Based on the above, the Directors are of the view that our Company operates independently of SINOMACH Group from the business operation perspective.

Financial Independence

Our Group has an independent financial system and makes financial decisions independently according to our Group's own business needs and our own finance department is responsible for discharging the treasury, accounting, reporting, group credit and internal control functions of our Group independent of SINOMACH Group. During the Track Record Period and as at the Latest Practicable Date, no loans were advanced to us by SINOMACH Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

Our Directors confirm that during the Track Record Period, our Controlling Shareholder or its associates had not provided any guarantees to our Group except for the guarantee provided by our Controlling Shareholder for a bank loan amounting to approximately RMB252.1 million as at June 30, 2012, which was released and the loan amount was guaranteed by our Company's own assets as collateral as at the Latest Practicable Date. In addition, our Directors confirm that as at the Latest Practicable Date, there was no outstanding loan owed by our Group to our Controlling Shareholder. As such, our Directors believe that our Group is capable of obtaining sufficient financing from external sources for our business operations, if necessary, upon market terms and conditions without reliance on SINOMACH and its associates after the Listing.

In relation to accounts receivables, apart from the amount due from CMIC, our Group has received all the receivables from SINOMACH before Listing. For details, please refer to the section headed "History and Reorganization – Our History and Development".

In conclusion, our Directors are of the view that we are capable of obtaining financing from third parties without relying on any guarantee or security provided by SINOMACH Group or other connected persons and the PRC lenders are independent third parties. Hence, our Directors are of the view that our Company operates independently of SINOMACH Group from the financial perspective.

CONNECTED TRANSACTIONS

OVERVIEW AND CONNECTED PERSONS

Following completion of the Global Offering, our Group will continue to have certain transactions which constitute connected transactions as defined under Chapter 14A of the Listing Rules.

Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised), SINOMACH will ultimately control approximately 80.34% of our issued share capital. As SINOMACH will be our Controlling Shareholder as defined in the Listing Rules, members of SINOMACH Group (for the purpose of this section headed “Connected Transactions” only, SINOMACH Group also includes the associates of SINOMACH which are not members of our Group) will be connected persons of our Company pursuant to Rule 14A.11 of the Listing Rules.

AGREEMENTS RELATING TO THE REORGANIZATION

- **Reorganization Agreement**

Pursuant to the Reorganization Agreement, SINOMACH confirmed and undertook to our Company the amount of capital contributions to be made by SINOMACH and China United respectively to our Company. SINOMACH also agreed to indemnify us for all losses and claims incurred in connection with taxes, capital contributions and equity transfers made by SINOMACH, and litigation expenses, penalties and fines in relation to capital contributions and equity transfers made by SINOMACH. For further details, please refer to the section headed “History and Reorganization – Our Reorganization” in this Prospectus.

- **Non-competition Agreement**

In order to minimize any potential competition between our business and the Excluded Business after Listing, we entered into the Non-competition Agreement with SINOMACH. For further details, please refer to the section headed “Relationship with Controlling Shareholder – Non-competition Agreement” in this Prospectus.

Implication under the Listing Rules

Any transaction that might take place after the Global Offering pursuant to any agreement or arrangement described in the section headed “History and Reorganization – Our Reorganization” would be made in the performance of the relevant transaction already entered into before the Global Offering. Therefore, such transaction will not constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS OF OUR GROUP

Set forth below are connected transactions of our Group as well as the waivers from strict compliance with the relevant requirements of the Listing Rules that our Company has received from the Stock Exchange:

Nature of Transactions	Applicable Listing Rule	Waivers received
<i>Exempt continuing connected transactions</i>		
Sub-leasing of premises by SINOMACH Group to our Group	14A.33	Not applicable
Trading procurement by SINOMACH Group from our Group	14A.33	Not applicable
<i>Non-exempt continuing connected transactions</i>		
Provision of engineering services and products by our Group to SINOMACH Group	14A.35	Waiver from announcement and independent shareholders' approval requirements
Receipt of engineering services and products from SINOMACH Group by our Group	14A.35	Waiver from announcement and independent shareholders' approval requirements
Trading procurement by our Group from SINOMACH Group	14A.35	Waiver from announcement and independent shareholders' approval requirements
Provision of integrated services by our Group to SINOMACH Group	14A.35	Waiver from announcement and independent shareholders' approval requirements

EXEMPT CONTINUING CONNECTED TRANSACTIONS

It is anticipated that, upon completion of Listing, the following transactions between members of our Group and members of SINOMACH Group will constitute continuing connected transactions of our Company according to the Listing Rules, which are however expected to be exempted from all the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Sub-leasing of premises by SINOMACH Group to our Group

General Machinery Development Co. Ltd., a subsidiary of SINOMACH and therefore a member of SINOMACH Group, as a tenant of the premises at Unit No.4, 8/F., Tower I, South Sea Centre, No.75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong (the “**Premises**”), currently sub-lets the Premises to our Company, China Machinery and Equipment (HK) Company Limited (中國機械設備香港有限公司) and China Everbest Development International Limited (華盛昌發展有限公司), both being members of our Group (collectively the “**HK Subsidiaries**”), and will continue to sub-let the Premises to our Company and the HK Subsidiaries after Listing pursuant to a sub-lease agreement entered into between General Machinery Development Co. Ltd., our Company and the HK Subsidiaries on October 31, 2012 (the “**Sub-lease Agreement**”).

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the historical transaction amounts for the sub-letting of the Premises by General Machinery Development Co. Ltd. to members of our Group were as follows:

<u>Financial year/period ended</u>	<u>Historical transaction amounts</u>
December 31, 2009.....	HK\$221,796.0
December 31, 2010.....	HK\$349,261.0
December 31, 2011.....	HK\$377,708.0
June 30, 2012.....	HK\$178,293.5

According to the Sub-lease Agreement, the HK Subsidiaries and General Machinery Development Co. Ltd. shall be responsible for 70% and 30% of the aggregate rental payable for the Premises, respectively. The rental payable by the HK Subsidiaries under the Sub-lease Agreement was determined with reference to (i) the rental payable by General Machinery Development Co. Ltd. to the landlord of the Premises; and (ii) the market rent for similar premises. Our Directors (including the independent non-executive Directors) are of the view that the rental payable by our Group to General Machinery Development Co. Ltd. under the Sub-lease Agreement is fair and reasonable.

The Premises is currently used as the office premises shared by General Machinery Development Co., Ltd., our Company and the HK Subsidiaries. The sub-leasing arrangement was agreed between General Machinery Development Co. Ltd., our Company and the HK Subsidiaries in order to save expenses for all parties. Furthermore, our Group considers that the Sub-lease Agreement with General Machinery Development Co. Ltd. is necessary for providing such office premises for use by our Company and the HK Subsidiaries in Hong Kong and is therefore beneficial to our Group.

As the percentage ratios (other than the profits ratio and as defined in the Listing Rules) calculated based on the transaction amounts under the Sub-lease Agreement are expected to be less than 0.1%, the transaction contemplated under the Sub-lease Agreement constitutes a continuing connected transaction of our Company which is exempted from all the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Trading procurement by SINOMACH Group from our Group

In respect of our Trading Business, although there has been no track record that our Group has provided any products to SINOMACH Group in the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, from our Company's communication with SINOMACH, we understand that SINOMACH Group may from time to time require our trading services on sourcing products from overseas to support their own businesses.

In view of the above, a framework agreement on the sale of trading products by our Group to SINOMACH Group was entered into between our Company and SINOMACH on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the "**Trading Sales Agreement**"), pursuant to which our Group shall sell various trading products to SINOMACH Group after Listing for a term commencing from the Listing Date and ending on December 31, 2014.

The Trading Sales Agreement is a framework agreement comprises the general terms and conditions upon which our Group shall sell various products to SINOMACH Group. Members of SINOMACH Group and members of our Group may from time to time enter into detailed agreements in respect of the specific products to be provided by our Group, provided that the terms of such detailed agreements shall not be inconsistent with the terms of the Trading Sales Agreement. The actual products to be provided by our Group shall be subject to such detailed agreements entered into between the relevant member of SINOMACH Group and the relevant member of our Group from time to time.

The Trading Sales Agreement may be renewed on terms to be agreed upon by SINOMACH and our Company. The Trading Sales Agreement (i) may be terminated by a non-defaulting party by serving a written default notice to the defaulting party stipulating the relevant breach and the defaulting party having failed to remedy such breach within a reasonable period after its receipt of the default notice and (ii) shall be terminated automatically if the performance of the transactions contemplated thereunder will be in breach of the requirements under the Listing Rules or the necessary approvals required under the Listing Rules or relevant waivers from the Stock Exchange cannot be obtained.

Pursuant to the Trading Sales Agreement, the price payable for the subject products thereunder shall be determined in accordance with the prevailing market price of the relevant products, unless there is a guidance price range determined by the relevant governmental authorities. The prevailing market price shall be the price asked for by independent third parties for the relevant products under normal commercial terms at the relevant time in their place of supply or a place in close proximity to such place of supply, or the price asked for by independent third parties for supplying the relevant products under normal commercial terms at the relevant time. Where there are no available prevailing market prices or where it is impracticable to obtain such market prices, our Company and SINOMACH shall mutually agree on a price determined based on reasonable costs of the provision of the relevant product, and a reasonable profit margin.

The Trading Sales Agreement is expected to increase the revenue and profits of our Trading Businesses and to expand our market share in the international trading market if and when any member of SINOMACH Group enters into specific contracts with our Group and engages us in providing products for them, therefore our Group considers that the Trading Sales Agreement is beneficial to our Group and development of our Trading Businesses.

After considering the expected demand by SINOMACH Group for various products and the estimated prices for the various products to be provided by our Group to the SINOMACH Group under the Trading Sales Agreement for the years ending December 31, 2012, 2013 and 2014, our Directors are of the view that the percentage ratios (other than the profits ratio and as defined in the Listing Rules) calculated based on the transaction amounts under the Trading Sales Agreement

CONNECTED TRANSACTIONS

are expected to be less than 0.1%, therefore the transactions contemplated under the Trading Sales Agreement will constitute continuing connected transactions of our Company which are exempted from all the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

It is anticipated that, upon completion of the Listing, certain transactions between members of our Group and members of SINOMACH Group will constitute non-exempt continuing connected transactions of our Company according to the Listing Rules, details of which are set out below.

Provision of engineering services and products by our Group to SINOMACH Group

As part of our International Engineering Contracting Business, prior to Listing, we have provided engineering services and products, including but not limited to, undertaking turnkey project and provision of general contracting services in the power and energy sector and procurement services and products to SINOMACH Group for the engineering contracting projects undertaken by SINOMACH Group, in particular those engineering contracting projects sub-contracted to our Group by SINOMACH Group, which have been by certain reasons (e.g. our Group was not able to meet certain tendering requirements or certain engineering contracting projects were previously undertaken and followed-up by SINOMACH Group directly) undertaken by SINOMACH Group and it has been impracticable to transfer such engineering contracting projects to our Group, and we will continue to provide such engineering services and products described above to SINOMACH Group after Listing pursuant to a framework agreement on provision of engineering services and products entered into between our Company and SINOMACH on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the "**Provision of Engineering Services and Products Agreement**") for a term commencing from the Listing Date and ending on December 31, 2014. Details of the price determination mechanism for the subject services and products under the Provision of Engineering Services and Products Agreement are set out under the sub-section headed "– Non-exempt continuing connected transactions – Common terms of non-exempt continuing connected transactions" in this Prospectus.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the historical transaction amounts for the provision of engineering services and products by our Group to SINOMACH Group were as follows:

<u>Financial year/period ended</u>	<u>Historical transaction amounts (approximately)</u>	<u>Percentage of historical transaction amounts to the total revenue of our Group for the corresponding period (approximately) (%)</u>
December 31, 2009.....	RMB1,136.9 million	5.9
December 31, 2010.....	RMB930.1 million	4.9
December 31, 2011.....	RMB511.9 million	2.5
June 30, 2012	RMB948.2 million	9.2

CONNECTED TRANSACTIONS

Below is a summary of the identities of the relevant member of our Group and relevant member of the SINOMACH Group who are signing parties of the relevant contracts for each of the historical transaction and the nature of engineering products and/or services involved:

Relevant member of our Group (as seller)	Relevant member of the SINOMACH Group (as purchaser)	Nature of engineering products and/or services involved
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For the three financial years ended December 31, 2009, 2010, 2011 and the six months ended June 30, 2012

Our Company	SINOMACH (it is expected that the underlying products and/or services are used by subsidiaries of SINOMACH)	Power-related engineering construction
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The Provision of Engineering Services and Products Agreement is able to increase the revenue and profits of our International Engineering Contracting Business and to expand our market share in the international engineering contracting market. In particular, the Provision of Engineering Services and Products Agreement is able to allow us to participate in certain large-scale engineering contracting projects undertaken by SINOMACH Group in situations where the relevant engineering contracting projects have been by certain reasons (e.g. our Group was not able to meet certain tendering requirements or certain engineering contracting projects were previously undertaken and followed-up by SINOMACH Group directly) undertaken by SINOMACH Group and it has been impracticable to transfer such engineering contracting projects to our Group. Most of the engineering contracting projects sub-contracted to our Group by SINOMACH Group are large-scale projects which last for a few years. Therefore, our Group considers that the Provision of Engineering Services and Products Agreement is beneficial to our Group and development of our International Engineering Contracting Business. Despite the aforesaid, our Group is able to conduct our business independently of SINOMACH Group, in particular, the conduct of our business is protected against competition by SINOMACH Group through the Non-competition Agreement. Furthermore, our Directors (including the independent non-executive Directors) expect that the number of transactions and hence the transaction amounts under the Provision of Engineering Services and Products Agreement will be on a decreasing trend as, partly because of the Non-competition Agreement, our Group's market share in the international engineering contracting market will continue to grow and our Group will be able to secure various engineering contracting projects, especially those within the Core Sectors, against SINOMACH Group.

Having considered (i) the historical transaction amounts for the provision of engineering services and products by our Group to SINOMACH Group; (ii) the nature of services and products required under specific contracts already signed or agreed between members of our Group and members of SINOMACH Group; (iii) the expected duration and progress of relevant engineering contracting projects; and (iv) the expected decrease in demand by SINOMACH Group for engineering services and products, for the years ending December 31, 2012, 2013 and 2014, our Directors are of the view that the value of annual caps in respect of the provision of engineering

CONNECTED TRANSACTIONS

services and products by our Group to SINOMACH Group under the Provision of Engineering Services and Products Agreement are as follows:

<u>Financial year ending</u>	<u>Annual caps for the value of transactions under the Provision of Engineering Services and Products Agreement</u>
December 31, 2012.....	RMB1,091.0 million
December 31, 2013.....	RMB673.0 million
December 31, 2014.....	RMB573.0 million

More particularly, the above annual caps under the Provision of Engineering Services and Products Agreement have been set by our Directors based on the analysis on the actual contractual amount under each specific contract already signed or agreed between members of our Group and members of SINOMACH Group and the expected payment schedule with reference to the expected duration and progress of the relevant engineering contracting projects. The relatively high value of the annual cap for the year ending December 31, 2012 when compared to the historical transaction amounts is mainly due to a particular engineering contracting contract signed by our Company in 2007 in respect of our provision of certain power-related engineering construction products and services with a contract value of approximately US\$580 million, the project concerned commenced construction in 2009 and is expected to be completed by the end of 2012, and it is expected that our Company will recognize revenue of approximately US\$150 million from SINOMACH for this project in 2012. In respect of the annual caps for the years ending December 31, 2013 and 2014, our Company has taken into account certain specific contracts agreed between members of our Group and members of the SINOMACH Group, the contract values of which are comparable to those of the historical transactions of our Group during the Track Record Period, in particular those during the financial year ended December 31, 2011, and which are expected to be completed in 2013 and 2014. Accordingly, our Directors expect that the annual caps for the years ending December 31, 2013 and 2014 will remain steady at a level similar to the historical transaction amounts during the Track Record Period, in particular that for the financial year ended December 31, 2011.

Receipt of engineering services and products from SINOMACH Group by our Group

As part of our International Engineering Contracting Business, prior to Listing, we have received engineering services and products, including but not limited to design, installation, construction, building, subcontracting and procurement services and products from SINOMACH Group mainly to facilitate our International Engineering Contracting Business and for certain projects sub-contracted by us to SINOMACH Group, and we will continue to receive such engineering services and products described above, among which a large proportion are design, installation, construction, building, subcontracting and procurement services and products relating to our engineering contracting projects within the Core Sectors, from SINOMACH Group after Listing pursuant to a framework agreement on receipt of engineering services and products entered into between our Company and SINOMACH on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the “**Receipt of Engineering Services and Products Agreement**”) for a term commencing from the Listing Date and ending on December 31, 2014. Details of the price determination mechanism for the subject services and products under the Receipt of Engineering Services and Products Agreement are set out under the sub-section headed “– Non-exempt continuing connected transactions – Common terms of non-exempt continuing connected transactions” in this Prospectus.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the historical transaction amounts for the provision of engineering services and products by SINOMACH Group to our Group were as follows:

CONNECTED TRANSACTIONS

Financial year/period ended	Historical transaction amounts (approximately)	Percentage of historical transaction amounts to the total costs of sales of our Group for the corresponding period (approximately) (%)
December 31, 2009.....	RMB323.2 million	1.8
December 31, 2010.....	RMB343.6 million	2.1
December 31, 2011.....	RMB209.4 million	1.2
June 30, 2012	RMB237.8 million	2.8

Below is a summary of the identities of the relevant members of our Group and relevant members of the SINOMACH Group who are signing parties of the relevant contracts for the top five historical transactions in terms of transaction amount and the nature of engineering products and/or services involved:

Relevant member of our Group (as purchaser)	Relevant member of the SINOMACH Group (as seller)	Nature of engineering products and/or services involved
For the financial year ended December 31, 2009		
Our Company	China Electrical Wires and Cables Import and Export Co., Ltd. (中國電線電纜進出口有限公司)	Power-related engineering subcontracting
Our Company	China CMIIC Engineering & Construction Corporation (中國機械工業建設總公司)	Civil engineering, construction and installation
Our Company	CGME	Equipment and products for power-related engineering construction
Our Company	Harbin Power Plant Equipment Design & Research Institute (哈爾濱電站設備成套設計研究所)	Technical services of engineering construction
Our Company	China Electric Design & Research Institute (中機中電設計研究院)	Technical services of engineering construction

CONNECTED TRANSACTIONS

Relevant member of our Group (as purchaser)	Relevant member of the SINOMACH Group (as seller)	Nature of engineering products and/or services involved
For the financial year ended December 31, 2010		
Our Company	China CMIIC Engineering & Construction Corporation (中國機械工業建設總公司)	Civil engineering, construction and installation
Our Company	China Construction Machinery Co. Ltd. (中工工程機械成套有限公司)	Equipment and products for power-related engineering construction
Our Company	CGME	Equipment and products for power-related engineering construction
Our Company	China Electric Design & Research Institute (中機中電設計研究院)	Technical services of engineering construction
Our Company	China JK Institute of Engineering Investigation and Design Institute (機械工業勘察設計研究院)	Technical services of engineering construction
For the financial year ended December 31, 2011		
Our Company	China CMIIC Engineering & Construction Corporation (中國機械工業建設總公司)	Civil engineering, construction and installation
Our Company	Shanghai Sino Perfect Co., Ltd. (上海中浦供銷有限公司)	Equipment and products for power-related engineering construction
Our Company	China JK Institute of Engineering Investigation and Design Institute (機械工業勘察設計研究院)	Services and subcontracting of power-related engineering construction
Our Company	Harbin Power Plant Equipment Design & Research Institute (哈爾濱電站設備成套設計研究所)	Technical services of engineering construction
Our Company	Beijing Sciencetech International Project Management Co., Ltd. (北京興電國際工程管理公司)	Technical services of engineering construction

CONNECTED TRANSACTIONS

Relevant member of our Group (as purchaser)	Relevant member of the SINOMACH Group (as seller)	Nature of engineering products and/or services involved
For the six months ended June 30, 2012		
Our Company	China CMIIC Engineering & Construction Corporation (中國機械工業建設總公司)	Civil engineering, construction and installation
Our Company	CGME	Equipment and products for power-related engineering construction
Our Company	China JK Institute of Engineering Investigation and Design Institute (機械工業勘察設計研究院)	Services and subcontracting of power-related engineering construction
Our Company	Shanghai Sino Perfect Co., Ltd. (上海中浦供銷有限公司)	Equipment and products for power-related engineering construction
Our Company	Harbin Power Plant Equipment Design & Research Institute (哈爾濱電站設備成套設計研究所)	Technical services of engineering construction

The Receipt of Engineering Services and Products Agreement is able to allow our Group to subcontract part of our construction works in line with the common practice of participants in the international engineering contracting market. Our Group has an internal list of identified subcontractors who are able to provide various engineering services and products to satisfy the needs of our International Engineering Contracting Business from time to time. Such list includes both members of SINOMACH Group and other independent third parties, who have been identified by our Group with reference to their market reputation, prices and quality of services and products which they offer and if applicable, performance under previous engagements with our Group. We also sometimes choose our subcontractors through tendering process. However, in view of the fact that SINOMACH Group is a well-established participant with good reputation within the international engineering contracting market which possesses strong capacity and experience in the manufacturing, design, research and development of various engineering products, our Group has preference in sourcing relevant engineering services and products from SINOMACH Group to gain benefits from such technical strengths of them. Furthermore, taking into account the long history of cooperative relationship between our Group and SINOMACH Group, our Group considers that the Receipt of Engineering Services and Products Agreement is able to enhance completion of the engineering contracting projects undertaken by us at efficient timing and with the best quality, therefore the Receipt of Engineering Services and Products Agreement is beneficial to our Group and development of our International Engineering Contracting Business. Despite the aforesaid, our Group is able to conduct our International Engineering Contracting Business independently of SINOMACH Group, in particular, we are also able to source various engineering services and products from other independent market participants included in our internal list mentioned above.

Having considered (i) the historical transaction amounts for the provision of engineering services and products by SINOMACH Group to our Group; (ii) the nature of services and products required under the engineering contracting projects already undertaken by our Group and specific

CONNECTED TRANSACTIONS

contracts signed or agreed between members of our Group and members of SINOMACH Group; (iii) the expected duration and progress of our relevant engineering contracting projects; (iv) the expected increase in demand by our Group for engineering services and products; and (v) the estimated increase in the average market prices for the relevant engineering services and products due to inflation and the general economic growth of the PRC, for the years ending December 31, 2012, 2013 and 2014, our Directors are of the view that the value of annual caps in respect of the provision of engineering services and products by SINOMACH Group to our Group under the Receipt of Engineering Services and Products Agreement are as follows:

Financial year ending	Annual caps for the value of transactions under the Receipt of Engineering Services and Products Agreement
December 31, 2012.....	RMB950.0 million
December 31, 2013.....	RMB1,200.0 million
December 31, 2014.....	RMB1,500.0 million

More particularly, the above annual caps under the Receipt of Engineering Services and Products Agreement have been set by our Directors based on our Directors' analysis on the actual contractual amount under each specific contract already signed or agreed between members of our Group and members of the SINOMACH Group, the expected payment schedule with reference to the expected duration and progress of the relevant engineering contracting projects.

The relatively substantial increase in the annual caps for the years ending December 31, 2012, 2013 and 2014 when compared with the historical transaction amounts is mainly due to the expected relatively rapid development of the engineering contracting projects under certain specific contracts which are material in value and signed or agreed between members of our Group and members of the SINOMACH Group, which include three major engineering contracting contracts signed or agreed between our Company and China CMIIC Engineering & Construction Corporation (中國機械工業建設總公司) with expected contract values in aggregate of approximately RMB3,100.0 million, the projects concerned are with contract terms ranging from 4 to 5 years from 2012 and will involve our Group's receipt of civil engineering, construction and installation services and products and are expected to be completed at stages steadily in an increasing trend during the years 2012 to 2014. Since these contracts, in couple with a few other new contracts, are expected to become effective in the second half of 2012 and will begin to contribute revenue of approximately RMB500.0 million during the second half of 2012, the annual cap for the year ending December 31, 2012 is of relatively high value when compared with the historical transaction amount for the six months ended June 30, 2012. Furthermore, according to the above, our Directors believe that the annual caps for the years ending December 31, 2012 to 2014 shall also increase steadily in line with the progress of the relevant projects concerned.

Trading procurement by our Group from SINOMACH Group

As part of our Trading Business, prior to Listing, we have been providing various sourcing solutions to our domestic and overseas customers who wish to source products from the PRC. A large part of such business involved exporting products manufactured within the PRC to various overseas markets. In order to facilitate our Trading Business and in view of the strong manufacturing capacity of SINOMACH Group, our Group has sourced various trading products from SINOMACH Group to support our Trading Business, which consist of agriculture machinery and equipment, agriculture transportation vehicles, logging equipment and mining equipment and

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we will continue to source other various trading products, including but not limited to those described above, for our Trading Business from SINOMACH Group after Listing pursuant to a framework agreement on the provision of trading products by SINOMACH Group to our Group entered into between our Company and SINOMACH on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the “**Trading Procurement Agreement**”) for a term commencing from the Listing Date and ending on December 31, 2014. Details of the price determination mechanism for the subject products under the Trading Procurement Agreement are set out under the sub-section headed “– Non-exempt continuing connected transactions – Common terms of non-exempt continuing connected transactions” in this Prospectus.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the historical transaction amounts for the provision of various products by SINOMACH Group to our Group were as follows:

Financial year/period ended	Historical transaction amounts (approximately)
December 31, 2009.....	RMB1.2 million
December 31, 2010.....	RMB1.4 million
December 31, 2011.....	RMB11.7 million
June 30, 2012.....	RMB8.2 million

During the Track Record Period, the percentage of historical transaction amounts to the total costs of sales of our Group for the corresponding period was below 0.1%.

Below is a summary of the identities of the relevant members of our Group and relevant members of the SINOMACH Group who are signing parties of the relevant contracts for each of the historical transactions and the nature of trading products involved:

Relevant member of our Group (as purchaser)	Relevant member of the SINOMACH Group (as seller)	Nature of trading products involved
For the financial year ended December 31, 2009		
CMEC Engineering Machinery	Yituo (Luoyang) Building Machinery Co., Ltd. (一拖(洛陽)建築機械有限公司)	Construction machinery
For the financial year ended December 31, 2010		
CMEC Engineering Machinery	Yituo (Luoyang) Building Machinery Co., Ltd. (一拖(洛陽)建築機械有限公司)	Machinery and equipment
CMEC Engineering Machinery	Changlin Company Ltd. (常林股份有限公司)	Machinery and equipment

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Relevant member of our Group (as purchaser)	Relevant member of the SINOMACH Group (as seller)	Nature of trading products involved
CMEC Engineering Machinery	Dingsheng Tiangong Construction Machinery Co., Ltd. (鼎盛天工工程機械銷售有限公司)	Machinery and equipment

For the financial year ended December 31, 2011

CMEC Engineering Machinery	Yituo (Luoyang) Building Machinery Co., Ltd. (一拖(洛陽)建築機械有限公司)	Machinery and equipment
CMEC Engineering Machinery	Changlin Company Ltd. (常林股份有限公司)	Machinery and equipment

For the six months ended June 30, 2012

CMEC Engineering Machinery	Dingsheng Tiangong Construction Machinery Co., Ltd. (鼎盛天工工程機械銷售有限公司)	Machinery and equipment
CMEC Engineering Machinery	China-Africa Machinery Corp. (中非重工投資有限公司)	Machinery and equipment

Our Group has an internal list of identified suppliers who are able to provide various products to satisfy the needs of our Trading Business from time to time. Such list includes both members of SINOMACH Group and other independent third parties, who have been identified by our Group with reference to their market reputation, prices and quality of products which they offer and if applicable, performance under previous engagements with our Group. SINOMACH Group is a group of companies which has a long history of manufacturing various products in the PRC and is renowned as being able to produce high quality machinery and equipment, especially those for electronic, energy, agricultural, forestry and geology industries. In order to facilitate our Trading Business and in view of the strong manufacturing capacity of SINOMACH Group, we have been sourcing various products from SINOMACH Group for our Trading Business. Furthermore, taking into account the long history of cooperative relationship between our Group and SINOMACH Group, our Group considers that the Trading Procurement Agreement is able to assure that the best quality products are available for our Trading Business, therefore the Trading Procurement Agreement is beneficial to our Group and development of our Trading Business. Despite the aforesaid, our Group is able to conduct our Trading Business independently of SINOMACH Group, in particular, we are also able to source various products from other independent suppliers included in our internal list mentioned above.

Having considered (i) the historical transaction amounts for the provision of various products by SINOMACH Group to our Group; (ii) the nature of products required under specific contracts already signed or agreed between members of our Group and members of SINOMACH Group; (iii) the products delivery dates under the relevant trading contracts; (iv) the expected increase in costs on manufacturing the relevant products; (v) the expected increase in demand by our Group for

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various products; and (vi) the estimated increase in the average market prices for the relevant products due to inflation and development of the PRC manufacturing and trading markets, for the years ending December 31, 2012, 2013 and 2014, our Directors are of the view that the value of annual caps in respect of the provision of various products by SINOMACH Group to our Group under the Trading Procurement Agreement are as follows:

Financial year ending	Annual caps for the value of transactions under the Trading Procurement Agreement
December 31, 2012.....	RMB15.0 million
December 31, 2013.....	RMB17.0 million
December 31, 2014.....	RMB21.0 million

More particularly, the above annual caps under the Trading Procurement Agreement have been set by our Directors based on the actual historical transaction amounts for the financial year ended December 31, 2011 and the six months ended June 30, 2012, and an estimated annual business growth rate of 20%.

Provision of integrated services by our Group to SINOMACH Group

Apart from our International Engineering Contracting Business and our Trading Business, prior to Listing, we have provided integrated services such as exhibition and conference services, storage and logistics services, tendering agency services, import and export agency services and real estate leasing and management services to SINOMACH Group in respect of the business undertaken by SINOMACH Group, and we will continue to provide such integrated services described above to SINOMACH Group after Listing pursuant to a framework agreement on the provision of integrated services by our Group to SINOMACH Group entered into between our Company and SINOMACH on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the “**Integrated Services Agreement**”) for a term commencing from the Listing Date and ending on December 31, 2014. Details of the price determination mechanism for the subject services under the Integrated Services Agreement are set out under the sub-section headed “– Non-exempt continuing connected transactions – Common terms of non-exempt continuing connected transactions” in this Prospectus.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the historical transaction amounts for the provision of integrated services by our Group to SINOMACH Group were as follows:

Financial year/period ended	Historical transaction amounts (approximately)
December 31, 2009.....	RMB16.4 million
December 31, 2010.....	RMB13.7 million
December 31, 2011.....	RMB11.2 million
June 30, 2012.....	RMB1.5 million

During the Track Record Period, the percentage of historical transaction amounts to the total revenue of our Group for the corresponding period was below 0.1%.

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Below is a summary of the identities of the relevant members of our Group and relevant members of the SINOMACH Group who are signing parties of the relevant contracts for the top five historical transactions in terms of transaction amount and the nature of integrated services involved:

<u>Relevant member of our Group (as seller)</u>	<u>Relevant member of the SINOMACH Group (as purchaser)</u>	<u>Nature of integrated services involved</u>
For the financial year ended December 31, 2009		
CMEC Comtrans	China CMIIC Engineering & Construction Corporation (中國機械工業建設總公司)	International Carriage of Goods
CMEC Expo	SUMEC	Exhibition services
CMEC Expo	China National Automotive Industry International Corp. (中國汽車工業國際合作總公司)	Exhibition services
CMEC Expo	China Auto Caiec Ltd. (中汽凱瑞貿易有限公司)	Exhibition services
China Machinery R&D	SINOMACH (it is expected that the underlying services are used by subsidiaries of SINOMACH)	Supervision Services
For the financial year ended December 31, 2010		
CMEC Comtrans	China CMIIC Engineering & Construction Corporation (中國機械工業建設總公司)	International Carriage of Goods
CMEC Expo	SUMEC	Exhibition services
CMEC Comtrans	CHMC	International Carriage of Goods
CMEC Expo	China National Automotive Industry International Corp. (中國汽車工業國際合作總公司)	Exhibition services
CMEC Expo	China Auto Caiec Ltd. (中汽凱瑞貿易有限公司)	Exhibition services

CONNECTED TRANSACTIONS

Relevant member of our Group (as seller)	Relevant member of the SINOMACH Group (as purchaser)	Nature of integrated services involved
For the financial year ended December 31, 2011		
CMEC Comtrans	CHMC	International Carriage of Goods
CMEC Expo	SUMEC	Exhibition services
CMEC Expo	China National Automotive Industry International Corp. (中國汽車工業國際合作總公司)	Exhibition services
CMEC Expo	China Auto Caiec Ltd. (中汽凱瑞貿易有限公司)	Exhibition services
CMEC Expo	SINOMACH (it is expected that the underlying services are used by subsidiaries of SINOMACH)	Exhibition services
For the six months ended June 30, 2012		
CMEC Comtrans	China Machinery Industry Construction Group Inc. (中國機械工業建設集團有限公司)	International Carriage of Goods
CMEC Expo	China Abrasives Import & Export Corporation (中國磨料磨具進出口公司)	Exhibition services
CMEC Expo	China Machine-Building International Hebei Co., Ltd. (河北中機合作有限公司)	Exhibition services
CMEC Expo	China Geo-Equipment Corporation (中國地質裝備總公司)	Exhibition services
CMEC Expo	SUMEC	Exhibition services

Our Group is qualified in providing various integrated services, such as exhibition and conference services, storage and logistics services, tendering agency services, import and export agency services and real estate leasing and management services, and is well recognized with its experience in providing such integrated services, SINOMACH Group has therefore engaged us to provide them with such integrated services. The Integrated Services Agreement is expected to increase the revenue and profits of our Group, therefore our Group considers that the Integrated Services Agreement is beneficial to our Group and development of our business generally.

CONNECTED TRANSACTIONS

Having considered (i) the historical transaction amounts for the provision of integrated services by our Group to SINOMACH Group; (ii) the nature of services required under specific contracts signed or agreed between members of our Group and members of SINOMACH Group; (iii) the expected increase in demand by SINOMACH Group for the integrated services; and (iv) the estimated increase in the average market prices for such integrated services due to inflation and development of our business relating to such integrated services, for the years ending December 31, 2012, 2013 and 2014, our Directors are of the view that the value of annual caps in respect of the provision of integrated services by our Group to SINOMACH Group under the Integrated Services Agreement are as follows:

Financial year ending	Annual caps for the value of transactions under the Integrated Services Agreement
December 31, 2012.....	RMB28.0 million
December 31, 2013.....	RMB44.0 million
December 31, 2014.....	RMB53.0 million

More particularly, the above annual caps under the Integrated Services Agreement for the financial years ending December 31, 2012 and 2013 have been set by our Directors based on our Directors' analysis on the actual contractual amount under each specific contract already signed or agreed between members of our Group and members of the SINOMACH Group and the expected payment schedule with reference to the relevant service period, and for the financial year ending December 31, 2014, based on the calculated annual cap for the financial year ending December 31, 2013 and an estimated annual business growth rate of 20%.

Common terms of non-exempt continuing connected transactions

Each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement is a framework agreement comprises the general terms and conditions upon which our Group and SINOMACH Group shall carry out the particular type of transactions contemplated thereunder. Members of SINOMACH Group and members of our Group may from time to time enter into detailed agreements in respect of the specific services and/or products to be provided or received by our Group, provided that the terms of such detailed agreements shall not be inconsistent with the terms of the respective framework agreement. The actual services and/or products to be provided or received by our Group shall be subject to such detailed agreements entered into between the relevant member of SINOMACH Group and the relevant member of our Group from time to time.

Each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement is of a term commencing from the Listing Date and ending on December 31, 2014 and may be renewed on terms to be agreed upon by SINOMACH and our Company. Each of such framework agreements (i) may be terminated by a non-defaulting party by serving a written default notice to the defaulting party stipulating the relevant breach and the defaulting party having failed to remedy such breach within a reasonable period after its receipt of the default notice; and (ii) shall be terminated automatically if the performance of the transactions contemplated thereunder will be in breach of the requirements under the Listing Rules or the necessary approvals required under the Listing Rules or relevant waivers from the Stock Exchange cannot be obtained.

CONNECTED TRANSACTIONS

Pursuant to each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement, the price payable for the subject services and/or products thereunder shall be determined in accordance with the prevailing market price of the relevant services and/or products, unless there is a guidance price range determined by the relevant governmental authorities. The prevailing market price shall be the price asked for by independent third parties for the relevant services and/or products under normal commercial terms at the relevant time in their place of supply or a place in close proximity to such place of supply, or the price asked for by independent third parties for supplying the relevant services and/or products under normal commercial terms at the relevant time. Where there are no available prevailing market prices or where it is impracticable to obtain such market prices, our Company and SINOMACH shall mutually agree on a price determined based on reasonable costs of the provision of the relevant service and/or product, and a reasonable profit margin.

APPLICATION FOR WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions contemplated under each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement will continue to be entered into on a recurring basis on normal commercial terms in the ordinary and usual course of our business. It is expected that the aggregate transaction amount for the transactions under each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement, in each of the three financial years ending December 31, 2014, will be capped annually at the proposed annual caps detailed above. The percentage ratios (other than the profits ratio and as defined in the Listing Rules) for each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement for the three financial years ending December 31, 2014 are expected to be more than 5% and with annually capped amount of more than HK\$10,000,000. Accordingly, the transactions contemplated under each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement constitute continuing connected transactions of our Company subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since the aforesaid transactions will take place from time to time on a recurring basis, it would be costly and impractical for our Company to make disclosure and to obtain independent Shareholders' approval on each occasion in accordance with Chapter 14A of the Listing Rules.

We have applied to the Stock Exchange, in relation to the transactions contemplated under each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement, for a waiver from strict compliance with the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, and the Stock Exchange has granted to us, a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt the transactions contemplated under each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement, from the announcement and/or independent Shareholders' approval requirements under the Listing Rules. In addition, we confirm that we will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules in relation to the transactions contemplated under each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement.

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In respect of Rules 14A.35(2) and 14A.36(1) of the Listing Rules, the respective aggregate transaction amounts for the transactions under each of the Provision of Engineering Services and Products Agreement, Receipt of Engineering Services and Products Agreement, Trading Procurement Agreement and Integrated Services Agreement shall not, in respect of the three financial years ending December 31, 2014, exceed the proposed annual caps detailed above in each such financial year.

If any agreements are entered into by members of our Group with any connected persons (within the meaning of the Listing Rules) over and above those contemplated in the above-mentioned or the transactions contemplated under the aforesaid agreements are carried out or proposed to be carried out otherwise than in full compliance with the conditions specified above, we will comply with the then provisions of the Listing Rules governing connected transactions, as applicable, unless we apply for and obtain a separate waiver from the Stock Exchange.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that the non-exempt continuing connected transactions described in this section have been entered into in the ordinary and usual course of business of our Group, that such transactions have been negotiated on arms length basis on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole; and that the respective proposed annual caps for such transactions as referred to in this section are fair and reasonable.

Despite that each of the non-exempt continuing connected transactions described in this section will continue after Listing, our Directors believe that our Group will be able to operate independently from our Controlling Shareholder based on the following reasons:

- (a) in respect of products and services supplied by our Group to the SINOMACH Group, our Group has the absolute discretion to determine whether to enter into detailed agreements with SINOMACH Group and to provide the specific services and/or products as requested by SINOMACH Group;
- (b) in respect of our procurement of products and services from SINOMACH Group, our Group is able to source similar products and services from other independent suppliers included in our internal suppliers lists and our Directors have decided to continue the relevant continuing connected transactions with SINOMACH Group only because they consider that it is commercially sensible;
- (c) historically, our revenue and cost of sales (as the case may be) attributable to the non-exempt continuing connected transactions described in this section only accounted for relatively low percentages of our total revenue and cost of sales (as the case may be) in the corresponding financial periods;
- (d) all the non-exempt continuing connected transactions described in this section have been, and will be, entered into based on normal commercial terms which are fair and reasonable; and
- (e) there are no overlapping of board of directors, board of supervisors and senior management between members of our Group and members of the SINOMACH Group.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that the non-exempt continuing connected transactions described in this section have been entered into in the ordinary and usual course of business of our Group, that such transactions are on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole and that the respective proposed annual caps for such transactions as referred to in this section are fair and reasonable.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

GENERAL

The following table sets forth certain information regarding members of our Board and our Supervisory Board:

Name	Age	Position	Date of appointment	Brief roles and responsibilities
Board				
YANG Wansheng (楊萬勝)	60	Chairman and executive Director	January 13, 2011	Responsible for the overall direction, strategic development and management of our Company Chairing the strategy and development committee and the nomination committee of our Company Participating in the remuneration committee meetings of our Company
LI Taifang (李太芳)	51	Vice chairperson and executive Director	July 29, 2011	Assisting the Chairman with the overall direction, strategic development and management of our Company Chairing the operation and risk management committee of our Company Participating in the strategy and development committee meetings of our Company
ZHANG Chun (張淳)	44	Executive Director and president	March 16, 2012	Overseeing the daily operation and management of our Company Participating in the strategy and development committee meetings of our Company
PAN Chongyi (潘崇義)	67	Non-executive Director	January 13, 2011	Participating in the strategy and development committee and the operation and risk management committee meetings of our Company
WANG Zhian (王治安)	62	Non-executive Director	January 13, 2011	Participating in the audit committee and the operation and risk management committee meetings of our Company

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Date of appointment	Brief roles and responsibilities
LIU Li (劉力)	57	Independent non-executive Director	January 13, 2011	Chairing the audit committee of our Company; providing independent opinion and judgement to our Board, audit committee, remuneration committee and strategy and development committee of our Company
LIU Hongyu (劉紅宇)	49	Independent non-executive Director	January 13, 2011	Providing independent opinion and judgement to our Board, nomination committee and audit committee of our Company
FANG Yongzhong (方永忠)	61	Independent non-executive Director	July 29, 2011	Chairing our remuneration committee; providing independent judgement to our Board, remuneration committee, nomination committee and operation and risk management committee of our Company
CHAN Kin Ho Philip (陳建豪)	35	Independent non-executive Director	December 30, 2011	Providing independent opinion and judgement to our Board, in particular with regard to the financial aspects of our Company
Supervisory Board				
QUAN Huaqiang (全華強)	42	Chairman of our Supervisory Board	January 13, 2011	Monitoring and overseeing our Company's financial matters, examining our Company's periodic reports, and supervising the conduct of our Board and senior management
QIAN Xiangdong (錢向東)	43	Supervisor	January 13, 2011	Monitoring and overseeing our Company's financial matters, examining our Company's periodic reports, and supervising the conduct of our Board and senior management
BAI Ming (白明)	44	Employee representative supervisor	January 7, 2011	Monitoring and overseeing our Company's financial matters, examining our Company's periodic reports, and supervising the conduct of our Board and senior management

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Board of Directors

Our Board currently consists of three executive Directors, two non-executive Directors, and four independent non-executive Directors. Our Directors were all elected at the Shareholders' meetings for a term of three years, which is renewable upon re-election and re-appointment.

The duties and powers conferred on our Board of Directors include, among other things:

- convening Shareholders' meetings and reporting its work to Shareholders;
- implementing Shareholders' resolutions;
- formulating our Company's business plans and investment plans, and formulating our Company's annual budget and final accounts;
- formulating our Company's proposals for profit distributions and recovery of losses;
- formulating our Company's proposals for the increase or reduction of registered capital; and
- exercising other duties and powers as conferred by the Articles of Association.

Our Board is responsible and has general powers for the management and conduct of our business.

Executive Director

Mr. YANG Wansheng (楊萬勝), aged 60, is the chairman and an executive Director of our Company, and party secretary of the Communist Party of China committee ("**CPC Committee**") (黨委書記) thereof. Mr. YANG is responsible for the overall management of our Company. Mr. YANG has over 27 years of extensive management experience in the machinery industry and international engineering contracting business. Mr. YANG joined our Company in June 1982 as a vice departmental director of our Company until April 1985. Apart from serving at our Company, Mr. YANG also held various positions in government instrumentalities in the PRC from 1981 to 1990. Mr. YANG was a vice director of the external liaison department of the foreign affairs bureau of the MMI from April 1985 and was a director of the external liaison department of the international cooperation bureau of the then Ministry of Machinery Industry and Electronics Industry (原機電部國際合作司外聯處) from March 1986. Mr. YANG then studied in the United States from February 1990 to May 1993. After the completion of his studies and return to the PRC, Mr. YANG was promoted as a vice director-general of the international cooperation department of the MMI in November 1993 and then served as a vice director-general of the foreign affairs bureau of the former State Administration of the Machinery Industry (國家原機械工業局) from July 1998. In May 1999, Mr. YANG rejoined our Company as the party secretary of the CPC Committee. In November 2008, Mr. YANG was appointed as a Director of our Board and party secretary of the CPC Committee of our Company. In September 2010, Mr. YANG was appointed as chairman of our Board, and has been so serving since then. Mr. YANG graduated from the Beijing Second Foreign Language College (北京第二外國語學院) in 1979. In 1993, Mr. YANG graduated from the Massachusetts Institute of Technology with the degree of master of science in management. Mr. YANG is a professorial engineer. In 1999, Mr. YANG was elected as a standing member of the executive council of China Electrotechnical Society (中國電工技術學會) for three consecutive terms and has been serving in that role ever since. Mr. YANG is also an IPMP level A certified project director and was elected as a member of the Standing Committee of Project Management Research Committee, China, holding the office until December 31, 2016.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. LI Taifang (李太芳), aged 51, is the vice chairperson and an executive Director of our Company, and was appointed on July 29, 2011. Ms. LI has more than 17 years of experience in finance, accounting and management in respect of integrated large scale machinery and equipment enterprises. In July 1991, Ms. LI joined China Electronics Corporation (中國電子信息產業集團有限公司) until June 1994 and subsequently worked as the manager of the operational finance department of Beijing Xiang Yu Architects Limited (北京祥宇建築設計公司) from June 1994 to August 1998. Ms. LI joined China National Bearing Joint Import and Export Corporation (中國軸承進出口聯營公司) in August 1998 as a manager of the department of finance until December 2000. In December 2000, Ms. LI joined China National Electric Wire and Cable Import and Export Co., Ltd. (中國電線電纜進出口有限公司) as a manager of the finance department and then served as the chief accountant and manager of the finance department from June 2002 to March 2005. In March 2005, Ms. LI joined our Company and from March 2005 to July 2011, Ms. LI served as the financial controller of our Company. From July 2011 to present, Ms. LI has been serving as an executive Director and the vice chairperson of our Company. In 1983, Ms. LI graduated from the department of management engineering of the Jilin University of Technology (吉林工業大學) with a bachelor's degree in engineering. From August 1983 to July 1991, Ms. LI was a lecturer at the Beijing Institute of Machinery Industry Management (北京機械工業管理學院) and also undertook postgraduate studies from September 1984 to September 1986 at the same institute. Ms. LI is currently an independent non-executive director of Xuanhua Construction Machinery Co., Ltd. (河北宣化工程機械股份有限公司), a company listed on SZSE (stock code: 000923). Ms. LI is a senior economist. Ms. LI is also a member of the Chinese Institute of Certified Public Accountants (non-practising).

Mr. ZHANG Chun (張淳), aged 44, is an executive Director and the president of our Company, and was appointed on March 16, 2012. In July 1991, Mr. ZHANG joined China National Electric Equipment Corporation (中國電工設備總公司), the predecessor of CNEEC, as a sales representative and worked in that company until August 1993. Mr. ZHANG then joined our Company, and held various positions from August 1993 to May 2002, including sales representative, project manager, representative and chief representative of the Representative Office of our Company in Bangladesh. After returning to China, Mr. ZHANG joined China National Machinery & Equipment Corporation Group (中國機械裝備(集團)公司), the predecessor of SINOMACH, in May 2002 as the director of the department of operational management. Mr. ZHANG later became the director of the department of engineering and served at that position until August 2011. Mr. ZHANG was appointed as a vice president of our Company in August 2011. In 1991, Mr. ZHANG graduated from Tsinghua University (清華大學) with a bachelor's degree in thermal engineering. Mr. ZHANG is a senior engineer.

Non-executive Director

Mr. PAN Chongyi (潘崇義), aged 67, is a non-executive Director of our Company, and was appointed on January 13, 2011. Mr. PAN has over 40 years of experience in the power and machinery industries. Mr. PAN joined Harbin Turbine Company (哈爾濱汽輪機廠) in December 1968 and was later promoted as a vice director of Harbin Turbine Company in May 1983. In April 1990, Mr. PAN was appointed as the director-general of the Harbin Light Industry Bureau (哈爾濱市輕工業局) until May 1992. From May 1992 to September 1994, Mr. PAN served as a vice general manager of Harbin Power Equipment Group Company (哈爾濱電站設備集團公司) and from September 1994 to January 1997, Mr. PAN served as vice chairman of the board and general manager of Harbin Power Equipment Co., Ltd. (哈爾濱動力設備股份有限公司), a company listed on the Stock Exchange (stock code: 1133). From January 1997 to February 1998, Mr. PAN served as vice general manager for China National Machinery and Equipment (Group) Company (中國機械裝備(集團)公司), which was the predecessor of SINOMACH, and the general manager of China National Electric Equipment Corporation (中國電工設備總公司), which is a subsidiary of SINOMACH. From February 1998 to October 2000, Mr. PAN served as a director of China National

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Machinery and Equipment (Group) Company and the general manager of China National Electric Equipment Corporation. From October 2000 to August 2001, Mr. PAN also held various positions in China National Machinery and Equipment (Group) Company, including as director, vice president and executive vice president. From February 2004 to September 2010, Mr. PAN served as the chairman of the board of China Perfect Machinery Industry Corp., Ltd. (中國浦發機械工業股份有限公司), which is a subsidiary of SINOMACH. Currently, Mr. PAN is also an independent non-executive director of TravelSky Technology Limited (中國民航信息網絡股份有限公司), a company listed on the Stock Exchange (stock code: 0696), and an external director of China Coal Technology & Engineering Group Corp (中國煤炭科工集團有限公司). In 1968, Mr. PAN graduated from the department of power mechanics of the Shanghai Mechanical Institute (上海機械學院). Mr. PAN is a professorial engineer.

Mr. WANG Zhian (王治安), aged 62, is a non-executive Director of our Company, and was appointed on January 13, 2011. Mr. WANG has over 30 years of experience in the electricity and machinery industries. From January 1977 to June 1999, Mr. WANG served at China Machinery Industry Third Installation Engineering Corporation (中國機械工業第三安裝工程公司), which was a subsidiary of China Machinery Industry Installation Corporation (中國機械工業安裝總公司) and held various positions at the same company, including technician, engineer, manager of the engineering department, vice manager and manager. From June 1999 to June 2001, Mr. WANG was promoted to vice general manager and then general manager of China Machinery Industry Installation Corporation. Subsequently, in June 2001, China Machinery Industry Installation Corporation changed its name to China CMIIIC Engineering & Construction Corporation (中國機械工業建設總公司), a subsidiary of SINOMACH, and Mr. WANG served as the general manager of that company until September 2010. Mr. WANG has been a director of China Perfect Machinery Industry Corp., Ltd. (中國浦發機械工業股份有限公司), a subsidiary of SINOMACH, since September 2010 and was a director of China Power Engineering Co., Ltd. (中國電力工程股份有限公司), a subsidiary of SINOMACH, from December 2010 to November 2011. In 1976, Mr. WANG completed his studies in electric machinery and apparatus and graduated from Xi'an Jiaotong University (西安交通大學). Mr. WANG is a professorial engineer.

Independent non-executive Directors

Mr. LIU Li (劉力), aged 57, is an independent non-executive Director of our Company, and was appointed on January 13, 2011. Mr. LIU was a teacher at the department of physics, the Beijing Institute of Iron and Steel (北京鋼鐵學院) from September 1984 to January 1986. From January 1986 to date, Mr. LIU has been holding various teaching positions at the Guanghua School of Management (光華管理學院), and its predecessor, the department of economics of the school of economics and management (經濟學院經濟管理系), Peking University, including lecturer, associate professor, professor, supervisor for doctoral students, the director of the finance department and a director of the MBA program at the Guanghua School of Management, Peking University. Mr. LIU is also a deputy director of the Research Center of Finance & Securities at Peking University. Currently, Mr. LIU is an independent non-executive director of Metallurgical Corporation of China Ltd. (中國冶金科工股份有限公司), a company listed on the Stock Exchange (stock code: 1618) and the Shanghai Stock Exchange (stock code: 601618); and an independent director of Bohai Ferry Co. Ltd. (渤海輪渡股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 603167), Zhongyuan Special Steel Co., Ltd. (中原特鋼股份有限公司), a company listed on SZSE (stock code: 002423), and Beijing Oil HBP Group (華油惠博普科技股份有限公司), a company listed on SZSE (stock code: 002554). In 1982, Mr. LIU graduated from Peking University with a bachelor's degree in physics, and in 1984 with a master's degree in physics respectively. Mr. LIU is also a member of the Chinese Institute of Certified Public Accountants (non-practising).

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Ms. LIU Hongyu (劉紅宇), aged 49, is an independent non-executive Director of our Company and was appointed on January 13, 2011. From July 1985 to May 1988, Ms. LIU served as an officer at the financial management office of the People's Bank of China Sichuan branch (四川省人民銀行). From May 1988 to April 1993, Ms. LIU served as a legal consultant for the Agricultural Bank of China (Beijing Branch) and from April 1993 to April 2004, she was the managing partner at Beijing Tongda Law Offices (北京同達律師事務所). In 2004, as a result of the merger between Beijing Tongda Law Offices and Jincheng Law Firm (金誠律師事務所), Ms. LIU became a senior partner, attorney at law of the merged firm, Beijing Jincheng & Tongda Law Firm (北京金誠同達律師事務所). From April 2005 to June 2011, Ms. LIU served as an independent director for Founder Technology Group Corporation (方正科技集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600601). From June 2009 to June 2012, Ms. LIU served as an independent director for Chongqing Three Gorges Water Conservancy and Electric Power Co., Ltd. (重慶三峽水利電力(集團)股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600116). Currently, Ms. LIU is an independent director of Chongqing International Enterprise Investment Co., Ltd. (重慶國際實業投資股份有限公司), a company listed on SZSE (stock code: 000736) and an external supervisor of the Bank of Beijing Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601169). In 1985, Ms. LIU graduated from Southwest University of Politics and Law (西南政法大學) with a bachelor's degree in law, as well as from the Graduate School of the Chinese Academy of Social Sciences (中國社會科學院研究生院) in economic law in 1998. Ms. LIU also obtained an EMBA degree from the Guanghua School of Management, Peking University in 2003.

Mr. FANG Yongzhong (方永忠), aged 61, is an independent non-executive Director of our Company, and was appointed on July 29, 2011. In September 1971, Mr. FANG joined the construction machinery factory of the Shenyang Railway Bureau (瀋陽鐵路局施工機械廠). Mr. FANG then joined the engineering department of the Shenyang Railway Bureau (瀋陽鐵路局瀋陽工程處) and held a number of positions within the bureau including technician, assistant engineer, engineer, vice section chief, section chief, vice departmental director and departmental director between February 1977 and August 1994. Mr. FANG was appointed as a vice director of the Shenyang sub-bureau of the Shenyang Railway Bureau in August 1994 and between August 1994 and December 1999, he was also general manager of Shenyang Engineering Corporation of the Shenyang Railway Bureau. From December 1999 to December 2003, Mr. FANG served at Shenyang Railway Engineering Construction Group Co., Ltd. (瀋陽鐵路工程建設集團有限公司) as the chairman of the board and general manager. From December 2003 to March 2008, Mr. FANG held various positions at China Railway No.9 Group Co., Ltd. (中鐵九局集團有限公司) including director, vice general manager and vice chairman of the board of directors. Currently, Mr. FANG is an external director of China Railway Science & Industry Group (中鐵科工集團有限公司) (“**CRSIG**”), China Railway No. 5 Engineering Group Co., Ltd. (中鐵五局(集團)有限公司) (“**China Railway No.5 Bureau**”), China Overseas Engineering Group Co., Ltd. (中國海外工程有限責任公司) (“**COVEC**”) and China Railway & Airport Construction Group Corporation (中國中鐵航空港建設集團有限公司) (“**CACCC**”) and is a supervisor and the chairman of the supervisory board of China Railway Construction and Engineering Group (中鐵建工集團有限公司) (“**CRCEG**”). These five companies are subsidiaries of China Railway Group Limited (中國中鐵股份有限公司), a company listed on the Stock Exchange (stock code: 0390) and Shanghai Stock Exchange (stock code: 601390). As an external director, Mr. Fang participates in board meetings of CRSIG, China Railway No.5 Bureau, COVEC and CACCC, representing the interests of the respective shareholder, China Railway Group Limited. However, Mr. FANG is not involved in the day to day management of CRSIG, China Railway No.5 Bureau, COVEC and CACCC.

As a supervisor and the chairman of the supervisory board of CRCEG, Mr. Fang participates in meetings of the supervisory board and the board of directors of CRCEG, representing the interests of the shareholder, China Railway Group Limited. However, Mr. FANG is not involved in

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the day to day management of CRCEG. Mr. FANG completed his studies in railway engineering (工程系鐵道工程專業) and graduated from the Shanghai Railway Institute (上海鐵道學院) in 1977, and also obtained an EMBA in decision-making management from International East-West University (美國國際東西方大學決策管理學) in December 1995. Mr FANG is a senior engineer and a registered national first class architect.

Mr. CHAN Kin Ho Philip (陳建豪), aged 35, is an independent non-executive Director of our Company and was appointed on December 30, 2011. In September 1999, Mr. CHAN joined the assurance and advisory department of Deloitte Touche Tohmatsu Limited as a staff accountant and held that position until November 2000. From November 2000 to May 2004, Mr. CHAN worked at KPMG and was serving as assistant manager before he left. In June 2004, Mr. CHAN joined the Hong Kong branch of Deutsche Bank AG as a business area controller in the financial controlling division until April 2006. From April 2006 to December 2008, Mr. CHAN served as financial controller for Xinhua Sports & Entertainment (HK) Limited and served as group financial controller from January 2009 to March 2011. Xinhua Sports & Entertainment (HK) Limited was a wholly-owned subsidiary of Xinhua Sports & Entertainment Limited, which was listed on NASDAQ (stock code: XSEL) until April 1, 2011 and whose shares (PINK: XSELY) are currently traded on the American over-the-counter (pink sheets) market. From April 2011 to June 2012, Mr. CHAN served as vice president – finance for SearchMedia Holdings Limited, a company listed on American Stock Exchange (stock code: IDI). Mr. CHAN graduated from the University of Hong Kong with a bachelor's degree in business administration in accounting and finance. Mr. CHAN is a certified public accountant under the Hong Kong Institute of Certified Public Accountants and a member of The Association of Chartered Certified Accountants. Mr. CHAN is also a chartered financial analyst.

Save as disclosed in the section headed "Relationship with Controlling Shareholder" in this Prospectus, none of our Directors has any interests in any business, apart from our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business.

SUPERVISORY BOARD

The PRC Company Law requires a joint stock limited liability company to establish a Supervisory Board, and this requirement is also set out in our Articles of Association. Our Supervisory Board consists of three Supervisors, one of whom is elected by the employees of our Company. The term of office of our Supervisors is three years; and is renewable upon re-election and re-appointment. The duties and powers conferred on our Supervisors include, among other things:

- monitoring and overseeing our Company's financial matters;
- proposing to convene a meeting of our Board of Directors on an ad hoc basis;
- supervising the conduct of our Board of Directors and senior management of our Company when carrying out their duties;
- proposing to remove Directors and senior management officers who have breached applicable laws, regulations, our Articles of Association or Shareholders' resolutions;
- demanding Directors and senior management officers to rectify any action which is prejudicial to the interests of our Company; and
- exercising other powers as conferred by our Articles of Association, laws and administrative regulations.

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A resolution of our Supervisory Board may be adopted only if it is approved by the vote of two-thirds or more of the members of our Supervisory Board.

Mr. QUAN Huaqiang (全華強), aged 42, is a Supervisor of our Company, and was appointed on January 13, 2011. Mr. QUAN worked in the finance department of Beijing Yanshan Petrochemical Corporation (北京燕山石油化工公司) from August 1991 to July 1994. From July 1994 to October 1997, Mr. QUAN was initially employed as an accountant and then in May 1995, he became manager of the finance department of Universal Import and Export Company (中機通用進出口公司財務部) until October 1997. Mr. QUAN was appointed by China National Machinery Import & Export Corporation (“CMC”) (中國機械進出口集團) as finance manager for the CMC Ukraine Office in October 1997 and worked there until January 1999, and then was appointed as manager of the finance department of CMC General Electrical Parts Import and Export Company (中機機電配件進出口公司) by CMC until May 2001. In May 2001, Mr. QUAN was appointed by China General Technology Group (中國通用技術集團) as general manager of the finance department of China International Advertising Corporation (中國國際廣告公司財務部) and subsequently was appointed as manager of the funds management department of the general finance department of China General Technology Group in May 2004. From March 2005 to December 2006, Mr. QUAN served at Sinomach Finance Co., Ltd. (國機財務有限責任公司) as a vice general manager. From September 2010 to August 2011, Mr. QUAN was the chairman of the Supervisory Board at China Automobile Trading Co., Ltd. (中國進口汽車貿易有限公司). Mr. QUAN has been serving as the head of the internal audit inspection department of SINOMACH from December 2006 to present. Mr. QUAN has also been serving as the chairman of the Supervisory Board of our Company since November 2008. Currently, Mr. QUAN is a member of the Supervisory Board of Sinomach Automobile Co., Ltd. (國機汽車股份有限公司), a company listed on the Shanghai Stock Exchange (Stock code: 600335). In 1991, Mr. QUAN graduated from the Jiangxi Institute of Finance and Economics (江西財經學院) with a bachelor’s degree in accounting. Mr. QUAN is a senior accountant.

Mr. QIAN Xiangdong (錢向東), aged 43, is a Supervisor of our Company, and was appointed on January 13, 2011. Mr. QIAN joined the Education Department of the MMI in June 1997. From September 1998 to August 2006, Mr. QIAN held various positions, including officer, vice manager of the finance and audit department, vice chief accountant and manager of the finance and audit department and vice general manager at China National Harvester Machinery Corporation (中國收穫機械總公司) (a subsidiary of SINOMACH). From July 2006 to August 2006, Mr. QIAN served as a director and financial controller for Luoyang China Harvesters Corporation (洛陽中國收穫機械總公司). From August 2006 to September 2008, Mr. QIAN served as a financial controller for the Tianjin Design & Research Institute of Electric Drive (天津電氣傳動設計研究所) (a subsidiary of SINOMACH). Since 2008, Mr. QIAN has been serving as a vice general manager and chief financial officer for China United. In 1998, Mr. QIAN graduated from Jilin University of Technology (吉林工業大學) majoring in economic management (by correspondence). Mr. QIAN is a senior accountant.

Mr. BAI Ming (白明), aged 44, is a Supervisor of our Company, and was appointed on January 7, 2011. In March 1992, Mr. BAI joined our Company and from March 1992 to December 1999, he was employed as an accountant at the finance department of our Company. From December 1999 to September 2005, Mr. BAI was employed as an accountant at CMEC International Engineering. Mr. BAI was a vice general manager of the project auditing division of our Company from September 2005 to May 2007. Mr. BAI was the director of the project auditing division of the audit department of our Company from May 2007 to September 2009 and has been a vice general manager of the audit department of our Company since September 2009. Mr. BAI graduated from the Beijing Institute of Machinery Industry (北京機械工業學院) in 1991 majoring in industrial accounting and is an assistant accountant and a tax accountant.

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Save as disclosed in the section headed “Relationship with Controlling Shareholder” in this Prospectus, none of our members of the Supervisory Board has any interests in any business, apart from our Group’s business, which competes or is likely to compete, either directly or indirectly, with our Group’s business.

SENIOR MANAGEMENT

The following table sets forth information regarding our senior management members:

Name	Age	Position
ZHANG Chun (張淳)	44	President
JIAO Hanzhou (焦捍洲)	57	Vice president
JIN Chunsheng (靳春生)	55	Vice president
ZHANG Jianguo (張建國)	51	Vice president
WANG Dingning (王丁寧)	57	Vice president
LI Chaoyang (李朝陽)	44	Vice president
ZHOU Yamin (周亞民)	49	Chief financial officer
CHEN Minjian (陳民建)	57	Secretary to the Board of Directors

Mr. ZHANG Chun (張淳), aged 44, serves as an executive Director and the president of our Company. Please see his biography under the sub-section headed “Directors” for details.

Mr. JIAO Hanzhou (焦捍洲), aged 57, is a vice president of our Company, and is in charge of our Company’s trading business. Mr. JIAO has almost 30 years of experience in the machinery and equipment industry. Mr. JIAO joined our Company in August 1982, working as a sales representative in our Company from August 1982 to October 1985 and was then assigned to the representative office of our Company in Thailand from October 1985 to September 1990. Mr. JIAO served as a vice director of the No. 2 department of our Company from September 1990 to April 1995 and as a vice general manager and then the general manager of China Engineering Machinery Import & Export Co., Ltd. (中設工程機械進出口公司), which is a subsidiary of our Company from January 1996 to June 2005. From May 2002 to April 2003, Mr. JIAO was initially employed as an assistant president, and was subsequently promoted to a vice president, of our Company in April 2003. In 1982, Mr. JIAO graduated from the department of electrical engineering, the Shenyang Institute of Electrical Engineering (瀋陽機電學院) with a bachelor’s degree majoring in electric apparatus. Mr. JIAO is a senior engineer.

Mr. JIN Chunsheng (靳春生), aged 55, is a vice president of our Company and is in charge of our Company’s International Engineering Contracting Business. Mr. JIN has over 30 years of experience in the machinery and equipment industry and has held various positions within our Company. Mr. JIN joined our Company in February 1982, and he worked as a sales representative from February 1982 to August 1986. During such period, Mr. JIN also studied English for almost one year at the Tianjin Institute of Foreign Languages (天津外國語學院). From August 1986 to August 1989, Mr. JIN was assigned by our Company to work as a project manager of American Machinery. After returning to China in August 1989, Mr. JIN was appointed as director of the department responsible for the export of complete sets of equipment until June 1999, and was subsequently promoted to a vice general manager of CMEC International Engineering until November 2001. Mr. JIN was a vice general manager of China Machinery-building International Corporation (中國機械對外經濟技術合作總公司) from November 2001 to December 2004 and was appointed as a vice president of our Company in December 2004. In 1982, Mr. JIN obtained his bachelor’s degree in hydraulic machinery from Gansu University of Technology (甘肅工業大學). Mr. JIN is a professorial engineer.

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Mr. ZHANG Jianguo (張建國), aged 51, is a vice president of our Company and is in charge of our Company's trade and other business. Prior to joining our Company, Mr. ZHANG was a lecturer at Peking University (北京大學) from July 1987 to May 1991. In May 1991, Mr. ZHANG joined our Company and he was appointed as a vice general manager of the department of human resources and education of our Company in June 1993. Mr. ZHANG was subsequently promoted as a vice director of the general office of our Company and held that position from December 1993 to January 1998. In 1998, Mr. ZHANG was appointed as a vice general manager of CMEC Tendering, and was promoted to the general manager thereof in July 2001 and held that position until June 2007. In March 2005, Mr. ZHANG was also appointed as an assistant president of our Company. Mr. ZHANG has been a vice president of our Company since May 2006. Mr. ZHANG is a senior economist and graduated from Peking University with a master's degree in history in 1987.

Mr. WANG Dingning (王丁寧), aged 57, is a vice president of our Company and is in charge of the general affairs of our Company. Mr. WANG served in the PRC military from December 1974 to August 1994. In August 1994, Mr. WANG joined China Machine-building International Corporation (中國機械對外經濟技術合作總公司) as an assistant to the manager of the department of human resources. From July 1997 to May 1998, Mr. WANG worked at the MMI. From May 1998 to June 2002, Mr. WANG joined China National Machinery and Equipment (Group) Company (中國機械裝備(集團)公司), the predecessor of SINOMACH, as the director of the department of human resources. From June 2002 to May 2006, he served as a vice secretary of the CPC Committee and the secretary of the discipline inspection committee (紀委書記) of China Machine-building International Corporation (中國機械對外經濟技術合作總公司). Mr. WANG also served as a vice general manager for the same company from February 2005 to May 2006. In May 2006, Mr. WANG joined our Company and served as secretary of the discipline inspection committee (紀委書記) thereof. Since December 2006, Mr. WANG has also been serving as a vice president of our Company. In 1993, Mr. WANG graduated from the Party School of the Central Committee of the Communist Party of China majoring in economic management. Mr. WANG is a senior political work specialist.

Mr. LI Chaoyang (李朝陽), aged 44, is a vice president of our Company and is in charge of the International Engineering Contracting Business of our Company. Mr. LI has over 15 years of experience in the machinery and equipment industry and has also worked in a number of governmental departments in China, including MOFTEC and MOFCOM. Mr. LI joined China Computer Application Development Company for Machinery Industry (中國機械工業電腦應用開發公司) in July 1992 as a project manager. In May 1996, Mr. LI joined the State Administration of Electromechanical Products Export Office (國務院機電產品出口辦公室) and was promoted to an associate principal staff (副主任科員) in April 1997. Subsequently, Mr. LI joined the electrical and mechanical export department of MOFTEC (外經貿部機電司出口處) and was promoted to a vice director in February 2001. In April 2002, Mr. LI was appointed as a vice director of the electrical and mechanical projects department of MOFTEC (外經貿部機電司項目處). Mr. LI was appointed as a vice director of the department of electrical and mechanical projects of MOFCOM (商務部機電司項目處) in March 2003, and was promoted to a director in December 2003. In December 2005, Mr. LI joined our Company as an assistant president and vice general manager of the second division of complete sets of plants and equipment and was promoted to the general manager of the same division in August 2007. Mr. LI was appointed as a vice president of our Company on May 27, 2010. In 1992, Mr. LI graduated from Hunan University (湖南大學) with a bachelor's degree majoring in computer science and application. Mr. LI is a senior engineer.

Mr. ZHOU Yamin (周亞民), aged 49, is the chief financial officer of our Company. Mr. ZHOU took various positions in China Machinery Industry Installation Company (中國機械工業安裝總公司) from October 1983 to June 2001, including bookkeeper of the finance department, accountant, vice departmental director of the finance department and manager of the finance department. From

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

June 2001 to February 2002, Mr. ZHOU served as deputy chief accountant and manager of the department of financial assets for China CMIIC Engineering & Construction Corporation. From February 2002 to December 2004, Mr. ZHOU was appointed as the chief accountant of China CMIIC Engineering & Construction Corporation and from December 2004 to July 2011, he served as vice general manager and chief financial officer for China CMIIC Engineering & Construction Corporation. In July 2011, Mr. ZHOU joined our Company and was appointed as the chief financial officer on July 29, 2011. Mr. ZHOU graduated from Beijing Technology and Business University and the Open University of China (北京工商大學和中央廣播電視大學) with a bachelor's degree in management in July 2004, majoring in accounting. Mr. ZHOU is a senior accountant, a member of the Chinese Institute of Certified Public Accountants (non-practising), an international certified practising accountant and a senior international finance manager.

Mr. CHEN Minjian (陳民建), aged 57, serves as secretary to our Board and joint company secretary of our Company. In 1978, Mr. CHEN joined our Company as a sales representative. Mr. CHEN served as a vice president of American Industry Inc. (美國工業公司) from August 1985 to December 1989 in the US and subsequently, Mr. CHEN was appointed as a vice president for Oversea Resources Corporation Limited (泰國華隆公司) in Thailand from January 1990 to August 1992. Upon his return to the PRC, Mr. CHEN served as a vice general manager of the department of the exhibition and information of our Company from September 1992 to December 1995. Mr. CHEN then served respectively as a vice general manager and executive vice general manager of CMEC Expo from January 1996 to June 2009. Mr. CHEN was appointed in September 2009 as a vice director of the office of company reorganization of our Company as well as served as a vice director of the general office of our Company from January 2011 to June 2011. Mr. CHEN was appointed as the director of the general office in June 2011 and the secretary to the Board of our Company in July 2011. In 1978, Mr. CHEN completed his studies in international trade and English and graduated from the University of International Business and Economics (對外經濟貿易大學). Mr. CHEN is a senior economist.

Save as disclosed above, there is no other information relating to our Directors and our senior management members that needs to be disclosed pursuant to the requirements under Rule 13.51(2) of the Listing Rules.

BOARD COMMITTEES

Strategy and Development Committee

We established a strategy and development committee pursuant to a resolution of our Board of Directors passed on June 25, 2011 with written terms of reference. The primary duties of the strategy and development committee include:

- conducting research in respect of, and formulating the strategy and business development of our Company, including the medium to long term plans, and supervising the implementation of our Company's strategic planning;
- presenting assessment reports on the implementation of our Company's strategic planning, management and business development;
- researching and analyzing major issues encountered by our Company in the course of its development, etc.

The current members of the strategy and development committee of our Company are YANG Wansheng (楊萬勝), LI Taifang (李太芳), ZHANG Chun (張淳), PAN Chongyi (潘崇義) and LIU Li (劉力). The strategy and development committee is chaired by YANG Wansheng (楊萬勝).

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Operation and Risk Management Committee

We established an operation and risk management committee pursuant to a resolution of our Board of Directors passed on June 25, 2011 with written terms of reference. The primary duties of the operation and risk management committee are mainly to identify potential risks arising from the operation of our business and make recommendations to our Board on the risk management policy, including:

- reviewing and evaluating the progress of major investments, operations, and major business;
- reviewing and evaluating the decision making standards and mechanisms as regards major operational decisions, major risks, major events, and major business processes;
- establishing sound and comprehensive risk management and internal control procedures in respect of the risk management and internal control system with a view to ensuring the effective and efficient operation of such system.

The current members of the operation and risk management committee of our Company are LI Taifang (李太芳), PAN Chongyi (潘崇義), WANG Zhian (王治安) and FANG Yongzhong (方永忠). The operation and risk management committee is chaired by LI Taifang (李太芳).

Audit Committee

We established an audit committee pursuant to a resolution of our Board of Directors passed on June 25, 2011. We specified its terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules pursuant to a resolution of our Board of Directors passed on November 10, 2012. The primary duties of the audit committee include:

- making recommendations to our Board on the appointment and removal of external auditors;
- reviewing and providing comments on the financial statements, reports and material advice in respect of financial reporting;
- supervising, evaluating and examining the efficiency and effectiveness of the risk management and internal control system of our Company.

The current members of the audit committee of our Company are LIU Li (劉力), LIU Hongyu (劉紅宇) and WANG Zhian (王治安). The audit committee is chaired by LIU Li (劉力).

Remuneration Committee

We established a remuneration committee pursuant to a resolution of our Board of Directors passed on June 25, 2011. We specified its terms of reference in accordance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules pursuant to a resolution of our Board of Directors passed on November 10, 2012. The primary duties of the remuneration committee include:

- formulating the remuneration packages for departmental heads and their deputies of business and functional departments of our Company;
- formulating and reviewing the remuneration packages for the chairman, directors, supervisors and general managers of the wholly owned subsidiaries and direct subsidiaries of our Company;
- making recommendations to our Board in respect of the overall remuneration policy and structure for all Directors and senior management of our Group, which include (i) establishing a formal and transparent procedure for developing policies on such remuneration; and (ii) recommending terms of the specific remuneration package of our directors and senior management.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

The current members of the remuneration committee are FANG Yongzhong (方永忠), YANG Wansheng (楊萬勝) and LIU Li (劉力). The remuneration committee is chaired by FANG Yongzhong (方永忠).

Nomination Committee

We established a nomination committee pursuant to a resolution of our Board of Directors passed on June 25, 2011. We specified its terms of reference in accordance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules pursuant to a resolution of our Board of Directors passed on November 10, 2012. The primary duties of the nomination committee include:

- identifying and recommending to our Board candidates suitable to serve as the directors, senior management officers, general manager and deputy general manager of our Company; and
- reviewing the Board's structure in terms of the number of directors, their skills and knowledge, their experience, the composition of the Board, and making recommendations to the Board on change in its structure in light of our Company's strategy.

The current members of the nomination committee are YANG Wansheng (楊萬勝), LIU Hongyu (劉紅宇) and FANG Yongzhong (方永忠). The nomination committee is chaired by YANG Wansheng (楊萬勝).

JOINT COMPANY SECRETARIES

Mr. CHEN Minjian (陳民建), aged 57, serves as secretary to the Board and one of the joint company secretaries. Please see his biography under the sub-section headed "Senior Management" for details.

Ms. TSANG Fung Chu (曾鳳珠), aged 44, is the other joint company secretary of our Company. Ms. TSANG is a co-founder of C&T Associates CPA Limited. Ms. TSANG is a Fellow Certified Public Accountant, a member of the Association of Chartered Certified Accountants and a Fellow Member of the Hong Kong Institute of Public Accountants. Ms. TSANG graduated from the University of Hong Kong with a degree in social science, and has extensive experiences in finance and accounting.

REMUNERATION POLICY

We value our employees and recognize the importance of a good relationship with our employees. The remuneration to our employees includes salaries and allowances.

Our Company offers competitive remuneration packages to our Directors and employees. Our Company's remuneration policies are formulated based on the position of individual employees and are reviewed regularly. Subject to various factors, including, *inter alia*, our Company's performance and the performance of members of our staff, our Company may also provide a bonus to our employees for their contribution to our Company as an incentive. The primary goal of the remuneration policy with regard to the remuneration packages of our Company's executive Directors is to enable our Company to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of our Company's executive Directors' remuneration packages include salaries, allowances and annuities, and discretionary bonuses.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Please refer to the section headed “Business – Employees” for the discussion regarding the mandatory pension plans and social insurance contribution plans we participate in.

During each of the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the total amount of emoluments (which includes (i) salaries and other benefits; (ii) contributions to retirement benefits schemes; and (iii) performance related incentive payments) paid to our Directors amounted to approximately RMB2.6 million, RMB2.6 million, RMB3.7 million and RMB2.1 million, respectively. No remuneration has been paid to the Directors as an inducement to join or upon joining our Company or as compensation for the loss of office as a director of any member of our Company or of any other office in connection with the management of the affairs of any member of our Company during the Track Record Period. No Directors waived any emoluments during the Track Record Period.

Under the arrangements currently in force, the aggregate remuneration payable to, and benefits-in-kind receivable by, our Directors for the year ending December 31, 2012 are estimated to be approximately RMB4.5 million.

We have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff.

COMPLIANCE ADVISOR

Our Company has appointed China Galaxy International Securities (Hong Kong) Co., Limited as our compliance advisor pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 and Rule 3A.24 of the Listing Rules, the compliance advisor will advise our Company on the following matters:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this Prospectus;
- (iv) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares; and
- (v) where we propose to appoint a new director to our Board.

Pursuant to Rule 19A.06 of the Listing Rules, our compliance advisor will, on a timely basis, inform us of any amendment or supplement to the Listing Rules that are announced by the Stock Exchange. Our compliance advisor will also inform us of any amendment or supplement to the applicable laws, regulations or codes.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, each of the following persons will, immediately following completion of the Global Offering (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option), have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Number of Shares held after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering ⁽¹⁾	Approximate percentage of shareholding in the total share capital of our Company after the Global Offering ⁽²⁾
SINOMACH.....	Beneficial interest and interest of controlled corporation	3,228,200,000 ⁽³⁾	100.00%	80.34%

Notes:

- (1) The calculation is based on the percentage of shareholding in Domestic Shares or H Shares (excluding 71,800,000 H Shares to be converted from Domestic Shares and held by NSSF) (as applicable) after the Global Offering.
- (2) The calculation is based on the total number of 4,018,000,000 Shares in issue after the Global Offering.
- (3) SINOMACH is beneficially interested in 3,195,918,000 Domestic Shares, representing approximately 79.54% of our total share capital. China United is interested in 32,282,000 Domestic Shares, representing approximately 0.80% of our total share capital. Since China United is a wholly-owned subsidiary of SINOMACH, SINOMACH is, therefore, deemed to be interested in the Domestic Shares held by China United.

Immediately following the completion of the Global Offering (and assuming the Over-allotment Option is not exercised), SINOMACH and China United shall transfer 71,082,000 Shares and 718,000 Shares, respectively, to the NSSF (which shall be converted into H Shares at the time of such transfers).

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

SHARE CAPITAL

As at the date of this Prospectus, the registered share capital of our Company is RMB3.3 billion divided into 3,300,000,000 Domestic Shares with a nominal value of RMB1.00 each.

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately after the Global Offering will be as follows:

Number of Shares	Description of Shares	Approximate percentage of issued share capital (%)
3,228,200,000	Domestic Shares ⁽¹⁾	80.34
71,800,000	H Shares to be converted from Domestic Shares and held by NSSF	1.79
<u>718,000,000</u>	H Shares to be issued under the Global Offering	<u>17.87</u>
<u><u>4,018,000,000</u></u>	Total	<u><u>100.00</u></u>

Note:

(1) These Domestic Shares are held by SINOMACH and China United.

Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately following the completion of the Global Offering will be as follows:

Number of Shares	Description of Shares	Approximate percentage of issued share capital (%)
3,217,430,000	Domestic Shares ⁽¹⁾	77.99
82,570,000	H Shares to be converted from Domestic Shares and held by NSSF	2.00
<u>825,700,000</u>	H Shares to be issued under the Global Offering	<u>20.01</u>
<u><u>4,125,700,000</u></u>	Total	<u><u>100.00</u></u>

Note:

(1) These Domestic Shares are held by SINOMACH and China United.

The above tables assume the Global Offering becomes unconditional and is completed.

SHARE CAPITAL

OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company, rank *pari passu* in all respects, and will qualify and rank equally for all dividends or other distributions declared, made or paid. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and traded in RMB. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB.

Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the PRC Company Law). Under the PRC Company Law, promoter shares may not be sold within a period of one year from January 18, 2011, on which we were organized as a joint stock limited company. This lock-up period expired on January 17, 2012. The PRC Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing.

However, based on the Provisional Procedures for the Reduction of State Owned Shareholdings and the Raising of Social Security Funds (減持國有股籌集社會保障資金管理暫行辦法) issued by the State Council and based on the discussions between our PRC legal advisors and the competent PRC authorities, our PRC legal advisors have advised that any transfer of the Shares issued to the NSSF before the Listing and will not be subject to such transfer restriction. Please see the section headed “Risk Factors – Risks relating to the Global Offering – Future sales, or market perception of sales, of substantial amounts of our H Shares or other securities relating to our H Shares in the public market could materially and adversely affect the prevailing market price of our H Shares” for risks associated with the possible transfer of the Shares held by the NSSF. Upon the approval of the State Council or its authorized regulatory departments and with the consent of the Stock Exchange, the Domestic Shares may be converted into H Shares.

Except in relation to the dispatch of notices and financial reports to the Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix III to this Prospectus, our Domestic Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this Prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plans other than the Global Offering.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Conversion of Domestic Shares

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our Domestic Shares may be converted into H Shares and transferred to overseas investors, and such transferred H Shares may be listed or traded on an overseas stock exchange provided that prior to the transfer and trading of such transferred shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant

SHARE CAPITAL

PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such transfer, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. If any of our Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on the Stock Exchange, such transfer and conversion will need to be approved by the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted shares on the Stock Exchange. Based on the methodology and procedures for the transfer and conversion of our Domestic Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed transfer to ensure that the transfer process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong. No class shareholder voting is required for the listing and trading of the transferred shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed transfer.

Mechanism and Procedures for Conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the Hong Kong H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange complying with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Promoters currently proposes to convert any of the Domestic Shares held by it into H Shares, except for the Domestic Shares to be converted and transferred by SINOMACH and China United to the NSSF in connection with the Global Offering.

TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE

The PRC Company Law provides that in relation to the Hong Kong Public Offering of a company, the shares issued by a company prior to the Hong Kong Public Offering of shares shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date. However, the Shares to be transferred by SINOMACH and China United to the NSSF in accordance with relevant PRC regulations regarding the disposal of State-owned shares are not subject to such statutory restrictions on transfer following their transfer to the NSSF in accordance with the relevant PRC regulations regarding the disposal of State-owned shares.

SHARE CAPITAL

TRANSFER OF STATE-OWNED SHARES

In accordance with relevant PRC regulations regarding the disposal of state-owned shares, each of SINOMACH and China United is required to transfer to the NSSF such number of Domestic Shares in aggregate as would be equivalent to 10% of the number of the Offer Shares (718,000,000 H Shares before the exercise of the Over-allotment Option, and 825,700,000 H Shares after the exercise in full of the Over-allotment Option). At the time of the listing of our H Shares on the Stock Exchange, such Domestic Shares will be converted into H Shares on a one-for-one basis. These H Shares will not be part of the Global Offering but will be considered as part of the Shares to be held by public investors for the purpose of Rule 8.08 of the Listing Rules. We will not receive any proceeds from the transfer by SINOMACH and China United to the NSSF of such Domestic Shares or any subsequent disposal of such H Shares by the NSSF.

The transfer of state-owned shares by SINOMACH and China United to the NSSF was approved by SASAC on March 15, 2011. The conversion of those Domestic Shares into H Shares was approved by the CSRC on May 28, 2012. We have been advised by our PRC legal advisors that the transfer, conversion, and holding of H Shares by the NSSF, following such transfer and conversion, have been approved by the relevant PRC authorities and are legal under PRC law.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to 《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》 (the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 working days upon listing.

GENERAL MANDATE TO ISSUE SHARES

Subject to the completion of the Global Offering, our Board has been granted a general mandate to allot and issue H Shares at any time within a period up to the date of the conclusion of the next annual general meeting of the Shareholders or the date on which our Shareholders pass a special resolution to revoke or change such mandate, whichever is earlier, upon such terms and conditions and for such purposes and to such persons as our Board in their absolute discretion deem fit, and to make necessary amendments to the Articles of Association, provided that, the number of H Shares to be issued shall not exceed 20% of the number of H Shares in issue as at the Listing Date.

Furthermore, we need to obtain approvals from the CSRC and other relevant PRC authorities for the actual issuance of H Shares.

For more details of this general mandate, please see “Appendix VI – Statutory and General Information – 4. Written resolutions of all our Shareholders passed on February 10, 2012” for further details.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We and the Sole Global Coordinator or ABCI (in the case of The People's Insurance Company (Group) of China Limited (“**PICC**”)) have entered into cornerstone placing agreements with the following investors (the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) that may be purchased for an aggregate amount of approximately US\$165 million (the “**Cornerstone Placing**”). Assuming an Offer Price of HK\$4.75 (being the mid-point of the indicative Offer Price range stated in this Prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be approximately 268,963,000 H Shares, representing approximately (i) 37.46% of the Offer Shares initially available under the Global Offering; and (ii) 6.69% of our Company's enlarged share capital immediately upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Each of the Cornerstone Investors is an independent third party, is independent with each other, is not our connected person, and is not an existing shareholder of our Company. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around December 20, 2012.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective cornerstone placing agreements). Upon the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become our substantial shareholder. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering – Pricing and Allocation – Allocation”.

CORNERSTONE INVESTORS

We and the Sole Global Coordinator or ABCI (in the case of PICC) have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

Nanjing Turbine & Electric Machinery (Group) Co., Ltd (南京汽輪電機(集團)有限責任公司)

Nanjing Turbine & Electric Machinery (Group) Co., Ltd (“**NTC**”) has agreed to purchase, through a qualified domestic institutional investor fund, a number of International Offer Shares at the Offer Price for a total of US\$30 million (rounded down to the nearest board lot of 1,000 Shares) (exclusive of brokerage fee, Stock Exchange trading fee and SFC transaction levy). Assuming an Offer Price of HK\$4.75 (being the mid-point of the Offer Price range stated in this Prospectus), the total number of H Shares to be purchased by NTC would be 48,947,000 H Shares, representing approximately 6.82% of the total Offer Shares initially available under the Global Offering and approximately 1.22% of our Company's enlarged share capital immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

CORNERSTONE INVESTORS

NTC is a company incorporated in the PRC and its controlling shareholder is Guolian Trust and Investment Co., Ltd. (國聯信託投資有限責任公司) which holds 40% equity in NTC and is a PRC-incorporated company engaging in investment. The remaining shareholding of NTC is held by three corporate shareholders, which are independent third parties, holding 60% in aggregate and none of them holds more than 40% in NTC. NTC mainly engages in the development, design, manufacture, engineering, procurement and construction contracting, sales, spare parts supply, installation, repair, commissioning and import and export business of gas turbines, steam turbines, generators, combined cycle power plant equipment and large to medium sized electric motors. NTC is our supplier and an independent third party notwithstanding the foregoing.

China Overseas Finance Investment Limited (中國海外金融投資有限公司)

China Overseas Finance Investment Limited (“COFI”) has agreed to purchase a number of International Offer Shares at the Offer Price for a total of US\$15 million (rounded down to the nearest board lot of 1,000 Shares) (inclusive of brokerage fee, Stock Exchange trading fee and SFC transaction levy). Assuming an Offer Price of HK\$4.75 (being the mid-point of the Offer Price range stated in this Prospectus), the total number of H Shares to be purchased by COFI would be 24,229,000 H Shares, representing approximately 3.37% of the total Offer Shares initially available under the Global Offering and approximately 0.60% of our Company’s enlarged share capital immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

COFI, a wholly-owned subsidiary of 中國海外集團有限公司 (China Overseas Holdings Limited), is an investment holding company incorporated in Hong Kong. It is primarily engaged in the provision of financial advisory services and investment strategies specifically for 中國海外集團有限公司 (China Overseas Holdings Limited). The scope of services includes, but is not limited to, fund-raising activities from capital markets, evaluations and implementations of equity & bond investments, corporate restructuring and mergers & acquisitions advisory services.

Xi Lian International Co., Ltd. (錫聯國際投資有限公司)

Xi Lian International Co., Ltd. (“Xi Lian”) has agreed to purchase a number of International Offer Shares at the Offer Price for a total of US\$20 million (rounded down to the nearest board lot of 1,000 Shares) (exclusive of brokerage fee, Stock Exchange trading fee and SFC transaction levy). Assuming an Offer Price of HK\$4.75 (being the mid-point of the Offer Price range shown in this Prospectus), the total number of H Shares to be purchased by Xi Lian would be 32,631,000 H Shares, representing approximately 4.54% of the total Offer Shares initially available under the Global Offering and approximately 0.81% of our Company’s enlarged share capital immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Xi Lian is a company incorporated in Hong Kong and a wholly-owned subsidiary of 無錫市國聯發展(集團)有限公司 (Wuxi Guolian Development (Group) Co., Ltd.) (“Wuxi Guolian”). As an extension of Wuxi Guolian’s capital markets businesses, over a long period of time, Xi Lian has been committed to identify the appropriate PRC investment project candidates for overseas capital, with a particular emphasis on the environmentally friendly power sector, as well as the engineering equipment sector.

CORNERSTONE INVESTORS

CSR (Hong Kong) Company Limited (中國南車(香港)有限公司)

CSR (Hong Kong) Company Limited (“**CSR HK**”) has agreed to purchase a number of International Offer Shares at the Offer Price for a total of US\$50 million (rounded down to the nearest board lot of 1,000 Shares) (exclusive of brokerage fee, Stock Exchange trading fee and SFC transaction levy). Assuming an Offer Price of HK\$4.75 (being the mid-point of the Offer Price range shown in this Prospectus), the total number of H Shares to be purchased by CSR HK would be 81,578,000 H Shares, representing approximately 11.36% of the total Offer Shares initially available under the Global Offering and approximately 2.03% of our Company’s enlarged share capital immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

CSR HK is a company incorporated in Hong Kong and a wholly-owned subsidiary of 中國南車股份有限公司 (China South Locomotive & Rolling Stock Corporation Limited) (“**CSR**”), a PRC state-owned enterprise listed on the Stock Exchange (stock code: 1766) and the Shanghai Stock Exchange (stock code: 601766) specialising in rolling stock manufacturing and solutions providing. CSR HK principally engages in promoting and expanding CSR’s global trading and international investment business to support its fast development and to deliver improved sales results leveraging on CSR’s technical and competitive advantages.

The People’s Insurance Company (Group) of China Limited (中國人民保險集團股份有限公司)

PICC has agreed to purchase a number of International Offer Shares at the Offer Price for a total of US\$50 million (rounded down to the nearest board lot of 1,000 Shares) (exclusive of brokerage fee, Stock Exchange trading fee and SFC transaction levy). Assuming an Offer Price of HK\$4.75 (being the mid-point of the Offer Price range shown in this Prospectus), the total number of H Shares to be purchased by PICC would be 81,578,000 H Shares, representing approximately 11.36% of the total Offer Shares initially available under the Global Offering and approximately 2.03% of our Company’s enlarged share capital immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Founded in October 1949, PICC was the first nation-wide insurance company in the PRC and has developed into a leading large-scale integrated insurance financial group in the PRC, ranking 292nd on the Global 500 (2012) published by “Fortune” magazine. PICC offers a broad range of insurance products and services to individual and institutional customers through a nationwide distribution and service network. As of June 30, 2012, PICC had approximately 130 million individual insurance customers and approximately 2,416,000 institutional insurance customers. Based on PICC’s reputation accumulated over the past 63 years, PICC’s highly-recognizable “PICC” brand, efficient management of various business lines at the PICC Group level and synergistic operations of PICC’s various business lines, PICC has attained a leading market position in the PRC and established strong competitive advantages.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified or as subsequently waived or varied by agreement of the parties thereto in such agreements; and

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- (2) the Listing Committee having granted the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the Sole Global Coordinator or ABCI (in the case of PICC), it will not, whether directly or indirectly, at any time during a period of six months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the H Shares subscribed for by it pursuant to the relevant cornerstone investment agreement. Each Cornerstone Investor may transfer the H Shares so subscribed in certain limited circumstances, such as transfer to a wholly-owned subsidiary of such Cornerstone Investor, provided that such wholly-owned subsidiary agrees to be subject to the restrictions on disposals imposed on such Cornerstone Investor.

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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.

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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

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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.

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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

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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.”

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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.

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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.

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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.

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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.

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- 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

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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.

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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.

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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	
	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)
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."

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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.

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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	
	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)
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	<u>13,646.7</u>	<u>100.0</u>	<u>12,019.6</u>	<u>100.0</u>	<u>12,055.2</u>	<u>100.0</u>	<u>5,507.4</u>	<u>100.0</u>	<u>6,426.1</u>	<u>100.0</u>

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.

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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	
	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)
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 owing 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

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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.

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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	
	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)
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
	<i>(RMB million)</i>	(%)	(%)	<i>(RMB million)</i>	(%)	(%)	<i>(RMB million)</i>	(%)	(%)	<i>(RMB million)</i>	(%)	(%)	<i>(RMB million)</i>	(%)	(%)
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

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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.

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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	<u>287.9</u>	<u>289.9</u>	<u>406.4</u>	<u>171.7</u>	<u>212.3</u>

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.

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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.

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i> (unaudited)	<i>(RMB million)</i>
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 .	<u>609.8</u>	<u>1,135.2</u>	<u>1,473.6</u>	<u>638.8</u>	<u>990.5</u>
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	<u>610.1</u>	<u>1,132.2</u>	<u>1,472.3</u>	<u>642.3</u>	<u>989.5</u>
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 .	<u>609.8</u>	<u>1,135.2</u>	<u>1,473.6</u>	<u>638.8</u>	<u>990.5</u>

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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	<u>2,353.1</u>	<u>5,078.8</u>	<u>5,170.7</u>	<u>10,191.9</u>

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

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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.

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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)

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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.

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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
	2009	2010	2011	June 30,
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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)	–	–
	<u>9,455.7</u>	<u>9,602.9</u>	<u>7,950.6</u>	<u>7,366.5</u>
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
	<u>9,455.7</u>	<u>9,602.9</u>	<u>7,950.6</u>	<u>7,366.5</u>

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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
	2009	2010	2011	June 30,
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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 ...	<u>4,821.6</u>	<u>5,201.9</u>	<u>6,533.7</u>	<u>5,710.5</u>

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.

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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
	<u>1,413.8</u>	<u>2,246.2</u>	<u>3,488.0</u>	<u>2,988.4</u>

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.

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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.

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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.

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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
	<u>6,460.9</u>	<u>7,853.7</u>	<u>8,319.7</u>	<u>9,942.6</u>

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.

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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.

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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	<u>118.6</u>	<u>80.9</u>	<u>18.1</u>	<u>27.4</u>	<u>42.8</u>
Loans from a fellow subsidiary					
unsecured.....	–	20.7	–	–	–
Subtotal	<u>118.6</u>	<u>101.6</u>	<u>18.1</u>	<u>27.4</u>	<u>42.8</u>
Add: current portion of long-term borrowings					
	394.5	474.6	142.0	70.3	91.9
Subtotal	<u>513.1</u>	<u>576.2</u>	<u>160.1</u>	<u>97.7</u>	<u>134.7</u>
Non-current:					
Long-term borrowings					
unsecured.....	913.8	740.6	–	–	–
secured.....	1,230.4	993.6	367.5	260.8	257.7
Subtotal	<u>2,144.2</u>	<u>1,734.2</u>	<u>367.5</u>	<u>260.8</u>	<u>257.7</u>
Less: current portion of long-term borrowings					
	394.5	474.6	142.0	70.3	91.9
Subtotal	<u>1,749.7</u>	<u>1,259.6</u>	<u>225.5</u>	<u>190.5</u>	<u>165.8</u>
Total	<u><u>2,262.8</u></u>	<u><u>1,835.8</u></u>	<u><u>385.6</u></u>	<u><u>288.2</u></u>	<u><u>300.5</u></u>

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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
	2009	2010	2011	June 30,
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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

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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
	2009	2010	2011	June 30,
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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

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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
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
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.”

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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.

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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.

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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."

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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 Sinasure; for International Engineering Contracting Business financed by export seller's credit, we typically buy export credit insurance from Sinasure 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.

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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.

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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.

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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."

FINANCIAL INFORMATION

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.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Our goal is to enhance our position as a leading international engineering contractor and service provider in the world with sustainable shareholder return. To achieve our goal, we intend to pursue the following strategies:

- Strengthen our leading position in the power sector and enlarge our market share in the transportation and telecommunications sectors as well as other sectors and countries
- Consolidate our strengths and enlarge our market share in our Trading Business
- Selectively undertake international projects in our non-Core Sectors
- Utilize local resources to improve margin and efficiency
- Increase our profitability through efficient fund usage and capital structure management
- Strengthen our information system, increase our operational efficiency and improve our risk management system
- Continue to advance and enhance the quality of our personnel

See the section headed “Business – Our Business Strategies” for a more detailed description of our future plans and business strategies we aim to implement.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$3,226.9 million, after deducting the underwriting fees and expenses payable by us in the Global Offering, and assuming the Over-allotment Option is not exercised and an Offer Price of HK\$4.75 per H Share, being the mid-point of the estimated Offer Price range stated in this Prospectus. We intend to use these net proceeds for the following purposes (assuming that the Over-allotment Option is not exercised):

- approximately 90% (approximately HK\$2,904.2 million) of the net proceeds of the Global Offering will be applied towards financing our international engineering contracting projects, which is a summation of (1) approximately 76% of the net proceeds of the Global Offering for the engineering contracting projects in our Core Sectors (being approximately 52% in the power sector and approximately 24% in the transportation sector), and (2) approximately 14% of the net proceeds of the Global Offering for the engineering contracting projects in the non-Core Sectors; in areas such as payment to subcontractors and suppliers for payments of subcontracting services and equipment and machinery. See “– Use of proceeds on our engineering contracting projects” for further details. We will allocate the funds to these projects according to their actual progress and financial needs; and
- approximately 10% (approximately HK\$322.7 million) of the net proceeds of the Global Offering will be used for working capital and other general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

To the extent our net proceeds of the Global Offering are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, our Directors currently intend that such proceeds will be placed on short-term deposits and on other short-term capital preservation products with licensed banks or financial institutions in Hong Kong or the PRC.

Use of proceeds on our engineering contracting projects

We intend to apply approximately 90% of the net proceeds from the Global Offering to 11 international engineering contracting projects. Of these 11 international engineering contracting projects:

- nine projects are in the power sector, with a total contract amount of US\$5,574.0 million, of which one project is in Asia, two in Africa, two in South America and four in Europe;
- one project is in the transportation sector with a contract value of US\$2,500.0 million in South America; and
- one project is in the non-Core Sector with a contract value of US\$1,450.0 million in Asia.

As at the Latest Practicable Date, four of these 11 projects (which were power projects) were ongoing with an estimated backlog of approximately US\$808.7 million in aggregate as at June 30, 2012. For the remaining seven projects, engineering contracting contracts were entered into but had not become effective as at the Latest Practicable Date. Save for the foregoing, no revenue was recognized for the remaining seven projects listed above. If for any reasons these seven contracts do not become effective after 12 months from Listing, or, after our due and careful consideration taking into account the then prevailing facts and circumstances, we deem that the contracts will not proceed according to their relevant schedule, we will identify other suitable projects to apply our net proceeds from the Global Offering and notify our Shareholders accordingly.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Bookrunners and Joint Lead Managers

BOCI Asia Limited
ICBC International Capital Limited (in the capacity as a Joint Bookrunner) / ICBC International Securities Limited (in the capacity as a Joint Lead Manager)
CIMB Securities Limited
ABCI Securities Company Limited

Co-Managers

UOB Kay Hian (Hong Kong) Limited
First Shanghai Securities Limited
Sun Hung Kai Investment Services Limited
Chief Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 71,800,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this Prospectus and the Application Forms. Subject to the Listing Committee granting the listing of, and permission to deal in, the H Shares and certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional.

One of the conditions is that the Offer Price must be agreed between us and the Joint Bookrunners (on behalf of the Underwriters). For applicants applying under the Hong Kong Public Offering, this Prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. If, for any reason, the Offer Price is not agreed between us and the Joint Bookrunners (on behalf of the Underwriters), the Global Offering will not proceed.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, any of the following events occurs at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Joint Bookrunners that:
 - (i) any statement contained in any of this Prospectus, the Application Forms, the formal notice and the offering circulars considered by the Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the above-mentioned documents is not fair and honest and based on reasonable assumptions; or

UNDERWRITING

- (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this Prospectus, constitute a material omission therefrom; or
 - (iii) any of the representations and warranties given by any of the warrantors in the Underwriting Agreements is (or would when repeated be) untrue, incorrect, inaccurate or misleading or having been breached in any respect; or
 - (iv) any material breach of any of the obligations or undertakings imposed upon any party (other than the Joint Bookrunners or any of the Underwriters) to any of the Underwriting Agreements; or
 - (v) any material adverse change or prospective material adverse change or development (whether or not permanent) in the earnings, conditions, business, business affairs, assets and liabilities, properties, results of operations, profits, in the financial or trading position or prospects or performance or reputation of any member of our Group or our Group as a whole; or
 - (vi) any material litigation, regulatory or administrative investigation or claim being threatened or instigated against our Group, our Controlling Shareholder, or their respective directors and senior management, or their respective directors and senior management being disqualified by competent authorities from taking part in the management of a company; or
 - (vii) any matter, event, act or omission which gives or is likely to give rise to any material liability of any of the warrantors pursuant to the indemnities given by any of them in the Underwriting Agreements; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, China, the United States, the United Kingdom, Canada, the European Union (taken as a whole), Japan or Singapore (each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure such as acts of government, strikes, lock-outs, fire, explosion, flooding, tsunami, earthquake, volcano eruption, ice-storm, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including but not limited to Severe Acute Respiratory Syndrome (**SARS**) and Influenza A (**H5N1**) or swine or avian influenza or such related/mutated forms, accident or interruption or delay in transportation), in or affecting any Relevant Jurisdiction; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

UNDERWRITING

- (v) the imposition or declaration of (A) any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NYSE Amex Equities, the Nasdaq Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange or any other major international stock exchange; or (B) a general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction or any jurisdiction where the stock exchange referred to in paragraph (A) above is located; or
- (vi) any change or development or event involving a prospective change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any Relevant Jurisdiction; or
- (vii) any imposition of economic or other sanctions against any member of our Group, in whatever form, directly or indirectly, by any Relevant Jurisdiction or any governmental authority of any Relevant Jurisdiction; or
- (viii) an order is granted or a petition is presented for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (ix) a valid demand by any creditor for repayment or payment of indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity, or any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (x) any contravention by any member of our Group of the Hong Kong Companies Ordinance or the Listing Rules or applicable Laws; or
- (xi) a prohibition on our Company for whatever reason from allotting or selling the Offer Shares (including the additional Shares that may be allotted and issued by our Company upon the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xii) the chairman or any of the chief executives of our Company vacating his or her office; or

and which, in any of (b)(i) to (b)(xii) and in the sole opinion of Joint Bookrunners (for themselves and on behalf of the Hong Kong Underwriters):

- (A) is or may or will be or is likely to be materially adverse to, or affects or is likely to affect or will affect materially and prejudicially, the business or financial or trading position or prospects of our Group as a whole; or
- (B) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering, and/or has made or is likely to make or will make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged.

UNDERWRITING

Undertakings by our Company

We have also undertaken to the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor and the Hong Kong Underwriters (and are expected to undertake to the International Underwriters) that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date, we will not, without the Joint Bookrunners' prior written consent and unless in compliance with the requirements of the Listing Rules:

- (a) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any such share capital or other securities of our Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest therein) or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such share capital or securities or any interest therein or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) above; whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise.

Undertakings by our Controlling Shareholder

Our Controlling Shareholder, SINOMACH, has undertaken to each of the Stock Exchange, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and us that it will not, save as in compliance with the requirements of the Listing Rules:

- (a) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (the "**First Six-month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares or securities in respect of which it is shown by this Prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules); and
- (b) during the period of six months immediately following the date on which the First Six-month Period expires (the "**Second Six-month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in the immediately preceding paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined under the Listing Rules) of our Company.

UNDERWRITING

SINOMACH has further undertaken to each of the Stock Exchange, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers, the Hong Kong Underwriters and us that, within the First Six-month Period up to and including the expiry of the Second Six-month Period, it will, in compliance with the Listing Rules:

- (a) when it pledges or charges any Shares or other securities or interests or any of the rights attaching to such share capital including but not limited to rights as to voting, dividend or distribution in the securities of our Company in respect of which it is the beneficial owner in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company and the Joint Bookrunners in writing of any such pledge or charge and the number of Shares or other securities of our Company and nature of interest so pledged or charged; and
- (b) when it receives any indications, either verbal or written, from any such pledgee or chargee of Shares or other securities of our Company that any of such pledged or charged Shares or other securities of our Company will be disposed of, immediately inform us and the Joint Bookrunners in writing of any such indications.

We will also, as soon as we have been informed of the above matters (if any) by SINOMACH, inform the Stock Exchange and disclose such matters as soon as possible by way of an announcement to be published as required under the Listing Rules.

The International Offering

In connection with the International Offering, it is expected that our Company, among others, will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly and severally, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Bookrunners on behalf of the International Underwriters at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to issue and allot an aggregate of 107,700,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allotments (if any) in the International Offering.

Potential investors should note that if the International Underwriting Agreement is not entered into or is terminated, the Global Offering will not proceed.

Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 2.75% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, our Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Bookrunners and the relevant International Underwriters (but not the Hong Kong Underwriters).

UNDERWRITING

Assuming an Offer Price of HK\$4.75 per H Share (being the mid-point of the indicative offer price range of HK\$4.10 to HK\$5.40 per H Share), the aggregate commissions and fees, together with listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the Global Offering are estimated to be approximately HK\$183.6 million (assuming the Over-allotment Option is not exercised) in total.

UNDERWRITING

Our Company has agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' Interests in our Company

Save as disclosed in this Prospectus and save for the obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in any member of our Group or the right or option (whether legally enforceable or not) to subscribe for or purchase or nominate persons to subscribe for securities in any member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard, and if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out any covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of our H Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or

UNDERWRITING

retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of our H Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price, (ii) selling or agreeing to sell our H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price, (iii) subscribing, or agreeing to subscribe, for our H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, our H Shares for the sole purpose of preventing or minimizing any reduction in the market price, (v) selling our H Shares to liquidate a long position held as a result of those purchases and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Stabilizing actions by the Stabilizing Manager, its affiliate(s) or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of our H Shares, the Stabilizing Manager, its affiliate(s) or any person acting for it, may maintain a long position in our H Shares. The size of the long position, and the period for which the Stabilizing Manager, its affiliate(s) or any person acting for it, will maintain the long position are at the discretion of the Stabilizing Manager and uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of our H Shares.

Stabilizing action by the Stabilizing Manager, its affiliate(s) or any person acting for it is not permitted to support the price of our H Shares for longer than the stabilizing period, which begins on the day on which trading of our H Shares commences on the Stock Exchange and ends on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. The stabilizing period is expected to end on January 13, 2013. As a result, demand for our H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of our H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, its affiliate(s) or any person acting for it, may not necessarily result in the market price of our H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of our H Shares by the Stabilizing Manager, its affiliate(s) or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for our H Shares by purchasers.

A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (a) the Hong Kong Public Offering of 71,800,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Hong Kong Public Offering”; and
- (b) the International Offering of an aggregate of 646,200,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may apply for the H Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the H Shares under the International Offering, but may not do both.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The number of H Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the section headed “The Hong Kong Public Offering – Reallocation” below.

THE HONG KONG PUBLIC OFFERING

Number of H Shares initially offered

We are initially offering 71,800,000 H Shares at the Offer Price, representing 10% of the H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the Hong Kong Public Offering will represent approximately 1.79% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed “Conditions of the Global Offering” below.

Allocation

Allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided into two pools for allocation purposes as follows:

- Pool A: The Offer Shares in pool A, being an aggregate of 35,900,000 H Shares, will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or less; and
- Pool B: The Offer Shares in pool B, being an aggregate of 35,900,000 H Shares, will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of more than HK\$5 million and up to the value of pool B.

Applicants should be aware that applications in pool A and pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 35,900,000 Offer Shares will be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached. In the event of over-applications in the Hong Kong Public Offering, the Joint Bookrunners shall apply a clawback mechanism following the closing of the application lists on the following basis:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total number of Offer Shares available under the Hong Kong Public Offering will be 215,400,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 287,200,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and

STRUCTURE OF THE GLOBAL OFFERING

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 359,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners may in their discretion reallocate H Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Bookrunners will have the discretion (but shall not be under any obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Offer Shares in such amounts as they deem appropriate.

References in this Prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of H Shares initially offered

Subject to the reallocation as described above, the number of H Shares to be initially offered under the International Offering will be 646,200,000 H Shares, representing 90% of the Offer Shares initially available under the Global Offering. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the International Offering will represent approximately 16.08% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on behalf of our Company by the International Underwriters or through selling agents appointed by them. International Offer Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, H Shares after the listing of the H Shares on the Stock Exchange. Such allocation is intended to result in a distribution of H Shares on a basis which would lead to the establishment of a solid shareholder base which would be to our benefit and to that of the Shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

The Joint Bookrunners may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the International Underwriters, which is exercisable by the Joint Bookrunners on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Joint Bookrunners at any time from the Listing Date until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to 107,700,000 H Shares, representing 15% of the initial Offer Shares, at the same price per H Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional International Offering Shares will represent approximately 2.61% of our enlarged total issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a public announcement will be made.

OVER-ALLOCATION

Following any over-allocation of H Shares in connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for them may cover such over-allocation by (among other methods) using H Shares purchased by the Stabilizing Manager, its affiliates or any person acting for them in the secondary market, exercising the Over-allotment Option in full or in part. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of H Shares which can be over-allocated will not exceed the number of H Shares which may be issued upon exercise of the Over-allotment Option, being 107,700,000 H Shares, representing 15% of the Offer Shares initially available under the Global Offering.

PRICING AND ALLOCATION

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the H Shares in the International Offering. Prospective investors will be required to specify the number of H Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around December 15, 2012 and in any event no later than December 18, 2012, by agreement between the Joint Bookrunners (on behalf of the Underwriters) and our Company. The number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

STRUCTURE OF THE GLOBAL OFFERING

Offer price range

The Offer Price will be not more than HK\$5.40 per H Share and is expected to be not less than HK\$4.10 per H Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$5.40 for each Hong Kong Offer Share (plus 1% brokerage, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee). If the Offer Price is less than HK\$5.40, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company and the Joint Bookrunners (on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before December 18, 2012, the Global Offering will not proceed and will lapse.

Reduction in indicative Offer Price range and/or number of Offer Shares

The Joint Bookrunners (on behalf of the Underwriters), may where considered appropriate, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, reduce the indicative Offer Price range and/or the number of Offer Shares below those stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.cmec.com) notices of the reduction. Upon issue of such a notice, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (on behalf of the Underwriters) and our Company, will be fixed within such revised range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this Prospectus, and any other financial information which may change materially as a result of such reduction.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Sole Global Coordinator, on behalf of the Underwriters, and our Company, will under no circumstances be set outside the Offer Price range as stated in this Prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong

STRUCTURE OF THE GLOBAL OFFERING

Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners.

Announcement of Offer Price and basis of allocations

The final Offer Price, the level of indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on December 20, 2012 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.cmec.com).

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Bookrunners (on behalf of the Underwriters), agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements and the Underwriting Agreements, are summarized in the section headed “Underwriting” in this Prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on:

- the Listing Committee granting the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option);
- the Offer Price having been duly agreed between us and the Joint Bookrunners (on behalf of the Underwriters);
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

STRUCTURE OF THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between our Company and the Joint Bookrunners (on behalf of the Underwriters) on or before December 18, 2012, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its respective terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares – 11. Dispatch/Collection of H Share Certificates and Refunds of Application Monies” in this Prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on December 21, 2012, provided that (a) the Global Offering has become unconditional in all respects and (b) the right of termination as described in the section headed “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination” has not been exercised.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made for the H Shares to be admitted into the CCASS, established and operated by the HKSCC.

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on December 21, 2012, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on December 21, 2012.

The H Shares will be traded in board lots of 1,000 H Shares each.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a United States person (as defined in Regulation S under the US Securities Act), or a legal or natural person (except qualified domestic institutional investors) of the PRC (other than Hong Kong, Macau and Taiwan).

If you wish to apply for the Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO** service.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made through a duly authorized attorney under a valid power of attorney, we and the Joint Bookrunners (or their respective agents and nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We and the Joint Bookrunners or the designated **White Form eIPO** Service Provider (where applicable), in their capacity as our agent, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of shares in our Company, the Directors, Supervisors or chief executive of our Company or any of its subsidiaries or their respective associates (as "**associate**" is defined in the Listing Rules) or any other connected persons (as "**connected person**" is defined in the Listing Rules) of our Company or persons who will become connected persons of our Company immediately upon completion of the Global Offering.

You may apply for H Shares under the Hong Kong Public Offering or indicate an interest for H Shares under the International Offering, but may not do both.

HOW TO APPLY FOR HONG KONG OFFER SHARES

2. CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are four channels to make an application for the Hong Kong Offer Shares:

- You may apply for the Hong Kong Offer Shares by using a **WHITE** Application Form. Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name;
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **White Form eIPO** service by submitting applications online through the designated website at www.eipo.com.hk. Use **White Form eIPO** service if you want the Hong Kong Offer Shares to be issued in your own name;
- You may apply for the Hong Kong Offer Shares by using a **YELLOW** Application Form. Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or
- Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information on your application, you or your joint applicant(s) may only make one application (whether individual or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

3. WHERE TO COLLECT THE PROSPECTUS AND APPLICATION FORMS

You can collect a **WHITE** Application Form and this Prospectus during normal business hours from 9:00 a.m. on Tuesday, December 11, 2012 until 12:00 noon on Friday, December 14, 2012 from:

Any of the following addresses of the Hong Kong Underwriters:

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road
Hong Kong

CIMB Securities Limited
Units 7706-08, Level 77
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

ABCI Securities Company Limited
Room 701, 7/F
One Pacific Place
88 Queensway
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(a) or any of the following branches of **Bank of China (Hong Kong) Limited**

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Sheung Wan Branch	252 Des Voeux Road Central
Kowloon	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	Cheung Sha Wan Plaza Branch	Shop G08, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
	East Point City Branch	Shop 101, East Point City, Tseung Kwan O

(b) or any of the following branches of **Industrial and Commercial Bank of China (Asia) Limited**

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Central Branch	1/F., 9 Queen's Road Central
	Wan Chai Road Branch	G/F Times Media Centre, No.133 Wanchai Road
	Causeway Bay Branch	Shop A, G/F, Jardine Center, 50 Jardine's Bazaar, Causeway Bay
Kowloon	Mongkok Branch	G/F., Belgian Bank Building, 721-725 Nathan Road, Mongkok
	Kwun Tong Branch	Shop 5 & 6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong
New Territories	Tsuen Wan Castle Peak Road Branch	G/F., 423-427 Castle Peak Road, Tsuen Wan

HOW TO APPLY FOR HONG KONG OFFER SHARES

You can collect a **WHITE** Application Form and this Prospectus at the above places during the following times:

Tuesday, December 11, 2012 – 9:00 a.m. to 5:00 p.m.
Wednesday, December 12, 2012 – 9:00 a.m. to 5:00 p.m.
Thursday, December 13, 2012 – 9:00 a.m. to 5:00 p.m.
Friday, December 14, 2012 – 9:00 a.m. to 12:00 noon

You can collect a **YELLOW** Application Form and this Prospectus during normal business hours from 9:00 a.m. on Tuesday, December 11, 2012 until 12:00 noon on Friday, December 14, 2012 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road, Central, Hong Kong.

Your stockbroker may also have **YELLOW** Application Forms and this Prospectus available.

4. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain an Application Form as described in the section above headed “– 3. Where to Collect the Prospectus and Application Forms.”
- (b) Complete the Application Form in English using blue or black ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying check(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address given on the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one check or one banker’s cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the check or banker’s cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the special collection boxes by the time and at one of the locations as described in the section headed above “– 3. Where to Collect the Prospectus and Application Forms”.

In order for an application made on a **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **If you are applying as an individual CCASS Investor Participant:**
 - the Application Form must contain your full name and Hong Kong identity card number;
 - your participant I.D. must be inserted in the appropriate box in the Application Form.
- **If you are applying as a joint individual CCASS Investor Participant:**
 - the form must contain all joint CCASS Investor Participants' full names and the Hong Kong identity card number of all joint CCASS Investor Participants and;
 - your participant I.D. must be inserted in the appropriate box in the Application Form.
- **If you are applying as a corporate CCASS Investor Participant:**
 - the Application Form must contain your company name and Hong Kong business registration number;
 - your participant I.D. and your company chop (bearing your company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render your application invalid.

If your application is made through a duly authorized attorney, we and the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective agents or nominees as our agents may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Bookrunners, in their capacity as our agents, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

(a) General

If you are an individual and meet the criteria set out above in the section headed "1. Who can Apply for the Hong Kong Offer Shares," you may apply through **White Form eIPO** service by submitting an application online through the designated website at www.eipo.com.hk. If you apply through **White Form eIPO** service, the Hong Kong Offer Shares will be issued in your own name.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be **rejected** by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you give **electronic application instructions** to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk, you will have authorized the designated **White Form eIPO** Service Provider to apply on the terms and conditions set out in this Prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

In addition to the terms and conditions set out in this Prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our H Share Registrar.

(b) Minimum Subscription Amount and Permitted Numbers

You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.

(c) Warning

The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2.00 for each “China Machinery Engineering Corporation” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of Dongjiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** or **YELLOW** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the

HOW TO APPLY FOR HONG KONG OFFER SHARES

designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC via CCASS.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out in the section headed “Further Terms and Conditions of the Hong Kong Public Offering – 8. Refund of Application Monies” shall be made pursuant to the arrangements described below in the section headed “– 8. How Many Applications May Be Made.”

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

(a) General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

HKSCC’s Customer Service Counter
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our H Share Registrar.

(b) Minimum Subscription Amount and Permitted Numbers

You may give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms.

(c) Warning

The subscription for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions**. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, December 14, 2012, or such later time as described under the subsection headed "(e) Effects of Bad Weather Conditions on the Opening of the Application Lists" in the section headed "– 7. When may Applications be Made."

7. WHEN MAY APPLICATIONS BE MADE

(a) Applications on **WHITE** or **YELLOW** Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with payment attached, should be lodged in one of the special collection boxes at any of the branches of the receiving banks listed under the section headed above "– 3. Where to Collect the Prospectus and Application Forms" at the following times:

Tuesday, December 11, 2012 – 9:00 a.m. to 5:00 p.m.
Wednesday, December 12, 2012 – 9:00 a.m. to 5:00 p.m.
Thursday, December 13, 2012 – 9:00 a.m. to 5:00 p.m.
Friday, December 14, 2012 – 9:00 a.m. to 12:00 noon

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Friday, December 14, 2012, or, if the application lists are not open on that day, then by the time and date stated in the subsection headed "(e) Effects of Bad Weather Conditions on the Opening of the Application Lists" below.

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(b) Electronic Application Instructions to White Form eIPO Service Provider via White Form eIPO service

You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Tuesday, December 11, 2012 until 11:30 a.m. on Friday, December 14, 2012, or if the application lists are not open on that day, by the time and date stated in the subsection headed “– (e) Effects of Bad Weather Conditions on the Opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, December 14, 2012, the last application day, or if the application lists are not open on that day, by the time and date stated in the subsection headed “– (e) Effects of Bad Weather Conditions on the Opening of the Application Lists” below.

You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, December 14, 2012, or if the application lists are not open on that day, by the time and date stated in the subsection headed “– (e) Effects of Bad Weather Conditions on the Opening of the Application Lists” below, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

(c) Time for Inputting Electronic Application Instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants should input **electronic application instructions** at the following times on the following dates:

Tuesday, December 11, 2012	– 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, December 12, 2012	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, December 13, 2012	– 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, December 14, 2012	– 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, December 11, 2012 until 12:00 noon on Friday, December 14, 2012 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** will be 12:00 noon on Friday, December 14, 2012, the last application day, or if the application lists are not open on that day, by the time and date stated in the subsection headed below “(e) Effects of Bad Weather Conditions on the Opening of the Application Lists”.

(d) Application Lists

The application lists will be open between 11:45 a.m. and 12:00 noon on Friday, December 14, 2012, subject only to the weather conditions as provided in the subsection headed below “– (e) Effects of Bad Weather Conditions on the Opening of the Application Lists”.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Applicants should note that checks or banker's cashier orders will not be presented for payment before the closing of the application lists but may be presented at any time thereafter.

(e) Effects of Bad Weather Conditions on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, December 14, 2012. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon. For this purpose, "Business Day" means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

8. HOW MANY APPLICATIONS MAY BE MADE

Multiple applications or suspect multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares if and only if you are a nominee, in which case you may make an application as a nominee by (i) giving **electronic application instructions** to HKSCC via the CCASS (if you are a CCASS Participant) or; (ii) using a **WHITE** or **YELLOW** Application Form, and lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

For further information, see the section headed "Further Terms and Conditions of the Hong Kong Public Offering – 5. Multiple Applications" in this Prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$5.40 per H Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. This means that for one board lot of 1,000 H Shares you will pay HK\$5,454.43. The Application Forms have tables showing the exact amount payable for numbers of H Shares up to 35,900,000 H Shares.

If the Offer Price as finally determined is less than HK\$5.40 per H Share, appropriate refund payments (including brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the section headed “– 11. Dispatch/Collection of H Share Certificates and Refunds of Application Monies.”

If your application is successful, brokerage is paid to participants of the Stock Exchange (or the Stock Exchange, as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

10. RESULTS OF ALLOCATIONS

Results of allocations in the Hong Kong Public Offering, including the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the basis of allotment of Hong Kong Offer Shares and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service will be made available in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, December 20, 2012:

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be made available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering can be found in our announcement to be posted on the website of our Company at www.cmec.com and on the website of the Stock Exchange at www.hkexnews.hk on Thursday, December 20, 2012;
- Results of allocations will be made available from our Hong Kong Public Offering website at www.iporeresults.com.hk on a 24-hour basis from 8:00 a.m. on Thursday, December 20, 2012 to 12:00 midnight on Wednesday, December 26, 2012. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be made available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, December 20, 2012 to Sunday, December 23, 2012; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, December 20, 2012 to Saturday, December 22, 2012 at all the receiving bank branches and sub-branches at the addresses set out in the section headed above “– 3. Where to Collect the Prospectus and Application Forms.”

HOW TO APPLY FOR HONG KONG OFFER SHARES

11. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUNDS OF APPLICATION MONIES

Refund checks for surplus application monies (if any) under **WHITE** or **YELLOW** Application Forms and H Share certificates for successful applicants under **WHITE** Application Forms or **White Form eIPO** service are expected to be posted and/or available for collection (as the case may be) on or before Thursday, December 20, 2012.

e-Refund payment instructions for surplus application monies (if any) under **White Form eIPO** service and applicants have paid the application monies from a single bank account will be dispatched to the application payment account on or before Thursday, December 20, 2012.

Refund checks for surplus application monies (if any) under **White Form eIPO** service and applicants have paid application monies from multiple bank accounts will be dispatched to the address as specified on their **White Form eIPO** application by ordinary post at their own risk on or before Thursday, December 20, 2012.

H Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, December 21, 2012 provided that the Global Offering has become unconditional in all respects and the right of termination described in the section entitled “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement – Grounds for termination” has not been exercised.

For further information on arrangements for the dispatch/collection of H Share certificates and refunds of application monies, see the sections headed “Further Terms and Conditions of the Hong Kong Public Offering – 7. If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part)” and “– 8. Refund of Application Monies” in this Prospectus.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

1. GENERAL

- (a) If you apply for Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with our Company and the Joint Lead Managers (for themselves and on behalf of the Hong Kong Underwriters) as set out below.
- (b) If you give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf, you will have authorized HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

If you give **electronic application instructions** through the designated website at www.eipo.com.hk, you will have authorized the designated **White Form eIPO** Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

- (c) In this section, references to “you,” “applicants,” “joint applicants” and other like references shall, if the context so permits, include references to making applications electronically by submitting an application to the designated **White Form eIPO** Service Provider through the designated website for the **White Form eIPO** service and both nominees and principals on whose behalf HKSCC Nominees is applying for Hong Kong Offer Shares, and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (d) Applicants should read this Prospectus carefully, including the terms and conditions set out herein and in the Application Forms or imposed by HKSCC prior to making any application for Hong Kong Offer Shares.

2. OFFER TO PURCHASE THE HONG KONG OFFER SHARES

- (a) You offer to purchase from us at the Offer Price the number of the Hong Kong Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this Prospectus and the relevant Application Form.
- (b) For applicants using Application Forms, a refund check in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form on or before Thursday, December 20, 2012. Details of the procedure for refunds relating to each of the Hong Kong Public Offering methods are contained in the subsections below headed “7. If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part),” “8. Refund of Application Monies” and “9. Additional Information for Applicants Applying by Giving Electronic Application Instructions to HKSCC.”
- (c) Any application may be rejected in whole or in part.

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- (d) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for those provided under section 40 of the Hong Kong Companies Ordinance (as applied by section 342E of the Hong Kong Companies Ordinance)) can applications be withdrawn once submitted. For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Hong Kong Companies Ordinance.
- (e) The section of the Application Form headed “Personal Data” applies to any personal data held by our Company and the H Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

3. ACCEPTANCE OF YOUR OFFER

- (a) The Hong Kong Offer Shares will be allocated after the application lists close. We expect to announce the final number of Hong Kong Offer Shares, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Thursday, December 20, 2012.
- (b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available on Thursday, December 20, 2012 in the manner described in the subsection headed “How To Apply For the Hong Kong Offer Shares – 10. Results of Allocations.”
- (c) We may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. EFFECT OF MAKING ANY APPLICATION

- (a) By completing and submitting any Application Form you:
- instruct and authorize our Company and/or the Joint Bookrunners (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by our Articles of Association and otherwise to give effect to the arrangements described in this Prospectus and the relevant Application Form;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by our Articles of Association;
- represent, warrant and undertake that you understand that the H Shares have not been and will not be registered under the US Securities Act and you are outside the United States when completing the applications;
- confirm that you have received and/or read a copy of this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application, and will not rely on any other information or representation save as set out in any supplement to this Prospectus;
- confirm that you understand entirely that our registered share capital comprises of Domestic Shares and H Shares and that holders of H Shares shall have the same right as holders of Domestic Shares save as to certain rights which holders of H Shares are entitled;
- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation and you may not revoke it other than as provided in this Prospectus;
- (if the application is made for your own benefit) warrant that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service (www.eipo.com.hk);
- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that the application is the only application which will be or has been made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service (www.eipo.com.hk) and that you are duly authorized to sign the Application Form or to give **electronic application instruction** as that other person's agent;
- undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Offer Shares in the International Offering, nor otherwise have participated or will participate in the International Offering;
- warrant the truth and accuracy of the information contained in your application;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- undertake and agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- authorize our Company to place your name(s) or HKSCC Nominees, as the case may be, on our H Share register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any H Share certificate(s) (where applicable) and/or any refund check (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your Application Form your wish to collect your refund check and H Share certificates (where applicable) in person between 9:00 a.m. and 1:00 p.m. on Thursday, December 20, 2012, or such other date as notified by our Company in the newspaper as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund checks from Computershare Hong Kong Investor Services Limited);
- understand that these declarations and representations will be relied upon by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application and that you may be prosecuted for making a false declaration;
- if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and the other parties involved in the Global Offering, nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this Prospectus;
- agree with our Company, for itself and on behalf of each Shareholder of our Company, and so that our Company will be deemed by its acceptance in whole or in part of the application, including applications made by HKSCC Nominees, to have agreed for itself and on behalf of each Shareholder of our Company, to observe and comply with the PRC Company Law, the Hong Kong Companies Ordinance, the Special Regulations and the Articles of Association;
- agree with our Company, and each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company (acting for itself and for each Director, Supervisor, manager and officer) agrees with each Shareholder of our Company to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- agree with our Company and each Shareholder of our Company that the H Shares in our Company are freely transferable by the holder thereof;
- authorize our Company to enter into a contract on your behalf with each of our Directors, Supervisors and officers whereby each such Director, Supervisor and officer undertakes to observe and comply with his obligations to Shareholders as stipulated in our Articles of Association;
- agree that our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective directors, officers, employees, agents or advisors and any other parties

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involved in the Global Offering are liable only for and that you have only relied upon, the information and representations contained in this Prospectus and any supplement to this Prospectus; and

- agree to disclose to our Company, our H Share Registrar, the receiving bankers, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective advisors and agents any personal data or other information which they require about you or the person(s) for whose benefit you have made the application.
- (b) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) agree that:
- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant in accordance with your election on the Application Form;
 - each of HKSCC and HKSCC Nominees reserves the right in its absolute discretion (1) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are joint applicants, to the first-named applicant) at your own risk and costs; and (3) to cause such allotted Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the H Share certificates for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
 - each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this Prospectus and the Application Form; and
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:
- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
 - instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting

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your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the Offer Price per H Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and the Stock Exchange trading fee, by crediting your designated bank account;

- (where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares) (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus; (ii) in addition to the confirmations and agreements set out in paragraph (a) above, instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it has stated to do on your behalf in the **WHITE** Application Form, and the following:
 - agree that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf or your CCASS Investor Participant stock account;
 - undertake and agree to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the benefit of that other person and that you are duly authorized to give those instructions as that other person's agent;
 - understand that the above declaration will be relied upon by our Company, the Directors and the Joint Bookrunners in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
 - authorize our Company to place the name of HKSCC Nominees on the H Share register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of your **electronic application instructions** and to send H Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this Prospectus and agree to be bound by them;
 - confirm that you have only relied on the information and representations in this Prospectus in giving your **electronic application instructions** or instructing your broker or custodian to give **electronic application instructions** on your behalf;

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- agree (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on behalf of you pursuant to the **electronic application instructions** given by you is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) if a person responsible for this Prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus;
- agree that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agree to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each of the Shareholders of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders of our Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the PRC company law, the Special Regulations and our Articles of Association; and
- agree with our Company, for itself and for the benefit of each of the Shareholders of our Company and each Director, Supervisor, manager and other officer (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each of the Shareholders of our Company and each Director, Supervisor, manager and other officer, with each CCASS Participant giving **electronic application instructions**):
 - (i) to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with our Articles of Association; and

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (ii) that any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive.
- (d) Our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty(ies), representation(s) or declaration(s) made by you in your application.
- (e) All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

5. MULTIPLE APPLICATIONS

- (a) It will be a term and condition of all applications that by completing and delivering an Application Form or giving **electronic application instructions**, you:
 - (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service;
 - (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service, and that you are duly authorized to sign the Application Form as that other person's agent.
- (b) Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:
 - make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service;
 - both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service;
 - apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service for more than 35,900,000 H Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the section entitled "Structure of the Global Offering – Hong Kong Public Offering;" or
 - have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Offering.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

(c) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which Hong Kong Offer Shares will not be allotted to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form or **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked until and after the fifth day after the time of opening of the application lists (excluding for this purpose any day which is not a Business Day). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) except by means of one of the procedures referred to in this Prospectus.

Your application or the application made by HKSCC Nominees on your behalf may be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a Business Day) if a person responsible for this Prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

If any supplement to this Prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this Prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at www.hkexnews.hk and our website at www.cmec.com of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If our Company, the Joint Bookrunners (where applicable) or their respective agents exercise their discretion to reject your application:

We and the Joint Bookrunners (as agents for our Company) or the designated **White Form eIPO** Service Provider (where applicable), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(c) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) In the following circumstances:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you apply have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares in the International Offering. By filling in any of the Application Forms or giving electronic instructions to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service, you agree not to apply for Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- you apply for more than 35,900,000 Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering;
- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed correctly and in accordance with the instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk;
- either of the Hong Kong Underwriting Agreement or the International Underwriting Agreement does not become unconditional; or
- either of the Hong Kong Underwriting Agreement or the International Underwriting Agreement is terminated in accordance with their respective terms.

7. IF YOUR APPLICATION FOR HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

No temporary document of title will be issued in respect of the H Shares.

No receipt will be issued for sums paid on application.

You will receive one H Share certificate for all of the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS, in which case H share certificates will be deposited in CCASS). H Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, December 21, 2012 provided that the Global Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement – Grounds for Termination" has not been exercised.

(a) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your H Share certificate(s) and/or refund check(s) (where applicable) from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect it/them in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, December 20, 2012 or such other date as notified by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at www.hkexnews.hk and our website at www.cmec.com as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund checks.

If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you do not collect your refund check(s) and/or H Share certificate(s) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund check(s) and/or H Share certificate(s) (where applicable) in person, your refund check(s) and/or H Share certificate(s) (where applicable) will be sent to the address on your Application Form on Thursday, December 20, 2012, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, December 20, 2012, or in the event of a contingency, on any other date as shall be determined by HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on Thursday, December 20, 2012 in the manner described in "How to Apply for the Hong Kong Offer Shares – 10. Results of Allocations." You should check the announcement to be published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, December 20, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund check (where applicable) in person, please follow the same procedure, as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund check (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be on Thursday, December 20, 2012, by ordinary post and at your own risk.

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(c) If you apply through White Form eIPO:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your H Share certificate(s) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, December 20, 2012, or such other date as notified by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Stock Exchange at www.hkexnews.hk and our website at www.cmec.com as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund checks.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk by ordinary post and at your own risk.

If you paid the application monies from a single bank account, e-Refund payment instructions (if any) will be dispatched to the application payment account on or before Thursday, December 20, 2012. If you used multi-bank accounts to pay the application monies, refund check (if any) will be dispatched to you on or before Thursday, December 20, 2012.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in the section headed "How to Apply for the Hong Kong Offer Shares – 5. Applying Through White Form eIPO Service – Additional information."

8. REFUND OF APPLICATION MONIES

Your application monies, or the appropriate portion thereof, together with the related brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%, will be refunded if:

- your application is rejected, not accepted or accepted in part only or if you do not receive any Hong Kong Offer Shares for any of the reasons set out above in the section headed "– 6. Circumstances in which You will not be Allotted Hong Kong Offer Shares;"
- the Offer Price as finally determined is less than the Offer Price of HK\$5.40 per H Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon) initially paid on application;
- the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering – Conditions of the Global Offering;" or
- any application is revoked or any allotment pursuant thereto has become void.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

No interest will be paid thereon. All interest accrued on such monies prior to the date of refund will be retained for our benefit.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Bookrunners, checks for applications for certain small denominations of Hong Kong Offer Shares (apart from successful and reserved applications) may not be cleared.

Refund of your application monies (if any) will be made on Thursday, December 20, 2012 in accordance with the various arrangements as described above. Refund checks will be crossed "Account Payee Only" made out to you, or if you are joint applicants, to the first-named applicant. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund check, if any.

Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number or passport number before encashment of your refund check. Inaccurate completion of your Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate your refund check. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

9. ADDITIONAL INFORMATION FOR APPLICANTS APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

(a) Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

(b) Deposit of H Share Certificates into CCASS and Refund of Application Monies

- No temporary document of title will be issued. No receipt will be issued for sums on paid application.
- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Thursday, December 20, 2012, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering on Thursday, December 20, 2012 in the manner described in "How to Apply for the Hong Kong Offer Shares – 10. Results of Allocations." You should check the announcement published by our Company and report any discrepancies

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

to HKSCC before 5:00 p.m. on Thursday, December 20, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, December 20, 2012. Immediately following the credit of the public offer shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, December 20, 2012. No interest will be paid thereon.

10. SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

11. COMMENCEMENT OF DEALINGS IN THE SHARES

- Dealings in the H Shares on the Stock Exchange are expected to commence on Friday, December 21, 2012.
- The H Shares will be traded in board lots of 1,000 H Shares each.

12. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “**Ordinance**”) came into effect in Hong Kong on December 20, 1996. This Personal Information Collection Statement informs the applicant for and holder of our H Shares of the policies and practices of our Company and our H Share Registrar in relation to personal data and the Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and our H Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the H Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Company or the H Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the dispatch of H Share certificate(s), and/or the dispatch of e-Refund payment instructions, and/or the dispatch of refund check(s) to which you are entitled.

It is important that holders of securities inform us and our H Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and e-Refund payment instructions/refund check, where applicable, and verification of compliance with the terms and application procedures set out in the Application Forms and this Prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the register of holders of securities of our Company;
- conducting or assisting in the conduct of signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and our subsidiaries;
- compiling statistical information and shareholder profiles;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- making disclosures as required by laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and our H Share Registrar to discharge our obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by our Company and our H Share Registrar relating to the applicants and the holders of securities will be kept confidential but our Company and our H Share Registrar, to the extent necessary for achieving the above purposes or any of them, may make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- our Company or our respective appointed agents such as financial advisors and receiving bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or our H Share Registrar in connection with the operation of their business;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service, you agree to all of the above.

(d) Access to and correction of personal data

The Ordinance provides the holders of securities with rights to ascertain whether our Company or our H Share Registrar holds their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Ordinance, our Company and our H Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to us, at our registered address disclosed in the "Corporate Information" section in this Prospectus or as notified from time to time in accordance with applicable law, for the attention of the company secretary, or our H Share Registrar for the attention of the privacy compliance officer.

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

December 11, 2012

The Directors
China Machinery Engineering Corporation

BOCI Asia Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to China Machinery Engineering Corporation (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 (the "Track Record Period"), and the consolidated balance sheets of the Group as at December 31, 2009, 2010 and 2011 and June 30, 2012, together with the explanatory notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated December 11, 2012 (the "Prospectus").

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on January 18, 2011 as part of the reorganization (the "Reorganization") of China National Machinery & Equipment Import & Export Corporation (the "Predecessor"), a state-owned enterprise, as described in Section A below. The Predecessor was the holding company of the subsidiaries now comprising the Group prior to the Reorganization. Pursuant to the Reorganization as detailed in the section headed "History and Reorganization" in the Prospectus, the Predecessor was converted into a joint stock company, namely China Machinery Engineering Corporation, i.e. the Company, the details of which are set out in Section A below. The registered office of the Company is located at No. 178, Guang'anmenwai Street, Xicheng District, Beijing, the PRC.

As at the date of this report, no audited financial statements have been prepared for the subsidiaries of the Company set out below, as these subsidiaries are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

Name of Subsidiary

Ausino Pty. Ltd.
Sino American Machinery Corporation
C-MEC America, Inc.
Euro M.E.C. Import & Export GmbH
CMEC Japan Co., Ltd.
CMIC Enmei Co., Ltd.
CMEC Engineering, C.A.

Except for CMEC Japan Co., Ltd. and CMIC Enmei Co., Ltd., which have adopted March 31 as their financial year end date, and Ausino Pty. Ltd., which has adopted June 30 as its financial year end date, all other companies now comprising the Group have adopted December 31 as their financial year end date. The statutory financial statements of the Predecessor and its subsidiaries in the PRC now comprising the Group as set out in Section A below were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises established in the PRC and were audited by BDO China Da Hua Certified Public Accountants Co., Ltd. (大華會計師事務所有限公司) (formerly known as BDO China Li Xin Da Hua Certified Public Accountants Co., Ltd. (立信大華會計師事務所有限公司)), a certified public accounting firm registered in the PRC. Details of the overseas subsidiaries that are subject to statutory audit requirement, and the names of the respective auditors are set out in note 36 of Section C. The statutory financial statements of these overseas subsidiaries were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated.

The directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below which are in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (the “IASB”) (the “Underlying Financial Statements”). The Underlying Financial Statements for each of the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to June 30, 2012.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group's consolidated results and cash flows for the Track Record Period, and the state of affairs of the Group as at December 31, 2009, 2010 and 2011 and June 30, 2012.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended June 30, 2011, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PREPARATION

The Company was established in the PRC on January 18, 2011 as a joint stock company with limited liability and with a registered capital of RMB3,300 million as part of the Reorganization of the Predecessor in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. The Company and its subsidiaries are mainly engaged in construction contracting business on international infrastructure-related projects and the trading business of machineries and equipments. Prior to the establishment of the Company, the Predecessor was the holding company of the subsidiaries now comprising the Group prior to the Reorganization, and was wholly owned by China National Machinery Industry Corporation ("SINOMACH"). In substance, the Company replaced the Predecessor as the holding company of the Predecessor's subsidiaries.

Pursuant to the Reorganization, the Company retained all of the assets and liabilities of the Predecessor. Upon establishment, the Company had a total of 3,300 million issued ordinary shares, with a par value of RMB1.00 each. The Company issued to SINOMACH 3,267 million shares, or 99% of the total issued shares, in exchange for all the assets and liabilities of the Predecessor. The Company also issued 33 million shares, or 1% of the total issued shares, to China United Engineering Corporation ("China United", 中國聯合工程公司), a wholly owned subsidiary of SINOMACH, in exchange for cash of RMB46,930,900. As there was no change in

controlling shareholder before and after the Reorganization, the Financial Information has been prepared as a continuation of the Predecessor. Accordingly, the relevant assets and liabilities of the companies comprising the 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.

The consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group as set out in Section B(1), B(3) and B(4), respectively include the results of operations of the companies comprising the Group for the Track Record Period (or where the companies were established at a date later than January 1, 2009, for the period from the date of establishment to June 30, 2012), as if the group structure has been in existence throughout the Track Record Period. The consolidated balance sheets as at December 31, 2009, 2010 and 2011 and June 30, 2012 as set out in Section B(2) have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates.

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

As at June 30, 2012, the Company had direct or indirect interests in the following entities, all of which the Company has the power to govern, particulars of which are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
1 CMEC International Engineering Co., Ltd. 中設國際工程有限責任公司 (note i)	The PRC September 9, 1997	RMB50,000,000	100%	–	Construction contracting and trading
2 COMIBEL S.A. 加蓬貝林加鐵礦公司	Gabon March 19, 2008	XAF2,400,000,000	66%	–	Exploration and research of iron ore
3 China Everbest Development International Limited 華盛昌發展有限公司	Hong Kong SAR August 12, 1988	HKD22,136,400	100%	–	Trading and security investment
4 China Machinery & Equipment (HK) Company Limited 中國機械設備香港有限公司	Hong Kong SAR September 20, 1983	HKD25,115,970	100%	–	Trading
5 CMEC Engineering Machinery Import & Export Co., Ltd. 中設工程機械進出口有限責任公司 (note i)	The PRC January 9, 1995	RMB20,000,000	100%	–	Trading

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
6 CMEC Comtrans International Co., Ltd. 中設國際商務運輸代理有限公司 (note i)	The PRC March 5, 1997	RMB20,000,000	100%	–	Transportation agency
7 Ausino Pty. Ltd. 澳大利亞澳華機械有限公司	Australia September 13, 1984	AUD3,974,486	92.95%	–	Wholesale and retail of machinery equipment
8 Shanghai International Transportation Co., Ltd. 中設集團上海國際貨代儲運有限公司 (note i)	The PRC January 30, 1996	RMB10,820,000	100%	–	Transportation agency
9 Shenzhen CMEC Industry Corporation Limited 深圳市中設實業有限公司 (note i)	The PRC March 18, 1992	RMB9,200,000	100%	–	Storage and property service
10 CMEC International Trading Co., Ltd. 中設國際貿易有限公司 (note i)	The PRC January 16, 1995	RMB8,000,000	100%	–	Trading
11 CMEC Machinery & Electric Equipment Import & Export Co., Ltd. 中設機電進出口有限公司 (note i)	The PRC January 16, 1995	RMB8,000,000	100%	–	Trading
12 CMEC International Exhibition Co., Ltd. 西麥克國際展覽有限公司 (note i)	The PRC January 9, 1995	RMB4,000,000	100%	–	Exhibition services
13 CMEC Beijing Property Development Co., Ltd. 中國機械設備進出口北京物業發展有限公司 (note i)	The PRC January 15, 1985	RMB5,000,000	100%	–	Property management and rental
14 CMEC General Machinery Import & Export Co., Ltd. 中設通用機械進出口有限公司 (note i)	The PRC January 9, 1995	RMB6,000,000	100%	–	Trading

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
15 China Machinery and Equipment International Tendering Co., Ltd. 中設國際招標有限責任公司 (note i)	The PRC April 29, 1996	RMB5,000,000	100%	–	Tendering for construction contracts
16 China Machinery Industrial Products Co., Ltd. 中設集團工貿發展有限責任公司 (note i)	The PRC February 6, 2002	RMB15,000,000	100%	–	Trading
17 CMEC Petrochemical-General Machinery Co., Ltd. 中設石化機械有限公司 (note i)	The PRC January 16, 1995	RMB5,000,000	100%	–	Trading
18 China Machinery International Engineering Design & Research Institute Co., Ltd. 中機國際工程設計研究院有限責任公司 (note i)	The PRC October 5, 1993	RMB116,220,000	100%	–	Engineering design, contracting and supervision
19 China-East Resources Import & Export Co., Ltd. 中經東源進出口有限責任公司 (note i)	The PRC July 22, 1993	RMB20,000,000	100%	–	Construction contracting and trading
20 China National Machinery & Equipment Import & Export (Suzhou) Co., Ltd. 中設(蘇州)機械設備進出口有限責任公司 (note i)	The PRC February 20, 1987	RMB19,562,000	100%	–	Trading
21 Shanghai Zhong Jing Import & Export Corporation 上海中經進出口有限責任公司 (note i)	The PRC December 21, 1995	RMB3,500,000	100%	–	Trading
22 China National Machinery & Equipment Import & Export (Wuxi) Co., Ltd. 中設(無錫)機械設備進出口有限責任公司 (note i)	The PRC April 9, 1987	RMB11,500,000	100%	–	Trading

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
23 Sino American Machinery Corporation 美國華美機械有限公司	United States of America ("USA") August 22, 1983	USD1,918,476	100%	–	Trading
24 C-MEC America, Inc. 美國西麥克有限公司	USA September 1, 1987	USD1,000	100%	–	Trading
25 Euro M.E.C. Import & Export GmbH 歐麥克進出口有限公司	Germany March 9, 1990	DEM100,000	100%	–	Trading
26 CMEC Japan Co., Ltd. CMEC日本株式會社	Japan April 2, 1986	JPY50,000,000	80%	–	Trading
27 Henan Machinery & Electric Import & Export Co., Ltd. 河南中經進出口有限責任公司 (note i)	The PRC April 17, 1997	RMB4,180,000	67%	–	Trading
28 CMEC Nanjing Import & Export Co., Ltd. 南京中經進出口有限公司 (note i)	The PRC November 21, 1992	RMB2,000,000	54%	46%	Trading
29 CMIC International Exhibition Co., Ltd. 中經國際展覽有限公司 (note i)	The PRC May 17, 1995	RMB1,000,000	90%	–	Exhibition services
30 CMIC Enmei Co., Ltd. CMIC 燕明株式會社	Japan May 13, 1994	JPY26,000,000	77%	–	Trading
31 CMEC International Economic & Legal Advisors (Beijing) Inc. 西邁克(北京)國際經濟法律諮詢有限責任公司 (note i)	The PRC September 24, 1993	RMB500,000	100%	–	Legal consulting
32 CMEC (Group) Property Management Co., Ltd. 中設集團物業管理有限責任公司 (note i)	The PRC April 29, 2003	RMB1,300,000	31%	69%	Property management and rental
33 Shenzhen CMEC Import & Export Co., Ltd. 深圳市西麥克進出口有限責任公司 (note i)	The PRC March 6, 1993	RMB5,000,000	100%	–	Trading

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
34 China National Machinery & Equipment Import & Export (Fujian) Co., Ltd. 福建中設機械設備進出口有限公司 (note i)	The PRC February 21, 2001	RMB5,460,000	55%	–	Trading
35 China National Machinery & Equipment Import & Export (Hubei) Co., Ltd. 中設集團湖北機械設備進出口有限公司 (note i)	The PRC November 30, 2007	RMB5,000,000	51%	–	Trading
36 CMEC Senegal S.A. 中國機械設備進出口總公司塞內加爾股份有限公司	Senegal April 20, 2009	XOF10,000,000	100%	–	Construction contracting
37 CMEC Engineering, C.A. 西麥克委內瑞拉工程公司	Venezuela March 11, 2011	VEF200,000	99.9%	0.1%	Construction contracting

Note:

- (i) Except for China Everbest Development International Limited, China Machinery & Equipment (HK) Company Limited, Ausino Pty. Ltd., Sino American Machinery Corporation, C-MEC America, Inc. and Euro M.E.C. Import & Export GmbH of which their official names are in English, the official names of COMIBEL S.A. and CMEC Senegal S.A. are in French, the official names of CMEC Japan Co., Ltd. and CMIC Enmei Co., Ltd. are in Japanese, and the official name of CMEC Engineering, C.A. is in Spanish, the official names of other entities in the list above are in Chinese and the English translation of their names is for identification only.

B FINANCIAL INFORMATION**1 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Section C Note	Years ended December 31,			Six months ended June 30,	
		2009	2010	2011	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	2	19,287,696	19,077,015	20,517,769	9,838,760	10,354,140
Cost of sales		(17,528,085)	(16,134,642)	(16,858,738)	(8,387,225)	(8,450,180)
Gross profit		1,759,611	2,942,373	3,659,031	1,451,535	1,903,960
Other revenue	3	13,395	19,352	9,699	806	2,272
Other expenses, net	4	(25,448)	(10,186)	(3,062)	(1,923)	(21,146)
Selling and marketing expenses		(763,005)	(806,285)	(978,257)	(408,822)	(504,725)
Administrative expenses		(287,897)	(289,910)	(406,388)	(171,718)	(212,306)
Other operating expenses		(138,614)	(320,005)	(136,381)	(19,297)	(72,713)
Profit from operations		558,042	1,535,339	2,144,642	850,581	1,095,342
Finance income		352,857	411,741	402,274	204,998	249,042
Finance expenses		(76,377)	(385,855)	(559,538)	(196,098)	(2,977)
Net finance income/(expenses)	5(a)	276,480	25,886	(157,264)	8,900	246,065
Share of profits less losses of associates		147	192	(9)	(129)	(215)
Profit before taxation	5	834,669	1,561,417	1,987,369	859,352	1,341,192
Income tax	6	(224,520)	(429,248)	(515,026)	(217,076)	(351,694)
Profit for the year/period		610,149	1,132,169	1,472,343	642,276	989,498
Other comprehensive income for the year/period						
Exchange differences on translation of financial information of overseas subsidiaries		(270)	3,042	1,235	(3,429)	978
Total comprehensive income for the year/period		609,879	1,135,211	1,473,578	638,847	990,476
Profit attributable to:						
Equity owners of the Company		613,600	1,136,475	1,474,893	642,185	990,768
Non-controlling interests		(3,451)	(4,306)	(2,550)	91	(1,270)
Profit for the year/period		610,149	1,132,169	1,472,343	642,276	989,498
Total comprehensive income attributable to:						
Equity owners of the Company		613,647	1,137,945	1,475,096	639,427	991,256
Non-controlling interests		(3,768)	(2,734)	(1,518)	(580)	(780)
Total comprehensive income for the year/period		609,879	1,135,211	1,473,578	638,847	990,476
Basic and diluted earnings per share (RMB)	9	0.19	0.34	0.45	0.19	0.30

The accompanying notes form part of the Financial Information.

2 CONSOLIDATED BALANCE SHEETS

	Section C Note	At December 31,			At June 30,
		2009	2010	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	11	370,599	345,126	391,645	395,873
Investment properties	12	48,160	32,101	32,255	22,759
Lease prepayments	13	75,938	73,607	1,630,371	1,642,697
Intangible assets	14	3,972	6,619	5,205	4,561
Interest in associates		316	508	499	284
Other non-current assets	15	112,018	111,283	253,490	253,483
Trade and other receivables	17	163,973	282,457	106,929	70,128
Construction contracts	18	5,901,642	5,705,452	4,774,293	4,684,502
Deferred tax assets	25(b)	165,144	211,284	82,485	159,532
Total non-current assets		<u>6,841,762</u>	<u>6,768,437</u>	<u>7,277,172</u>	<u>7,233,819</u>
Current assets					
Inventories	16	175,011	174,724	212,285	356,064
Trade and other receivables	17	4,657,590	4,919,368	6,426,789	5,640,383
Construction contracts	18	3,558,219	3,902,532	3,176,301	2,681,953
Restricted deposits	19	297,033	197,824	389,720	268,794
Time deposits with original maturity over three months		1,996,724	4,346,541	3,955,217	4,609,998
Cash and cash equivalents	20	2,353,052	5,078,823	5,170,757	10,191,897
Total current assets		<u>13,037,629</u>	<u>18,619,812</u>	<u>19,331,069</u>	<u>23,749,089</u>
Current liabilities					
Borrowings	21	513,122	576,171	160,108	97,743
Receipts in advance	22	5,077,452	8,670,951	10,316,022	12,582,768
Trade and other payables	23	8,453,871	9,605,348	9,671,321	11,312,719
Construction contracts	18	4,154	5,080	–	–
Retirement and other supplemental benefit obligation	24(a)	35,880	31,780	31,770	31,650
Income tax payable	25(a)	401,856	432,135	318,016	280,064
Provisions	26	–	125,000	–	–
Total current liabilities		<u>14,486,335</u>	<u>19,446,465</u>	<u>20,497,237</u>	<u>24,304,944</u>
Net current liabilities		<u>(1,448,706)</u>	<u>(826,653)</u>	<u>(1,166,168)</u>	<u>(555,855)</u>
Total assets less current liabilities		<u>5,393,056</u>	<u>5,941,784</u>	<u>6,111,004</u>	<u>6,677,964</u>

	Section C Note	At December 31,			At June 30,
		2009	2010	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities					
Borrowings	21	1,749,789	1,259,636	225,529	190,454
Trade and other payables	23	178,320	320,972	131,036	103,069
Retirement and other supplemental benefit obligation	24(a)	441,150	393,020	379,630	373,460
Deferred tax liabilities	25(b)	3,256	3,144	914	848
Total non-current liabilities		<u>2,372,515</u>	<u>1,976,772</u>	<u>737,109</u>	<u>667,831</u>
NET ASSETS		<u>3,020,541</u>	<u>3,965,012</u>	<u>5,373,895</u>	<u>6,010,133</u>
CAPITAL AND RESERVES					
Capital	27	627,097	740,254	3,300,000	3,300,000
Reserves		<u>2,394,941</u>	<u>3,229,153</u>	<u>2,079,736</u>	<u>2,716,754</u>
Total equity attributable to the equity owners of the Company		3,022,038	3,969,407	5,379,736	6,016,754
Non-controlling interests		<u>(1,497)</u>	<u>(4,395)</u>	<u>(5,841)</u>	<u>(6,621)</u>
TOTAL EQUITY		<u>3,020,541</u>	<u>3,965,012</u>	<u>5,373,895</u>	<u>6,010,133</u>

The accompanying notes form part of the Financial Information.

3 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Section C Note	Attributable to equity owner of the Company						Non- controlling interests	Total equity
		Capital	Capital reserve	Reserve fund	Exchange reserve	Retained earnings	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At January 1, 2009		626,697	(120,311)	826,848	18,061	1,261,876	2,613,171	902	2,614,073
Changes in equity:									
Profit for the year		-	-	-	-	613,600	613,600	(3,451)	610,149
Other comprehensive income		-	-	-	47	-	47	(317)	(270)
Total comprehensive income		-	-	-	47	613,600	613,647	(3,768)	609,879
Capital contributions		150	900	-	-	-	1,050	1,706	2,756
Appropriation to reserves		-	-	97,351	-	(97,351)	-	-	-
Dividends paid to equity owner of the Company	27(a)	-	-	-	-	(216,282)	(216,282)	-	(216,282)
Dividends paid to non- controlling interests of subsidiaries		-	-	-	-	-	-	(337)	(337)
Transfer from capital reserve to capital		250	(250)	-	-	-	-	-	-
Revaluation	27(c)(i)	-	10,452	-	-	-	10,452	-	10,452
At December 31, 2009		627,097	(109,209)	924,199	18,108	1,561,843	3,022,038	(1,497)	3,020,541
At January 1, 2010		627,097	(109,209)	924,199	18,108	1,561,843	3,022,038	(1,497)	3,020,541
Changes in equity:									
Profit for the year		-	-	-	-	1,136,475	1,136,475	(4,306)	1,132,169
Other comprehensive income		-	-	-	1,470	-	1,470	1,572	3,042
Total comprehensive income		-	-	-	1,470	1,136,475	1,137,945	(2,734)	1,135,211
Capital contributions		101,710	-	-	-	-	101,710	-	101,710
Distribution to equity owner of the Company		-	(19,818)	-	-	-	(19,818)	-	(19,818)
Appropriation to reserves		-	-	485,599	-	(485,599)	-	-	-
Dividends paid to equity owner of the Company	27(a)	-	-	-	-	(272,468)	(272,468)	-	(272,468)
Dividends paid to non- controlling interests of subsidiaries		-	-	-	-	-	-	(164)	(164)
Transfer from capital reserve to capital		11,447	(11,447)	-	-	-	-	-	-
At December 31, 2010		740,254	(140,474)	1,409,798	19,578	1,940,251	3,969,407	(4,395)	3,965,012

		Attributable to equity owners of the Company						Non-	Total
Section C		Capital	Capital	Reserve	Exchange	Retained	Sub-total	controlling	equity
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	interests	RMB'000
At January 1, 2011		740,254	(140,474)	1,409,798	19,578	1,940,251	3,969,407	(4,395)	3,965,012
Changes in equity:									
Profit for the year		-	-	-	-	1,474,893	1,474,893	(2,550)	1,472,343
Other comprehensive income		-	-	-	203	-	203	1,032	1,235
Total comprehensive income		-	-	-	203	1,474,893	1,475,096	(1,518)	1,473,578
Capital contributions		33,000	13,931	-	-	-	46,931	387	47,318
Revaluation, net of tax effect		-	602,379	-	-	(16,061)	586,318	-	586,318
Appropriation to reserves		-	-	135,052	-	(135,052)	-	-	-
Dividends paid to equity owner of the company		-	-	-	-	(698,016)	(698,016)	-	(698,016)
Dividends paid to non-controlling interests of subsidiaries		-	-	-	-	-	-	(315)	(315)
Capitalization upon establishment of the Company		2,526,746	125,287	(1,409,798)	-	(1,242,235)	-	-	-
At December 31, 2011		<u>3,300,000</u>	<u>601,123</u>	<u>135,052</u>	<u>19,781</u>	<u>1,323,780</u>	<u>5,379,736</u>	<u>(5,841)</u>	<u>5,373,895</u>
At January 1, 2012		3,300,000	601,123	135,052	19,781	1,323,780	5,379,736	(5,841)	5,373,895
Changes in equity:									
Profit for the period		-	-	-	-	990,768	990,768	(1,270)	989,498
Other comprehensive income		-	-	-	488	-	488	490	978
Total comprehensive income		-	-	-	488	990,768	991,256	(780)	990,476
Dividends paid to equity owners of the Company		-	-	-	-	(354,238)	(354,238)	-	(354,238)
At June 30, 2012		<u>3,300,000</u>	<u>601,123</u>	<u>135,052</u>	<u>20,269</u>	<u>1,960,310</u>	<u>6,016,754</u>	<u>(6,621)</u>	<u>6,010,133</u>
(Unaudited)									
At January 1, 2011		740,254	(140,474)	1,409,798	19,578	1,940,251	3,969,407	(4,395)	3,965,012
Changes in equity:									
Profit for the period		-	-	-	-	642,185	642,185	91	642,276
Other comprehensive income		-	-	-	(2,758)	-	(2,758)	(671)	(3,429)
Total comprehensive income		-	-	-	(2,758)	642,185	639,427	(580)	638,847
Capital contributions		33,000	13,931	-	-	-	46,931	-	46,931
Revaluation, net of tax effect		-	602,379	-	-	(16,061)	586,318	-	586,318
Dividends paid to equity owner of the Company		-	-	-	-	(506,264)	(506,264)	-	(506,264)
Dividends paid to non-controlling interests of subsidiaries		-	-	-	-	-	-	(97)	(97)
Capitalization upon establishment of the Company		2,526,746	125,287	(1,409,798)	-	(1,242,235)	-	-	-
At June 30, 2011		<u>3,300,000</u>	<u>601,123</u>	<u>-</u>	<u>16,820</u>	<u>817,876</u>	<u>4,735,819</u>	<u>(5,072)</u>	<u>4,730,747</u>

The accompanying notes form part of the Financial Information.

4 CONSOLIDATED CASH FLOW STATEMENTS

	Section C Note	Years ended December 31,			Six months ended June 30,	
		2009	2010	2011	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from operating activities						
Profit before taxation		834,669	1,561,417	1,987,369	859,352	1,341,192
Adjustments for:						
Depreciation	5(c)	34,664	36,136	50,310	22,762	35,873
Amortization	5(c)	2,374	4,419	21,402	10,169	18,618
Impairment of trade and other receivables	5(c)	137,559	61,108	96,004	21,579	66,673
Impairment/(reversal of impairment) of construction contracts	5(c)	–	132,908	40,045	(2,606)	5,910
Write-down of inventories to net realizable value		–	–	100	1,677	3,324
Provision for foreseeable losses on construction contracts	5(c)	18,291	29,429	146	146	2,370
Net (gains)/losses on disposal of property, plant and equipment	4	(18)	277	167	616	(343)
Losses on disposal of investments in subsidiaries		–	106	–	–	–
Losses on disposal of other non-current assets		–	864	–	–	–
Finance income	5(a)	(62,698)	(129,491)	(192,560)	(82,378)	(101,300)
Finance expenses	5(a)	26,005	26,873	18,605	14,318	6,010
Net foreign exchange losses/(gains)		1,952	28,374	55,057	(16,018)	6,645
Dividend income	3	(10,718)	(11,013)	(8,094)	(229)	(896)
Net losses on foreign currency forward exchange contracts and interest rate swaps	4	29,139	15,994	8,323	2,472	21,257
Share of profits less losses of associates		(147)	(192)	9	129	215
Operating profit before changes in working capital		1,011,072	1,757,209	2,076,883	831,989	1,405,548
(Increase)/decrease in inventories		(99,092)	287	(37,661)	2,731	(147,103)
(Increase)/decrease in construction contracts		(1,801,561)	(309,534)	1,612,119	920,388	575,859
Decrease/(increase) in trade and other receivables		1,258,425	(367,984)	(1,427,371)	(222,215)	764,311
(Decrease)/increase in receipts in advance		(1,424,695)	3,593,499	1,645,071	1,453,879	2,266,746
Increase/(decrease) in trade and other payables		2,228,479	1,301,574	(219,850)	(98,461)	1,597,740
Decrease in retirement and other supplemental benefit obligation		(27,480)	(52,230)	(13,400)	(8,070)	(6,290)
Increase/(decrease) in provisions		–	125,000	(125,000)	–	–
Cash generated from operations		1,145,148	6,047,821	3,510,791	2,880,241	6,456,811
Income tax paid	25(a)	(436,261)	(445,221)	(682,557)	(474,607)	(466,759)
Net cash generated from operating activities		708,887	5,602,600	2,828,234	2,405,634	5,990,052

	Section C Note	Years ended December 31,			Six months ended June 30,	
		2009	2010	2011	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from investing activities						
Payments for acquisition of property, plant and equipment		(18,726)	(15,546)	(50,202)	(11,038)	(31,682)
Payments for acquisition of investment properties		(58)	–	(168)	(25)	–
Payments for acquisition of land use rights		(18,633)	(1,757)	(873,642)	(873,610)	(30,000)
Payments for acquisition of intangible assets		(1,515)	(4,009)	(688)	(688)	(300)
Payments for disposal of investment in a subsidiary		–	(56)	–	–	–
Payments for disposal of other non-current assets		–	(15)	–	–	–
Payments for acquisition of investments		–	(1,990)	–	–	–
Payments for settlement of foreign currency forward exchange contracts and interest rate swaps		–	(16,992)	(12,337)	(6,269)	(5,487)
Proceeds from disposal of property, plant and equipment		1,514	819	790	48	1,218
Proceeds from disposal and redemption of investments		3,000	1,990	–	–	–
Dividends received		10,718	11,013	8,349	229	896
Interest income received		55,311	96,819	195,379	101,201	94,710
(Increase)/decrease in time deposits		(1,553,329)	(2,349,817)	391,324	2,030,728	(654,781)
(Increase)/decrease in restricted deposits		(137,620)	99,209	(191,896)	17,803	120,926
Net cash (used in)/generated from investing activities		(1,659,338)	(2,180,332)	(533,091)	1,258,379	(504,500)
Cash flows from financing activities						
Capital contributions		2,606	100,000	20,451	20,064	–
Proceeds from borrowings		1,614,480	199,043	140,219	106,765	49,315
Repayment of borrowings		(974,475)	(609,893)	(1,572,378)	(1,272,738)	(147,309)
Dividends paid to equity owners of the Company		(216,282)	(272,468)	(698,016)	(506,264)	(354,238)
Dividends paid to non-controlling interests of subsidiaries		(311)	(144)	(292)	(97)	(20)
Interest paid		(110,058)	(68,373)	(20,125)	(15,322)	(6,069)
Net cash generated from/(used in) financing activities		315,960	(651,835)	(2,130,141)	(1,667,592)	(458,321)
Net (decrease)/increase in cash and cash equivalents		(634,491)	2,770,433	165,002	1,996,421	5,027,231
Cash and cash equivalents at January 1		2,992,165	2,353,052	5,078,823	5,078,823	5,170,757
Effect of foreign exchange rate changes		(4,622)	(44,662)	(73,068)	1,463	(6,091)
Cash and cash equivalents at December 31/June 30	20	2,353,052	5,078,823	5,170,757	7,076,707	10,191,897

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION**1 SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes International Accounting Standards and related interpretations, promulgated by the IASB. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting period beginning January 1, 2012. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning January 1, 2012 are set out in note 35.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended June 30, 2011 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries and has been prepared as if the Group had always been in existence, as further explained in Section A.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the Group's presentation currency and the functional currency of the Company and its subsidiaries in the PRC carrying on the principle activities of the Group.

The Financial Information is prepared on the historical cost or deemed cost basis except for derivative financial instruments (see note 1(i)) that are stated at their fair values.

(d) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at December 31, 2009, 2010 and 2011 and June 30, 2012. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the eighteen-month period ending December 31, 2013, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements for a reasonable period of time (see note 28(b)).

(e) Use of estimates and judgments

The preparation of the Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 34.

(f) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheets within equity, separately from equity attributable to the equity owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year/period between non-controlling interests and the equity owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheets in accordance with notes 1(r) or (s) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(h)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(g)).

In the Company's balance sheets, an investment in a subsidiary is stated at cost less impairment losses (see note 1(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(g) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 1(n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year/period are recognized in profit or loss, whereas the Group's share of the post-acquisition post tax items of the investees' other comprehensive income is recognized in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(h)).

In the Company's balance sheets, interest in associates are stated at cost less impairment losses (see note 1(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(h) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise. These investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheets at cost less impairment losses (see note 1(n)).

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

(i) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(j) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(m)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheets at cost less accumulated depreciation and impairment losses (see note 1(n)). Depreciation is calculated to write off the cost of investment properties, less their estimated residual value, if any, using the straight-line method over the estimated useful lives ranging from 20 to 35 years. Any gain or loss arising from the retirement or disposal of an investment property is recognized in profit or loss. Rental income from investment properties is accounted for as described in note 1(x)(iv).

(k) Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(n)).

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 (see note 1(z)).

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.

(l) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(n)).

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortized from the date they are available for use and their estimated useful lives are as follows:

– software and others	2-10 years
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Both the period and method of amortization are reviewed annually.

(m) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortized on a straight-line basis over the period of the lease term.

(n) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

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 the 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 (see note 1(g)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(n)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with note 1(n)(ii).
- 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 these financial assets 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 the 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.

(ii) Impairment of other assets

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.

- *Calculation of recoverable amount*

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).

- *Recognition of impairment losses*

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.

- *Reversals of impairment losses*

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.

(o) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the first-in, first-out (FIFO), specific identification of costs or weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(p) 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 in note 1(x)(ii). 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 "Receipts in advance".

(q) 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 (see note 1(n)), 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.

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Trade and other payables

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with note 1(w)(i), 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.

(t) 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.

(u) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year/period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The Group provided supplementary pension subsidies to employees in the PRC, who retired before January 1, 2010. In addition, the Group also provided subsidies to early retirees. Such supplementary pension subsidies and subsidies to early retirees are considered as defined benefit plans.

The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognized immediately in profit or loss.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognized in profit or loss. Otherwise, the actuarial gain or loss is not recognized.

(iii) Termination benefits

Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(v) 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 the 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 asset 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 back 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, the Group controls the timing of the reversal and 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 the Company or the 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, the Company or the 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.

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within "Trade and other payables". Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 1(w)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in "Trade and other payables" in respect of that guarantee i.e. the amount initially recognized, less accumulated amortization.

(ii) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) 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 the 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
- the 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 for 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 recognized 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 recognized 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 the Group will comply with the conditions attaching to them. Grants that compensate the 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 the 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.

(y) Translation of foreign currencies

Foreign currency transactions during the year/period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(aa) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 REVENUE

The principal activities of the Group are construction contracting on international infrastructure-related projects, sales of machineries and equipments etc and provision of other services.

Revenue represents: (i) an appropriate proportion of contract revenue of construction contracts, net of business tax and surcharges if any; (ii) the invoiced value of goods sold, net of value-added tax and surcharges, and after trade discounts; and (iii) the value of other services rendered.

An analysis of the Group's revenue is as follows:

Note	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue from construction contracts	13,646,660	12,019,649	12,055,186	5,507,450	6,426,103
Sales of goods in trading business	4,979,101	6,295,526	7,688,577	4,010,736	3,522,165
Others (i)	661,935	761,840	774,006	320,574	405,872
	<u>19,287,696</u>	<u>19,077,015</u>	<u>20,517,769</u>	<u>9,838,760</u>	<u>10,354,140</u>

Note:

- (i) Other revenue mainly represents revenue from the provision of export-import agency services, tendering agency services, exhibition services, design services and logistics services.

The Group's customer base is diversified. For the year ended December 31, 2009, revenue from construction contracts from an external customer in Turkey and another external customer in the Republic of Congo accounted for 12% and 11% of total revenue of the Group, respectively. For the year ended December 31, 2010, revenue from construction contracts from an external customer in the Republic of Congo accounted for 10% of total revenue of the Group. For the year ended December 31, 2011, revenue from construction contracts from an external customer in Sri Lanka accounted for 11% of total revenue of the Group. For the six months ended June 30, 2011 (unaudited), revenue from construction contracts from an external customer in Federal Republic of Nigeria accounted for 11% of total revenue of the Group. For the six months ended June 30, 2012, there was no revenue from an external customer accounted for more than 10% of total revenue of the Group.

3 OTHER REVENUE

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Dividend income from unquoted equity securities	10,718	11,013	8,094	229	896
Government grants	2,677	8,339	1,605	577	1,376
	<u>13,395</u>	<u>19,352</u>	<u>9,699</u>	<u>806</u>	<u>2,272</u>

4 OTHER EXPENSES, NET

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Net gains/(losses) on disposal of property, plant and equipment	18	(277)	(167)	(616)	343
Net losses on foreign currency forward exchange contracts and interest rate swaps	(29,139)	(15,994)	(8,323)	(2,472)	(21,257)
Others	3,673	6,085	5,428	1,165	(232)
	<u>(25,448)</u>	<u>(10,186)</u>	<u>(3,062)</u>	<u>(1,923)</u>	<u>(21,146)</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/crediting:

(a) Finance income and finance expenses

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Finance income on receivables from customers	290,159	282,250	209,714	122,620	147,742
Interest income	62,698	129,491	192,560	82,378	101,300
Finance income	<u>352,857</u>	<u>411,741</u>	<u>402,274</u>	<u>204,998</u>	<u>249,042</u>
Interest cost recognized in respect of defined benefit retirement plans (note 24(a)(iii))	15,810	15,830	16,050	8,010	7,140
Interest expenses on borrowings wholly repayable within five years	23,360	23,789	16,223	12,785	5,911
Interest expenses on other borrowings	82,958	40,778	4,153	3,304	99
Foreign exchange losses/(gains), net	24,830	332,109	505,185	162,778	(13,890)
Bank charges and others	9,732	11,043	19,698	10,992	3,717
	<u>156,690</u>	<u>423,549</u>	<u>561,309</u>	<u>197,869</u>	<u>2,977</u>
Less: Interest expenses capitalized in construction contracts*	<u>80,313</u>	<u>37,694</u>	<u>1,771</u>	<u>1,771</u>	<u>-</u>
Finance expenses	<u>76,377</u>	<u>385,855</u>	<u>559,538</u>	<u>196,098</u>	<u>2,977</u>
Net finance income/(expenses) recognized in profit or loss	<u>276,480</u>	<u>25,886</u>	<u>(157,264)</u>	<u>8,900</u>	<u>246,065</u>

* The borrowing costs have been capitalized at rates of 2.68% to 4.32%, 2.41% to 4.32%, 4.32% and 4.32% (unaudited) per annum for the years ended December 31, 2009, 2010 and 2011 and for the six months ended June 30, 2011, respectively. There was no borrowing cost capitalized for the six months ended June 30, 2012.

(b) Staff costs

Note	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Contributions to defined contribution retirement plans	46,585	52,943	66,109	27,830	35,448
Expenses recognized in respect of defined benefit retirement plans	24(a)(iii) (14,730)	(33,830)	2,750	(200)	1,940
Salaries, wages and other benefits	738,379	737,069	863,383	384,770	461,289
	<u>770,234</u>	<u>756,182</u>	<u>932,242</u>	<u>412,400</u>	<u>498,677</u>

(c) Other items

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Amortization					
– lease prepayments	1,679	3,057	19,448	9,159	17,674
– intangible assets	695	1,362	1,954	1,010	944
	<u>2,374</u>	<u>4,419</u>	<u>21,402</u>	<u>10,169</u>	<u>18,618</u>
Depreciation					
– property, plant and equipment	32,223	32,889	47,805	21,385	34,480
– investment properties	2,441	3,247	2,505	1,377	1,393
	<u>34,664</u>	<u>36,136</u>	<u>50,310</u>	<u>22,762</u>	<u>35,873</u>
Impairment losses/(reversal of impairment losses) on					
– trade and other receivables	137,559	61,108	96,004	21,579	66,673
– construction contracts (note (i))	–	132,908	40,045	(2,606)	5,910
Operating lease charges					
– hire of properties	8,175	9,282	21,330	4,382	8,784
– hire of other assets	169	52	–	–	–
	<u>8,344</u>	<u>9,334</u>	<u>21,330</u>	<u>4,382</u>	<u>8,784</u>

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Auditors' remuneration					
– audit services	1,236	1,376	1,629	252	495
– tax services	363	373	393	120	496
– other services	–	14,150	17,385	6,633	3,750
	<u>1,599</u>	<u>15,899</u>	<u>19,407</u>	<u>7,005</u>	<u>4,741</u>
Provision for foreseeable losses on construction contracts	18,291	29,429	146	146	2,370
Rental income from investment properties					
– Gross rental	26,368	27,475	29,436	12,688	10,782
– Direct outgoings	(2,862)	(3,938)	(4,613)	(2,673)	(2,296)
– Net rental	23,506	23,537	24,823	10,015	8,486
Cost of inventories (note (ii))	4,536,955	6,170,308	7,250,944	3,810,669	3,368,773

Notes:

- (i) The impairment loss made on the construction contracts in 2010 and 2011 and during the six months ended June 30, 2012 was related to unbilled balances for certain completed projects and a result of the evidence of significant financial difficulty of the specific debtors came into the Group's attention in 2010 and 2011 and during the six months ended June 30, 2012.
- (ii) For the years ended December 31, 2009, 2010 and 2011 and for the six months ended June 30, 2011 and 2012, cost of inventories includes RMB4,485,000, RMB4,377,000, RMB6,526,000, RMB3,550,000 (unaudited) and RMB2,725,000 relating to staff costs, depreciation and amortization expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(a) Income tax in the consolidated statements of comprehensive income represents:

Note	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax					
– PRC Corporate Income Tax	309,324	451,931	544,017	259,577	419,890
– Hong Kong Profits Tax	1,307	308	564	–	98
– Others	10,837	23,261	8,376	462	8,819
Deferred tax	321,468 (96,948)	475,500 (46,252)	552,957 (37,931)	260,039 (42,963)	428,807 (77,113)
	<u>224,520</u>	<u>429,248</u>	<u>515,026</u>	<u>217,076</u>	<u>351,694</u>

The Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising the Group domicile or operate.

The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits during the Track Record Period.

Effective from January 1, 2008, PRC's statutory income tax rate is 25%. Certain subsidiaries of the Group, being enterprises located in the designated Special Economic Zones, were taxed at a preferential income tax rate of 15% prior to January 1, 2008. Pursuant to the new Corporate Income Tax Law of the PRC ("new tax law") as approved by the Fifth Plenary Session of Tenth National People's Congress on March 16, 2007, and its relevant regulations, these subsidiaries of the Group are entitled to apply the transitional rates of 20%, 22%, 24% and 25% for 2009, 2010, 2011 and 2012 onwards, respectively. In addition, pursuant to the implementation rules of the new tax law, a subsidiary of the Group, being a small-scale enterprise, is entitled to a preferential income tax rate of 20% during the Track Record Period. Another subsidiary obtained a high-new technology enterprise certificate, which is valid for three years, dated December 30, 2009. Accordingly, such subsidiary is entitled to a preferential income tax rate of 15% from 2009 to 2011.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	834,669	1,561,417	1,987,369	859,352	1,341,192
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	208,318	388,826	495,734	214,409	335,071
PRC tax concessions	(403)	(243)	(2,073)	(2,228)	(2)
Effect of non-deductible expenses	11,930	25,877	10,080	4,573	7,386
Effect of non-taxable income	(2,780)	(2,559)	(1,966)	–	(224)
Tax effect of unused tax losses and deductible temporary differences not recognized	2,552	3,514	8,259	2,117	1,206
Others	4,903	13,833	4,992	(1,795)	8,257
Actual tax expense	224,520	429,248	515,026	217,076	351,694

7 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of directors' and supervisors' emoluments are as follows:

	Directors' and Supervisors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended December 31, 2009					
Executive Directors:					
Mr. Yang Wansheng	–	460	474	27	961
Ms. Li Taifang	–	313	323	27	663
Mr. Jia Zhiqiang	–	460	474	27	961
Mr. Zhang Chun	–	–	–	–	–
Non-executive Directors:					
Mr. Pan Chongyi	–	–	–	–	–
Mr. Wang Zhian	–	–	–	–	–
Independent non-executive Directors:					
Mr. Liu Li	–	–	–	–	–
Ms. Liu Hongyu	–	–	–	–	–
Mr. Fang Yongzhong	–	–	–	–	–
Mr. Chan Kin Ho	–	–	–	–	–
Mr. Chen Jianshen	–	–	–	–	–
Supervisors:					
Mr. Quan Huaqiang	–	–	–	–	–
Mr. Qian Xiangdong	–	–	–	–	–
Mr. Bai Ming	–	238	–	27	265
	–	1,471	1,271	108	2,850
Year ended December 31, 2010					
Executive Directors:					
Mr. Yang Wansheng	–	460	474	29	963
Ms. Li Taifang	–	313	323	29	665
Mr. Jia Zhiqiang	–	460	474	29	963
Mr. Zhang Chun	–	–	–	–	–
Non-executive Directors:					
Mr. Pan Chongyi	–	–	–	–	–
Mr. Wang Zhian	–	–	–	–	–
Independent non-executive Directors:					
Mr. Liu Li	–	–	–	–	–
Ms. Liu Hongyu	–	–	–	–	–
Mr. Fang Yongzhong	–	–	–	–	–
Mr. Chan Kin Ho	–	–	–	–	–
Mr. Chen Jianshen	–	–	–	–	–
Supervisors:					
Mr. Quan Huaqiang	–	–	–	–	–
Mr. Qian Xiangdong	–	–	–	–	–
Mr. Bai Ming	–	252	–	29	281
	–	1,485	1,271	116	2,872

	Directors' and Supervisors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended December 31, 2011					
Executive Directors:					
Mr. Yang Wansheng	–	668	474	30	1,172
Ms. Li Taifang	–	532	323	30	885
Mr. Jia Zhiqiang	–	657	474	30	1,161
Mr. Zhang Chun	–	–	–	–	–
Non-executive Directors:					
Mr. Pan Chongyi	50	35	–	–	85
Mr. Wang Zhian	50	34	–	–	84
Independent non-executive Directors:					
Mr. Liu Li	50	35	–	–	85
Ms. Liu Hongyu	50	34	–	–	84
Mr. Fang Yongzhong	25	18	–	–	43
Mr. Chan Kin Ho	–	–	–	–	–
Mr. Chen Jianshen	46	22	–	–	68
Supervisors:					
Mr. Quan Huaqiang	–	–	–	–	–
Mr. Qian Xiangdong	–	–	–	–	–
Mr. Bai Ming	–	476	–	30	506
	<u>271</u>	<u>2,511</u>	<u>1,271</u>	<u>120</u>	<u>4,173</u>
Six months ended June 30, 2011 (unaudited)					
Executive Directors:					
Mr. Yang Wansheng	–	384	237	15	636
Ms. Li Taifang	–	171	161	15	347
Mr. Jia Zhiqiang	–	249	237	15	501
Mr. Zhang Chun	–	–	–	–	–
Non-executive Directors:					
Mr. Pan Chongyi	25	14	–	–	39
Mr. Wang Zhian	25	14	–	–	39
Independent non-executive Directors:					
Mr. Liu Li	25	14	–	–	39
Ms. Liu Hongyu	25	14	–	–	39
Mr. Fang Yongzhong	–	–	–	–	–
Mr. Chan Kin Ho	–	–	–	–	–
Mr. Chen Jianshen	25	6	–	–	31
Supervisors:					
Mr. Quan Huaqiang	–	–	–	–	–
Mr. Qian Xiangdong	–	–	–	–	–
Mr. Bai Ming	–	149	–	15	164
	<u>125</u>	<u>1,015</u>	<u>635</u>	<u>60</u>	<u>1,835</u>

	Directors' and Supervisors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended June 30, 2012					
Executive Directors:					
Mr. Yang Wansheng	–	384	237	16	637
Ms. Li Taifang	–	384	237	16	637
Mr. Jia Zhiqiang	–	160	99	7	266
Mr. Zhang Chun	–	224	138	9	371
Non-executive Directors:					
Mr. Pan Chongyi	25	10	–	–	35
Mr. Wang Zhian	25	10	–	–	35
Independent non-executive Directors:					
Mr. Liu Li	25	10	–	–	35
Ms. Liu Hongyu	25	10	–	–	35
Mr. Fang Yongzhong	25	10	–	–	35
Mr. Chan Kin Ho	–	–	–	–	–
Mr. Chen Jianshen	–	–	–	–	–
Supervisors:					
Mr. Quan Huaqiang	–	–	–	–	–
Mr. Qian Xiangdong	–	–	–	–	–
Mr. Bai Ming	–	196	–	16	212
	<u>125</u>	<u>1,398</u>	<u>711</u>	<u>64</u>	<u>2,298</u>

Mr. Chen Jianshen resigned from independent non-executive director of the Company on November 11, 2011. Mr. Chan Kin Ho was appointed as an independent non-executive director of the Company on December 30, 2011.

Mr. Jia Zhiqiang resigned from executive director of the Company on March 16, 2012. Mr. Zhang Chun was appointed as an executive director of the Company on March 16, 2012.

During the Track Record Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Track Record Period.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals for the years ended December 31, 2009, 2010 and 2011 and for the six months ended June 30, 2011 and 2012 are set forth below:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011 (unaudited)	2012
Directors	3	2	3	2	2
Non-directors	2	3	2	3	3
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

The emoluments of the directors are disclosed in note 7. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Salaries and other emoluments	626	1,857	922	915	726
Discretionary bonuses	645	257	645	161	560
Retirement scheme contributions	54	86	60	44	48
	<u>1,325</u>	<u>2,200</u>	<u>1,627</u>	<u>1,120</u>	<u>1,334</u>

The emoluments of the remaining individuals with the highest emoluments are within the following bands:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i> (unaudited)	<i>Number of individuals</i>
Nil to HKD1,000,000	2	3	2	3	3

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Company of RMB613,600,000, RMB1,136,475,000, RMB1,474,893,000, RMB642,185,000 (unaudited) and RMB990,768,000 for the years ended December 31, 2009, 2010 and 2011 and for the six months ended June 30, 2011 and 2012 and the 3,300 million ordinary shares in issue as at the date of the Prospectus as if the share were outstanding throughout the entire Track Record Period.

The Company did not have any potential dilutive shares throughout the entire Track Record Period. Accordingly, diluted earnings per share is the same as basic earnings per share.

10 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organized by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments.

- Construction contracts: this segment mainly undertakes engineering, procurement and construction ("EPC") contracting business of overseas infrastructure-related construction projects (including hydropower, thermal power or other engineering projects) in various countries.
- Trading business: this segment mainly engages in the business of importing and/or exporting various machinery, electrical and instrumental products for domestic and overseas customers.
- Other businesses: this segment mainly engages in providing export-import agency services, tendering agency services, exhibition services, design services and logistics services.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all non-current assets and current assets with the exception of restricted deposits, time deposits with original maturity over three months, cash and cash equivalents, property, plant and equipment, lease prepayments, intangible assets, interest in associates, unquoted equity investments in non-listed companies, deferred tax assets and other unallocated assets. Segment liabilities include receipts in advance, trade and other payables (excluding accrued salaries, wages and benefits, and payables that cannot be reasonably allocated to any segment), construction contracts, provisions and borrowings managed directly for the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments.

The measure used for reporting segment profit is the profit before taxation. Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resources allocation and assessment of segment performance for the years ended December 31, 2009, 2010 and 2011 and for the six months ended June 30, 2011 (unaudited) and 2012 is set out below:

	Year ended December 31, 2009			
	Construction contracts	Trading business	Other businesses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	13,646,660	4,979,101	661,935	19,287,696
Inter-segment revenue	–	–	376,308	376,308
Reportable segment revenue	<u>13,646,660</u>	<u>4,979,101</u>	<u>1,038,243</u>	<u>19,664,004</u>
Reportable segment profit/(loss)	<u>685,135</u>	<u>(46,673)</u>	<u>178,974</u>	<u>817,436</u>
Interest income on receivables from customers	289,990	169	–	290,159
Interest expenses	21,782	4,218	5	26,005
Depreciation and amortization	–	–	2,816	2,816
Provision of impairment losses – trade and other receivables	–	137,559	–	137,559
– foreseeable losses on construction contracts	18,291	–	–	18,291
Reportable segment assets	11,309,211	1,973,074	1,422,736	14,705,021
– capital expenditure	–	–	58	58
Reportable segment liabilities	12,042,875	1,786,408	1,752,743	15,582,026

	Year ended December 31, 2010			
	Construction contracts	Trading business	Other businesses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	12,019,649	6,295,526	761,840	19,077,015
Inter-segment revenue	–	17,852	453,353	471,205
Reportable segment revenue	<u>12,019,649</u>	<u>6,313,378</u>	<u>1,215,193</u>	<u>19,548,220</u>
Reportable segment profit	<u>1,301,000</u>	<u>91,874</u>	<u>128,916</u>	<u>1,521,790</u>
Interest income on receivables from customers	281,652	598	–	282,250
Interest expenses	24,927	1,686	260	26,873
Depreciation and amortization	–	–	3,689	3,689
Provision of impairment losses				
– trade and other receivables	2,526	58,582	–	61,108
– construction contracts	132,908	–	–	132,908
– foreseeable losses on construction contracts	29,429	–	–	29,429
Reportable segment assets	11,183,859	2,533,158	1,542,736	15,259,753
– capital expenditure	–	–	1,657	1,657
Reportable segment liabilities	16,067,435	2,307,306	1,792,222	20,166,963
	Year ended December 31, 2011			
	Construction contracts	Trading business	Other businesses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	12,055,186	7,688,577	774,006	20,517,769
Inter-segment revenue	–	–	453,150	453,150
Reportable segment revenue	<u>12,055,186</u>	<u>7,688,577</u>	<u>1,227,156</u>	<u>20,970,919</u>
Reportable segment profit	<u>1,734,229</u>	<u>74,563</u>	<u>145,510</u>	<u>1,954,302</u>
Interest income on receivables from customers	199,926	9,788	–	209,714
Interest expenses	13,393	5,212	–	18,605
Depreciation and amortization	–	–	3,235	3,235
Provision of impairment losses				
– trade and other receivables	66,812	11,635	8,710	87,157
– construction contracts	40,045	–	–	40,045
– inventories	–	100	–	100
– foreseeable losses on construction contracts	146	–	–	146
Reportable segment assets	11,153,838	3,122,073	1,086,707	15,362,618
– capital expenditure	–	–	274	274
Reportable segment liabilities	16,379,195	2,856,014	759,139	19,994,348

Six months ended June 30, 2011

	Construction contracts	Trading business	Other businesses	Total
	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)
Revenue from external customers	5,507,450	4,010,736	320,574	9,838,760
Inter-segment revenue	–	–	268,403	268,403
Reportable segment revenue	5,507,450	4,010,736	588,977	10,107,163
Reportable segment profit	678,775	31,245	105,158	815,178
Interest income on receivables from customers	122,620	–	–	122,620
Interest expenses	12,987	1,331	–	14,318
Depreciation and amortization	–	–	2,107	2,107
Provision of impairment losses				
– trade and other receivables	24,541	(1,054)	(1,908)	21,579
– construction contracts	(2,606)	–	–	(2,606)
– inventories	–	1,677	–	1,677
– foreseeable losses on construction contracts	146	–	–	146

Six months ended June 30, 2012

	Construction contracts	Trading business	Other businesses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	6,426,103	3,522,165	405,872	10,354,140
Inter-segment revenue	–	–	187,249	187,249
Reportable segment revenue	6,426,103	3,522,165	593,121	10,541,389
Reportable segment profit	1,100,461	86,823	108,913	1,296,197
Interest income on receivables from customers	147,742	–	–	147,742
Interest expenses	3,854	2,156	–	6,010
Depreciation and amortization	–	–	1,643	1,643
Provision of impairment losses				
– trade and other receivables	35,151	8,912	31,650	75,713
– construction contracts	5,910	–	–	5,910
– inventories	–	3,324	–	3,324
– foreseeable losses on construction contracts	2,370	–	–	2,370
Reportable segment assets	10,478,394	2,729,795	1,025,350	14,233,539
Reportable segment liabilities	19,975,024	2,611,682	1,058,776	23,645,482

(b) Reconciliation of reportable segment revenue, profit/(loss), assets and liabilities

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue					
Reportable segment revenue	19,664,004	19,548,220	20,970,919	10,107,163	10,541,389
Elimination of inter-segment revenue	(376,308)	(471,205)	(453,150)	(268,403)	(187,249)
	<u>19,287,696</u>	<u>19,077,015</u>	<u>20,517,769</u>	<u>9,838,760</u>	<u>10,354,140</u>
Profit					
Reportable segment profit	817,436	1,521,790	1,954,302	815,178	1,296,197
Share of profits less losses of associates	147	192	(9)	(129)	(215)
Other revenue	10,718	11,013	8,094	229	896
Other (expenses)/income, net	(1,676)	(3,711)	(1,136)	(933)	53
Interest income from bank deposits	62,698	129,491	192,560	82,378	101,300
Interest cost recognized in respect of defined benefit retirement plans	(15,810)	(15,830)	(16,050)	(8,010)	(7,140)
Foreign exchange (losses)/gains, net	(4,622)	(44,662)	(73,068)	1,463	(6,091)
Depreciation and amortization	(34,222)	(36,866)	(68,477)	(30,824)	(52,848)
(Impairment losses)/reversal of impairment losses on other receivables	–	–	(8,847)	–	9,040
	<u>834,669</u>	<u>1,561,417</u>	<u>1,987,369</u>	<u>859,352</u>	<u>1,341,192</u>
Assets					
Reportable segment assets	14,705,021	15,259,753	15,362,618	14,233,539	
Elimination of inter-segment receivables	(319,253)	(441,752)	(706,662)	(837,747)	
	<u>14,385,768</u>	<u>14,818,001</u>	<u>14,655,956</u>	<u>13,395,792</u>	
Restricted deposits	297,033	197,824	389,720	268,794	
Time deposits with original maturity over three months	1,996,724	4,346,541	3,955,217	4,609,998	
Cash and cash equivalents	2,353,052	5,078,823	5,170,757	10,191,897	
Property, plant and equipment	370,599	345,126	391,645	395,873	
Lease prepayments	64,402	61,546	1,592,801	1,621,444	
Intangible assets	3,972	6,619	5,205	4,561	
Interest in associates	316	508	499	284	
Deferred tax assets	165,144	211,284	82,485	159,532	
Other non-current assets	112,018	111,283	253,490	253,483	
Other unallocated assets	130,363	210,694	110,466	81,250	
	<u>19,879,391</u>	<u>25,388,249</u>	<u>26,608,241</u>	<u>30,982,908</u>	

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities				
Reportable segment liabilities	15,582,026	20,166,963	19,994,348	23,645,482
Elimination of inter-segment payables	(319,253)	(441,752)	(706,662)	(837,747)
	15,262,773	19,725,211	19,287,686	22,807,735
Retirement and other supplemental benefit obligation	477,030	424,800	411,400	405,110
Accrued salaries, wages and benefits	363,138	333,764	459,219	625,507
Income tax payable	401,856	432,135	318,016	280,064
Deferred tax liabilities	3,256	3,144	914	848
Other unallocated liabilities	350,797	504,183	757,111	853,511
	16,858,850	21,423,237	21,234,346	24,972,775

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties, lease prepayments, intangible assets, interest in associates and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or to which the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, investment properties and lease prepayments, the location of the operation to which they are used, in the case of intangible assets, and the location of operations, in the case of interest in associates and other non-current assets.

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue from external customers					
China (Mainland)	1,983,586	2,407,490	4,010,122	2,340,532	1,262,020
Sri Lanka	1,892,912	1,040,695	2,184,199	856,320	645,364
Equatorial Guinea	1,912,343	1,885,666	1,919,082	702,743	1,010,436
The Republic of Congo	2,030,765	1,931,592	1,574,552	552,373	379,962
Nigeria	7,410	553,609	1,338,958	1,133,024	231,817
United States	839,552	906,737	1,257,022	688,746	629,816
Sudan	493,030	1,202,451	1,119,639	958,275	100,185
Turkey	2,977,825	2,437,900	939,396	461,532	715,134
Angola	1,746,153	1,717,320	849,822	197,367	1,097,969
Italy	1,017,967	804,719	446,501	269,837	243,672
Belarus	—	—	441,799	652	695,094
Malaysia	632,584	191,877	75,437	16,655	15,855
Pakistan	302,201	101,886	75,394	13,915	36,270
Venezuela	3,460	3,230	34,041	14,743	971,869
Others	3,447,908	3,891,843	4,251,805	1,632,046	2,318,677
	19,287,696	19,077,015	20,517,769	9,838,760	10,354,140

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Specified non-current assets				
China (Mainland)	598,483	558,240	2,302,499	2,308,582
Others	12,520	11,004	10,966	11,075
	611,003	569,244	2,313,465	2,319,657

11 PROPERTY, PLANT AND EQUIPMENT

	Note	Buildings	Motor vehicles	Office and other equipment	Construction in progress	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At January 1, 2009		500,785	71,186	52,694	516	625,181
Additions		–	8,836	9,456	434	18,726
Transfer from construction in progress		950	–	–	(950)	–
Disposals		–	(7,383)	(2,984)	–	(10,367)
Revaluation	27(c)(i)	–	(1,748)	(1,429)	–	(3,177)
Exchange adjustments		350	113	325	–	788
At December 31, 2009		502,085	71,004	58,062	–	631,151
At January 1, 2010		502,085	71,004	58,062	–	631,151
Additions		–	6,282	9,264	–	15,546
Distribution to equity owner of the Company		(6,848)	–	–	–	(6,848)
Disposals		(542)	(1,503)	(4,262)	–	(6,307)
Exchange adjustments		(2,509)	106	20	–	(2,383)
At December 31, 2010		492,186	75,889	63,084	–	631,159
At January 1, 2011		492,186	75,889	63,084	–	631,159
Additions		8,870	15,811	7,598	18,061	50,340
Transfer from investment properties		1,028	–	–	–	1,028
Disposals		(301)	(2,003)	(4,383)	–	(6,687)
Revaluation	27(c)(i)	(42,459)	(7,225)	(13,809)	–	(63,493)
Exchange adjustments		(1,294)	(143)	8	–	(1,429)
At December 31, 2011		458,030	82,329	52,498	18,061	610,918
At January 1, 2012		458,030	82,329	52,498	18,061	610,918
Additions		847	13,688	4,255	12,892	31,682
Transfer from investment properties		12,219	–	–	–	12,219
Disposals		–	(7,967)	(525)	–	(8,492)
Exchange adjustments		(740)	(183)	(33)	–	(956)
At June 30, 2012		470,356	87,867	56,195	30,953	645,371
Accumulated depreciation:						
At January 1, 2009		176,211	37,686	27,647	–	241,544
Charge for the year		16,415	8,269	7,539	–	32,223
Written back on disposals		–	(6,449)	(2,739)	–	(9,188)
Revaluation	27(c)(i)	(640)	(2,638)	(1,325)	–	(4,603)
Exchange adjustments		197	61	318	–	576
At December 31, 2009		192,183	36,929	31,440	–	260,552

Note	Buildings	Motor vehicles	Office and other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2010	192,183	36,929	31,440	–	260,552
Charge for the year	16,653	8,318	7,918	–	32,889
Written back on disposals	(345)	(978)	(3,878)	–	(5,201)
Distribution to equity owner of the Company	(831)	–	–	–	(831)
Exchange adjustments	(1,469)	63	30	–	(1,376)
At December 31, 2010	206,191	44,332	35,510	–	286,033
At January 1, 2011	206,191	44,332	35,510	–	286,033
Charge for the year	27,386	12,003	8,416	–	47,805
Transfer from investment properties	38	–	–	–	38
Written back on disposals	(77)	(1,539)	(4,162)	–	(5,778)
Revaluation	(83,847)	(11,311)	(12,805)	–	(107,963)
Exchange adjustments	(756)	(105)	(1)	–	(862)
At December 31, 2011	148,935	43,380	26,958	–	219,273
At January 1, 2012	148,935	43,380	26,958	–	219,273
Charge for the period	26,960	3,617	3,903	–	34,480
Transfer from investment properties	4,109	–	–	–	4,109
Written back on disposals	–	(7,310)	(394)	–	(7,704)
Exchange adjustments	(507)	(122)	(31)	–	(660)
At June 30, 2012	179,497	39,565	30,436	–	249,498
Net book value:					
At December 31, 2009	309,902	34,075	26,622	–	370,599
At December 31, 2010	285,995	31,557	27,574	–	345,126
At December 31, 2011	309,095	38,949	25,540	18,061	391,645
At June 30, 2012	290,859	48,302	25,759	30,953	395,873

(a) The analysis of net book value of properties is as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Outside Hong Kong				
– long leases	6,043	5,724	41,014	39,653
– medium-term leases	287,866	266,600	231,006	215,310
– freehold	15,993	13,671	37,075	35,896
	309,902	285,995	309,095	290,859

- (b) As at December 31, 2009, 2010 and 2011 and June 30, 2012, certain of the Group's borrowings were secured by certain of the Group's buildings with an aggregate net book value of RMB nil, RMB5,906,000, RMB nil and RMB nil, respectively.
- (c) As at June 30, 2012, the Group was in the process of applying for the ownership certificates for certain buildings. The aggregate carrying value of such properties of the Group was RMB53,414,000. The directors are of the opinion that the Group is entitled to lawfully occupy or use these buildings.

12 INVESTMENT PROPERTIES

Note	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At the beginning of the year/period	73,414	73,559	58,968	56,148
Additions	58	–	168	–
Transfer to property, plant and equipment	–	–	(1,028)	(12,219)
Revaluation	27(c)(i) 90	–	(1,878)	–
Distribution to equity owner of the Company	–	(14,553)	–	–
Exchange adjustments	(3)	(38)	(82)	7
At the end of the year/period	73,559	58,968	56,148	43,936
Accumulated depreciation:				
At the beginning of the year/period	24,197	25,399	26,867	23,893
Charge for the year/period	2,441	3,247	2,505	1,393
Transfer to property, plant and equipment	–	–	(38)	(4,109)
Revaluation	27(c)(i) (1,238)	–	(5,425)	–
Distribution to equity owner of the Company	–	(1,767)	–	–
Exchange adjustments	(1)	(12)	(16)	–
At the end of the year/period	25,399	26,867	23,893	21,177
Net book value:	48,160	32,101	32,255	22,759

- (a) The analysis of net book value of properties is as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
In Hong Kong				
– freehold	1,452	1,381	1,294	1,301
Outside Hong Kong				
– long leases	5,224	4,896	4,704	3,854
– medium-term leases	41,484	25,824	26,257	17,604
	48,160	32,101	32,255	22,759

- (b) According to the Property Valuation Reports issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent qualified valuer in Hong Kong, on December 5, 2011, May 4, 2012 and August 14, 2012, the fair value of the Group's investment properties, including land use rights, which have been classified in "lease prepayments" (note 13), are RMB353,562,000, RMB333,287,000, RMB372,018,000 and RMB290,497,000 as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively.

- (c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of 1 to 19 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating lease are receivables as follow:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	20,417	25,592	23,618	15,138
After 1 year but within 5 years	28,778	31,430	18,916	13,964
After 5 years	4,094	2,756	1,378	753
	<u>53,289</u>	<u>59,778</u>	<u>43,912</u>	<u>29,855</u>

13 LEASE PREPAYMENTS

Note	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At the beginning of the year/period	78,565	86,904	87,630	1,660,966
Additions	671	1,741	1,000,136	30,000
Revaluation	27(c)(i) 7,668	–	573,200	–
Distribution to equity owner of the Company	–	(1,015)	–	–
At the end of the year/period	<u>86,904</u>	<u>87,630</u>	<u>1,660,966</u>	<u>1,690,966</u>
Accumulated amortization:				
At the beginning of the year/period	9,317	10,966	14,023	30,595
Charge for the year/period	1,679	3,057	19,448	17,674
Revaluation	27(c)(i) (30)	–	(2,876)	–
At the end of the year/period	<u>10,966</u>	<u>14,023</u>	<u>30,595</u>	<u>48,269</u>
Net book value:	<u>75,938</u>	<u>73,607</u>	<u>1,630,371</u>	<u>1,642,697</u>

- (a) Lease prepayments mainly represent land use right premiums paid by the Group for land located outside Hong Kong. The analysis of net book value of lease prepayments is as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Outside Hong Kong				
– long leases	8,058	7,657	7,290	7,147
– medium-term leases	67,880	65,950	1,623,081	1,635,550
	<u>75,938</u>	<u>73,607</u>	<u>1,630,371</u>	<u>1,642,697</u>

- (b) As at December 31, 2009, 2010 and 2011 and June 30, 2012, certain of the Group's borrowings were secured by certain of the Group's land use rights with an aggregate net book value of RMB nil, RMB9,087,000, RMB nil and RMB nil, respectively.

14 INTANGIBLE ASSETS

	Note	At December 31,			At June 30,
		2009	2010	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At the beginning of the year/period		6,015	7,468	11,477	6,850
Additions		1,515	4,009	688	300
Disposals		(62)	–	(2,328)	–
Revaluation	27(c)(i)	–	–	(2,987)	–
At the end of the year/period		<u>7,468</u>	<u>11,477</u>	<u>6,850</u>	<u>7,150</u>
Accumulated amortization:					
At the beginning of the year/period		2,863	3,496	4,858	1,645
Charge for the year/period		695	1,362	1,954	944
Disposals		(62)	–	(2,281)	–
Revaluation	27(c)(i)	–	–	(2,886)	–
At the end of the year/period		<u>3,496</u>	<u>4,858</u>	<u>1,645</u>	<u>2,589</u>
Net book value:		<u>3,972</u>	<u>6,619</u>	<u>5,205</u>	<u>4,561</u>

Intangible assets mainly represent computer software. The amortization charge for the year/period is included in "administrative expenses" in the consolidated statements of comprehensive income.

15 OTHER NON-CURRENT ASSETS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Unquoted equity investments in non-listed companies, at cost	124,935	124,200	253,760	253,753
Less: impairment losses	(12,917)	(12,917)	(270)	(270)
	<u>112,018</u>	<u>111,283</u>	<u>253,490</u>	<u>253,483</u>

16 INVENTORIES

(a) Inventories in the balance sheets comprise:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Goods in transit (note (i))	40,603	34,411	65,773	164,517
Finished goods (note (ii))	15,374	39,255	90,994	102,330
Entrusted processing materials (note (iii))	112,701	67,513	36,821	72,381
Others (note (iv))	6,333	33,545	18,697	16,836
	<u>175,011</u>	<u>174,724</u>	<u>212,285</u>	<u>356,064</u>

Notes:

The inventories were mainly related to the Group's trading business.

- (i) Goods in transit represent goods on its delivery to the customers while risks and rewards of ownership of the goods have not passed to the customers.
- (ii) Finished goods represent goods ready to be sold to the customers.
- (iii) Entrusted processing materials represent materials owned by the Group and entrusted to third party entities to process for the purpose of selling to the customers.
- (iv) Others mainly represent packaging materials and materials purchased for processing for the purpose of selling to the customers.
- (b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	Years ended December 31			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Carrying amounts of inventories sold	4,536,955	6,170,308	7,250,844	3,808,992	3,365,449
Write down of inventories	—	—	100	1,677	3,324
	<u>4,536,955</u>	<u>6,170,308</u>	<u>7,250,944</u>	<u>3,810,669</u>	<u>3,368,773</u>

17 TRADE AND OTHER RECEIVABLES

	Note	At December 31,			At June 30,
		2009	2010	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable		15,909	40,800	504,366	117,153
Trade receivables					
– SINOMACH	17(d)	—	—	—	249,737
– fellow subsidiaries	17(d)	1,307	2,095	1,019	936
– third parties		1,579,121	2,397,185	3,262,650	2,976,061
Less: allowance for doubtful debts		(182,570)	(193,879)	(280,029)	(355,468)
Trade and bills receivables		<u>1,413,767</u>	<u>2,246,201</u>	<u>3,488,006</u>	<u>2,988,419</u>
Amount due from/advances to fellow subsidiaries	17(d)	136,450	179,458	63,412	19,708
Advances to suppliers		1,508,481	993,370	1,850,247	1,649,369
Other receivables related to agency services		1,108,717	1,128,681	625,174	484,160
Derivative financial instruments		1,077	—	—	—
Others		673,881	719,735	581,636	633,846
Less: allowance for doubtful debts		(20,810)	(65,620)	(74,757)	(64,991)
		<u>4,821,563</u>	<u>5,201,825</u>	<u>6,533,718</u>	<u>5,710,511</u>
Less: portion classified as current assets		<u>4,657,590</u>	<u>4,919,368</u>	<u>6,426,789</u>	<u>5,640,383</u>
Non-current portion		<u>163,973</u>	<u>282,457</u>	<u>106,929</u>	<u>70,128</u>

(a) Ageing analysis

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) is as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Current	902,473	1,649,342	2,924,913	1,904,578
Within 3 months past due	388,122	214,366	269,044	295,814
More than 3 months to 6 months past due	13,104	32,689	57,463	385,293
More than 6 months to 1 year past due	50,387	88,883	132,136	222,398
More than 1 year past due	59,681	260,921	104,450	180,336
	<u>1,413,767</u>	<u>2,246,201</u>	<u>3,488,006</u>	<u>2,988,419</u>

There are no unified standard credit terms granted to customers of construction contracting business and trading business. The credit terms granted to customers of construction contracting business are negotiated individually on a case-by-case basis and set forth in the relevant contracts. The credit terms granted to customers of trading business are normally about three to six months. The bills receivables are generally due within 180 days from the date of issuing. The Group's credit policy is set out in note 28(a).

(b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(n)(i)).

The movement in the allowance for doubtful debts during the Track Record Period is as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	65,821	203,380	259,499	354,786
Impairment losses recognized	137,559	61,108	96,004	66,673
Uncollectible amounts written off	—	(4,989)	(717)	(1,000)
At the end of the year/period	<u>203,380</u>	<u>259,499</u>	<u>354,786</u>	<u>420,459</u>
Attributable to:				
Trade and bills receivables	182,570	193,879	280,029	355,468
Other receivables	20,810	65,620	74,757	64,991

As at December 31, 2009, 2010 and 2011 and June 30, 2012, the Group's trade and bills receivables of RMB210,728,000, RMB245,192,000, RMB1,015,303,000 and RMB1,027,063,000 were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties or under the lawsuits proceedings, and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of the Group of RMB182,570,000, RMB193,879,000, RMB280,029,000 and RMB355,468,000 were recognized as at December 31, 2009, 2010 and 2011 and June 30, 2012.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, the Group's other receivables of RMB22,487,000, RMB82,654,000, RMB86,941,000 and RMB76,821,000 were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of the Group of RMB20,810,000, RMB65,620,000, RMB74,757,000 and RMB64,991,000 were recognized as at December 31, 2009, 2010 and 2011 and June 30, 2012.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	902,473	1,649,342	2,525,307	1,637,648
Within 3 months past due	388,122	203,056	112,877	167,349
More than 3 months to 6 months past due	13,104	32,689	1,078	352,594
More than 6 months to 1 year past due	23,644	77,461	77,945	78,060
More than 1 year past due	58,266	232,340	35,525	81,173
	483,136	545,546	227,425	679,176
	1,385,609	2,194,888	2,752,732	2,316,824

Receivables that were neither past due nor impaired relate to customers and debtors for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group or entered into collateral with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

- (d) The amounts due from/advances to SINOMACH and fellow subsidiaries are unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.
- (e) As at December 31, 2009, 2010 and 2011 and June 30, 2012, certain of the Group's borrowings were secured by certain of the Group's trade receivables with an aggregated amount of RMB19,454,000, RMB nil, RMB1,176,000 and RMB nil, respectively.

18 CONSTRUCTION CONTRACTS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Gross amount due from contract customers for contract work				
– current portion	3,558,219	3,902,532	3,176,301	2,681,953
– non-current portion	5,901,642	5,705,452	4,774,293	4,684,502
Gross amount due to contract customers for contract work	(4,154)	(5,080)	–	–
	9,455,707	9,602,904	7,950,594	7,366,455
Contract costs incurred plus recognized profits less recognized losses to date	40,002,826	45,652,271	45,318,732	49,097,258
Less: progress billings	30,547,119	35,916,459	37,195,185	41,551,940
allowance for doubtful debts for construction contracts	–	132,908	172,953	178,863
	9,455,707	9,602,904	7,950,594	7,366,455

As at December 31, 2009, 2010 and 2011 and June 30, 2012, the amount of retentions receivable from customers, recorded within "Construction contracts" of the Group are RMB117,505,000, RMB156,411,000, RMB188,756,000 and RMB210,766,000, respectively, which are expected to be recovered after more than one year.

19 RESTRICTED DEPOSITS

Restricted deposits mainly represent cash pledged for bank facilities or for issue of letter of credit. These restricted deposits are expected to be released within one year.

20 CASH AND CASH EQUIVALENTS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	696	1,148	848	970
Cash at bank and other financial institutions	2,352,356	5,077,675	5,169,909	10,190,927
Cash and cash equivalents	<u>2,353,052</u>	<u>5,078,823</u>	<u>5,170,757</u>	<u>10,191,897</u>

21 BORROWINGS

	At December 31,				At June 30,			
	2009		2010		2011		2012	
	Interest rate (%)	RMB'000	Interest rate (%)	RMB'000	Interest rate (%)	RMB'000	Interest rate (%)	RMB'000
Current:								
Short-term borrowings								
Bank loans								
– unsecured		–	2.79-3.95	73,231	4.80-5.14	14,914	4.80-7.07	25,359
– secured	2.76-3.50	118,627	2.98-5.61	7,635	4.70-5.84	3,148	4.70	2,015
		<u>118,627</u>		<u>80,866</u>		<u>18,062</u>		<u>27,374</u>
Loans from a fellow subsidiary								
– unsecured		–	2.79-4.00	20,738		–		–
		<u>118,627</u>		<u>101,604</u>		<u>18,062</u>		<u>27,374</u>
Add: current portion of long-term borrowings		<u>394,495</u>		<u>474,567</u>		<u>142,046</u>		<u>70,369</u>
		<u>513,122</u>		<u>576,171</u>		<u>160,108</u>		<u>97,743</u>
Non-current:								
Long-term borrowings								
Bank loans								
– unsecured	4.32	913,823	4.32	740,645		–		–
– secured	2.45-4.32	1,230,461	2.45-4.32	993,558	2.18-3.28	367,575	2.18-3.28	260,823
		<u>2,144,284</u>		<u>1,734,203</u>		<u>367,575</u>		<u>260,823</u>
Less: current portion of long-term borrowings		<u>394,495</u>		<u>474,567</u>		<u>142,046</u>		<u>70,369</u>
		<u>1,749,789</u>		<u>1,259,636</u>		<u>225,529</u>		<u>190,454</u>
		<u>2,262,911</u>		<u>1,835,807</u>		<u>385,637</u>		<u>288,197</u>

(a) The borrowings are repayable as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year or on demand	513,122	576,171	160,108	97,743
After 1 year but within 2 years	479,660	484,981	71,476	72,673
After 2 years but within 5 years	1,171,194	771,186	151,181	115,477
After 5 years	98,935	3,469	2,872	2,304
	1,749,789	1,259,636	225,529	190,454
	2,262,911	1,835,807	385,637	288,197

(b) As at December 31, 2009, 2010 and 2011 and June 30, 2012, certain borrowings were secured by the Group's property, plant and equipment, lease prepayments, restricted deposits and trade and other receivables.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, borrowings of the Group guaranteed by SINOMACH amounted to RMB1,222,041,000, RMB984,896,000, RMB357,891,000 and RMB252,072,000, respectively.

22 RECEIPTS IN ADVANCE

	Note	At December 31,			At June 30,
		2009	2010	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000
Receipts in advance for construction contracts	(i)				
– SINOMACH		–	512,602	698,179	–
– third parties		4,324,259	7,514,468	8,216,695	11,553,470
Receipts in advance for sales of goods		699,137	580,532	1,310,338	895,032
Others					
– fellow subsidiaries		–	–	568	–
– third parties		54,056	63,349	90,242	134,266
		5,077,452	8,670,951	10,316,022	12,582,768

Note:

(i) The balances as at December 31, 2009, 2010 and 2011 and June 30, 2012 represented advances received from customers (or main contractors, if relevant) for which the related construction work have not been performed as at the end of the reporting period.

23 TRADE AND OTHER PAYABLES

	Note	At December 31,			At June 30,
		2009	2010	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000
Bills payable		17,440	37,775	–	–
Trade payables					
– fellow subsidiaries		227,630	315,804	265,303	237,727
– third parties		6,215,878	7,500,148	8,054,429	9,704,844
Trade and bills payables		6,460,948	7,853,727	8,319,732	9,942,571
Amount due to SINOMACH	23(b)	–	–	500	500
Amount due to fellow subsidiaries	23(b)	28,705	29,252	1,193	773
Other payables related to agency services		1,595,953	1,451,361	632,696	516,087
Accrued salaries, wages and benefits		363,138	333,764	459,219	625,507
Other taxes payable		39,212	61,621	125,537	25,698
Others		95,186	138,933	238,273	263,788
Financial liabilities measured at amortized costs		8,583,142	9,868,658	9,777,150	11,374,924
Derivative financial instruments		24,699	28,831	24,817	40,587
Others		24,350	28,831	390	277
		8,632,191	9,926,320	9,802,357	11,415,788
Less: portion classified as current liabilities		8,453,871	9,605,348	9,671,321	11,312,719
Non-current portion		178,320	320,972	131,036	103,069

(a) The ageing analysis of trade and bills payables is as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	2,266,445	3,904,897	4,694,054	5,565,501
Due after 1 month but within 3 months	1,193,373	1,234,845	948,536	1,504,280
Due after 3 months but within 6 months	1,668,111	1,221,102	1,108,699	1,212,121
Due after 6 months but within 1 year	1,005,502	1,082,854	1,081,988	1,179,044
Due after 1 year	327,517	410,029	486,455	481,625
	6,460,948	7,853,727	8,319,732	9,942,571

(b) These balances are unsecured, non-interest bearing and have no fixed terms of repayment.

24 EMPLOYEE BENEFITS

(a) Defined benefit retirement plans

The Group paid supplementary pension subsidies (including post-retirement medical benefits) to its employees who retired prior to January 1, 2010. In addition, the Group provided subsidies to early retirees. The Group's obligations in respect of such defined benefit retirement plans at the end of the reporting period were computed by an independent actuary, Towers Watson, whose actuaries are members of the Society of Actuaries of the United States of America, using the projected unit credit method.

(i) The amounts recognized in the consolidated balance sheets are as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Present value of defined benefit obligations	477,280	416,300	424,470	414,560
Net unrecognized actuarial (losses)/gains	(250)	8,500	(13,070)	(9,450)
	477,030	424,800	411,400	405,110
Less: portion classified as current liabilities	35,880	31,780	31,770	31,650
Non-current portion	441,150	393,020	379,630	373,460

(ii) Movements of the defined benefit obligations recognized in the balance sheets are as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	504,510	477,030	424,800	411,400
Benefits paid during the year/period	(28,560)	(34,230)	(32,200)	(15,370)
Interest cost	15,810	15,830	16,050	7,140
Recognized prior service cost	–	(20,740)	300	700
Actuarial losses	–	–	2,450	1,240
Effect of settlement	(14,730)	(13,090)	–	–
At the end of the year/period	477,030	424,800	411,400	405,110

(iii) Expense recognized in the consolidated statements of comprehensive income is as follows:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest cost	15,810	15,830	16,050	8,010	7,140
Recognized prior service cost	—	(20,740)	300	—	700
Net actuarial losses/(gains) recognized	—	—	2,450	(200)	1,240
Effect of settlement	(14,730)	(13,090)	—	—	—
	<u>1,080</u>	<u>(18,000)</u>	<u>18,800</u>	<u>7,810</u>	<u>9,080</u>

The expense is recognized in the following line items in the consolidated statements of comprehensive income:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Finance expenses	15,810	15,830	16,050	8,010	7,140
Administrative expenses	(14,730)	(33,830)	2,750	(200)	1,940
	<u>1,080</u>	<u>(18,000)</u>	<u>18,800</u>	<u>7,810</u>	<u>9,080</u>

(iv) The principal actuarial assumptions used for the purpose of the actuarial valuation are as follows:

	At December 31,			At June 30,	
	2009	2010	2011	2012	
Discount rate	3.75%	4.00%	3.50%	3.50%	
Early retirees' salary and retirees' supplementary benefits increase rate	3.00%-4.50%	3.00%-4.50%	3.00%-4.50%	3.00%-4.50%	
Medical cost increase rate	8.00%	8.00%	8.00%	8.00%	

Mortality is assumed to be the average life expectancy of the residents in the PRC and the subsidies paid to retirees are assumed to continue until the death of the retirees.

- (v) A one percentage point change in the assumed rate of increase in medical cost would have the following effects:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Increase in effect on the interest cost	200	210	180	200	170
Decrease in effect on the interest cost	(170)	(180)	(150)	(170)	(150)
	At December 31,			At June 30,	
	2009	2010	2011	2012	
	RMB'000	RMB'000	RMB'000	RMB'000	
Increase in effect on the defined benefit obligations	5,440	5,360	5,110	4,810	
Decrease in effect on the defined benefit obligations	(4,640)	(4,580)	(4,390)	(4,140)	

(b) Defined contribution retirement plans

Pursuant to the relevant labor rules and the regulations in the PRC, the companies of the Group in the PRC participated in defined contribution retirement schemes (the "Schemes") organized by the relevant local government authorities for its employees. The Group is required to make contributions to the Schemes at the rate of 11% to 22% of eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

In addition, some employees of the Group participate in a retirement plan managed by SINOMACH to supplement the above-mentioned Schemes. The Group is required to make contribution to SINOMACH at the rate of 5% of the eligible employees' salaries.

Except for those in respect of the defined benefit retirement plans (see note 24(a)), the Group has no other obligation to make payments in respect of pension benefits associated with these Schemes and supplementary retirement plan managed by SINOMACH other than the annual contributions described above.

25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEETS

- (a) Income tax payable in the consolidated balance sheets represents:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax payable at the beginning of the year/period	516,649	401,856	432,135	318,016
Provision for the year/period (note 6)	321,468	475,500	552,957	428,807
Provision for revaluation	—	—	15,481	—
Income tax paid	(436,261)	(445,221)	(682,557)	(466,759)
Income tax payable at the end of the year/period	401,856	432,135	318,016	280,064

(b) Deferred tax assets and liabilities recognized:

(i) The components of deferred tax assets/(liabilities) recognized and the movements during the Track Record Period are as follows:

	Impairment loss on receivables	Construction contracts	Accrued expenses	Provision	Surplus on revaluation of property, plant and equipment	Surplus on revaluation of lease prepayments	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2009	10,339	28,469	38,710	-	-	-	(12,578)	64,940
Credited/(charged) to profit or loss (note 6(a))	34,586	(9,937)	61,605	-	-	-	10,694	96,948
At December 31, 2009	44,925	18,532	100,315	-	-	-	(1,884)	161,888
Credited/(charged) to profit or loss (note 6(a))	46,579	(7,952)	(28,943)	31,250	-	-	5,318	46,252
At December 31, 2010	91,504	10,580	71,372	31,250	-	-	3,434	208,140
Credited/(charged) to profit or loss (note 6(a))	31,524	(3,536)	26,231	(31,250)	3,672	4,182	7,108	37,931
Charged to reserves	-	-	-	-	(11,769)	(121,772)	(30,959)	(164,500)
At December 31, 2011	123,028	7,044	97,603	-	(8,097)	(117,590)	(20,417)	81,571
Credited/(charged) to profit or loss (note 6(a))	21,279	593	45,614	-	1,864	1,107	6,656	77,113
At June 30, 2012	144,307	7,637	143,217	-	(6,233)	(116,483)	(13,761)	158,684

(ii) Reconciliation to the balance sheets:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax assets recognized in the consolidated balance sheets	165,144	211,284	82,485	159,532
Net deferred tax liabilities recognized in the consolidated balance sheets	(3,256)	(3,144)	(914)	(848)
	161,888	208,140	81,571	158,684

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in note 1(v), the Group has not recognized deferred tax assets in respect of unused tax losses and certain deductible temporary differences of RMB118,606,000, RMB132,661,000, RMB146,373,000 and RMB150,162,000 as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively, as it is not probable that future taxable profits against which the losses and the deductible temporary differences can be utilized will be available in the relevant tax jurisdictions and entities.

The unused tax losses of RMB143,503,000 as at June 30, 2012 include tax losses of RMB18,680,000 that will expire, if unused, on or before December 31, 2024 and tax losses of RMB124,823,000 with no expiry date under relevant tax legislation.

26 PROVISIONS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued	–	125,000	–	–

For some of its export agent business, the Group worked with banks to issue advance payment guarantees to foreign buyers, which guaranteed repayment in the event that sellers are not able to fulfill contractual obligations and fail to repay the advances. The provision arising from the aforementioned guarantees was based on the estimated compensation liability, which the Group was expected to undertake. The Group fully settled the compensation liability during the year ended December 31, 2011.

27 CAPITAL AND RESERVES

(a) Dividends

During the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, dividends declared and paid to equity owners of the Company attributable to the financial years ended December 31, 2008, 2009, 2010 and 2011 were RMB216,282,000, RMB272,468,000, RMB698,016,000 and RMB354,238,000, respectively.

The rate of distribution and the number of shares ranking for dividend declared by the Company and its subsidiaries are not presented as such information is not meaningful for the purpose of this report.

(b) Capital

For the purpose of this report, the capital of the Group as at December 31, 2009 and 2010 prior to the establishment of the Company represents the capital of the Predecessor.

The capital of the Company as at December 31, 2011 and June 30, 2012 represented a total of 3,300 million ordinary shares with a par value of RMB1.00 each.

(c) Reserves

(i) Capital reserve

Capital reserve includes:

- the contributions or distributions to equity owners; and
- the revaluation surplus resulting from state-owned enterprises restructuring.

During the Predecessor's reorganization, the Predecessor was converted from a state-owned enterprise into a joint stock company and multiple subsidiaries of the Predecessor were converted from state-owned enterprises into limited liability companies within Track Record Period.

As required by PRC regulations on the restructuring of state-owned enterprises, the Predecessor and these subsidiaries engaged China Enterprise Appraisals Co., Ltd. (中企華資產評估公司), an assets appraiser certified in the PRC, to carry out an independent valuation of their assets and liabilities at the measurement dates. The valuation results have been recognized in the financial statements of the Predecessor and these subsidiaries. These event-driven fair value measurements have been used as deemed cost in the Financial Information at the measurements dates, and the resulting revaluation adjustments have been recognized in capital reserve.

(ii) Reserve fund

The reserve fund of the Company includes statutory reserve fund and discretionary common reserve.

Pursuant to the Articles of Association of the Company, the Company transfers 10% of its net profit as determined in accordance with the Accounting Rules and Regulations of the PRC to its statutory reserve fund unless the statutory reserve balance of the Company has reached 50% or more of its register capital.

The Company transfers some of its net profit as determined in accordance with Accounting Rules and Regulations of the PRC to its discretionary common reserve when it is approved by its equity owner (before Reorganization) or shareholders (after Reorganization).

The transfer to the reserve fund must be made before distribution of a dividend to equity owners. The reserve fund can be utilized in setting off accumulated losses or increasing capital of the Company and is non-distributable other than in liquidation.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial information of foreign operations that have functional currency other than the RMB. The reserve is dealt with in accordance with the accounting policies set out in note 1(y).

(iv) Distributability of reserve

Following the Reorganization, the payment of future dividends will be determined by the Company's shareholders. The payment of the dividends will depend upon the future earnings, capital requirement, financial conditions and general business conditions of the Company. As the controlling shareholder, SINOMACH will be able to influence the Company's dividend policy.

Following the establishment of the Company, under the Company Law of the PRC and the Company's Articles of Association, net profit can only be distributed as dividends after allowances have been made for the following:

- (i) Making up prior years' cumulative losses, if any;
- (ii) Allocations to the statutory reserve fund as set out in note 27(c)(ii) above; and
- (iii) Allocations to the discretionary common reserve if approved by the shareholders.

In accordance with the Articles of Association of the Company, the net profit of the Company for the purpose of dividends payment will be the lesser of (i) the net profit determined in accordance with the accounting rules and regulations of the PRC; and (ii) the net profit determined in accordance with IFRSs.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity owners/shareholders and benefits for other stakeholders, by pricing goods and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity owner/shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The liability-to-asset ratios of the Group as at December 31, 2009, 2010 and 2011 and June 30, 2012 are 85%, 84%, 80% and 81%, respectively.

There were no changes in the Group's approach to capital management compared with previous years/periods. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group primarily evaluates customers' credit status and their ability to guarantee payment through its establishment of an appropriate business evaluation system. The Group generally requires customers to settle progress billings in accordance with contracted terms and other debts in accordance with agreements. Credit terms may be granted to customers, depending on credit assessment carried out by management on an individual basis. Also, in order to properly control the credit risk on trade and other receivables, the Group issued policies on the

purchase of export credit insurance. To protect against credit risk in its trading business, the Group requires the Company and its subsidiary entities to buy unified export credit insurance from China Export & Credit Insurance Corporation ("SINOSURE"); for its construction contract business under the financing arrangement of export seller's credit provided by the Group to relevant customers, the Group requires each project to meet financing needs and control for credit risk on trade and other receivables by buying export credit insurance from SINOSURE.

The Group's significant concentration of credit risk stems from its significant trade and other receivables due from individual customers.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, 6%, 9%, 8% and 9% of the total trade and other receivables was due from the Group's largest customer, and 21%, 26%, 22% and 25% of the total trade and other receivables was due from the five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

(b) Liquidity risk

The funding needs of the Company and its subsidiary entities are raised and allocated by the Group. Fund raising from external sources by subsidiary entities is subject to approval by the Company. The Company and its subsidiary entities manage cash flows according to their own business approval processes. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term.

The Group had net current liabilities of RMB1,448,706,000, RMB826,653,000, RMB1,166,168,000 and RMB555,855,000 as at December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. With regards to its future capital commitments and other financing requirements, the Group had unutilized banking facilities (including bank loans, letter of credit and letter of guarantees etc) of approximately RMB16,554,551,000 as of June 30, 2012.

In addition, the directors of the Group have carried out a review of the working capital forecast for the eighteen-month period ending December 31, 2013. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during the period. In preparing the working capital forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned borrowings financing which may impact the operations of the Group prior to the end of the next twelve months after the date of this report. The directors are of the opinion that the assumptions which are included in the working capital forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realized.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	Contractual undiscounted cash outflow					Carrying amount
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2009						
Borrowings	585,809	536,235	1,241,016	100,088	2,463,148	2,262,911
Trade and other payables	8,095,329	462,354	54,771	–	8,612,454	8,583,142
	<u>8,681,138</u>	<u>998,589</u>	<u>1,295,787</u>	<u>100,088</u>	<u>11,075,602</u>	<u>10,846,053</u>
Interest rate swaps (net settled)	12,506	8,277	3,239	(388)	23,634	23,444
Derivatives settled gross:						
Foreign currency forward exchange contracts:						
– outflow	106,705	–	–	–	106,705	
– inflow	(106,524)	–	–	–	(106,524)	

	Contractual undiscounted cash outflow					Carrying amount RMB'000
	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but within 5 years	More than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At December 31, 2010						
Borrowings	632,536	522,285	803,297	3,574	1,961,692	1,835,807
Trade and other payables	9,165,373	581,034	179,267	–	9,925,674	9,868,658
	<u>9,797,909</u>	<u>1,103,319</u>	<u>982,564</u>	<u>3,574</u>	<u>11,887,366</u>	<u>11,704,465</u>
Interest rate swaps (net settled)	12,540	9,218	6,577	–	28,335	28,026
Derivatives settled gross:						
Foreign currency forward exchange contracts:						
– outflow	116,756	–	–	–	116,756	
– inflow	(115,943)	–	–	–	(115,943)	
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	
At December 31, 2011						
Borrowings	167,170	75,975	154,672	2,979	400,796	385,637
Trade and other payables	9,182,133	574,512	42,721	–	9,799,366	9,777,150
	<u>9,349,303</u>	<u>650,487</u>	<u>197,393</u>	<u>2,979</u>	<u>10,200,162</u>	<u>10,162,787</u>
Interest rate swaps (net settled)	9,466	6,535	5,333	–	21,334	21,134
Derivatives settled gross:						
Foreign currency forward exchange contracts:						
– outflow	512,442	328,083	32,979	–	873,504	
– inflow	(512,547)	(325,042)	(32,138)	–	(869,727)	
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	
At June 30, 2012						
Borrowings	103,887	76,568	117,576	2,377	300,408	288,197
Trade and other payables	10,823,624	552,703	13,978	–	11,390,305	11,374,924
	<u>10,927,511</u>	<u>629,271</u>	<u>131,554</u>	<u>2,377</u>	<u>11,690,713</u>	<u>11,663,121</u>
Interest rate swaps (net settled)	8,110	5,602	3,417	–	17,129	17,021
Derivatives settled gross:						
Foreign currency forward exchange contracts:						
– outflow	745,014	567,480	411,358	–	1,723,852	
– inflow	(739,706)	(559,821)	(399,980)	–	(1,699,507)	
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group regularly reviews and monitors the mix of fixed and variable rate borrowings either through the contractual terms of the interest-bearing financial assets and liabilities or through the use of interest rate swaps in order to manage its interest rate risks.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net instruments (interest-bearing financial assets less interest-bearing financial liabilities) at the end of the reporting period, after taking into account the effect of interest rate swaps:

	At December 31,			At June 30,
	2009	2010	2011	2012
Net fixed rate instruments:				
Trade and other receivables	294,810	528,607	227,161	175,624
Construction contracts	7,156,049	7,199,887	6,188,474	5,835,112
Bank deposits	2,605,144	7,370,624	6,709,294	10,655,912
Less: Borrowings	1,600,537	1,393,239	302,548	279,446
Trade and other payables	299,473	535,475	245,844	190,070
	<u>8,155,993</u>	<u>13,170,404</u>	<u>12,576,537</u>	<u>16,197,132</u>
Net variable rate instruments:				
Bank deposits	2,040,969	2,251,416	2,805,552	4,413,807
Less: Borrowings	662,374	442,568	83,089	8,751
	<u>1,378,595</u>	<u>1,808,848</u>	<u>2,722,463</u>	<u>4,405,056</u>

(ii) Sensitivity Analysis

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 the Group's profit after tax and retained profits by approximately RMB10,415,000, RMB13,681,000, RMB20,539,000 and RMB33,200,000, respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to cash flow interest rate risk for non-derivative financial instruments in existence at the end of the reporting period.

The estimated 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next annual reporting period. The sensitivity analysis is performed on the same basis for the entire Track Record Period.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transaction relate. The currencies giving rise to this risk are primarily United States dollars ("USD") and Euros ("EUR"). The Group manages this risk as follows:

(i) Forecast transactions

The Group uses foreign currency forward exchange contracts to hedge some of its currency risk. At December 31, 2009, 2010 and 2011 and June 30, 2012, the Group had foreign currency forward exchange contracts hedging forecast transactions with a net fair value of RMB61,000, RMB(247,000), RMB(313,000) and RMB nil, respectively, recognized as derivative financial instruments recorded in "trade and other receivables" and "trade and other payables".

(ii) Recognized assets and liabilities

Changes in the fair value of foreign currency forward exchange contracts on monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss (see note 4). The net fair value of foreign currency forward exchange contracts used by the Group on monetary assets and liabilities denominated in foreign currencies at December 31, 2009, 2010 and 2011 and June 30, 2012 was RMB(239,000), RMB(558,000), RMB(3,370,000) and RMB(23,566,000), respectively, recognized as derivative financial instruments recorded in "trade and other payables".

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(iii) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year/period end date. Differences resulting from the translation of the financial information of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in RMB)		
	USD RMB'000	EUR RMB'000	Others RMB'000
At December 31, 2009			
Cash and cash equivalents	392,236	86,824	373,318
Restricted deposits	33,309	3,627	–
Trade and other receivables	910,794	151,452	21,334
Construction contracts	9,052,640	96,494	–
Borrowings	(734,537)	–	–
Trade and other payables	(1,096,044)	(49,401)	(36,673)
Gross exposure arising from recognized assets and liabilities	8,558,398	288,996	357,979
Notional amounts of foreign currency forward exchange contracts	101,781	–	–
Net exposure arising from recognized assets and liabilities	<u>8,660,179</u>	<u>288,996</u>	<u>357,979</u>
At December 31, 2010			
Cash and cash equivalents	478,774	137,609	247,766
Restricted deposits	614	11,294	2,597
Time deposits with original maturity over three months	4,914	–	–
Trade and other receivables	1,426,291	176,991	246,576
Construction contracts	8,877,979	287,625	–
Borrowings	(620,007)	–	–
Trade and other payables	(1,926,168)	(157,406)	(44,666)
Gross exposure arising from recognized assets and liabilities	8,242,397	456,113	452,273
Notional amounts of foreign currency forward exchange contracts	–	(63,802)	–
Net exposure arising from recognized assets and liabilities	<u>8,242,397</u>	<u>392,311</u>	<u>452,273</u>

	Exposure to foreign currencies (expressed in RMB)		
	USD	EUR	Others
	RMB'000	RMB'000	RMB'000
At December 31, 2011			
Cash and cash equivalents	1,197,085	270,872	161,781
Restricted deposits	230	148	853
Trade and other receivables	2,295,142	124,480	151,124
Construction contracts	7,486,843	16,532	91,805
Borrowings	(375,953)	–	–
Trade and other payables	(1,401,681)	(107,835)	(91,538)
Gross exposure arising from recognized assets and liabilities	9,201,666	304,197	314,025
Notional amounts of foreign currency forward exchange contracts	(685,807)	–	–
Net exposure arising from recognized assets and liabilities	8,515,859	304,197	314,025
Exposure to foreign currencies (expressed in RMB)			
	USD	EUR	Others
	RMB'000	RMB'000	RMB'000
At June 30, 2012			
Cash and cash equivalents	2,316,967	238,475	143,568
Restricted deposits	10,980	3,111	3
Trade and other receivables	1,740,209	228,061	3,686
Construction contracts	6,725,499	27,966	104,284
Borrowings	(279,446)	–	–
Trade and other payables	(2,564,336)	(111,729)	(91,346)
Gross exposure arising from recognized assets and liabilities	7,949,873	385,884	160,195
Notional amounts of foreign currency forward exchange contracts	(1,699,850)	–	–
Net exposure arising from recognized assets and liabilities	6,250,023	385,884	160,195

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure as at December 31, 2009, 2010 and 2011 and June 30, 2012 had changed at those dates, assuming all other risk variables remained constant.

	At December 31,						At June 30,	
	2009		2010		2011		2012	
	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and retained profits	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and retained profits	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and retained profits	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit after tax and retained profits
		RMB'000		RMB'000		RMB'000		RMB'000
USD	5%	324,922	5%	309,175	5%	319,675	5%	234,502
USD	(5%)	(324,922)	(5%)	(309,175)	(5%)	(319,675)	(5%)	(234,502)
EUR	10%	21,765	10%	29,483	10%	22,819	10%	28,948
EUR	(10%)	(21,765)	(10%)	(29,483)	(10%)	(22,819)	(10%)	(28,948)
Others	5%	13,737	5%	17,166	5%	11,793	5%	6,077
Others	(5%)	(13,737)	(5%)	(17,166)	(5%)	(11,793)	(5%)	(6,077)

Results of the analysis presented in the above table represent an aggregate of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial information of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for the Track Record Period.

(e) **Fair values**

(i) **Financial instruments carried at fair value**

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: (highest level): fair values measured using quoted priced (adjusted) in active markets for identical financial instruments;
- Level 2: fair values measured using quoted prices in active market for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data;
- Level 3: (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

The Group's financial instruments carried at fair value as at December 31, 2009, 2010 and 2011 and June 30, 2012 are all measured under level 2.

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Level 2				
Assets				
Derivative financial instruments				
– foreign currency forward exchange contracts	1,077	–	–	–
Liabilities				
Derivative financial instruments				
– foreign currency forward exchange contracts	1,255	805	3,683	23,566
– interest rate swaps	23,444	28,026	21,134	17,021

(ii) **Fair values of financial instruments carried at other than fair value**

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair value as at December 31, 2009, 2010 and 2011 and June 30, 2012 except as follows:

	At December 31,						At June 30,	
	2009		2010		2011		2012	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Construction contracts	9,529,833	9,292,613	9,645,222	9,597,381	7,978,770	7,811,272	7,397,001	7,149,624
Long-term borrowings	(2,144,284)	(2,110,764)	(1,734,203)	(1,699,648)	(367,575)	(353,225)	(260,823)	(244,840)

(f) **Estimation of fair values**

(i) **Receivables and borrowings**

The fair value is estimated as the present value of the future cash flows discounted at the market interest rates at the end of the reporting period.

(ii) Derivatives

Foreign currency forward exchange contracts are either marked to market using listed market prices or by discounting the difference between the contractual forward price and the current market forward price. The fair value of interest rate swaps is obtained using discounted cash flow models.

29 COMMITMENTS

- (a) Capital commitments outstanding at December 31, 2009, 2010 and 2011 and June 30, 2012 not provided for in the Financial Information were as follows:

	Group				Company
	At December 31,			At June 30,	At June 30,
	2009	2010	2011	2012	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	–	–	68,507	58,486	58,486
Authorized but not contracted for	–	365,190	1,575,908	1,575,809	914,010
	–	365,190	1,644,415	1,634,295	972,496

The Company's capital commitments outstanding as at June 30, 2012 represented capital commitments amounted to RMB972,496,000 for the planned construction of a new office building located in Beijing in the PRC.

- (b) At December 31, 2009, 2010 and 2011 and June 30, 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	2,874	3,580	10,730	14,251
After 1 year but within 5 years	2,118	1,074	12,714	10,904
	4,992	4,654	23,444	25,155

The Group leases certain buildings through non-cancellable operating leases. These operating leases do not contain provision for contingent lease rentals. None of the rental agreements contain escalation provision that may require higher future rental payment.

30 CONTINGENT LIABILITIES**(a) Legal contingencies**

The Company and certain subsidiaries of the Group are defendants in certain lawsuits as well as the named parties in other proceedings arising in the normal course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the directors of the Company believe that any resulting liabilities will not have a material adverse impact on the financial position, liquidity, or operating results of the Group.

(b) Guarantees

For some agency business, the Group worked with banks to issue irrevocable letter of guarantee to buyers, which guaranteed 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.

As at December 31, 2009, 2010 and 2011 and June 30, 2012, the maximum liability of the Group under these guarantees issued are the outstanding amount of letter of guarantee issued through certain banks to the buyers of RMB1,832,182,000, RMB2,131,815,000, RMB1,727,327,000 and RMB1,246,625,000, respectively, which are secured by certain assets of the sellers or letter of guarantees through certain banks from sellers.

As at June 30, 2012, the maximum liability of the Company under these guarantees issued are the outstanding amount of letter of guarantee issued through certain banks to the buyers of RMB1,246,625,000.

The Company has issued guarantees to banks in respect of the banking facilities granted to its subsidiaries for issuance of letter of credit, letter of guarantees, bills and bank loans etc.

As at June 30, 2012, the maximum liability of the Company under these guarantees issued for its subsidiaries are the banking facilities drawn down by the subsidiaries of RMB1,558,403,000.

Except for the guarantees for which the provisions has been made (note 26), the directors of the Company do not consider it probable that a claim will be made against the Group under any other guarantees.

31 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with SINOMACH and fellow subsidiaries

The principal related party transactions with SINOMACH and fellow subsidiaries, which were carried out in the ordinary course of business are as follows:

	Note	Years ended December 31,			Six months ended June 30,	
		2009	2010	2011	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Engineering services and products provided by						
– Fellow subsidiaries	<i>i</i>	323,197	343,634	209,369	194,757	237,839
Services rendered to						
– Fellow subsidiaries	<i>i</i>	16,361	13,658	11,162	7,991	1,459
Services rendered to						
– SINOMACH	<i>i</i>	1,136,935	930,117	511,941	370,194	948,225
Net deposits placed with/(withdrawn from)						
– A fellow subsidiary	<i>ii</i>	1,168,250	2,559,168	(2,690,926)	(307,419)	(1,452,642)
Borrowings from						
– A fellow subsidiary	<i>ii</i>	–	20,738	14,622	14,622	–
Borrowings repaid to						
– A fellow subsidiary	<i>ii</i>	–	–	35,360	20,738	–
Working capital (received from)/provided to						
– A fellow subsidiary	<i>i</i>	(117,315)	48,683	(109,201)	(108,845)	(37,308)
Interest income charged to						
– A fellow subsidiary	<i>ii</i>	21,617	16,589	83,297	44,321	23,636
Interest expenses paid to						
– A fellow subsidiary	<i>ii</i>	–	125	70	70	–
Goods purchased for trading from						
– Fellow subsidiaries	<i>i</i>	1,149	1,378	11,714	2,956	8,152
Lease expenses paid to						
– A fellow subsidiary	<i>i</i>	195	302	312	148	145
Guarantees revoked by						
– SINOMACH	<i>ii</i>	1,132,721	442,527	899,943	645,907	105,819

Notes:

- (i) The directors of the Company expect these transactions to be continued after the Listing of the Company's Shares on The Stock Exchange of Hong Kong Limited.
- (ii) The directors of the Company do not expect these transactions to be continued after the Listing of the Company's Shares on The Stock Exchange of Hong Kong Limited.

The directors of the Company are of the opinion that the related party transactions were conducted in the ordinary and usual course of the Company's business.

(b) Outstanding balances with SINOMACH and fellow subsidiaries

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cash deposits placed with				
– A fellow subsidiary	1,584,400	4,143,568	1,452,642	–
Trade and other receivables due from				
– SINOMACH	–	–	–	249,737
– Fellow subsidiaries	137,757	181,553	64,431	20,644
Amount of construction contracts due from				
– SINOMACH	172,020	–	–	–
Borrowings due to				
– A fellow subsidiary	–	20,738	–	–
Receipts in advance from				
– SINOMACH	–	512,602	698,179	–
– Fellow subsidiaries	–	–	568	–
Trade and other payables due to				
– SINOMACH	–	–	500	500
– Fellow subsidiaries	256,335	345,056	266,496	238,500
Guarantees provided by				
– SINOMACH	1,700,361	1,257,834	357,891	252,072

The directors of the Company confirm that all amounts due from/to related parties which are non-trading in nature have been fully settled before June 30, 2012.

(c) Transactions with other state-controlled entities in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organizations (collectively "State-owned Enterprises"). During the Track Record Period, the Group had transactions with State-owned Enterprises including, but not limited to, sales of goods, rendering of services, purchase of goods and services. The directors consider that the transactions with these State-owned Enterprises are activities in the ordinary course of the Group's business and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these State-owned Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for services and products, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

Apart from transactions mentioned above, the Group has transactions with other state-controlled banks, including but not limited to depositing and borrowing money. The directors are of the opinion that these related party transactions require disclosure as other state-controlled entities transactions as follows:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income	40,999	112,271	99,910	36,466	85,417
Interest expense	25,388	26,371	15,807	13,950	3,954
Borrowings received	1,608,503	97,974	80,915	55,094	13,938
Borrowings repaid	973,556	573,110	1,466,154	1,177,444	115,646
Net deposits	(452,477)	2,823,999	2,189,798	82,240	6,850,496

The balances due from/to other state-controlled entities transactions are as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Bank deposits	2,312,301	5,136,300	7,326,098	14,176,594
Borrowings	2,254,491	1,762,505	359,024	257,980

(d) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7, and certain of the highest paid employees as disclosed in note 8, is as follows:

	Years ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term employee benefits	5,682	5,939	9,115	3,598	4,516
Retirement scheme contributions	215	257	317	145	176
	<u>5,897</u>	<u>6,196</u>	<u>9,432</u>	<u>3,743</u>	<u>4,692</u>

The directors of the Company consider that the transactions entered into with related parties during the Track Record Period were conducted on normal commercial terms.

32 PARENT AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the parent and ultimate holding company of the Company is SINOMACH, which is a state-owned enterprise established in the PRC. SINOMACH does not produce financial statements available for public use.

33 THE COMPANY'S BALANCE SHEET

The balance sheet of the Company as at December 31, 2011 and June 30, 2012 was as follows:

	<u>At December 31, 2011</u>	<u>At June 30, 2012</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets		
Property, plant and equipment	281,387	293,367
Investment properties	17,224	16,734
Lease prepayments	1,491,337	1,504,143
Intangible assets	3,994	3,323
Investments in subsidiaries	1,775,316	1,775,375
Interest in associates	499	284
Other non-current assets	252,340	252,340
Construction contracts	4,522,766	4,477,756
Deferred tax assets	26,922	94,551
	<hr/>	<hr/>
Total non-current assets	8,371,785	8,417,873
	-----	-----
Current assets		
Inventories	55,633	183,465
Trade and other receivables	4,396,802	3,733,929
Construction contracts	2,900,842	2,416,171
Restricted deposits	309,994	198,290
Time deposits with original maturity over three months	3,777,394	4,414,261
Cash and cash equivalents	4,145,759	8,984,335
	<hr/>	<hr/>
Total current assets	15,586,424	19,930,451
	-----	-----
Current liabilities		
Borrowings	140,510	68,862
Receipts in advance	9,052,432	11,403,311
Trade and other payables	8,223,483	9,838,764
Retirement and other supplemental benefit obligation	24,710	24,570
Income tax payable	254,890	221,361
	<hr/>	<hr/>
Total current liabilities	17,696,025	21,556,868
	-----	-----
Net current liabilities	(2,109,601)	(1,626,417)
	-----	-----
Total assets less current liabilities	6,262,184	6,791,456
	-----	-----
Non-current liabilities		
Borrowings	217,381	183,210
Trade and other payables	15,489	27,255
Retirement and other supplemental benefit obligation	292,010	285,370
	<hr/>	<hr/>
Total non-current liabilities	524,880	495,835
	-----	-----
NET ASSETS	5,737,304	6,295,621
	<hr/>	<hr/>
CAPITAL AND RESERVES		
Capital	3,300,000	3,300,000
Reserves	2,437,304	2,995,621
	<hr/>	<hr/>
TOTAL EQUITY	5,737,304	6,295,621
	<hr/>	<hr/>

Pursuant to the Approval of Establishing China Machinery Engineering Corporation, issued by State-owned Assets Supervision and Administrative Commission of the State Council, the Company was established as a joint stock company on January 18, 2011.

34 CRITICAL ACCOUNTING JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Financial Information. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

(a) Construction contracts

As explained in the accounting policy notes 1(p) and (x)(ii), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 18 will not include profit which the Group may eventually realize from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognized in future years as an adjustment to the amounts recorded to date.

(b) Impairment of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in accordance with accounting policy for impairment of non-current assets as described in note 1(n)(ii). The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of its fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods, where applicable.

(c) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the aging of the receivable balance, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the customers and debtors were to deteriorate, actual write-offs would be higher than estimated.

(d) Retirement benefits

The Group establishes liabilities in connection with benefits paid to certain retired and early retired employees. The amounts of employee benefits expense and liabilities are determined using actuarial valuations, which are calculated by independent valuation professionals who conduct annual assessment of the actuarial position of the Group's retirement plans. These actuarial valuations involve making assumptions on discount rates, pension benefit increase rates, medical benefit increase rates, and other factors. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

Actual results that differ from the assumptions are recognized immediately and therefore, affect recognized expenses in the period in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experiences or changes in assumptions may affect the expenses related to the employee retirement benefit obligations.

(e) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognized and measured based on the expected manner of realization or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgment exercised by the management. Any change in such assumptions and judgment would affect the carrying amounts of deferred tax assets to be recognized and hence the net profit in future years.

(f) Income tax

The Group files income taxes with a number of tax authorities. Judgment is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determinations are uncertain during the ordinary course of business. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences may impact the current income tax and deferred income tax provisions in the periods in which the final tax outcomes became available.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED FOR THE PERIOD BEGINNING JANUARY 1, 2012

Up to the date of issue of the Financial Information, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the period beginning January 1, 2012 and which have not been adopted in the Financial Information.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, <i>Presentation of financial statements</i>	
– <i>Presentation of items of other comprehensive income</i>	July 1, 2012
IFRS 10, <i>Consolidated financial statements</i>	January 1, 2013
IFRS 11, <i>Joint arrangements</i>	January 1, 2013
IFRS 12, <i>Disclosure of interests in other entities</i>	January 1, 2013
IFRS 13, <i>Fair value measurement</i>	January 1, 2013
IAS 27, <i>Separate financial statements</i> (2011)	January 1, 2013
IAS 28, <i>Investments in associates and joint ventures</i> (2011)	January 1, 2013
Revised IAS 19, <i>Employee benefits</i>	January 1, 2013
IFRIC 20, <i>Stripping costs in the production phase of a surface mine</i>	January 1, 2013
Amendments to IFRS 7, <i>Financial instruments: Disclosures</i>	
– <i>Disclosures – Offsetting financial assets and financial liabilities</i>	January 1, 2013
Amendments to IFRS 1, <i>First-time adoption of</i>	
<i>International Financial Reporting Standards – Government loans</i>	January 1, 2013
<i>Annual Improvements to IFRSs – 2009-2011 Cycle</i>	January 1, 2013
Amendments to IFRS 10, <i>Consolidated financial statements</i> ,	
IFRS 11, <i>Joint arrangements</i> and IFRS 12, <i>Disclosure of interests</i>	
<i>in other entities – Transition guidance</i>	January 1, 2013
Amendments to IFRS 10, IFRS 12 and IAS 27, <i>Investment entities</i>	January 1, 2014
Amendments to IAS 32, <i>Financial instruments: Presentation</i>	
– <i>Offsetting financial assets and financial liabilities</i>	January 1, 2014
IFRS 9, <i>Financial instruments</i> (2009)	January 1, 2015
IFRS 9, <i>Financial instruments</i> (2010)	January 1, 2015
Amendments to IFRS 9, <i>Financial instruments</i>	
and IFRS 7 <i>Financial instruments: Disclosures</i>	
– <i>Mandatory effective date and transition disclosures</i>	January 1, 2015

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application but is not yet in a position to state whether these amendments and new standards would have a significant impact on the Group's or the Company's results of operations and financial position.

36 STATUTORY FINANCIAL STATEMENTS OF OVERSEAS SUBSIDIARIES

The statutory financial statements of following overseas subsidiaries of the Company for each of the three years ended December 31, 2009, 2010 and 2011, or since their respective dates of establishment, where this is a shorter period, were audited by following auditors:

	<u>Name of subsidiary</u>	<u>Financial period</u>	<u>Statutory auditors</u>
1	China Machinery & Equipment (HK) Company Limited	Years ended December 31, 2009, 2010 and 2011	M Square CPA Limited
2	China Everbest Development International Limited	Years ended December 31, 2009, 2010 and 2011	M Square CPA Limited
3	COMIBEL S.A. (note i)	Years ended December 31, 2009, 2010 and 2011	PricewaterhouseCoopers Tax & Legal SA
4	CMEC Senegal S.A. (note i)	Period from April 20, 2009 to December 31, 2009 and years ended December 31, 2010 and 2011	Deloitte Senegal

(i) The English translation of the names is for reference only. The official names of these entities are in French.

D SUBSEQUENT EVENTS**(a) Acquisition of China Power Construction Engineering Consulting Zhongnan Company (“Zhongnan”)**

On June 4, 2012, the Company and China Power Engineering Consulting Group Zhongnan Power Design Institute entered into a share transfer agreement in relation to the acquisition of 50% equity interest of Zhongnan for a total consideration of RMB4.6 million. In September 2012, the Company completed the acquisition of Zhongnan.

(b) Assignment of an ongoing construction contracting project in Sudan and indemnifications provided by SINOMACH concerning the assignment and termination of two construction contracting projects in Sudan

On December 4, 2012, Company signed an assignment agreement (the “Assignment Agreement”) with a subsidiary of SINOMACH (the “Assignee”) to assign the rights and liabilities under the underlying contract of an ongoing construction contracting project in Sudan (the “Contract”) to the Assignee without any assignment fee. Under the Assignment Agreement, the Assignee agreed to be bound by all the provisions of the Contract as if it were named in the Contract in place of the Company, and to perform, discharge and observe all obligations and liabilities on the part of the Company under the Contract which would, but for the Assignment Agreement, fall to be performed, discharged or observed by the Company. The Assignee also agreed to indemnify and hold harmless the Company against and from all liabilities, demands, claims, actions, causes of action, assessments, costs, damages, losses and expenses (including legal fees and expenses). On December 10, 2012, SINOMACH agreed to indemnify the Company for all liabilities, losses, damages, costs and expenses (if any) that may be incurred by the Company 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 Contract.

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

The directors are of the opinion that the assignment and termination of the above mentioned contracts had no material adverse impact on the reputation, operations and financial position of the Company.

E SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to June 30, 2012.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

A. 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 of June 30, 2012 or any future date.

	Consolidated net tangible assets attributable to equity holders of our company as of 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	
	<i>(RMB million)⁽¹⁾</i>	<i>(RMB million)⁽²⁾</i>	<i>(RMB million)</i>	<i>(RMB)⁽³⁾</i>	<i>(HK\$)⁽³⁾</i>
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 of 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.

B. LETTERS FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from reporting accountants, KPMG, Certified Public Accounts, Hong Kong, prepared for the purpose of incorporation in this Prospectus.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

December 11, 2012

The Directors
China Machinery Engineering Corporation

Dear Sirs,

China Machinery Engineering Corporation (the "Company")

We report on the unaudited pro forma financial information (the "**Pro Forma Financial Information**") of the Company and its subsidiaries (the "**Group**") set out in Part (A) of Appendix II to the prospectus dated December 11, 2012 (the "**Prospectus**"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the Global Offering might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in Part (A) of Appendix II to the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Our procedures on the unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at June 30, 2012 or any future date.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under "Use of Proceeds" set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

- a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The principal objective of this Appendix is to provide an overview of the Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important.

1. DIRECTORS AND BOARD OF DIRECTORS

(a) Power to allot and issue shares

There is no provision in the Articles of Association empowering the Board to allot or issue shares. In order to allot or issue shares, the Board shall prepare a proposal for approval by shareholders in a general meeting by way of a special resolution. Any such allotment or issue shall be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

(b) Power to dispose of our Company's or any of its subsidiaries' assets

Before the Board is going to dispose of any of our Company's fixed assets, the Board shall not, without the approval of shareholders in a general meeting, dispose or agree to dispose of any fixed assets of our Company where the aggregate of the expected value of the fixed assets contemplated to be disposed of and the realized value of fixed assets that have been disposed of within four months immediately preceding the proposed disposition exceeds 33% of the value of our Company's fixed assets as shown in the latest audited balance sheet placed before shareholders in a general meeting.

For the aforementioned disposition of fixed assets, it includes an act involving a transfer of an interest in property other than provision of guarantee with fixed assets.

The validity of a transaction for the disposition of fixed assets by our Company shall not be affected by a breach of the above-mentioned restriction contained in the Articles of Association.

The Board shall consult with, and obtain professional advice from, professional advisory organizations and whose professional advice shall be regarded as important grounds of decision-making by the Board when it makes decision in regard to market development, mergers and acquisitions, or the value of an investment or acquisition exceeds 10% of the value of the aggregate assets of our Company.

(c) Compensation or payments for loss of office

In the contract for emoluments entered into by our Company with a Director or Supervisor: when there is a takeover of our Company, the provisions shall be made for the right of the Director or Supervisor to receive, after obtaining the prior approval of shareholders in general meeting, payments by way of compensation for loss of office or for his retirement from office.

The above-mentioned takeover of our Company means:

- (i) an offer made to all shareholders of our Company; or
- (ii) an offer is made such that the offeror will become the controlling shareholder of our Company (as defined in this Articles of Association).

If the relevant Director or Supervisor does not comply with above provisions, any sum received by the Director or Supervisor on account of the payment shall belong to those persons who have sold their shares as a result of the offer, and the expenses incurred by the Director or Supervisor in distributing that sum pro rata amongst those persons shall be borne by him and not deducted from the sum distributed.

(d) Loans to Directors, Supervisors and other officers

Our Company is prohibited from directly or indirectly providing a loan or loan guarantee to the Directors, Supervisors, general manager or senior management officers of our Company or SINOMACH. Our Company is also prohibited from making any loan or loan guarantee to any connected person of such Directors, Supervisors or senior management officers.

The following transactions are not subject to the above mentioned prohibition:

- (i) the provision of a loan or loan guarantee by our Company to a subsidiary of our Company;
- (ii) the provision of a loan or a loan guarantee by our Company to any of the Directors, Supervisors, general manager or senior management officers to meet expenditure incurred or to be incurred by such Directors, Supervisors, general manager or senior management officers for the purposes of our Company or for the purpose of enabling them to adequately perform their duties as directors, supervisors, general manager or senior management officers, in accordance with the terms and conditions of their employment contracts or appointment letters approved by the shareholders in general meeting; and
- (iii) our Company may provide a loan or a loan guarantee to a Director, Supervisor, general manager, a senior management officer or his connected persons where the ordinary course of its business includes the lending money or the giving of loan guarantees, provided that the terms of the loan or the loan guarantees are on normal commercial terms.

A loan provided by our Company in breach of the prohibition described above shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A loan guarantee provided by our Company in breach of the prohibition referred to above shall be unenforceable against our Company unless:

- (i) the loan was provided to a person connected with a Director, Supervisor, general manager, a senior management officer of our Company or its Controlling Shareholder and at the time the loan was advanced the lender did not know of the relevant circumstances of the loan and the guarantee provided, or
- (ii) the collateral provided by our Company has been lawfully disposed of by the lender to a bona fide purchaser.

For the content above, guarantee includes undertaking responsibilities as a guarantor or providing properties to secure the performance of obligations by the obligor.

Where a Director, Supervisor, general manager or other senior management officer is in breach of his obligations to our Company, our Company shall, apart from the various rights and remedies provided by laws and administrative regulations, be entitled to take the following measures:

- (1) To request the relevant Director, Supervisor, general manager or other senior management officer to pay damages for the loss suffered by our Company as a result of his negligence;
- (2) To rescind any contract or transaction entered into between our Company and the relevant Director, Supervisor, general manager or other senior management officer, and a contract or transaction entered into between our Company and a third party (if such third party knows or should have known that such Director, Supervisor, general manager or other senior management officer representing our Company is in breach of his obligations to our Company);
- (3) To demand the relevant Director, Supervisor, general manager or other senior management officer account for the profits derived as a result of the breach of his obligations;
- (4) To recover from the relevant Director, Supervisor, general manager or other senior management officer the monies which should have been received by our Company including, but not limited to, commissions;
- (5) To request the relevant Director, Supervisor, general manager or other senior management officer to return the interest earned or may have earned from the monies which should have been payable to our Company; and
- (6) To seize the properties obtained by the relevant Director, Supervisor, general manager or other senior management officer as a result of his breach of obligations in accordance with judicial adjudication orders.

(e) Giving of financial assistance to purchase the shares of our Company or any of its subsidiaries

Neither our Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to a person who acquires or proposes to acquire shares in our Company. The said person includes any person who has directly or indirectly incurred any liability as a result of the acquisition of shares in our Company. Neither our Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to the person mentioned in the foregoing paragraph for the purposes of reducing or discharging his liabilities.

The following transactions are not prohibited:

- (i) the provision of the financial assistance by our Company in good faith and in the interests of our Company, and the principal purpose of that assistance is not to acquire shares of our Company or that financial assistance is an incidental part of the overall plan of our Company;
- (ii) a lawfully distribution of our Company's assets by way of dividend;

- (iii) the distribution of a dividend by way of an allotment of shares;
- (iv) a reduction of our Company's registered capital, a repurchase of shares or reorganization of the structure of the share capital in accordance with this Articles of Association;
- (v) our Company provides a loan which is within its business scope and for the ordinary operation of its business, provided that the net assets are not thereby reduced, or to the extent that those assets are thereby reduced, the financial assistance is provided out of the distributable profits of our Company; and
- (vi) the provision of moneys by our Company for contribution to employees' share schemes, provided that our Company's net assets are not thereby reduced or to the extent that those assets are thereby reduced, the financial assistance is provided out of the distributable profits of our Company.

The above-mentioned "financial assistance" includes, without limitation to:

- (a) by way of gift;
- (b) by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor) or indemnity, (other than an indemnity in respect of our Company's own default) or release or waiver;
- (c) by way of a loan or a contract under which the obligations of our Company have to be fulfilled before the obligations of the other party to the contract, by way of the change of the party to that loan or contract or the assignment of any rights thereunder; and
- (d) in any other manner when our Company is unable to pay its debts or has no net assets or where its net assets may be thereby reduced to a material extent.

The meaning of "assumed liability" includes obligations assumed by obligor as a result of entering into a contract or making arrangements (whether or not such contract or arrangement enforceable or unenforceable, and whether or not assumed by him personally or together with any other party) or by any other means whereby his financial position is changed.

(f) Disclosure of interests in and voting on contracts with our Company or any of its subsidiaries

Where a Director, Supervisor, general manager or other senior management officer is in any way, directly or indirectly, materially interested in an existing contract, transaction or arrangement or planned contract, transaction or arrangement with our Company (other than contracts of employment), he shall disclose the nature and extent of such interests to the Board at the earliest opportunity, whether or not the relevant matter is subject to the approval of the Board of Directors.

The Director is not counted in the quorum and shall refrain from voting on the planned contract, transaction or arrangement in which he is materially interested.

Unless the interested Director, Supervisor, general manager or other senior management officer has disclosed his interest in accordance with the first paragraph of this

clause of the Articles of Association and the contract, transaction or arrangement has been approved by the Board of Directors at a meeting in which the interested Director, Supervisor, general manager or other senior management officer is not counted in the quorum and has refrained from voting, our Company has the right to rescind such contract, transaction or arrangement except as against a bona fide party thereto acting without notice of the breach of such duties by the Director, Supervisor, general manager or other senior management officer.

For the purposes of these provisions, a Director, Supervisor or general manager or other senior management officer is deemed to be interested in a contract, transaction or arrangement in which his related parties have interest.

If a Director, Supervisor, general manager or other senior management officer of our Company gives the Board a written notice stating that, by reason of the facts stated in the notice, he is interested in contracts, transactions or arrangements which may subsequently be entered into by our Company, then within the content stated in the notice he shall be deemed to have made a disclosure in accordance with the relevant provisions in the Articles of Association, if such notice shall have been given before our Company considered to enter into such contract, transaction or arrangement in the first time.

(g) Remuneration

Our Company shall, with the prior approval of shareholders in general meeting, enter into a written contract with each Director or Supervisor for emoluments in respect of their services. The said emoluments include:

- (i) emoluments in respect of their services as Director, Supervisor or senior management officer of our Company;
- (ii) emoluments in respect of their services as Director, Supervisor or senior management officer of any subsidiary of our Company;
- (iii) emoluments otherwise in connection with services for the management of our Company or any subsidiary thereof; and
- (iv) compensation to such Director or Supervisor for loss of office, retirement from office.

Except under a contract entered into in relation to the above, no proceedings shall be brought by a Director or Supervisor against our Company for any deserving benefits mentioned above.

The emoluments in respects of the services provided by Directors, Supervisors or senior management officers shall be disclosed by our Company to shareholders on a regular basis.

(h) Retirement, appointment and removal

The following persons may not serve as a Director, Supervisor, general manager or other senior management officer of our Company:

- (i) an individual who has no civil capacity or has restricted civil capacity;

- (ii) persons who have committed the offences of corruption, bribery, trespass of property, misappropriation of property or undermining the socialist economic order, and have been penalized due to the above offences, where less than five years have elapsed since the date of the completion of implementation of the penalty or persons who have committed crimes and have been deprived of their political rights due to such crimes, where less than five years have elapsed since the date of the completion of the implementation of such deprivation;
- (iii) persons who were former directors, factory chiefs or managers of a company or enterprise which has become insolvent and has been liquidated and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked and were ordered to close down due to a violation of the law and who were personally liable, where less than three years have elapsed since the date of the completion of the revocation of such business license;
- (v) persons who have failed to pay a relatively large debt when due and outstanding;
- (vi) persons who have committed criminal offences and are still under investigation by judicial authorities;
- (vii) persons who are not allowed to be heads of enterprises as stipulated by laws and administrative regulations;
- (viii) persons who are not natural persons;
- (ix) persons who have been convicted of offences of violating provisions of the relevant securities laws and regulations or offences of fraud or acting in bad faith by the relevant authority, where less than five years have elapsed since the date of conviction; and
- (x) other persons stipulated by the laws, administrative directives and ministerial regulations of the place where our Company's shares are listed.

The validity of the conduct of Directors, general managers or senior management officers who have acted on behalf of our Company with respect to third parties who have acted in good faith shall not be affected due to any irregularities in the appointment, election or qualification of such Directors, general managers or senior management officers.

The Board of Directors shall consist of nine Directors, of which four are independent Directors.

The Board of Directors also consists of one chairman and one vice chairman, who shall be elected or removed by more than one half of all of the Directors. Directors may be elected or removed by ordinary resolution at a Shareholders' general meeting.

The term of office of the chairman, vice chairman and other Directors shall be three years and is renewable upon re-election.

A Director (without prejudice to any claim for damages under any contract) within term of office may be removed by ordinary resolution at a Shareholders' general meeting in accordance with the laws and administrative directives.

The written notice of the intention to nominate a person for election as a Director and of his willingness to be elected shall be given to our Company at least seven days. The period for giving such written notice shall commence after the date our Company gives notice of the general meeting by post, and shall end not later than seven days before the date of convening the general meeting. Each candidate of Director shall be proposed in a separate motion to the shareholders' general meeting.

Directors may tender resignation prior to the expiry of the term of office. A written resignation shall be tendered to the Board of directors by a director who intends to resign.

When a Director resigns or his term of office expires, his obligation of confidentiality relating to our Company's trade secrets remains in force after the end of his office until such secrets become public information.

A Director whose term of office has not expired shall be held responsible for our Company's loss due to his departure without permission.

If a Director fails to attend two consecutive board meetings in person or by another Director appointed as his representative, he shall be deemed to be in default of performing his duty. The board of Directors should recommend his removal to a shareholders' general meeting.

(i) Borrowing powers

Subject to compliance with the laws and administrative regulations of the State, our Company is entitled to raise capital and borrow money, including (without limitation) the issue of bonds, the mortgaging or pledging of part or whole of our Company's properties and other rights permitted by the laws and administrative regulations of the State provided that such action does not damage or abrogate rights of any Shareholder. The Articles of Association do not contain any special provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any special provision in respect of the manner in which such power may be raised, other than; (a) provisions which give the Directors the power to formulate proposals for the issuance of debentures by our Company; and (b) provisions which provide that the issuance of debentures must be approved by the Shareholders of our Company in a general meeting by way of a special resolution.

(j) Liabilities

In addition to obligations imposed by relevant laws, administrative regulations or the listing rules of the securities exchange on which our Company's shares are listed, Directors, Supervisors, general manager and other senior management officers in the exercise of their powers and the discharge of their duties shall owe the following obligations to the shareholders:

- (i) to exercise their power within the business scope specified by its business license;
- (ii) to act honestly in what they consider to be in the best interest of our Company;

- (iii) not to deprive in any way our Company of its assets, including (but not limited to) opportunities beneficial to our Company; and
- (iv) not to deprive shareholders of their personal rights and interests, including (but not limited to) rights to distributions and to vote, except in a company reorganization submitted in accordance with the provisions of the Articles of Association and adopted at a shareholders' general meetings.

When exercising his rights and performing his duties, the Directors, Supervisors, general manager and other senior management officers of our Company shall exercise the care, diligence and skill as that of a reasonably prudent person would exercise under the similar circumstances.

Our Company shall be allowed to establish necessary liability insurance systems for Directors, Supervisors, general manager and other senior management officers to reduce possible risks they may encounter as they perform regular duties.

Each Director, Supervisor, general manager, and other senior management officer of our Company should abide by his fiduciary principles in the discharge of his duties, and not to place himself in a position where his duty and his own interests may conflict. Such principles include (but are not limited to) the performance of the following:

- (i) to act honestly in what he considers to be in the best interest of our Company;
- (ii) to exercise his power within the scope specified and not to act ultra vires;
- (iii) to exercise the discretion vested in him personally and not allow himself to act under the direction and influence of another and, unless and to the extent permitted by law or informed consent by the shareholders of the relevant facts, at a general meeting, not to delegate the exercise of his discretion;
- (iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (v) except in accordance with the Articles of Association or with the informed consent of shareholders in general meeting, not to enter into any contract, transaction or arrangement with our Company;
- (vi) not to use our Company's assets for his personal benefit without the approval of the shareholders at a general meeting;
- (vii) not to use his position to accept bribes or other illegal income or expropriate our Company's assets in any manner, including (without limitation) opportunities beneficial to our Company;
- (viii) not without the informed consent of Shareholders in general meeting, to accept commissions in connection with our Company's transactions;
- (ix) to abide by the Articles of Association, faithfully perform his duties and protect the interests of our Company, and not to use his position and powers in our Company to seek personal gain;

- (x) not to compete with our Company in any way except with the informed consent of the Shareholders given in general meeting;
- (xi) not to misappropriate our Company's funds or lend our Company's funds to others, not to open any bank account in his own name or other name for the deposit of our Company's assets or funds, and not in breach of the Articles of Association and without consent of the Board of Directors or Shareholders' general meeting to lend our Company's funds to any person or to provide security for debt of Shareholders of our Company or any other individuals;
- (xii) without the informed consent of Shareholders in general meeting, not to disclose confidential information of our Company acquired while in office and not to use such information other than in furtherance of the interests of our Company, save and except that disclosure of information to a court or a governmental authority is permitted where (i) the disclosure is made under compulsion of law in accordance with the relevant laws; (ii) there is a duty to the public to disclose; or (iii) the personal interests of the Director, Supervisor, general manager or other senior management officers which require the disclosure.

A Director, Supervisor, general manager or senior management officer of our Company shall not direct persons or institutions (hereinafter referred as "**associates**") to do what he is not permitted to do. A person is regarded as an associate if he is:

- (i) the spouse or minor child of such a Director, Supervisor, general manager or senior management officer;
- (ii) a trustee for such a Director, Supervisor, general manager or senior management officer or any person referred to in (i) above;
- (iii) a partner of such a Director, Supervisor, general manager or senior management officer or of any person referred to in (i) and (ii);
- (iv) a company in which that a Director, Supervisor, general manager or other senior management officer, alone or jointly with one or more persons referred to in above (i), (ii) and (iii) or with any of other Directors, Supervisors, general manager or other senior management officers of our Company, have de facto control; or
- (v) a director, supervisor, general manager or senior management officer of a company referred to in (iv) above.

The fiduciary duties of a Director, Supervisor, general manager and senior management officer of our Company do not necessarily cease with the termination of his tenure. The duty of confidentiality in relation to trade secrets of our Company survives the termination of his term of office. Other duties may continue for such period as fairness may require depending on the time elapse between the termination of his term of office and the occurrence of the matter in question and the circumstances and the terms under which the relationships between him and our Company are terminated.

Except in circumstances referred to in the Article 51 of the Articles of Association, liabilities of a Director, Supervisor, general manager, or other senior management officer arising from the violation of a specified duty may be released by informed shareholders in general meeting.

2. ALTERATIONS TO CONSTITUTIONAL DOCUMENTS

The amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the approval authorities of the State Council and the securities regulatory authority of the State Council. If there is any change relating to the registered particulars of our Company, application shall be made for registration of the changes in accordance with law.

3. VARIATIONS OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

Shareholders holding different class of shares are class shareholders.

Class shareholders shall enjoy the rights and assume the obligations stipulated by laws, administrative regulations and the Articles of Association.

Our Company may not vary or abrogate rights attached to any class of shares unless approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the rights of a classified shareholder:

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or distribution rights or other privileges equal or superior to the shares of such class;
- (ii) to effect an exchange of all or part of the shares of such class into those of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends of such class;
- (iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (v) to add, remove or reduce conversion, options, voting, transfer or pre-emptive rights or rights to acquire securities of our Company of such class;
- (vi) to remove or reduce rights to receive payments from our Company in any particular currency;
- (vii) to create a new class of shares having voting or distribution rights or privileges equal or superior to the shares of such class;
- (viii) to restrict the transfer of ownership of the shares of such class or to increase any such restrictions;
- (ix) to allot and issue rights to subscribe for, or convert into, shares in our Company of such class or another class;

- (x) to increase the rights or privileges of another class;
- (xi) to restructure our Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and
- (xii) to vary or abrogate the provisions in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall require the approval of shareholders present representing more than two thirds of the voting rights of that class voting in favor of such resolutions.

Written notice of a class meeting shall be given by our Company 45 days prior to the date of the meeting to notify all the registered shareholders holding shares of that class of the matters to be considered at the meeting and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver a written reply confirming his attendance at the class meeting to our Company 20 days prior to the date of the meeting.

Our Company may proceed to hold the class meeting, provided always that the quorum for any separate class meeting (other than an adjourned meeting) to consider a variation of the rights of any class of our Company's shares shall be the holders of at least one-third of the issued shares of the class concerned.

Our Company can convene a class shareholders' meeting, if the number of shares of the class carrying voting rights represented by shareholders intending to attend represents more than one half of the total number of such shares of our Company. If not, our Company shall make an announcement, within five days, once again notifying the shareholders of the matters proposed to be considered and the date and place of the meeting. Once an announcement has been so made, our Company may convene the class shareholders' meeting.

Notice of class meetings need only be served on shareholders entitled to vote at the meetings.

Meetings of any class of shareholders shall be conducted in a similar way as closely as possible to the provisions for general meetings of shareholders set out in the Articles of Association.

In addition to holders of other class shares, holders of Domestic Shares and overseas-listed-foreign-invested shares are deemed to be shareholders of different classes.

Special procedures for voting by holders of different classes of Shares do not apply to the following situations:

- (i) where our Company issues, upon the approval by special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued Domestic Shares or overseas-listed-foreign-invested shares;

- (ii) where our Company's plan made at the time of its establishment to issue Domestic Shares and overseas-listed-foreign-invested shares is completed within 15 months from the date on which approval is given by the securities regulatory authorities of the State Council; or
- (iii) the conversion of the shares of our Company held by the promoters into foreign shares and the listing on overseas stock exchange are approved by the State Council or its authorized authorities.

For the purposes of the class rights provisions of the Articles of Association, an "Interested Shareholder" is:

- (i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange within the meaning of the Article 27, a controlling shareholder within the meaning of the Article 52 of the Articles of Association;
- (ii) in the case of a repurchase of shares by an off-market contract under the Article 27 of the Articles of Association, a shareholder to whom the proposed contract is related;
- (iii) in the case of a restructure of our Company, a shareholder within a class who bears less than a proportionate amount of obligations imposed on the shareholders of that class or who has an interest different from the interest of the other shareholders of that class.

4. SPECIAL RESOLUTIONS – MAJORITY REQUIRED

Resolutions of general meetings are divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, more than the one half votes represented by shareholders (including proxies) present at the meeting must be exercised in favor of the resolution.

To adopt a special resolution more than the two thirds votes represented by the shareholders (including proxies) present at the shareholders' general meeting must be exercised in favor of the resolution.

5. VOTING RIGHTS (GENERAL RIGHT ON A POLL AND RIGHT TO DEMAND A POLL)

The ordinary shareholders of our Company have the right to attend or appoint a proxy to attend shareholders' general meeting and to vote at the meeting. Shareholders (including proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote, provided that shares of our Company held by our Company shall have no voting rights and shall not be counted in the total number of voting shares represented at the general meeting.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to an additional vote.

6. REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

A shareholders' general meeting shall either be an annual general meeting or an extraordinary general meeting. Annual general meetings are held once every year within six months after the financial year end.

7. ACCOUNTS AND AUDIT**(a) Financial and accounting system**

Our Company shall establish its financial and accounting systems and internal audit system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory authority of the State Council.

The Board of Directors of our Company shall place before the shareholders at every annual general meeting such financial reports as are required by the laws, administrative regulations or directives promulgated by competent local governments and supervisory authorities to be prepared by our Company.

Our Company's financial reports shall, at least 21 days before the date of convening the annual general meeting, be delivered by prepaid mail to the registered address of every holder of Overseas Listed Shares.

Our Company shall not keep any other books of accounts other than those provided by law. The assets of our Company must not be registered in any person's personal accounts.

(b) Appointment and removal of accountants

Our Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State to audit our Company's annual reports and review our Company's other financial reports.

The first accountants firm of our Company may be appointed by the inaugural meeting prior to the first annual general meeting and the accountants firm so appointed shall hold office until the conclusion of the first annual general meeting.

The accountants firm appointed by our Company shall hold office from the conclusion of the annual general meeting of shareholders until the conclusion of the next annual general meeting of shareholders.

The shareholders in general meeting may by ordinary resolution remove an accountants firm before the expiry of its term of office, notwithstanding the stipulations in the contract between our Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of an accountants firm or the manner in which such remuneration is determined shall be decided by the shareholders in general meeting.

Our Company's appointment of, removal of and non-reappointment of an accountants firm shall be resolved upon by the shareholders in general meeting. The resolution of shareholders' general meeting shall be filed with the securities regulatory authorities of the State Council.

Where a resolution at a general meeting of shareholders is passed to appoint an accountants firm to fill a causal vacancy in the office of an accountants firm, or to remove an accountants firm before the expiration of its term of office, the following provisions shall apply:

- (1) a copy of the proposal shall be sent to the accountants firm proposed to be appointed or proposing to leave its post or the accountants firm who has left its post, before notice of the general meeting is given to the shareholders.

Leaving includes leaving by removal, resignation and retirement.

- (2) If the accountants firm leaving its post makes representation in writing and requests their notification to the shareholders, unless the representation is received too late, our Company shall:
 - (i) in the notice of the general meeting given to shareholders, state the fact of the representation having been made; and
 - (ii) send a copy of the representation as an attachment to the notice to every shareholder entitled to notice of general meeting.
- (3) If the accountants firm's representation is not sent in accordance with (2)(ii) above, the accountants firm may require that the representation be read out in the meeting.
- (4) Such accountants firm shall have the right to present its views at the following shareholders' general meetings:
 - (i) the shareholders' general meeting at which its term of office would otherwise have expired;
 - (ii) any shareholders' general meeting at which it is proposed to fill the casual vacancy caused by its removal; or
 - (iii) any shareholders' general meeting convened on its resignation.

Prior to the removal or the non-renewal of the appointment of the accountants firm, notice of such removal or non-renewal shall be given to the accountants firm and such firm shall have the right to attend and to make representation to the shareholders' general meeting. Where the accountants firm resigns its post, it shall make clear to the shareholders' general meeting whether there is any impropriety on the part of our Company.

- (1) The accountants firm may resign its office by depositing at our Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of our Company; or (ii) a statement of any such circumstances.

- (2) Where a notice is deposited under the preceding paragraph, our Company shall within fourteen days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding paragraph, a copy of such statement shall be placed at our Company for shareholders' inspection. Our Company shall also send a copy of such statement by prepaid mail to every holder of H Shares at the address registered in the register of shareholders.
- (3) Where the accountants firm's notice of resignation contains a statement of any circumstance which should be brought to the notice of the shareholders or creditors of our Company, it may require the Board of Directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

8. NOTICE OF MEETING AND BUSINESS TO BE CONDUCTED THEREAT

The shareholders' general meeting is the organ of authority of our Company and shall exercise its functions and powers in accordance with law.

Our Company shall not enter into any contract with any person other than a Director, Supervisor, general manager or senior management officer whereby such person is entrusted with the management of the whole or a material part of any business of our Company without the prior approval of shareholders in general meeting.

A shareholders' general meetings are divided into annual general meetings or an extraordinary general meetings. Annual general meetings are held once every year within six months after the financial year end. An extraordinary general meetings shall be held when necessary. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- (i) when the number of Directors is less than the number of Directors required by the Company Law or two-thirds of the number of Directors specified in the Articles of Association;
- (ii) when the unaccounted losses of our Company amount to one third of its paid up share capital;
- (iii) when shareholders holding 10% or more of our Company's issued and outstanding shares carrying voting rights request in writing the convening of an extraordinary general meeting;
- (iv) when the Board of Directors considers necessary or upon the request of the Supervisory Board;
- (v) when two or more independent Directors so request; and
- (vi) other circumstances as stipulated in the law and regulations of administration, departmental rules, listing rules of the stock exchange and the Articles of Association.

In the event of sub-clauses (iii) and (iv), the agenda shall include the matter proposed by the meeting conveners for consideration.

To convene a general meeting, our Company shall give written notices 45 days before the date of the meeting, informing all registered shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who will attend the meeting shall return the written replies of attendance to our Company to be received by our Company 20 days before the date of the meeting.

When our Company is to convene an annual general meeting, shareholders holding three per cent or more of shares carrying voting rights shall have the right to put forward new proposals in writing to our Company ten days before the date of the meeting. Our Company shall issue a supplementary written notice two days after receiving the new proposals. Our Company shall include such new proposals in the agenda of the general meeting for consideration by shareholders.

Our Company shall calculate, according to the written replies received 20 days before the date of the meeting, the number of shares carry voting rights that the shareholders attending the meeting represent. Our Company can convene a shareholders' general meeting if the number of shares carrying voting rights represented by shareholders intending to attend attain more of the one half of total number of shares carrying voting rights. If not, our Company shall make an announcement, within five days, once again notifying the shareholders of the matters proposed to be considered and the date and place of the meeting. Once an announcement has been so made, our Company may convene the general meeting. An extraordinary general meeting may not decide on matters not specified in the notice.

A notice of meeting of shareholders shall:

- (i) be in writing;
- (ii) specify the place, the date and the time of the meeting;
- (iii) state the matters and proposals to be discussed at the meeting;
- (iv) provide such information and explanation as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate our Company with another company, to repurchase shares of our Company, to reorganize the share capital or to restructure our Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the reasons for and consequences of such proposal must be properly explained;
- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, general manager or senior management officer in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of other shareholders of the same class;
- (vi) contain the full text of any special resolution proposed to be passed at the meeting;

- (vii) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder;
- (viii) specify the time and place for lodging proxy forms for the relevant meeting;
- (ix) specify the date of the share register listing the shareholders that have the right to attend and vote at the shareholders' meeting; and
- (x) specify the name and telephone number of the contact person for the meeting.

Notices of shareholders' general meetings shall be served on the shareholders (whether or not they are entitled to vote at the meeting) in any mode which is permitted by the stock exchange on which our Company's shares are listed including but not limited, by post, email, facsimile, public announcement or personal delivery to their addresses registered in the register of shareholders. For holders of Domestic Shares, notice of shareholder's general meeting may be made by way of public announcement.

The aforementioned public announcement of notices of shareholders' general meetings shall be published in one or more newspapers designated by the securities regulatory authority of the State Council during the period from 45 to 50 days prior to the date of convening the meeting. Upon the publication of announcement, all holders of Domestic Shares shall be deemed to have received notice of the relevant shareholders' meeting. Chinese and English versions of the announcement shall be published in at least one Chinese newspapers and one English newspapers designated by the Stock Exchange on the same day.

Shareholders requisitioning an extraordinary general meeting of shareholders or class meeting shall abide by the following procedures:

- (i) Shareholder(s) alone or in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held may sign a written requisition in one or more counterparts in the same form and contents, requiring the Board to convene a shareholders' extraordinary general meeting or a class meeting thereof and stating the matters to be considered at the meeting. The Board shall as soon as possible after receipt of the requisition proceeds to convene a shareholders' extraordinary general meeting or a class meeting thereof. The amount of shareholdings of the requisitioning shareholders referred to in the preceding paragraph shall be calculated as at the date of the deposit of the requisition.
- (ii) If the Board fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisition, the requisitioning shareholders may themselves convene such a meeting within four months of the receipt of the requisition by the Board. In so convening a meeting, the requisitioning shareholders should adopt a procedure as similar as possible as that of shareholders' general meetings to be convened by the Board.

The matters which require the sanction of an ordinary resolution at a shareholders' general meeting shall include:

- (i) the approval of working reports of the Board and the Supervisory Board;
- (ii) the approval of plans formulated by the Board for the distribution of profits and for making up losses;
- (iii) the election and removal of the members of the Board and members (being the Shareholders' representatives) of the Supervisory Board, their remuneration, allowances and mode of payment;
- (iv) the approval of our Company's budget and final accounts, balance sheets and profit and loss accounts and other financial reports; and
- (v) save as required by the laws and regulations of the PRC or by the Articles of Association, all other matters other than those required to be adopted by special resolution.

The matters which require the sanction of a special resolution at a shareholders' general meeting include:

- (i) the increase or reduction of registered share capital and the issue of shares of any class or warrants and other similar securities;
- (ii) the issue of debentures of our Company;
- (iii) the demerger, merger, termination and liquidation of our Company;
- (iv) change of the form of our Company;
- (v) the purchase or disposal of material assets or any guarantee, the amount of which exceeds 30% of the latest audited total assets of our Company within one year;
- (vi) amendments to the Articles of Association;
- (vii) review and implementation of share incentive scheme;
- (viii) any matters considered by the shareholders' general meeting, resolved by way of an ordinary resolution, to be of a nature which may have a material impact on our Company as required by law, administrative regulations or the Articles of Association; and
- (ix) any other matters should be adopted by a special resolution under the listing rules of the stock exchange where our Company's shares are listed.

Where any shareholder is, under applicable laws, regulations and the listing rules of the place where our Company's shares are listed, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by such shareholder (or his proxy) in contravention of such requirement or restriction shall not be counted.

All Director, Supervisor, general manager and senior management officer of our Company are required to attend the general meeting.

Except for circumstances involving business secrets of our Company which shall not be disclosed, the Board of Directors, Supervisors and the senior management officers shall make replies or explanation to the inquiries of shareholders at the shareholders' general meetings.

Consideration and approval in the general meeting is required for the following external guarantees provided by our Company:

- (1) any guarantee which is given after the total amount of external guarantees given by our Company and its controlling subsidiaries which is equal to or exceeds 50% of the latest audited net asset value of our Company;
- (2) any guarantee which is given after the total amount of external guarantees given by our Company which is equal to or exceed 30% of the latest audited total asset value of our Company;
- (3) provision of guarantee in favor of an entity which has an asset to liability ratio exceeding 70%;
- (4) an amount of single guarantee exceeds 10% of the latest audited net asset value of our Company;
- (5) provision of guarantee to shareholders, de facto controller and their respective connected persons; and
- (6) any matters regarding external guarantee subject to the review of the shareholders' general meeting as required by law, administrative regulations and relevant rules in China.

9. TRANSFER OF SHARES

Subject to the approval of the securities supervision authorities of the State Council, holders of Domestic Shares of our Company may transfer its shares to overseas investors, and such transferred shares may be listed and traded on an overseas stock exchange. Any listing or trading of the transferred shares on overseas stock exchanges shall comply with the regulatory procedures, rules and requirements of such overseas stock exchange. The listing and trading of the transferred shares on an overseas stock exchange is not subject to voting by separate class shareholder meetings.

Shares in our Company held by the Promoters shall not be transferred within one year commencing from the date of the incorporation of our Company.

The Directors, Supervisors and senior management officers of our Company shall report to our Company the number of shares held by them and the subsequent changes in their shareholdings. The number of shares which a Director, Supervisor or senior management officer may transfer every year during their term of office shall not exceed 25% of the total number of our Company's shares in his or her possession. Such personnel shall not transfer our Company's shares in their possession within six months after they have the terminated their employment with our Company.

All the fully paid-up H Shares listed on the Stock Exchange can be freely transferred in accordance with the Articles of Association. However, the Board may refuse to recognize any instrument of transfer without giving any explanation, unless:

- (1) a fee (for each instrument of transfer) of HK\$2.50 or any higher fee as agreed by the Board has been paid to our Company for registration of the instruments of transfer or other documents which is related to or will affect ownership of the shares, such fee or fees shall not exceed the maximum fees prescribed by the Stock Exchange from time to time in its Listing Rules;
- (2) the instrument of transfer only involves H Shares listing in Hong Kong;
- (3) the stamp duty chargeable on the instrument of transfer has been paid;
- (4) the relevant share certificate and, upon the reasonable request of the Board, any other evidence in relation to the right of the transferor to transfer the Shares has been submitted;
- (5) if it is intended to transfer the Shares to joint owners, then the maximum number of joint owners shall not exceed four (4); and
- (6) our Company does not have any lien on the relevant Shares.

No change in the shareholders' register due to the transfer of shares may be made within 30 days prior to the date of a shareholders' general meeting or within five days before the record date for our Company's distribution of dividends.

10. POWER OF OUR COMPANY TO PURCHASE ITS OWN SHARES

In the following circumstances, our Company may, pursuant to the law, administrative regulations, the Listing Rules, ministerial directives and the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its outstanding shares:

- (1) cancellation of its shares for the purpose of reducing its registered capital;
- (2) merging with another company which holds the Shares;
- (3) awarding the shares as incentive compensation to the employees of our Company;
- (4) acquiring the shares of shareholders requesting our Company to repurchase his shares due to his objection to any resolution in respect of the merger or division of our Company; and
- (5) other circumstances permitted by the laws or administrative regulations.

Where our Company repurchases its shares due to items (1) through (3) of the preceding paragraph, resolutions related thereto shall be adopted at a general meeting of shareholders in accordance with the Article of Association.

If our Company repurchases its own shares in accordance with the preceding paragraph under the circumstances set forth in item (1), the shares so repurchased shall be cancelled within ten days of the repurchase. In the event of the circumstances set forth in items (2) and (4), the shares so repurchased shall be transferred or cancelled within six months. If our Company repurchases its own shares in accordance with item (3), the shares so repurchased shall not exceed 5% of the total issued shares of our Company; the shares so repurchased shall be transferred to the staff of our Company within one year.

Our Company may, upon the approval of the relevant state governing authorities, repurchase its shares in one of the following ways:

- (1) making an offer of repurchase to all of its shareholders in the same portion;
- (2) repurchasing Shares through public dealing on a stock exchange; or
- (3) repurchase by an off-market agreement.

When our Company, with the prior sanction of shareholders obtained at a shareholders' meeting in accordance with the Articles of Association, repurchases its Shares, but our Company may rescind or vary such contract or waive any or part of its rights under a contract so entered into by our Company with the prior approval of shareholders obtained at a shareholders' general meeting in the same manner. A contract to repurchase Shares as mentioned includes (without limitation) an agreement to become obliged to repurchase or acquire rights to repurchase shares.

Our Company shall not assign a contract to repurchase its Shares or any of its rights hereunder.

Unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- (1) where our Company repurchases Shares of our Company at par value, payment shall be made out of book surplus distributable profits of our Company and the proceeds from any issue of new shares made for the purpose of the repurchase;
- (2) where our Company repurchases its shares at a premium to the par value, payment up to their par value shall be made out of the book surplus distributable profits of our Company and the proceeds from any issue of new shares made for the purpose of repurchase. Payment of the portion in excess of the par value shall be effected as follows:
 - (i) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of our Company; or
 - (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus distributable profits of our Company and the proceeds from any new issue of new shares made for the purpose of repurchase, provided that the amount paid out of the proceeds shall neither exceed the aggregate of the premiums received by our Company on the issue of the shares repurchased nor the amount of the share premium account (or the capital reserve fund account) of our Company (including the premiums on the fresh issue) at the time of repurchase;

- (3) payment by our Company in consideration of the following shall be made out of our Company's distributable profits:
- (i) acquisition of rights to repurchase the Shares;
 - (ii) variation of any contract to repurchase the Shares; or
 - (iii) release of any of our Company's liabilities under a contract to repurchase the Shares;
- (4) after our Company's registered shares capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant regulations, the amount deducted from the distributable profits of our Company for paying up the par value portion of the shares repurchased shall be transferred to our Company's share premium account (or capital reserve account).

Where our Company has the power to repurchase for redemption a redeemable share:

- purchase not made through the market or by tender shall be limited to a maximum price
- if purchases are by tender, tenders shall be made available to all shareholders alike

11. POWER OF ANY SUBSIDIARIES OF OUR COMPANY TO OWN SHARES IN ITS PARENT COMPANY

The Articles of Association contains no restrictions preventing any subsidiaries of our Company from holding the Shares.

12. DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

Our Company may distribute dividends by way of cash or shares (or both).

Any amount paid up in advance of calls on any share may carry interest but shall not entitle the holder of the share to participate in respect thereof in a dividend subsequently declared.

Cash dividend and other payments paid by our Company to the holders of Domestic Shares shall be distributed in RMB. Cash dividend and other payments paid by our Company to the shareholders of overseas listed shares shall be denominated and declared in RMB and be paid in Hong Kong dollars.

Our Company shall appoint receiving agents for holders of overseas listed shares. Such agents shall receive on behalf of such shareholders dividends and other monies payable by our Company in respect of their Shares.

The receiving agent appointed for holders of overseas listed shares listed in Hong Kong shall be a company registered as a trust company under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong).

13. PROXIES

Any shareholder entitled to attend and vote at a meeting of our Company shall be entitled to appoint one or more persons (whether or not a shareholder) as his proxy to attend and vote on his behalf, and a proxy so appointed shall:

- (1) have the right to speak at the meeting;
- (2) have the right to demand, whether on his own or together with others, a poll; and
- (3) have the right to vote by show of hand or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a legal entity either under seal or under the hand of a director or attorney duly authorized.

The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a certified copy of that power of attorney or other authority shall be notarized, shall be deposited at the registered address of our Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution.

If the appointer is a legal entity, its legal representative or such person as is authorized by resolution of its board of directors or other governing body to act as its representative may attend the general meeting of our Company as a representative of the appointer.

Any form issued to a shareholder by the Board for use by him for appointing a proxy to attend and vote at meeting of our Company shall be such as to enable the shareholder, according to his free will, to instruct the proxy to vote in favor of or against each resolution dealing with business to be transacted at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no notice in writing of such matters as aforesaid shall have been received by our Company at its domicile before the commencement of the meeting at which proxy is used.

14. CALLS ON SHARES AND FORFEITURE OF SHARES

Any amount paid up in advance of calls on any Share may carry interest but shall not entitle the Shareholder to participate in respect thereof in a dividend subsequently declared.

Subject to compliance with the relevant laws and administrative regulations of the PRC, our Company may exercise its right to forfeit the dividends which are not claimed by anyone but such right can only be exercised six years after the date of the declaration of dividend.

15. INSPECTION OF REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

Our Company shall keep a register of Shareholders.

Our Company may, in accordance with the understanding or agreements between the securities regulatory authority of the State Council and the overseas securities regulatory organizations, maintain the register of shareholders of overseas listed shares and appoint overseas agent(s) to manage such share register. The original register of overseas-listed foreign shares listed in Hong Kong shall be maintained at Hong Kong.

Duplicates of the share register for holders of foreign shares shall be maintained at our Company's domicile. The appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the share register.

If there is any inconsistency between the original and the duplicate of share register for holders of foreign Shares, the original shall prevail.

No changes which are required by reason of a transfer of Shares may be made to the register of shareholders within 30 days prior to the date of a shareholders' general meeting or five days prior to the reference date set by our Company for the purpose of distribution of dividends.

When our Company decides to convene a shareholders' general meeting, distribute dividends, liquidate or carry out other activities which require the determination of shareholdings, the Board of Directors shall fix a record date for the purpose of determining the shareholding. A person who is registered in the register as shareholder of our Company at the end of the record date shall be a shareholder of our Company.

Any person who objects to what is contained in the register of shareholders and wishes to register his name on, or delete his name from, the register may apply to the court with jurisdiction to amend the register.

Shareholders holding ordinary shares of our Company enjoy the following rights:

1. the right to a copy of the Articles of Association after payment of costs;
2. the right to inspect and copy, subject to payment of a reasonable fee:
 - (1) all parts of the register of members;
 - (2) personal particulars of each of our Company's Directors, Supervisors, general manager, and other senior management officers, including:
 - (a) present name and alias and any former name and alias;
 - (b) principal address (residence);
 - (c) nationality;
 - (d) primary and all other part-time occupations; and

- (e) identification document and its number;
- (3) the status of our Company's share capital issued;
- (4) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of Shares repurchased by our Company since the end of the last accounting year and the aggregate amount paid by our Company for this purpose;
- (5) minutes of shareholders' general meetings, board meetings and supervisors' meetings;
- (6) counterfoils of the bonds of our Company; and
- (7) financial reports.

16. QUORUM FOR GENERAL MEETINGS

Our Company can convene a shareholders' meeting if the number of Shares carrying voting rights represented by shareholders intending to attend comprise more than half of the total number of Shares carrying voting rights.

Our Company can convene a class shareholders' meeting, if the number of Shares of the class carrying voting rights represented by shareholders intending to attend such meeting comprise more than half of the total number of such Shares of the class.

17. RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

In addition to the obligations imposed by laws and administrative regulations or the listing rules of the stock exchange on which the Shares of our Company are listed, a controlling shareholder, when exercising his rights as a shareholder, shall not exercise his voting rights to make a decision which may detract from the interests of all or partial shareholders of our Company in respect of the following matters:

- (i) to relieve a Director or Supervisor of his duty to act honestly in the best interests of our Company;
- (ii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any way, of our Company's assets, including (without limitation) opportunities beneficial to our Company; or
- (iii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights, but not including a restructuring of our Company submitted to and approved by shareholders' general meeting in accordance with the Articles of Association.

18. PROCEDURE ON LIQUIDATION

Our Company shall be dissolved and liquidated in accordance with law upon occurrence of any of the following events:

- (i) a special resolution for dissolution is passed by a shareholders' general meeting;
- (ii) dissolution is necessary due to a merger or division of our Company;
- (iii) the business license of our Company is revoked, or our Company is ordered to close down or abolished;
- (iv) our Company is ordered to close down because of its violation of laws or administrative regulations; and
- (v) where our Company's operation encounters serious difficulty, continuing operation will cause substantial loss to shareholders and such difficulty cannot be solved some other way, shareholders holding more than ten percent of the voting rights of all shareholders may make requisition to the People's Court to dissolve our Company.

A liquidation committee shall be set up within 15 days after occurrence of the dissolution events of item (i), (iii) and (v), and starts the liquidation procedures. The liquidation committee of our Company shall comprise persons appointed by the directors or the shareholders' meeting. If the liquidation committee is not set up within the stipulated period of time, creditors may request the People's Court to designate the relevant personnel to form a liquidation committee to conduct the liquidation.

Where the Board proposes to liquidate our Company due to causes other than where our Company has declared that it is insolvent, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal that, after making full inquiry into the affairs of our Company, the Board is of the opinion that our Company will be able to pay all its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in general meeting for the liquidation of our Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the group's receipts and payments, the business of our Company and the progress of the liquidation, and to present a final report to the shareholders general meeting on completion of the liquidation.

The liquidation committee shall within ten days of its establishment send a notice to creditors, and within 60 days of its establishment make a public announcement in a newspaper. Creditors shall declare their claims to the liquidation committee within 30 days from the date of receipt of the written notice, or within 45 days after the date of the announcement in circumstance where no notice is received.

The liquidation committee shall carry out registration of creditors' rights so reported.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (i) to sort out our Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (ii) to notify all creditors by notice or public announcements;
- (iii) to dispose of and liquidate any relevant unfinished business matters of our Company;
- (iv) to pay all outstanding taxes;
- (v) to settle claims and debts;
- (vi) to deal with assets remaining after our Company's debts having been paid in full; and
- (vii) to represent our Company in any civil proceedings.

The liquidation committee shall thoroughly examine the assets of our Company, and prepare a balance sheet and an inventory of assets. Upon completion, the liquidation committee shall draw up a proposal for liquidation and submit the same to the shareholders' meeting or the relevant authorities for confirmation.

If the liquidation committee, having thoroughly examined our Company's assets and having prepared a balance sheet and assets list, discovers that our Company's assets are insufficient to pay its debts in full, it shall immediately apply to the People's Court for a declaration of insolvency.

After the People's Court has declared our Company insolvent, our Company's liquidation committee shall turn over any matters regarding the liquidation to the People's Court.

Following the completion of liquidation, the liquidation committee shall prepare a report on liquidation and a statement of the receipts and payments and financial books and records during the period of liquidation, which shall be audited by the PRC certified public accountants and submitted to the shareholders' general meeting or the people's court for confirmation. The liquidation committee shall also within 30 days after such confirmation, submit the documents referred to in the preceding paragraph to the company registration authority and apply for cancellation of registration of our Company, and publish an announcement relating to the termination of our Company.

19. OTHER PROVISIONS MATERIAL TO OUR COMPANY OR ITS SHAREHOLDERS

(a) General provisions

Our Company is a joint stock limited company of perpetual existence.

Our Company may invest in other enterprises; however, unless stipulated otherwise by law, it may not become an investor that bears joint and several liability for the debts of the enterprise in which it invests.

From its effective date, the Articles of Association of our Company shall be a legally binding document that regulates the rights and liabilities between our Company and the Shareholders and among the Shareholders.

Subject to the provisions of the Articles of Association, the Shareholders may sue our Company and other Shareholders, Shareholders may also sue Directors, Supervisors, general manager and other senior management officers (including vice general managers, the chief financial officer, the chief engineer, secretary of the Board, assistant general managers, general legal counsel and other senior management officers hired by the Board of our Company when necessary) of our Company. Our Company may sue Shareholders, Directors, supervisors, general manager and other senior management officers.

For the purpose of the above paragraph, the term “sue” shall include the initiation of proceedings in a court or the application of arbitration to an arbitration organization.

(b) Shares and transfers

Our Company may increase its capital in the following ways:

- (i) offering new shares to non-specially-designated investors for subscription;
- (ii) private issue of shares;
- (iii) allotting bonus Shares to its existing shareholders;
- (iv) conversion of capital reserve;
- (v) offering new shares to specially-designated investors for subscription; and
- (vi) any other ways permitted by laws, administrative regulations and the relevant regulatory authorities.

Our Company’s increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the State.

Our Company may reduce its registered capital in accordance with the Company Law, other applicable regulations and the provisions of the Articles of Association.

When our Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets. Our Company’s registered capital after reduction shall not be less than the statutory minimum amount.

The Shares of our Company can be transferred, donated, inherited or pledged in accordance with the laws, administrative regulations and provisions in the Articles of Association. The transfer and assignment of any of the Shares shall be registered in the share registry which is designated by our Company.

Subject to the approval of the securities authority of the State Council, holders of the Domestic Shares may transfer their Shares to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange. Any listing and trading of the transferred shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange. No special shareholders’ meeting is needed to resolve the listing and trading of the transferred Shares at a foreign stock exchange.

(c) Shareholders

A shareholder of our Company is a person who lawfully holds the Shares and has his name recorded on the register of shareholders.

A shareholder enjoys rights, and is subject to obligations, according to the class and number of the Shares he holds. Holders of the same class of the Shares enjoy the same rights and subject to the same obligations.

The ordinary shareholder of our Company shall enjoy the following rights:

- (i) to dividends and other distributions in proportion to the number of shares held by him;
- (ii) to request, convene, preside, attend or appoint a proxy to attend shareholders' general meetings and to vote thereat in proportion to the number of shares held by him;
- (iii) to supervise our Company's business operations, and to present proposals and inquiries;
- (iv) to transfer, give or pledge shares held by him in accordance with the laws, administrative regulations and the Articles of Association;
- (v) to obtain relevant information in accordance with the provisions of the Articles of Association;
- (vi) in the event of the termination or liquidation of our Company, to participate in the distribution of surplus assets of our Company according to the number of shares held by him;
- (vii) in the event of a merger or division of our Company, to request our Company to purchase his shares if he objects to the merger or division;
- (viii) shareholders holding more than 3% shares of our Company alone or jointly are entitled to submit a provisional motion in writing to the Board ten days before the shareholders' meeting; and
- (ix) other rights conferred by laws, administrative regulations and the Articles of Association.

Our Company shall not freeze or otherwise impair any of the rights attaching to any Share by reason only that the person or persons who are interested directly or indirectly therein have not disclosed their interests to our Company.

Share certificates of our Company shall be in registered form.

A Shareholder is not liable to make any further contribution to the share capital other than the terms agreed.

Share certificates of our Company shall be signed by the chairman of the Board of our Company. Where the stock exchanges on which the Shares are listed require the share certificates to be signed by some other senior management officer of our Company, the share certificates shall also be signed by such senior management officer. The share certificates shall take effect after being affixed with our Company's seal or a machine-imprinted seal of our Company provided that such seal shall only be affixed with the authority of the Board of Directors. The signatures of the legal representative or other senior management officer of our Company on the Share certificates may be printed in mechanical form. Where the shares are issued or traded on a paperless basis, our Company shall comply with the relevant regulations of securities regulatory authority where the shares of our Company are listed.

Any person who is registered shareholder or who requests to have his name entered into the register of shareholders may, if his share certificate (the "**original certificate**") in respect of shares in our Company is lost, apply to our Company for a replacement new share certificate in respect of such shares (the "**Relevant Shares**").

If a holder of Domestic Shares loses his share certificate and applies for a new share certificate, it shall be dealt with in accordance with Article 144 of the Company Law. If a shareholder of foreign shares listed outside the PRC loses his share certificate and applies for a new share certificate, the issue of such certificate shall comply with the following requirements:

- (i) the applicant shall submit an application to our Company in the form prescribed by our Company accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss of the original certificate and declaring that no other person is entitled to be registered as a shareholder in respect of the relevant Shares;
- (ii) before our Company decides to issue the new share certificate, no statement made by any person other than the applicant declaring that he shall be registered as a shareholder of such shares;
- (iii) if our Company decides to issue a new share certificate to the applicant, it shall make an announcement of its decision at least once every 30 days for a period of 90 days in such newspapers as may be designated by the Board. The newspaper designated by the Board shall be a Chinese newspaper and an English newspaper (at least one for each language) as recognized by the Stock Exchange;
- (iv) our Company shall have, prior to publication of its decision to issue a new share certificate, delivered to the Stock Exchange a copy of the announcement to be published. Our Company may publish the announcement upon receiving a confirmation from the Stock Exchange that the announcement has been exhibited in the premises of the Stock Exchange. The announcement shall be exhibited in the premises of the Stock Exchange for a period of 90 days. If the application for issuing a new share certificate has not been approved by the registered shareholders of the relevant Shares, our Company shall send a copy of the announcement to be published to such shareholders by post;

- (v) if, upon expiration of the 90-day period referred to in the above (iii) and (iv), our Company has not received from any person notice of any disagreement to such replacement of share, our Company may issue a replacement new share certificate to the applicant accordingly;
- (vi) where our Company issues a replacement new share certificate under this clause, it shall immediately cancel the original share certificate and enter the cancellation and replacement issue in the register of shareholders accordingly; and
- (vii) all expenses relating to the cancellation of an original share certificate and the issue of a replacement new share certificate by our Company shall be borne by the applicant. Our Company may refuse to take any action until reasonable security is provided by the applicant for such expenses.

(d) Untraceable members

Our Company exercises power to cease sending dividend warrants by post to a holder holding foreign shares listed overseas, if such warrants have not been cashed twice in a row. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

Our Company shall not exercise power to sell the shares of a shareholder holding foreign shares listed overseas who is untraceable unless:

- (i) during a period of 12 years at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed; and
- (ii) on expiry of the 12 years our Company gives notice of its intention to sell the shares by way of an advertisement published in one or more newspapers and notifies the Stock Exchange of such intention.

(e) The Board of Directors

The Board of Directors shall be accountable to the general meeting of the Shareholders, and shall exercise the following functions and powers:

- (1) to convene general meetings and report on its work to the Shareholders;
- (2) to implement the resolutions of general meetings;
- (3) to decide on our Company's business plans and investment plans;
- (4) to formulate our Company's proposed annual financial budget and final accounts;
- (5) to formulate our Company's profit distribution plan and plan for making up for losses;
- (6) to formulate proposals for the increase or reduction of our Company's registered capital, the issue of corporate bonds, other securities and listing plan;

- (7) to prepare plans for material acquisition or sale, repurchase of our Company's shares, merger, demerger, dissolution or change of the form of our Company;
- (8) to decide on the establishment of our Company's internal management system;
- (9) to appoint or dismiss our Company's general manager, chief financial officer, the Board secretary and pursuant to the Nomination Committee or the general manager's nominations to appoint or dismiss vice general manager, and other senior management officers of our Company and to decide on their remuneration and benefits;
- (10) to formulate our Company's basic remuneration, benefits and incentive program;
- (11) appoint or replace any directors and supervisors representing shareholders of the wholly-owned subsidiaries of our Company, and to appoint, replace or nominate shareholders' representatives, directors (candidates) and supervisors representing shareholders (candidates) of controlling and holding subsidiaries;
- (12) to formulate our Company's basic management system;
- (13) to formulate plans for the amendment of the Articles of Association;
- (14) to formulate our Company's branch structure inside and outside the PRC;
- (15) to formulate plans for merger, division or reorganization of its wholly-owned or controlled subsidiaries;
- (16) to decide on the establishment of the specific committee of the Board and to appoint or dismiss the chairman of the specific committee of the Board;
- (17) to propose on potential candidate for independent Directors and dismissal of independent Directors;
- (18) to propose to the shareholders' general meetings as regards the appointment or replacement of the auditors of our Company;
- (19) to review the work report submitted by the general manager of our Company and to review his performance;
- (20) to deal with disclosure of information on our Company;
- (21) to formulate share incentive option scheme;
- (22) save and except for those decisions to be decided by Shareholders pursuant to the law, regulations and the Articles of Association, to exercise decision-making power on issues in respect of external investment (including increase in investment and equity transfer), financing, venture investment, entrusted wealth management, provision of external guarantees;
- (23) to decide on other material issues of our Company, which are not stipulated in the Company Law and the Articles of Association to be decided by the shareholders' general meetings;

- (24) to decide on and to monitor the implementation of our Company's risk management system, including risk assessments, financial control, internal audit, legal risk control;
- (25) to exercise other powers authorized by the Articles of Association or other powers conferred by the shareholders' general meeting; and
- (26) to exercise other powers and functions stipulated in the law of the PRC.

The above resolutions must be passed by a majority vote of all Directors, with the exception of items (6), (7) and (13) above which shall require the consent of more than two thirds vote of the Directors.

Meetings of the Board shall be held regularly at least four times each year and shall be convened by the Chairman of the board of Directors. Directors and Supervisors shall be notified 14 days before the date of the meeting. A quorum will be formed by more than half of the Directors attending a Board meeting in person.

If a Director is unable to attend a board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization. Directors attending board meetings on behalf of other directors shall exercise their power as directors within their scope of authorization. If a Director fails to attend a board meeting and does not appoint an attorney to attend, the Director is deemed to have relinquished his rights to vote at that meeting.

A Director shall be deemed to be unable to carry out his duties if he fails to attend two consecutive Board meetings and fails to appoint another Director to attend on his behalf either. The Board may propose at the shareholders' general meeting for the removal of such Director.

Each Director shall have one vote. Unless specified otherwise in the Articles of Association, resolutions of the Board of directors must be passed by more than half of all the Directors. Where the numbers of votes cast for and against a resolution are equal, the Chairman shall have the right to cast an additional vote.

(f) Independent Directors

The Board of Directors shall include four Independent Directors at all times. The Independent Directors shall be directly accountable, and report, to the shareholders' general meeting, the securities regulatory authorities and other relevant government agencies.

(g) Secretary to the Board of Directors

The secretary to the Board of Directors shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Chairman of Board, employed and removed by the Board.

(h) Supervisory Board

Our Company shall have a Supervisory Board.

The Supervisory Board shall be composed of three members, one of whom shall be the chairman of the Supervisory Board. The term of office of supervisors shall be three years, renewable upon re-election.

The election or removal of the chairman of the Supervisory Board shall be decided by two-thirds or more of the Supervisors.

The decisions of the Supervisory Board shall be made by the affirmative vote of two-thirds or more of the supervisors.

The Directors and senior officer of our Company shall not act concurrently as Supervisors.

The Supervisory Board shall be accountable to the shareholders' general meeting and exercise the following functions and powers in accordance with law:

- (i) to supervise the Directors, general manager and other senior management officers in their performance of duties and to propose the removal of Directors and senior management officers who have contravened any laws, administrative regulations, the Articles of Association or shareholders' general meetings;
- (ii) to demand rectification from a Director or senior management officers of our Company who acts in a manner which is harmful to our Company's interest to rectify such behavior;
- (iii) to examine our Company's financial situation;
- (iv) to propose to convene a shareholders' extraordinary general meeting, and to convene and preside over shareholders' general meetings when the Board fails to perform its obligation to convene and preside the general meetings as provided under the Company Law;
- (v) to advance proposals at the shareholders' general meeting;
- (vi) to institute a suit against the Directors or senior management officers pursuant to article 152 of the Company Law; and
- (vii) other functions and powers conferred by by law, administrative regulations and the Articles of Association.

(i) General Manager

The general manager shall be accountable to the Board and exercise the following functions and powers:

- (i) to be in charge of our Company's production, operation and management and report to the Board;
- (ii) to organize the implementation of the resolutions of the Board, our Company's annual business plan and investment plan;
- (iii) to formulate our Company's annual budget, financial accounts and make suggestions to the Board;
- (iv) to formulate plans for merger, division or dissolution of its wholly-owned or controlled subsidiaries;
- (v) to formulate our Company's basic management system and internal management structure;
- (vi) to formulate the plans for the establishment of branches of our Company's branch structure inside and outside People's republic of China;
- (vii) to formulate basic rules and regulations of our Company;
- (viii) to propose the appointment or dismissal of our Company's vice general manager and other senior management officers;
- (ix) to appoint or dismiss management personnel except for those appointed or dismissed by the Board;
- (x) to formulate our Company's basic remuneration, benefits and incentive program, as well as employment and removal of Company staff;
- (xi) to propose to convene an extraordinary meeting of the Board of Directors in case of emergency;
- (xii) to formulate the plans for branch structure of wholly-owned and controlled subsidiary;
- (xiii) to determine on investment, financing, contracts and transactions within the scope of authorization of the Board; and
- (xiv) other functions and powers conferred by the Articles of Association and the Board.

Our Company shall have vice general managers who shall assist the general manager in his work. Vice general managers shall exercise certain powers of general manager within the scope the authorization.

(j) Common Reserve Fund

When distributing the after-tax profits of the current year, our Company shall allocate 10% of its profits to its statutory common reserve fund. When the cumulative amount of the statutory common reserve fund of our Company has reached 50% or more of its registered capital, no further allocation is required.

When the statutory common reserve fund of our Company is insufficient to make up for the losses of our Company incurred during the previous years, before making allocation to the statutory common reserve fund in accordance with the preceding paragraph, the profits generated during the current year shall be used to make up for such losses.

After making allocation to the statutory common reserve fund of our Company from its after-tax profits, our Company may, subject to resolutions adopted at a general meeting, also allocate funds from the after-tax profits to the discretionary common reserve fund.

After making up for the losses and making contributions to the common reserve fund, any remaining after tax profits (the lower of IFRS and PRC GAAP after tax profits) shall be distributed to the shareholders in proportion to their respective shareholdings, except it is stipulated in the Articles of Association that profit distributions shall not be made in accordance with the shareholding proportion.

If the shareholders' general meeting has, in violation of the provisions of the preceding paragraph, distributed profits to the shareholders before our Company has made up for its losses and made allocations to the statutory common reserve fund, the shareholders must return the profits distributed in violation of the provision to our company.

No profits shall be distributed in respect of the shares held by our Company.

The common reserve fund of our Company shall be used to make up for its losses, increase the scale of production and operation of our Company or convert the same into the capital of our Company to increase the amount thereof, provided that the capital common reserve fund shall not be applied to making up the losses of our Company.

At the time of converting the statutory common reserve fund into registered capital, the amount retained in such common reserve fund shall not be less than 25% of the registered capital before the said conversion.

This appendix contains a summary of the laws and regulations in respect of taxation and foreign exchange in the PRC and Hong Kong.

TAXATION

A. Taxation in the PRC

Taxes Applicable to Joint-Stock Limited Companies

Enterprise Income Tax

Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) (“**Income Tax Law**”) was promulgated on March 16, 2007 and become effective January 1, 2008. The Income Tax Law regulates the rate of enterprise income tax at 25%. Enterprises established before the promulgation of the Income Tax Law are entitled to benefit from a preferential tax rate as per the tax laws and administrative regulations then prevailing may gradually shift to the tax rate defined by the Income Tax Law within five years after effectiveness of the Income Tax Law according to the requirements of the State Council. Those entitled to the preference of fixed tax holiday or fixed-term tax reductions may continue to benefit in the same manner according to the requirements of the State Council until expiration of the tax holiday or the term of the preference. For those who have not benefited from such preference due to the failure to realize profit, the preference has been applied since the effective date of the Income Tax Law, January 1, 2008.

Business Tax

According to the Provisional Regulations of The People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例), which became effective on January 1, 1994 and first amended on January 1, 2009, and the Detailed Rules for Implementation of the Provisional Regulations of The People's Republic of China on Business Tax (中華人民共和國營業稅暫行條例實施細則), which became effective on January 1, 2009 and further amended on October 28, 2011, institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC shall pay business tax. The latest amendments of the above-mentioned regulations and rules supplemented the regulatory system in the following aspects:

- Insurance services provided by domestic insurance institutions for exporting goods are exempted from business tax.
- The withholding agent of the business tax should be: (i) the domestic agents of foreign entities or individuals, who provide taxable services, transferring intangible assets or selling estate within the territory of the PRC but have no business institutions in the PRC; or (ii) the assignee of the assets or the purchaser of the services in case there is no domestic agent.
- The column specifying the taxable services and business is deleted from the appendix of the regulations, which enable MOF and SAT to define the scope of taxable business and services.
- The preferential policies approved by the State Council before the effectiveness of the above-mentioned amendments on January 1, 2009 could still be applied.

Value-added Tax (VAT)

According to the Provisional Regulations of The People's Republic of China on Value-added Tax (中華人民共和國增值稅暫行條例) in effect since January 1, 1994 and first amended on January 1, 2009 and the Detailed Rules for Implementation of the Provisional Regulations of The People's Republic of China on Value-added Tax (中華人民共和國增值稅暫行條例實施細則) in effect since December 25, 1993 and second amended on October 28, 2011, institutions and individuals selling goods or providing processing, repairing or replacement services or importing goods within the PRC shall pay VAT. The tax rate of 13% shall be levied on general taxpayers selling or importing grain, edible vegetable oil, tap water, heating supply, air-conditioning, hot water, gas, liquefied petroleum gas, natural gas, marsh gas, coal products for civil use, books, newspapers, magazines, feedstuff, chemical fertilizer, pesticide, farming machines, films for agricultural use and other goods specified by the State Council. The rate applicable to goods exported by taxpayers shall be zero unless otherwise prescribed by the State Council. The rate of 17% shall be levied on taxpayers selling or importing goods other than the above-mentioned items, and on taxpayers providing processing, repair or replacement services. The rate applicable to goods sold or taxable services provided by small-scale taxpayers is 3% (formerly 6%). A small-scale taxpayer is defined as a taxpayer engaged in the manufacturing of goods or the supply of taxable services, or primarily dealing in the manufacturing of goods or supply of taxable services while concurrently engaged in the wholesale or retail of goods as secondary operations, and has annual taxable sales (hereinafter referred to as "**taxable sales**") of less than RMB0.5 million; or a taxpayer engaged in the wholesale or retail of goods and having annual taxable sales of less than RMB0.8 million. Individuals whose annual taxable sales volumes exceeds the standards for small-scaled taxpayers shall be taxed as small-scaled taxpayers; non-enterprise organizations or enterprises without frequent occurrence of taxable acts may choose to be taxed as small-scaled taxpayers.

In addition, the new regulations and rules also provide the following:

- the input tax for purchasing fixed assets could be deducted from the output tax;
- the withholding agent of the VAT should be: (i) the domestic agents of foreign entities or individuals, who provide taxable services within the territory of the PRC but have no business institutions in the PRC; or (ii) the assignee of the assets or the purchaser of the services in case there is no domestic agent; and
- the preferential policies approved by the State Council before the effectiveness of the above-mentioned amendments on January 1, 2009 could still be applied.

Stamp Tax

According to the Provisional Regulation of the People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例) which was brought into effect on October 1, 1988 and amended on January 8, 2011 and the Detailed Rules for Implementation of the Provisional Regulations of The People's Republic of China on Stamp Duty (中華人民共和國印花稅暫行條例實施細則) in effect since October 1, 1988, institutions and individuals executing or receiving taxable documents within the PRC shall pay stamp tax. The list of taxable documents includes purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents that resemble contracts in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by MOF.

Taxes Applicable to Shareholders of Companies*Dividend-related Tax*

Individual investors. According to the Individual Income Tax Law of the People's Republic of China (中華人民共和國個人所得稅法), as amended, and its implementation rules for the receipt of dividends paid by the PRC companies, an individual is ordinarily subject to a PRC individual income tax levied at a flat rate of 20%. For a foreign individual shareholder who is not a PRC resident, pursuant to the Circular On the Individual Income Tax Matters after the Repeal of No. Guo Shui Fa [1993]045 Circular (No. Guo Shui Han [2011]348) issued by SAT on June 28, 2011 (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知), the receipt of dividends on our H Shares is subject to a withholding tax ranging from 5% to 20% (usually 10%) depending on the applicable tax treaty between the PRC and the jurisdiction in which the foreign national resides. For foreign residents of jurisdictions that have not entered a tax treaty with the PRC, the tax rate on dividends is 20%.

Enterprises. Under the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法) and its implementation rules, non-resident enterprises having no office or premises inside the PRC or whose income has no actual connection to its office or premises inside the PRC are subject to enterprise income tax at the rate of 10% on their income derived from the PRC. Under the Circular on Questions Concerning Withholding and Remitting Enterprise Income Tax for Dividends Received by Overseas Non-resident Enterprise Shareholders of H Shares from Chinese Resident Enterprises (No. Guo Shui Han [2008]897 (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 (國稅函[2008]897號)) issued by SAT on November 6, 2008, enterprise income tax at a flat rate of 10% is levied on dividends on H shares received by any overseas enterprise shareholders that are non-PRC residents. The Response to Questions on Enterprise Income Tax over Dividend of B-Shares and Other Shares Received by Non-resident Enterprises (No. Guo Shui Han [2009]394 (關於非居民企業取得B股等股票股息徵收企業所得稅問題的批復(國稅函[2009]394號)) issued by SAT on July 24, 2009 further provides that any PRC resident enterprise that publicly issues A-shares, B-shares or overseas shares on stock exchanges in or outside the PRC, such as our H Shares, must withhold enterprise income tax at the rate of 10% from dividends distributed by them to non-resident enterprises.

Tax treaties. Investors who do not reside in the PRC but reside in jurisdictions that have entered into treaties for the avoidance of double taxation with the PRC may be entitled to a reduction or exemption of the withholding tax imposed on dividends received from a PRC-resident enterprise. The PRC currently has treaties for the avoidance of double taxation with a number of jurisdictions, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. The PRC also has an arrangement for the avoidance of double taxation with Hong Kong.

Share transfer-related tax

For Individual Investors. Under the Individual Income Tax Law of the People's Republic of China (中華人民共和國個人所得稅法) and its implementation rules, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. The implementation rules also provide that the MOF shall draft measures for collection of individual income tax from income on the transfer of shares, and such measures are subject to the approval of the State Council. However, as of the Latest Practicable Date, no such measures have been drafted and enacted. Under the Circular Declaring That Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (Cai Shui Zi [1998] No. 61) (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知 (財稅字[1998]61號)) issued by MOF

and SAT on March 30, 1998, from January 1, 1997, income of individuals from the transfer of shares in listed enterprises continues to be exempted from individual income tax. After the latest amendment to the Individual Income Tax Law of the People's Republic of China on September 1, 2011 and the latest amendments to its implementing rules on September 1, 2011, SAT has not stated whether it will continue to exempt from individual income tax income derived by individuals from the transfer of listed shares. However, on December 31, 2009, MOF, SAT and CSRC jointly issued the Circular on Related Issues on Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (Cai Shui [2009] No. 167) (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知 (財稅[2009]167號)) (the "Circular"), which states that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for the shares of certain specified companies under certain situations which are subject to sales limitations (as defined in such Circular and its supplementary notice issued on November 10, 2010). As of the Latest Practicable Date, no legislation has expressly provided that individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges, such as our H Shares, and in practice the taxation administrations do not collect individual income tax on such income.

For Enterprises. Under the EIT Law (中華人民共和國企業所得稅法) and its implementation rules, non-resident enterprises are generally subject to enterprise income tax at the rate of 10% with respect to their income derived from sale of shares of PRC companies. However, as of the Latest Practicable Date, no legislation has expressly provided that enterprise income tax shall be collected from non-Chinese resident enterprises on their income derived by them from sale of the shares in PRC companies listed on overseas stock exchanges, such as our H Shares, while the possibility cannot be entirely excluded that taxation administrations will collect enterprise income tax on such income in practice.

Tax treaties. Overseas investors that reside in jurisdictions that have entered into treaties for the avoidance of double taxation with the PRC may be entitled to exemption from any income tax imposed by the PRC tax authorities on their income derived from sale of the shares in PRC-resident companies depending on the specific provisions as set forth in the applicable tax treaties. The PRC currently has treaties for the avoidance of double taxation with a number of jurisdictions, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States (the treaty with the United States does not contain an exemption from any PRC tax imposed on gains derived from the sale of shares in a PRC resident enterprise). The PRC also has an arrangement for the avoidance of double taxation with Hong Kong.

Additional PRC tax considerations

PRC stamp duty. Under the Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例) and its implementation rules, both effective on October 1, 1988, PRC stamp duty should not apply to acquisitions or dispositions of our H Shares outside of the PRC, as PRC stamp duty is imposed on documents executed or received within the PRC that are legally binding in the PRC and protected under PRC law.

Estate duty. No liability for estate duty under PRC laws will arise for non-PRC nationals holding H Shares.

B. Taxation in Hong Kong***Hong Kong****Tax on Dividends*

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation on gains from sale

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the H Shares. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for examples, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H Shares effected on the Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from the sales of H Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for, or the market value of, the H shares, will be payable by the purchaser on every purchase and by the seller on every sale of H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of H shares. Where one of the parties to a transfer is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after February 11, 2006.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of the PBOC, administers all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On December 28, 1993, PBOC issued the Notice to Further Reform the Foreign Exchange Control System (進一步改革外匯管理體制的通知) (the “**Notice**”), which became effective on January 1, 1994. The Notice abolished the system of foreign exchange quotas and announced the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centres.

On January 29, 1996, the State Council promulgated Regulation of Foreign Exchange (外匯管理條例) (the “**Foreign Exchange Regulations**”) which became effective on April 1, 1996. The Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to the approval from SAFE while capital account items still are. The Foreign Exchange Regulations were subsequently amended on January 14, 1997 and on August 1, 2008. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On June 20, 1996, PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) (the “**Settlement Regulations**”) which took effect on July 1, 1996. The Settlement Regulations superseded the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯暫行規定) and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On July 21, 2005, PBOC announced that the PRC would implement the managed floating exchange rate regime with effect from the same day, and exchange rates are determined based on market supply and demand with reference to a basket of currencies. The exchange rate of RMB is no longer pegged to the US dollar. The PBOC will announce the closing prices of foreign currencies (such as the US dollar) to RMB in the interbank foreign exchange markets after the closing of the markets on each working day, so as to determine the central parity for RMB trading on the next working day.

On August 5, 2008, the State Council promulgated the amended Regulations on Foreign Exchange Administration of the People’s Republic of China (中華人民共和國外匯管理條例) (the “**Amended Regulations on Foreign Exchange**”) which made significant changes on the supervisory system for foreign exchange in the PRC. Firstly, the Amended Regulations on Foreign Exchange adopted balanced treatment on the inflow and outflow of foreign capital. Incomes in foreign currencies overseas can be remitted to the PRC or remained overseas, and foreign currencies of capital account items and funds for settlement in foreign currencies can only be used according to the purposes approved by relevant competent authorities and foreign exchange administration. Secondly, the Amended Regulations on Foreign Exchange improved the RMB exchange mechanism based on market supply and demand. Thirdly, the Amended Regulations on Foreign Exchange enhanced the monitoring of cross-border capital flow in foreign currencies, whereby the state could implement necessary protection or controlling measures when material imbalance of income and expenses related to cross-border trading arise or might arise, or serious crises in the domestic economy occur or might occur. Fourthly, the Amended Regulations on Foreign Exchange enhanced the regulation and administration on foreign currency trading, and granted extensive authorization to SAFE to enhance its supervisory and administrative capacity. Foreign exchange revenue in respect of current account items may be retained or sold to financial institutions operating a foreign exchange sale or settlement business.

Before retaining foreign exchange revenue under the capital account or selling it to any financial institution operating a foreign exchange sale or settlement business, the approval of the competent foreign exchange administrative authorities shall be obtained, unless otherwise provided by the State.

Enterprises that require foreign exchange for recurring activities such as trading and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents.

In addition, where an enterprise requires foreign exchange for the payment of dividends, such as the distribution of profits by a foreign-invested enterprise to its foreign investor, then, subject to the due payment of taxes on such dividends, the amount required for the payment of dividends may be withdrawn from funds in foreign exchange accounts maintained with designated banks and, where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks.

Convertibility of foreign exchange in respect of capital account items, including direct investments and capital contributions, is still subject to restrictions, and prior approval from SAFE must be obtained.

When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by PBOC and subject to certain limits, freely determine the applicable exchange rate.

This appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in “Appendix IV – Taxation and Foreign Exchange” of this Prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between PRC and Hong Kong company law, certain requirements of the Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers.

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between PRC Company Law and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and the Mandatory Provisions.

1. PRC LAWS AND REGULATIONS

(a) The PRC legal system

The PRC legal system is based on the PRC Constitution (hereinafter referred to as the “**Constitution**”) and is made up of written laws, administrative regulations, local regulations and rules, autonomy regulations and separate rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC Government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (the “**Legislation Law**”), the National People’s Congress (“**NPC**”) and the standing committee of the NPC (the “**Standing Committee**”) are empowered to exercise the legislative power of the State. The NPC enacts and amends basic laws governing criminal offences, civil affairs, the State organs and other matters. The Standing Committee enacts and amends laws other than those that shall be formulated by the NPC, and during the period of adjournment of the NPC, the Standing Committee may partially supplement and amend the laws enacted by the NPC, but not in contradiction to the basic principles of such laws. The State Council is the highest organ of state administration and enacts administrative regulations based on the Constitution and laws. The people’s congresses at the provincial level and their standing committees may, in light of the specific circumstances and actual needs of their respective administrative areas, enact local regulations, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The ministries and commissions of the State Council, the PBOC, the National Audit Office of the PRC as well as other state organs endowed with administrative functions directly under the State Council may, according to laws, administrative regulations, decisions and orders of the State Council, formulate ministerial rules within their authorities. The people’s governments of the provinces, autonomous regions, and municipalities directly under the central government and the comparatively larger cities may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities. The people’s congresses of the national autonomous regions have the power to enact autonomous regulations and separate regulations on the basis of the political, economic and cultural characteristics of the local nationalities that reside in the area.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The significance of laws is greater than that of administrative regulations, local regulations, and rules. The significance of administrative regulations is greater than that of local regulations and rules. The significance of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The significance of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the comparatively larger cities within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee has the power to annul any administrative regulation that contravenes the Constitution and laws, to annul any local regulation that contravenes the Constitution, laws or administrative regulations, and to annul any autonomous regulation or local regulation which has been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the Central Government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the Central Government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at the lower level.

The power to interpret laws is vested in the Standing Committee by the Constitution. According to Resolutions of the Standing Committee on Improving Interpretation of Laws passed on June 10, 1981, in cases where the scope of provisions of laws or decrees needs to be further defined or additional stipulations need to be made, the Standing Committee shall provide interpretations or make stipulations by means of decrees. Interpretation of questions involving the specific application of laws and decrees in court trials shall be provided by the Supreme People's Court. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and supervisory authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities directly under the Central Government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the supervisory authorities under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government.

(b) The PRC judicial system

According to the Constitution and the *Law of Organization of the People's Courts of the PRC* (hereinafter referred to as the "**Law of Organization of the People's Courts**"), the People's Courts consist of the Supreme People's Court, the local people's courts, the military courts and other special people's courts.

The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts, and other special divisions, such as the intellectual property division, where necessary.

The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The people's procuratorates also have the power to exercise legal supervision over the litigation proceedings of people's courts at the same level or below. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the people's courts at all levels.

The people's courts have adopted a "second instance as final" appellate system. A party may appeal against a judgment or ruling by the people's court of first instance to the people's court at the next higher level prior to the judgment or the ruling of the first instance is legally effective. The judgment or the ruling of the second instance by the people's court at the next higher level is final and legally binding. First judgments or rulings by the Supreme People's Court are final as well. However, in the case that the Supreme People's Court or the people's court at a higher level finds definite error(s) in the legally effective judgment or ruling by the people's court at a lower level, or the presiding judge of the people's court finds definite error(s) in the legally effective judgment by the court over which he/she presides, the case may then be retried in accordance with the judicial supervisory procedures.

The *Civil Procedure Law of the PRC* (hereinafter referred to as the "**Civil Procedure Law**") sets forth provisions for the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a local court in the defendant's place of domicile. The parties to a contract may, by express agreement, select a court of jurisdiction where civil actions may be brought, provided that the court of jurisdiction is located in either the plaintiff's or the defendant's place of domicile, or the place of execution or implementation, or the place of the object of the action, and provided that the provisions of the Civil Procedure Law regarding jurisdiction by level and exclusive jurisdiction shall not be violated.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. Should the judicial system of a foreign country limits the litigation rights of PRC citizens or enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a legally effective judgment or ruling by a people's court or an effective award by an arbitration tribunal in the PRC, the other party may apply to the people's court for the compulsory enforcement of the judgment, ruling or award. However, specific time limits are imposed on the right to apply for such compulsory enforcement. The time limit for the submission of an application for enforcement shall be two years. The suspension or termination of the time limit for the submission of an application for enforcement shall be governed by the provisions on the suspension or termination of the statute of limitation.

When a party applies to a people's court for enforcing an effective judgment or ruling by a people's court against a party who is not located within the territory of the PRC or whose property is not within the PRC, the party may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country on the mutual recognition and enforcement of judgments and rulings, or if the judgment or ruling satisfies the court's examination based on the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons related to the public interests.

(c) The PRC Company Law, Special Regulations and Mandatory Provisions

On December 29, 1993, the Company Law of the PRC was adopted by the standing committee of the Eighth NPC, which came into effect on July 1, 1994 and was amended for the first time on December 25, 1999, the second time on August 28, 2004 and the third time on October 27, 2005. The newly amended *Company Law of the PRC* (hereinafter referred to as the new "**Company Law**") came into effect on January 1, 2006.

The *Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Shares by Joint Stock Limited Companies* (hereinafter referred to as the "**Special Provisions**") were adopted at the 22nd Standing Committee Meeting of the State Council on July 4, 1994. The Special Provisions was formulated according to Article 85 and Article 155 of the Company Law and applies to the overseas share subscription and listing of joint stock limited companies.

The Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to be Listed Overseas (hereinafter referred to as the "**Mandatory Provisions**") were promulgated by the former Securities Commission of the State Council and the State Economic System Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association (which are summarized in Appendix VI).

(i) General provisions

A "joint stock limited company" (hereinafter referred to as the "**company**") is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A State-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by laws and administrative regulations for the modification of its operation mechanisms, the handling and evaluation of the company's assets and liabilities and the establishment of its internal management organs.

A company must conduct its business in accordance with law and professional ethics. A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are limited to the

amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liability associated with the debts of the invested enterprises.

(ii) Incorporation

A company may be incorporated by promotion or public subscription.

A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC. According to the Special Regulations, state-owned enterprises or enterprises with the majority of their assets owned by the PRC Government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies, if incorporated by promotion, may have fewer than five promoters and can issue new shares once incorporated.

A company incorporated by promotion is one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific persons.

The Company Law provides that for companies incorporated by way of promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the relevant administrative bureau for industry and commerce; the initial capital contribution by all promoters of a company shall not be less than 20% of the registered capital, and the remaining shall be paid up within two years by the promoters from the date of incorporation of the company. For investment companies, the remaining shall be paid up within five years from the date of incorporation of the company; for companies incorporated by way of public subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administrative bureau for industry and commerce.

The registered capital of a company at a minimum should be RMB5 million. Pursuant to the Securities Law, the total capital of a company which proposes to apply for its shares to be listed on a stock exchange shall not be less than RMB30 million.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been completely paid up, and shall give notice to all subscribers or make an public announcement of the date of the inaugural meeting 15 days prior to the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the inaugural meeting include adopting the draft articles of association proposed by the promoters and electing the board of directors and the Board of Supervisors of the company. Any resolution of the meeting shall be approved by subscribers with more than half of the voting rights of those present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established and has the qualification of a legal person once the registration has been approved by the relevant administrative bureau for industry and commerce and a business licence has been issued.

The promoters of a company shall individually and jointly be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on April 22, 1993 (which is only applicable to the issue and trading of shares in the PRC and relevant activities), if a company is incorporated by means of public subscription, the promoters of the company are required to assume joint liability for the accuracy of the contents of this Prospectus and to ensure that this Prospectus does not contain any misleading statement or omission of any material information.

(iii) Share capital

The promoters of a company may make capital contributions in cash, or in kind that can be valued in currency and transferable according to laws such as intellectual property rights or land-use rights based on their appraised value, provided that the amount of capital contribution in cash by all shareholders shall not be less than 30% of the company's registered capital.

There is no limit under the Company Law as to the percentage of shares held by an individual shareholder in a company.

If capital contribution is made other than in cash by the promoters of the company, valuation and verification of the properties contributed must be carried out and converted into shares.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency.

Pursuant to the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan and listed overseas are defined as overseas-listed-foreign-invested shares, and those issued to investors within the PRC other than the aforementioned areas are defined as domestic shares. Qualified Foreign Institutional Investors (“**QFII**”) approved by China Securities Regulatory Commission (hereinafter referred to as “**CSRC**”) may hold domestic listed shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Detailed measures shall be specified by the State Council based on the Special Regulations. According to the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement on issuing overseas-listed-foreign-invested shares, to retain not more than 15% of the aggregate amount of overseas-listed-foreign-invested shares proposed to be issued less the amount of underwritten shares.

The share offering price may be equal to or in excess of par value, but shall not be less than par value.

The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council. The transfer of registered shares by a shareholder must be conducted by means of an endorsement or by other means stipulated by laws or by administrative regulations.

Bearer shares are transferred by delivery of the H share certificates to the transferee.

No modification registration shall be made to the registrar of shareholders within twenty (20) days prior to the shareholders' assembly being held or within five (5) days prior to the benchmark date set for the purpose of distribution of dividends.

(iv) Increase in capital

Pursuant to the Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting. Except for above-mentioned conditions of obtaining approval at the general meeting required by the Company Law, the Securities Law requires the following conditions for a company to offer new shares to the public: (i) a complete and well-operated organization; (ii) capability of making profits continuously and a healthy financial status; (iii) no false records or significant irregularities in its financial statements over the last three years; (iv) fulfill any other requirements as prescribed by the securities administration authority of the State Council as approved by the State Council.

The public offer requires the approval of the securities administration authority of the State Council. After payment in full for the new shares issued, a company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

(v) Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures stipulated by the Company Law:

- the company shall prepare a balance sheet and an inventory of assets;
- the reduction of general meeting registered capital must be approved by shareholders in the general meeting;
- the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in newspapers within 30 days once the resolution approving the reduction in capital being passed;
- creditors of the company may require the company to clear its debts or provide guarantees covering the debts within the statutory time limit; and
- the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction in registered capital.

(vi) Repurchase of shares

A company shall not purchase its own shares other than for the following purposes:

- to reduce the registered capital by cancelling its shares or to merge with another company holding its shares;
- to grant shares as a reward to the staff of the company;
- to purchase the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting; or
- other purposes permitted by laws and administrative regulations.

The shares repurchased by the company as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any fund for the repurchase shall be paid out of after-tax profits of the company, and the shares repurchased shall be transferred to the staff of the company within one year. The Mandatory Provisions stipulate that upon obtaining approvals from relevant supervisory authorities in accordance with the articles of association of the company, a company may, for the aforementioned purposes, repurchase its issued shares by way of a general offer to its shareholders or purchase on a stock exchange or through on-market contract.

(vii) Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock changes established pursuant to laws or by other means as stipulated by the State Council. Registered shares may be transferred by endorsement or in any other manner specified in applicable laws and regulations.

Shares held by the promoter(s) of a company shall not be transferred within one (1) year from the date of incorporation of the company. Shares issued by a company prior to the public offer of its shares shall not be transferred within one (1) year from the date of its shares being listed on a stock exchange. Directors, supervisors and senior management personnel of the company shall not transfer over 25% of the total shares they hold in the company each year during their term of office, and shall not transfer any share of the company held by each of them within one (1) year from the listing date.

(viii) Shareholders

The articles of association of a company set forth the shareholders' rights and obligations and are binding on all the shareholders. Pursuant to the Company Law and the Mandatory Provisions, a shareholder's rights include:

- the right to attend in person or appoint a representative to attend the shareholders' general meeting and to vote in respect of the amount of shares held;
- the right to transfer his/her shares in accordance with applicable laws and regulations as well as the articles of association;

- the right to inspect the company's articles of association, shareholders' registers, records of short-term debentures, minutes of shareholders' general meeting, board resolutions, supervisor resolutions and financial accounting reports, and to put forward proposals or raise questions on the business operations of the company;
- if a resolution approved by the shareholders' general meeting or by the board of directors violates any law or regulation, or infringes on the shareholders' lawful rights and interests, the right to institute an action in a people's court demanding that the illegal infringing action be stopped;
- the right to receive dividends based on the number of shares held;
- the right to obtain surplus assets of the company upon its termination in proportion to shares he/she holds; to claim against other shareholders who abuse their rights of shareholders for the damages; and
- any other shareholders' rights specified in the articles of association.

The obligations of shareholders include: abide by the articles of association of the company; pay the subscription monies in respect of shares subscribed for; be liable for debts and liabilities of the company to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up; no abuse of shareholders' rights to damage the interests of the company or other shareholders of the company; no abuse of the independent status of the company as a legal person and its limited liability companies as to damage the interests of the creditors of the company; and any other obligation specified in the articles of association of the company.

(ix) Shareholders' general meeting

The shareholders' general meeting is the organ of authority of a company, which exercises its functions and powers in accordance with the Company Law.

The shareholders' general meeting exercises the following functions and powers:

- to decide on operational policies and investment plans of the company;
- to elect or remove the directors and supervisors who are not representatives of the employees;
- to decide on matters relevant to remuneration of directors and supervisors;
- to review and approve reports of the board of directors;
- to review and approve reports of the board of supervisors or the supervisors;
- to review and approve annual financial budgets and financial accounts proposed by the company;
- to review and approve proposals for profit distribution and for recovery of losses of the company;

- to decide on increase and reduction of the registered capital of the company;
- to decide on bond issuances of the company;
- to decide on merger, division, dissolution and liquidation of the company and other issues;
- to amend the articles of association of the company; and
- other functions and powers specified in the articles of association of the company.

The annual shareholders' general meeting must be convened once a year. An extraordinary shareholders' general meeting shall be held within two months after the occurrence of any of the following circumstances:

- the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the articles of association of the company;
- the losses of the company which are not made up reach one-third of the total paid-up share capital of the company;
- as requested by a shareholder holding, or shareholders holding in aggregate, 10% or more of the shares of the company;
- when deemed necessary by the board of directors;
- as suggested by the board of supervisors; or
- other matters required by the articles of association.

The shareholders' general meeting shall be convened by the board of directors and shall be presided over by the chairman of the board of directors.

The notice to convene the shareholders' general meeting shall be dispatched to all the shareholders 20 days before the general meeting pursuant to the Company Law, and 45 days pursuant to the Special Regulations and the Mandatory Provisions, stating the matters to be reviewed at the general meeting. Under the Special Regulations and the Mandatory Provisions, shareholders intending to attend are required to send written confirmations of their attendance to the company 20 days before the general meeting. According to the Special Regulations, at the annual shareholders' general meeting of the company, shareholders with 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be reviewed at the general meeting, which if within the functions and powers of the shareholders' general meeting, are required to be added to the agenda of the general meeting.

Shareholders present at the shareholders' general meeting possess one vote for each share they hold. However, the company shall have no vote for any of its own shares the company holds. Resolutions proposed at the shareholders' general meeting shall be approved by more than half of the voting rights cast by shareholders present in person (including those represented by proxies) at the general meeting, except that such resolutions as merger, division or reduction of registered capital, the issue of bonds or short-term debentures, the change in the form of the company or the amendment to the articles of association, shall be approved by shareholders with more than two-thirds of the voting rights cast by shareholders present (including those represented by proxies) at the general meeting.

A shareholder may entrust a proxy to attend a shareholders' general meeting. The proxy shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorization scope. There is no specific provisions in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting, and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas-listed-foreign-invested shares are deemed to be different classes of shareholders for this purpose.

(x) Directors

A company shall have a board of directors, which shall consist of five to nineteen members, and there can be staff representatives of the company. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may hold consecutive terms upon re-election.

Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following functions and powers:

- to convene the shareholders' general meeting and report on its work to the shareholders;
- to implement the resolution of the shareholders' general meeting;
- to decide on the company's business plans and investment plans;
- to formulate the company's proposed annual financial budget and final accounts;

- to formulate the company's proposals for profit distribution and for recovery of losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- to prepare plans for the merger, division or dissolution of the company;
- to decide on the company's internal management structure;
- to appoint or dismiss the company's general manager, and based on the general manager's recommendation, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization for another director to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not act as a director of a company:

- persons without capacity or restricted capacity to undertake civil liabilities;
- persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;

- persons who are former directors, factory managers or managers of a company or enterprise that has been bankrupt and has been liquidated due to mismanagement, and those persons are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, and less than three years have elapsed since the date of the revocation of the business license; or
- persons who have a relatively large amount of debt due and outstanding; or other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises the following functions and powers (including but not limited to):

- to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- to check on the implementation of the resolutions of the board of directors.

The legal representative of a company, in accordance with the company's articles of association, may be the chairman, any executive director or the manager. The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix V) contains further elaborations of such duties.

(xi) Supervisors

A company shall have a Board of Supervisors composed of not less than three members. Each term of office of a supervisor is three years, and the supervisors may hold consecutive terms upon re-election. The Board of Supervisors is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

The Board of Supervisors exercises the following functions and powers:

- check the financial affairs of the company;

- supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior manager who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting;
- require the director or senior manager to make corrections if his act is detrimental to the interests of the company;
- propose the convening of extraordinary shareholders' general meetings, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;
- put forward proposals at shareholders' general meetings;
- initiate actions against directors or senior management; and
- other functions and duties as provided for by the articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

(xii) Managers and senior officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;
- formulate the company's internal rules;
- recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- attend board meetings as a non-voting attendant; and
- other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management personnel of a company include the financial officers, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and officers of the company. The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management personnel of a company have been incorporated in the Articles of Association (a summary of which is set out in Appendix V).

(xiii) Duties of directors, supervisors, managers and senior officers

Directors, supervisors, managers and other senior officers of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. Each director, supervisor, manager and senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company unless permitted by the relevant laws and regulations or by the shareholders.

Any directors, supervisors, managers and other senior officers who contravenes any laws, regulations or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, manager and other senior officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

(xiv) Finance and accounting

A company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the responsible financial department of the State Council. At the end of each financial year, a company shall prepare a financial report which shall be audited and verified as provided by law.

A company shall make available its financial statements at the company for the inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders' meeting or the shareholders' general meeting, the company may make an allocation to a discretionary common reserve from the after-tax profits.

If the aggregate balance of the company's statutory surplus reserve is not enough to make up for the losses of the company of the previous year, the current year's profits shall first be used for making good the losses before the statutory surplus reserve is set aside according to the provisions of the preceding paragraph.

After the losses have been made up and statutory surplus reserves have been set aside, the remaining profits shall be distributed to shareholders in proportion to the number of shares held by shareholders as in the case of a joint stock limited company, except as otherwise provided in the articles of association.

The capital common reserve of a joint stock limited company is made up of the premium over the nominal value of the shares of the company on issue, and other amounts required by the financial department of the State Council to be treated the capital reserve.

The company's common reserves shall be used for making up losses, expanding the production and business scale or increasing the registered capital of the company, but the capital reserve shall not be used for making up the company's losses. Where the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve shall not be less than 25% of the registered capital after such conversion.

(xv) Appointment and retirement of auditors

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

(xvi) Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas-listed-foreign-invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

(xvii) Amendments to articles of association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with

the Mandatory Provisions will only be effective after approval by the companies' approval department of the State Council and CSRC. In relation to matters involving the company's registration, the company shall modify its registration with the companies' registration authority.

(xviii) Dissolution and liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

- (1) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (2) the shareholders in a general meeting have resolved to dissolve the company;
- (3) the company is dissolved by reason of its merger or demerger;
- (4) the company is subject to the revocation of business license, a closure order or dismissal in accordance with laws; or
- (5) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the People's Court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (1), (2), (4) and (5) above, a liquidation committee must be formed within 15 days from the date of dissolution. Members of the liquidation committee shall be appointed by the shareholders in the general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court for its establishment. The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

- handle the company's assets and to prepare a balance sheet and an inventory of the assets;

- notify creditors or issue public notices;
- deal with and settle any outstanding business of the company;
- pay any tax overdue;
- settle the company's financial claims and liabilities;
- handle the surplus assets of the company after its debts have been paid off; and
- represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the Shareholders of the company in proportion to the number of Shares held by them.

A company shall not engage in operating activities unrelated to the liquidation. If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the relevant supervisory department for verification. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors with respect to any loss arising from his willful or material default.

(xix) Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas-listed-foreign-invested shares and domestic invested shares which has been approved by the Securities Commission may be implemented by the board of directors of a company by way of separate issues, within 15 months after approval is obtained from CSRC.

(xx) Loss of H share certificates

A shareholder may apply, in accordance with the relevant provision set out in the PRC Civil Procedure Law, to a people's court in the event that H share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

(xxi) Suspension and termination of listing

The new and amended Company Law has deleted provisions governing suspension and termination of listing. The new Securities Law has been amended as follows: the trading of shares of a company on a stock exchange may be suspended if so decided by the securities administration department of the State Council (the new Securities Law has renamed this as the Securities Exchange) under one of the following circumstances:

- (1) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company;
- (2) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;
- (3) the company has committed a major breach of the law;
- (4) the company has incurred losses for three (3) consecutive years; or
- (5) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (1) above, or the company has refused to rectify the situation in the case described in (2) above, or the company fails to become profitable in the next subsequent year in the case described in (4) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

The Company Law provides that the securities administration department of the State Council may also terminate the listing of a company's shares in the event that the company resolves to cease operation or is so instructed by its government supervisory body, or the company is declared bankrupt. In such event, the Securities Law would regard this as "other circumstances as required by the listing rules of the relevant stock exchanges."

(xxii) Merger and demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

(d) Securities law and other relevant regulations

The PRC has promulgated a number of regulations that relate to the issue and trading of Shares and disclosure of information by our Company. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for co-coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory body of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis.

On April 22, 1993, the State Council promulgated the Securities Provisional Regulations. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. According to these regulations, a company must obtain the approval of the Securities Committee to offer its shares outside the PRC. In addition, if a company proposes to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it must comply with the Securities Provisional Regulations. Provisions of these regulations in relation to acquisitions of listed companies and disclosure of information expressly apply to listed companies in general without being confined to listed companies on any particular stock exchange.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Liability Companies. These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information related to joint stock limited liability companies with domestically listed foreign shares.

The Securities Law took effect on July 1, 1999 and was revised for the first time as of August 28, 2004 and for the second time on October 27, 2005. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a company must obtain prior approval from the State Council's regulatory authorities to list shares outside the PRC. Article 239 of the Securities Law provides that specific measures with respect to shares of companies in the PRC that are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

(e) Arbitration and enforcement of arbitral awards

The Arbitration Law of the People's Republic of China (the "**Arbitration Law**") was passed by the Standing Committee on August 31, 1994 and became effective on September 1, 1995. It is applicable to contract disputes and other property disputes between natural person, legal person and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in a company's Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of the directors and supervisors, to the effect that whenever any disputes or claims arise between holders of H Shares and the company; holders of H Shares and the directors, supervisors, manager or other senior officers; or holders of H Shares and holders of domestic shares, with respect to any disputes or claims in relation to the companies affairs or as a result of any rights or obligations arising under its Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration. Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim shall comply with the arbitration. Disputes with respect to the definition of shareholders and disputes related to a company's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award by a PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement.

Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the request for enforcement is made.

It was declared by the Standing Committee simultaneously with the accession of the PRC that (1) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations. On June 18, 1999, an arrangement was made between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under the arrangement, awards made by PRC arbitral authorities recognized under the Arbitration Ordinance (Chapter 609 of the Laws of Hong Kong) can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.

2. HONG KONG LAWS AND REGULATIONS

(a) Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Hong Kong Companies Ordinance and is supplemented by common law. Our Company, which is a joint stock limited liability company established in the PRC, is governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited liability company established in the PRC issuing overseas listed foreign shares to be listed on the Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong Companies Ordinance applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited liability company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

(i) Corporate existence

Under the Hong Kong Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

Under the PRC Company Law, a joint stock limited liability company may be incorporated by either the promotion method or the subscription method. A joint stock limited liability company must have a minimum registered capital of RMB5 million, or higher as may otherwise be required by the laws and regulations. Hong Kong law does

not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited liability company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in general meeting and by the relevant governmental and regulatory authorities in the PRC.

Under the PRC Company Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited liability company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares in the share capital of a joint stock limited liability company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares issued by a joint stock limited liability company which are denominated in Renminbi and subscribed for in a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited liability company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's

shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lock up on our Company's issue of shares and the 12-month lock up on controlling shareholders' disposal of shares, as illustrated by the undertakings given by our Company to the Stock Exchange as described in the section entitled "Underwriting" in this Prospectus.

(iv) Financial assistance for acquisition of shares

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited liability company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under the Hong Kong Companies Ordinance.

(v) Variation of class rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variation of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in the appendix entitled "Appendix III – Summary of the Articles of Association" to this Prospectus. Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Our Company (as required by the Listing Rules and the Mandatory Provisions) have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic shares are defined in the Articles of Association as different classes, except in the case of (i) where our Company issues, upon the approval by special resolution of the Shareholders in general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued domestic Shares or overseas-listed-foreign-invested Shares; (ii) where our Company completes, with 15 months from the date on which approval is given by the securities regulatory authorities of the State Council, our plan (made at the time of our establishment) to issue domestic Shares and overseas-listed-foreign-invested Shares; and (iii) where the Shares registered on our domestic Share register may be transferred to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange, subject to the approval of the securities regulatory authorities of the State Council.

(vi) Directors

The PRC Company Law, unlike the Hong Kong Companies Ordinance, does not contain any requirements relating to the declaration of interests in material contracts, restrictions on interested directors being counted towards the quorum of and voting at a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

(vii) Supervisory Board

Under the PRC Company Law, the board of directors and managers of a joint stock limited liability company is subject to the supervision and inspection of a Supervisory Board but there is no mandatory requirement for the establishment of a Supervisory Board for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have been guilty of a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited liability company the right that in the event that the directors and senior managers violate their fiduciary obligations to a company, shareholders individually or jointly holding over 1% of the shares in the company for more than 180 days consecutively may request in writing the Supervisory Board to initiate proceedings in the people's court. In the event that the Supervisory Board violates their fiduciary obligations to a company, the above said shareholders may request in writing the board of directors to initiate proceedings in the people's court. Upon receipt of such request in writing from the shareholders, if the Supervisory Board or the board of directors refuse to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irreparable damages to the company, the above said shareholders shall for the benefit of the company's interests, have the right to initiate proceedings directly to the court in its own name.

The Mandatory Provisions further provide remedies to the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited liability company applying for a listing of its foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given 20 days before the meeting, while notice of an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share

capital, and merger, demerger or dissolution of a joint stock limited liability company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) Financial disclosure

A joint stock limited liability company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before an annual general meeting. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial situation. The annual balance sheet has to be verified by registered accountants. The Hong Kong Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be tabled before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC GAAP, have its accounts prepared and audited in accordance with IFRS or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

The PRC Company Law gives shareholders the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of a company incorporated in Hong Kong under Hong Kong law.

(xv) Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment of a trust company registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited liability company in respect of such foreign shares.

(xvi) Corporate reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Hong Kong Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Hong Kong Companies Ordinance which requires the sanction of the court. Under PRC law, the merger, demerger, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

(xvii) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

(xviii) Mandatory transfers

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no such requirements under Hong Kong law.

(xix) Remedies of a company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Mandatory Provisions, the Articles of Association set out remedies to our Company similar to those available under Hong Kong law (including recovery of profits made by a director, supervisor or officer).

(xx) Dividends

The articles of association of a company empower the company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) Closure of register of shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the PRC Company Law and the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(b) Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company:

(i) Compliance advisor

A company seeking listing on the Stock Exchange is required to appoint a compliance advisor acceptable to the Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuing compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong Financial Reporting Standards or International Financial Reporting Standards.

(iii) Process agent

Our Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Stock Exchange and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Stock Exchange, the Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK\$50 million.

The Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10,000 million.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which they are aware, if any. Any general mandate given to the Directors to repurchase H shares must not exceed 10% of the total amount of existing issued H Shares.

(vii) Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and

provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the Supervisory Board of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in the appendix entitled “Appendix III – Summary of the Articles of Association” to this Prospectus.

(viii) Redeemable Shares

Our Company must not issue any redeemable Shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

(ix) Pre-emptive rights

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of the holders of domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Listing Rules, but only to the extent that, the existing Shareholders of our Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic Shares and H Shares as at the date of the passing of the relevant special resolution or of such Shares that are part of our plan at the time of our establishment to issue domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

(x) Supervisors

Our Company is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Stock Exchange.

Our Company is required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or our subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires our Company to give more than one year’s notice or to pay compensation or make other payments equivalent to more than one year’s emoluments.

The remuneration committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders’ approval and advise Shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and the Shareholders as a whole and advise Shareholders on how to vote.

(xi) Amendment to the Articles of Association

Our Company is required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the PRC Company Law, the Mandatory Provisions or the Listing Rules relating to such Articles of Association.

(xii) Documents for inspection

Our Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased; and
- for Shareholders only, copies of minutes of meetings of Shareholders.

(xiii) Receiving agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in share certificates

Our Company is required to ensure that all of our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our Share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of the Shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each Shareholder of our Company that the H Shares are freely transferable by the holder thereof; and
- authorizes our Company to enter into a contract on his behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

(xv) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

Our Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(xvi) Contract between our Company and its Directors, officers and Supervisors

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to our Company to observe and comply with the PRC Company law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that our Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to our Company acting as agent for each Shareholder to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of our Company between our Company and the Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with our Company on our own behalf and on behalf of each Shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(xvii) Subsequent listing

Our Company must not apply for the listing of any of the H shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of foreign Shares are adequately protected.

(xviii) English translation

All notices or other documents required under the Listing Rules to be sent by our Company to the Stock Exchange or to holders of the H Shares are required to be in the English language, or accompanied by a certified English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

(c) Other Legal and Regulatory Provisions

Upon the Listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to our Company.

(d) Securities arbitration rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The securities arbitration rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the securities arbitration rules, a PRC party means a party domiciled in the PRC.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

On January 18, 2011, the SASAC granted the approval of the establishment of our Company as a joint stock limited company by SINOMACH and China United as promoters with an initial registered capital of RMB3.3 billion. Our Company was established in Beijing, PRC, on January 18, 2011.

Our Company has established a place of business in Hong Kong at Room 804, 8/F, Tower 1, South Sea Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong, and obtained a Certificate of Registration of a non-Hong Kong Company under Part XI of the Hong Kong Companies Ordinance on May 31, 2012. Ms. TSANG Fung Chu, whose correspondence address is 10/F, Chiu Lung Building, 25 Chiu Lung Street, Central, Hong Kong, has been appointed as our Company's agent for the acceptance of service of process in Hong Kong. As our Company was established in the PRC, its corporate structure and the Articles of Association are subject to the relevant PRC laws and regulations. A summary of the Articles of Association and the relevant PRC laws and regulations are set out in Appendices III and V to this Prospectus, respectively.

2. Changes in share capital of our Company

At the date of incorporation of our Company, the initial registered capital of our Company was RMB3.3 billion divided into 3,300,000,000 Domestic Shares of a nominal value of RMB1.00 each.

Immediately after the Global Offering, without taking into account the exercise of the Over-allotment Option, the registered capital of our Company will be RMB4.018 billion, made up of 3,228,200,000 Domestic Shares and 789,800,000 H Shares.

Immediately after the Global Offering, and assuming that the Over-allotment Option is exercised in full, the registered capital of our Company will be RMB4.1257 billion made up of 3,217,430,000 Domestic Shares and 908,270,000 H Shares.

Save as disclosed in this Appendix, there has been no alteration in the share capital of our Company since its establishment.

3. Written resolutions of all our Shareholders passed on February 14, 2011

On February 14, 2011, written resolutions of all our Shareholders approving the following matters, among other things, were passed:

- (a) the Articles of Association were adopted and the Board was authorized to amend the Articles of Association in accordance with the requirements of the relevant laws and regulations and the Listing Rules; and
- (b) the issue of H Shares with a par value of RMB1.00 each (the number of the H Shares so issued shall not exceed 25% of the total share capital of our Company after the Global Offering) and granting of the Over-allotment Option in respect of no more than 15% of the number of H Shares issued as above-mentioned.

4. Written resolutions of all our Shareholdings passed on February 10, 2012.

On February 10, 2012, written resolutions of all our Shareholders approving the followings matters, among other things, were passed:

- (a) the Board was authorized to handle all matters relating to, among other things, the issue of H Shares and the listing of H Shares on the Stock Exchange; and
- (b) subject to the completion of the Global Offering, the Board has been granted a general mandate to allot and issue H Shares at any time within a period up to the date of the conclusion of the next annual general meeting of the Shareholders or the date on which our Shareholders pass a special resolution to revoke or change such mandate, whichever is earlier, upon such terms and conditions and for such purposes and to such persons as the Board in their absolute discretion deem fit, and to make necessary amendments to the Articles of Association, provided that, the number of H Shares to be issued shall not exceed 20% of the number of our H Shares in issue as at the Listing Date.

5. Our Reorganization

In preparation for the Global Offering, we underwent the Reorganization, details of which are set out in the section headed “History and Reorganization” of this Prospectus. As confirmed by our legal advisors as to PRC laws, Jia Yuan Law Offices, our Reorganization complies with all applicable PRC laws and regulations, and all necessary approvals from relevant PRC regulatory authorities required for the implementation of the Reorganization have been obtained. These approvals include:

- 1) On December 22, 2008, the SASAC issued an approval document (Guo Zi Gai Ge [2008] No. 1408) approving the Reorganization of our Company;
- 2) China Enterprise Appraisals Co., Ltd. issued an appraisal report (Zhong Qi Hua Ping Bao Zi [2010] No. 569) on January 3, 2011 and the report was filed with the SASAC on 10 January 2011;
- 3) On January 13, 2011, the promoters convened an inaugural meeting of our Company, at which, among other things, the establishment of our Company and the adoption of our initial Articles of Association was approved;
- 4) On January 17, 2011, the SASAC issued an approval document (Guo Zi Chan Quan [2011] No. 24) approving the management of SINOMACH’s state-owned equity interests in our Company;
- 5) On January 18, 2011, the SASAC issued an approval document (Guo Zi Gai Ge [2011] No. 44) approving the establishment of our Company;
- 6) On January 18, 2011, a new business license was issued by the State Administration for Industry and Commerce, whereupon our Company was formally established as a joint stock limited company;

- 7) On April 11, 2011, the SASAC issued an approval (Guo Zi Gai Ge 2011 No. 263) for the conversion of our Company into an “overseas subscription company”;
- 8) On May 28, 2012, the CSRC issued an approval (Zheng Jian Xu Ke 2012 No. 710) with regard to the issue of H Shares and the listing of the H Shares on the Stock Exchange.

B. FURTHER INFORMATION ABOUT OUR SUBSIDIARIES

Our Company’s principal subsidiaries as at June 30, 2012 are set out in the accountant’s report, the text of which is set out in “Appendix I – Accountant’s Report” to this Prospectus.

No changes in the share capital of our principal subsidiaries have taken place within the two years preceding to the date of this Prospectus.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years immediately preceding the date of this Prospectus and are or may be material:

- (a) the Reorganization Agreement;
- (b) the Non-competition Agreement, details of which are set out in the section headed “Relationship with Controlling Shareholder – Non-competition Agreement” in this Prospectus;
- (c) a cornerstone investment agreement dated November 23, 2012, entered into between Nanjing Turbine & Electric Machinery (Group) Co., Ltd, our Company and BOCI, pursuant to which Nanjing Turbine & Electric Machinery (Group) Co., Ltd agreed to subscribe for our H Shares in the amount of the Hong Kong dollars equivalent of US dollars 30 million;
- (d) a cornerstone investment agreement dated November 29, 2012, entered into between China Overseas Finance Investment Limited, our Company and BOCI, pursuant to which China Overseas Finance Investment Limited agreed to subscribe for our H Shares in the amount of the Hong Kong dollars equivalent of US dollars 15 million;
- (e) a cornerstone investment agreement dated November 30, 2012, entered into between Xi Lian International Co., Ltd., our Company and BOCI pursuant to which Xi Lian International Co., Ltd. agreed to subscribe for our H Shares in the amount of the Hong Kong dollars equivalent of US dollars 20 million;
- (f) a cornerstone investment agreement dated November 30, 2012, entered into between CSR (Hong Kong) Company Limited, our Company and BOCI pursuant to which CSR (Hong Kong) Company Limited agreed to subscribe for our H Shares in the amount of the Hong Kong dollars equivalent of US dollars 50 million;
- (g) a cornerstone investment agreement dated December 7, 2012, entered into between The People’s Insurance Company (Group) of China Limited, our Company and ABCI, pursuant to which The People’s Insurance Company (Group) of China Limited agreed to subscribe for our H Shares in the amount of the Hong Kong dollars equivalent of US dollars 50 million;

- (h) an assignment agreement dated December 4, 2012 entered into between our Company and CMIC in relation to the assignment of a water supply contract; and
- (i) the Hong Kong Underwriting Agreement.


2. Our intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, our Company had registered the following trademarks which are material in relation to our business:










Trademark	Owner	Place of Registration	Class	Valid Period	Registration Number
	CMEC	PRC	7	From 2001-06-21 to 2021-06-20	1589766
	CMEC	PRC	3	From 1989-12-30 to 2019-12-29	508045
	CMEC	PRC	8	From 1989-12-30 to 2019-12-29	508511
	CMEC	PRC	16	From 1989-12-30 to 2019-12-29	508566
	CMEC	PRC	9	From 1990-01-10 to 2020-01-09	509263
	CMEC	PRC	14	From 1990-01-20 to 2020-01-19	510357
	CMEC	PRC	17	From 1990-01-20 to 2020-01-19	510397
	CMEC	PRC	6	From 1990-01-30 to 2020-01-29	510727
	CMEC	PRC	7	From 1990-06-10 to 2020-06-09	521222





Trademark	Owner	Place of Registration	Class	Valid Period	Registration Number
	CMEC	PRC	11	From 1990-07-10 to 2020-07-09	523567
	CMEC	PRC	7	From 1991-04-10 to 2021-04-09	548372
	CMEC	PRC	11	From 1991-04-10 to 2021-04-09	548386
	CMEC	PRC	7	From 1993-02-28 to 2013-02-27	631984
	CMEC	PRC	6	From 1993-12-21 to 2013-12-20	670602
	CMEC	PRC	6	From 1993-12-21 to 2013-12-20	670644
西麦克					
	CMEC	PRC	6	From 1993-12-21 to 2013-12-20	670646
西麦克					
	CMEC	PRC	7	From 1993-12-28 to 2013-12-27	671369
	CMEC	PRC	6	From 1994-04-07 to 2014-04-06	684561
西迈克					
	CMEC	PRC	6	From 1994-04-07 to 2014-04-06	684562
西迈克					
	CMEC	PRC	14	From 1994-04-21 to 2014-04-20	686851
西迈克					

Trademark	Owner	Place of Registration	Class	Valid Period	Registration Number
	CMEC	PRC	14	From 1994-04-21 to 2014-04-20	686852
	CMEC	PRC	35	From 1994-10-07 to 2014-10-06	769044
	CMEC	PRC	42	From 1994-10-07 to 2014-10-06	769423
	CMEC	PRC	14	From 1995-10-21 to 2015-10-20	785760
	CMEC	PRC	14	From 1995-10-21 to 2015-10-20	785761
	CMEC	PRC	42	From 1996-09-07 to 2016-09-06	870000
	CMEC	PRC	42	From 1996-09-14 to 2016-09-13	871953
	CMEC	PRC	42	From 1996-09-14 to 2016-09-13	871955
	CMEC	PRC	42	From 1996-09-14 to 2016-09-13	871957
	CMEC	PRC	35	From 1996-10-28 to 2016-10-27	891702

Trademark	Owner	Place of Registration	Class	Valid Period	Registration Number
 西迈克	CMEC	PRC	35	From 1996-10-28 to 2016-10-27	891703
 西麦克	CMEC	PRC	35	From 1996-10-28 to 2016-10-27	891704
	CMEC	PRC	37	From 1996-10-28 to 2016-10-27	891866
 西麦克	CMEC	PRC	37	From 1996-11-07 to 2016-11-06	895838
 西迈克	CMEC	PRC	37	From 1996-11-07 to 2016-11-06	895840
	CMEC	PRC	37	From 1996-11-07 to 2016-11-06	895842
	CMEC	PRC	23	From 1996-12-14 to 2016-12-13	913900
	CMEC	PRC	7	From 1996-12-21 to 2016-12-20	918709
	CMEC	PRC	35	From 1997-03-21 to 2017-03-20	967539

Trademark	Owner	Place of Registration	Class	Valid Period	Registration Number
	CMEC	PRC	11	From 1990-06-30 to 2020-10-29	523198
	CMEC	Hong Kong	7, 9	From 2009-07-07 to 2019-07-06	301379340
	CMEC	Hong Kong	35	From 2006-08-24 to 2016-08-23	300707382
	CMEC	Hong Kong	14	From 1989-02-28 to 2020-02-28	1991B2601
	CMEC	United Kingdom	6, 7, 9, 12, 17, 21	From 1993-08-20 to 2017-10-03	1444074
C-MEC	CMEC	Canada	(note 1)	From 1990-02-16 to 2020-02-16	TMA365401
	CMEC	Canada	(note 2)	From 1991-03-08 to 2021-03-08	TMA381194
C-MEC	CMEC	United States	7	From 1990-05-01 to 2020-01-29	1593813
	CMEC	Kingdom of Thailand	35	From 2008-10-17 to 2018-10-16	Bor48564
	CMEC	Republic of Yemen	35	From 2009-11-22 to 2019-07-05	38947
	CMEC	European Union	35	From 2004-06-25 to 2014-06-25	003902103

Trademark	Owner	Place of Registration	Class	Valid Period	Registration Number
	CMEC	Australia	7	From 1990-01-03 to 2017-01-03	526241
	CMEC	Australia	12	From 1990-01-03 to 2017-01-03	526242
	CMEC	France	3, 6, 7, 8, 9, 12	From 1990-02-19 to 2020-02-19	1650341
	CMEC	Germany	3, 6, 7, 8, 9, 12	From 1989-11-16 to 2019-11-16	1183918
	CMEC	Singapore	7	From 1990-05-23 to 2017-05-23	T9003709D
	CMEC	Malaysia	35	From 2004-08-06 to 2014-08-06	04011475
	CMEC	African Intellectual Property Organization	35	From 2006-09-22 to 2016-09-22	55254
	CMEC	Philippines	35	From 2007-09-03 to 2017-09-03	42006009804
	CMEC	Republic of the Union of Myanmar	35	From 2009-02-09 (note 3)	IV/1452/2009

Trademark	Owner	Place of Registration	Class	Valid Period	Registration Number
	CMEC	Laos	35	From 2008-12-10 to 2018-12-10	18525
	CMEC	Vietnam	35	From 2008-11-17 to 2018-11-17	147688
	CMEC	Cambodia	35	From 2009-12-25 to 2019-12-25	KH/34287/10
	CMEC	Turkey	35	From 2010-11-25 to 2020-11-25	201074096

Notes:

1. Canada does not use a classification system for trademarks. Please note that this trademark relates to the following types of wares/goods: oil field equipment and machinery for use in oil exploration; namely drilling equipment, oil well preparation equipment, antijetting apparatus, oil extraction equipment, well strengthening equipment, acidification and fracturing equipment, equipment for increasing production of oil and gas, equipment for separation and treatment of oil, gas and water, equipment for storage and transmission of oil and gas, equipment for underwater drilling and exploration, drill bits, drilling tools, choke manifold, wellhead assemblies, valves, beam pumping units, sucker rods, tricone bits, drilling rig components, slush pumps, slips, elevators, crank, walking beam, gear reducer, gate valves, rock bits, roller bushing and oil extraction tree.
2. Canada does not use a classification system for trademarks. Please note that this trademark relates to the following types of wares/goods: automotive spare parts, brake rotors, brake drums, trailer jacks, hub caps for trailers, filters, automobile regulator relays, brakes, abrasives, abrasive cloth, abrasive paper, flanges, various forgings and castings, standard fasteners, flange type loose-fit expansion connectors, stretching dies, extrusion dies, nonferrous metal extrusion dies, rare metal extrusion dies, ferrous metal extrusion dies, die steels, blocks and tackles, machine tools, lathes, milling machines, drill presses, grinding machines, drilling and milling machines, gear cutting tools, coated cutting tools, cutting tools, carbide tools, machine tool accessories, clamping kits, woodworking machine tools, bench grinders, pumps, drill bits, power tools, electric hoists, bearings, valves, motors, jacks, industrial chains, commutators, generators, planning machines, microscopes, water meters, watt-hour meters, electronic micrometers, micrometers, vernier calipers, gage blocks, projectors, televisions, batteries, grindings, grindstones, hand operated lifting jacks, chain blocks, lever blocks, scraping tools, hand tools, jewelry and wrapping paper.
3. The registration is valid indefinitely, subject to the registration and publication of the trademark caution every three years.

(b) Copyrights

As at the Latest Practicable Date, our Group was the legal and beneficial owner of the following copyrights:

Copyright	Owner	Place of Registration	Valid Period	Registration Number
內燃機拖動發電機組型試驗軟件 v1.0 Mechanical testing software for internal combustion (drag-base) generator v1.0	China Machinery International Engineering Design & Research Institute ⁽¹⁾	PRC	From 2009-03-05 to 2059-12-31	2009SR057890
風力雙饋異步發電機型式試驗數據採集系統 v1.0 Data collection system for asynchronous double-fed wind farm v1.0	China Machinery International Engineering Design & Research Institute ⁽¹⁾	PRC	From 2008-10-23 to 2058-12-31	2009SR057897
大型汽輪發電機型式試驗系統 v1.0 System testing software for large-scale steam turbine generator v1.0	China Machinery International Engineering Design & Research Institute ⁽¹⁾	PRC	From 2008-05-08 to 2058-12-31	2009SR057893
風力雙饋異步發電機型式試驗數據分析系統 v1.0 Data analysis system for asynchronous double-fed wind farm v1.0	China Machinery International Engineering Design & Research Institute ⁽¹⁾	PRC	From 2008-08-07 to 2058-12-31	2009SR057888
電機高壓耐壓測試台測控系統 v1.0 High voltage motor control system testbench v1.0	China Machinery International Engineering Design & Research Institute ⁽¹⁾	PRC	From 2009-08-07 to 2059-12-31	2009SR057891
異步電動機型式試驗軟件 v1.0 Mechanical testing software for asynchronous generator v1.0	China Machinery International Engineering Design & Research Institute ⁽¹⁾	PRC	From 2009-05-01 to 2059-12-31	2009SR057895

Copyright	Owner	Place of Registration	Valid Period	Registration Number
中機國際船用交流無刷同步發電機型式試驗軟件 v1.0 China Machinery International mechanical testing software for marine brushless synchronous AC generator v1.0	China Machinery R&D	PRC	From 2010-04-20 to 2060-12-31	2012SR041260
中機國際直流電機型式試驗軟件 v1.0 China Machinery International direct current mechanical testing software v1.0	China Machinery R&D	PRC	From 2010-04-20 to 2060-12-31	2012SR041256
中機國際同步電機瞬態數據分析軟件 v1.0 China Machinery International transient data analysis software for synchronous motor v1.0	China Machinery R&D	PRC	From 2011-05-10 to 2061-12-31	2012SR041253
中機國際變頻器型式試驗軟件 v1.0 China Machinery International inverter testing software v1.0	China Machinery R&D	PRC	From 2010-04-20 to 2060-12-31	2012SR041248
中機國際永磁同步風力發電機型式試驗數據分析系統 v1.0 China Machinery International mechanical testing data analysis system for permanent magnetic synchronous wind generator v1.0	China Machinery R&D	PRC	From 2011-11-10 to 2061-12-31	2012SR041245

Copyright	Owner	Place of Registration	Valid Period	Registration Number
中機國際永磁同步風力發電機型式試驗數據採集系統 v1.0 China Machinery International mechanical testing data collection system for permanent magnetic synchronous wind generator v1.0	China Machinery R&D	PRC	From 2010-04-20 to 2060-12-31	2012SR041242
中機國際試驗站靜止變頻電源系統 v1.0 China Machinery International static frequency converter power supply system for test station v1.0	China Machinery R&D	PRC	From 2010-12-10 to 2060-12-31	2012SR041261

Note:

(1) The former name of China Machinery R&D before it was converted into a limited liability company.

(c) Domain names

As at the Latest Practicable Date, our Company had registered the following domain names:

Domain name	Registration Date	Expiration Date
www.e-cmic.jp	2006-10-13	2013-10-31
www.cmecjapan.com	2006-05-02	2013-05-02
www.cmec.com	2000-03-21	2014-03-21

D. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Particulars of Directors' and Supervisors' service agreements

Each of our Directors and Supervisors has entered into a service agreement with us on November 10, 2012. Each service agreement is for a term commencing on his/her being elected by the Shareholders' general meetings and ending on the expiration of the term of the first Board of Directors or the first Supervisory Board (as the case may be).

2. Directors' and Supervisors' remuneration

(a) Directors

The aggregate remuneration paid and benefits in kind granted to the Directors for the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 were approximately RMB2.6 million, RMB2.6 million, RMB3.7 million and RMB2.1 million, respectively.

Under the existing arrangements currently in force, the aggregate remuneration payable and benefits in kind granted to the Directors for the year ending December 31, 2012 are estimated to be approximately RMB4.5 million.

No Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

(b) Supervisors

The aggregate remuneration paid and benefits in kind granted to the Supervisors for the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 were approximately RMB265,000, RMB281,000, RMB506,000 and RMB212,000, respectively.

Under the existing arrangements currently in force, the aggregate remuneration payable and benefits in kind granted to the Supervisors for the year ending December 31, 2012 are estimated to be approximately RMB520,000.

No Supervisor has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Supervisor, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

3. Disclosure of interests

(a) Disclosure of the Directors' and Supervisors' interests in the registered capital of associated corporations of our Company

Immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, none of our Directors, Supervisors and chief executive of our Company has any interest and/or short position in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to us and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

(b) Interests and short positions of the substantial shareholders in the Shares and underlying Shares

Save as disclosed in the section headed "Substantial Shareholders" in this Prospectus, our Directors, Supervisors or chief executive are not aware of any other person, not being a Director, Supervisor, or chief executive of our Company, who has an interest or short position in the Shares and underlying Shares of our Company which, once our Shares are listed, would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

4. Disclaimers

- (i) So far as our Directors are aware, none of our Directors, Supervisors or chief executive has any interest and/or short position in the shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to us and the Stock Exchange once our Shares are listed;
- (ii) none of our Directors and the experts referred to under the paragraph headed “Consents of experts” below has any direct or indirect interest in the promotion of any company within our Group, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to, any company within our Group, or are proposed to be acquired or disposed of by or leased to any company within our Group;
- (iii) none of our Directors and the experts referred to under the paragraph headed “Consents of experts” below is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to our business taken as a whole;
- (iv) none of our Directors has any existing or proposed service contracts with any company within our Group, excluding contracts which are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation); and
- (v) none of the experts referred to under the paragraph headed “Consents of experts” below has any shareholding in any member of our Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

E. OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty under the PRC laws and regulations is likely to fall on any company within our Group.

2. Litigation

Except as disclosed in the section titled “Business – Legal Proceedings and Regulatory Compliance” in this Prospectus, as of the Latest Practicable Date, our Group was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this Prospectus.

4. Preliminary expenses

Our estimated preliminary expenses are approximately RMB650,000 and are payable by our Company.

5. Promoters

The promoters of our Company are SINOMACH and China United. Save as disclosed in this Prospectus, within the two years immediately preceding the date of this Prospectus, no cash, security or benefits has been paid, allotted or given, or is proposed to be paid, allotted or given to the promoters named above in connection with the Global Offering or the related transactions described in this Prospectus.

6. Qualifications of experts

The following are the qualifications of the experts which have given their opinion or advice which are contained in, or referred to in, this Prospectus:

Expert	Qualification
BOCI Asia Limited	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
KPMG	Certified public accountants
Jia Yuan Law Offices	Legal advisor on PRC law to our Company

7. Consents of experts

Each of BOCI Asia Limited, KPMG and Jia Yuan Law Offices has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its reports, letters, opinions or summaries of opinions (as the case may be) and the references to its name included herein in the form and context in which they are respectively included.

8. Compliance advisor

Our Company will appoint China Galaxy International Securities (Hong Kong) Co., Limited as our compliance advisor in compliance with Rule 3A.19 of the Listing Rules.

9. Binding effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

10. Exemption from the requirement of a property valuation report

No property valuation report in respect of our Group's property interests is required in reliance upon the exemption provided by section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Bilingual prospectus

The English language and Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

12. Miscellaneous

- (a) (i) Within the two years immediately preceding the date of this Prospectus, no company within our Group has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
 - (ii) within the two years immediately preceding the date of this Prospectus, no share or loan capital of any company in our Group is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) within the two years immediately preceding the date of this Prospectus, no commission, discount, brokerage or any other special terms has been paid or is payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of any company in our Group;
 - (iv) no founder, management or deferred shares of any company in our Group have been issued or agreed to be issued;
 - (v) our Directors confirm that since June 30, 2012 (being the date on which the latest audited consolidated financial statements of our Group was made up), there has been no material adverse change in our financial or trading position or prospects;
 - (vi) none of the equity and debt securities of our company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought. We currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the PRC Sino-Foreign Joint Venture Law;
 - (vii) our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material adverse effect on the financial position of our Company in the 12 months immediately preceding the date of this Prospectus; and
 - (viii) our Company has no outstanding convertible debt securities or debentures.
- (b) No company within our Group is presently listed on any stock exchange or traded on any trading system.
 - (c) All necessary arrangements have been made enabling our Shares to be admitted into CCASS for clearing and settlement.

13. Taxation of holders of H Shares

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, and transfer of the H Shares. The duty is charged at the current rate of HK\$1.00 for every HK\$1,000.00 of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the Application Forms, the written consents referred to in the paragraph headed “Statutory and General Information – Other information – Consents of experts” in Appendix VI to this Prospectus and copies of the material contracts referred to in the paragraph headed “Statutory and General Information – Further information about our business – Summary of the material contracts” in Appendix VI to this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of King & Wood Mallesons at 9th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this Prospectus:

- (1) the Articles of Association;
- (2) the accountants’ report prepared by KPMG, the text of which is set out in Appendix I to this Prospectus;
- (3) the audited financial statements as have been prepared for the companies now comprising our Group for each of the three years ended December 31, 2011 and the six months ended June 30, 2012;
- (4) the report received from KPMG on unaudited pro forma financial information, the text of which is set out in Appendix II to this Prospectus;
- (5) the material contracts referred to in the paragraph headed “Statutory and General Information – Further information about our business – Summary of the material contracts” of Appendix VI to this Prospectus;
- (6) the service contracts with each of the Directors, referred to in the paragraph headed “Statutory and General Information – Further information about Directors, Management and Staff – Particulars of Directors’ and Supervisors’ Service agreements” of Appendix VI to this Prospectus;
- (7) the written consents referred to in the paragraph headed “Statutory and General Information – Other information – Consents of experts” of Appendix VI to this Prospectus;
- (8) the PRC legal opinion issued by Jia Yuan Law Offices, the legal advisors to our Company on the PRC law as to PRC law, in respect of certain aspects of our Group and the property interests of our Group; and
- (9) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translation.



中國機械設備工程股份有限公司
China Machinery Engineering Corporation*