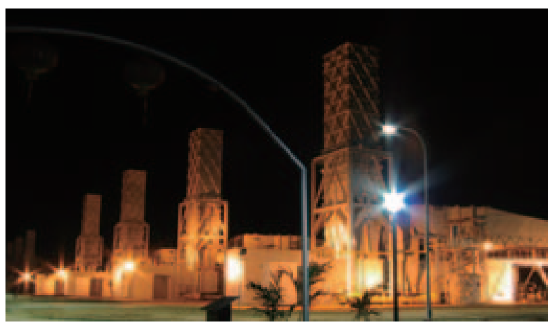
中國機械設備工程股份有限公司

China Machinery Engineering Corporation*

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

Stock Code: 1829

Annual Report 2012



* *For identification purposes only*

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CHAIRMAN'S STATEMENT

Strive to become a world class international engineering contracting and services provider by seizing the opportunities arising from our Listing and promoting innovative development

Dear Shareholders,

On behalf of the Board of China Machinery Engineering Corporation, I hereby present the annual results of the Group for the year ended December 31, 2012.

The global economy remained sluggish during 2012. The global economy recovered at a slow pace and remained in a low level against the backdrop of the worsening European debt crisis and slower growth in emerging economies. The economic growth of China also slowed down due to the persistent downturn in the global economy.

Facing the difficult domestic and international operating environment, we adhered to focusing on innovative and up-to-date strategic development, entrenching our market position and intensifying our production. We expanded our financing services by strengthening risk control and enhancing budget and financial management. With our management enhancement, various operations achieved new breakthroughs.

In 2012, our revenue increased by 3.8% to RMB21,296.1 million as compared to 2011. Profit attributable to Shareholders of the Group increased by 30.7% to RMB1,927.6 million as compared to 2011. Basic earnings per Share increased by 28.9% to RMB0.58 as compared to 2011.

According to the Top 50 Chinese Contractors in Terms of Revenue from Completed Overseas Engineering Business (《2012年我國對外承包工程業務完成營業額前50家企業》) and the Top 50 Chinese Contractors in terms of Newly Signed Overseas Engineering Contract Value (《2012年我國對外承包工程業務新簽合同額前50家企業》) issued by the Ministry of Commerce of the PRC, we ranked seventh in terms of our revenue in 2012, up one place from 2011, and we ranked ninth in terms of our newly signed contract value, up four places from 2011.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

In 2012, our International Engineering Contracting Business grew while maintaining its stability. Our scale of business expanded, profitability maintained rapid growth and revenue reached a record high. We strengthened our capability in managing and controlling aspects such as project design, procurement and construction by adherence to promoting refined management, optimizing project execution procedures and enhancing our subcontracting management model. During the year, our engineering projects won prizes from national and nationwide industry associations for the first time, which highlighted our strength. The EREN2×600MW supercritical coal fired power plant in Turkey was awarded the Luban Prize (overseas project), the highest prize for construction engineering in China. This marked the first time that a coal fired power plant having won the Luban Prize (overseas project). Phase I of Puttalam coal power project in Sri Lanka won the "China Project Management Achievement Award (中國管理項目成就獎)" awarded by the Project Management Research Committee China (中國(雙法)項目管理研究委員會) at the 11th China Congress on Project Management in November 2012.

For our Trading Business, the trading subsidiaries under the Group actively explored business opportunities under the sluggish international trading environment, and sought to rightly position ourselves to establish our core business. We focused our resources on serving major high-end customers, and strengthened, optimized and expanded our representative products in the areas we had the most knowledge.

For our Other Businesses, in 2012, China Machinery R&D not only strengthened its technical skills and improved its core competitiveness, but also actively incorporated into our core business and provided our engineering projects with strong technical support. China Machinery R&D obtained a number of Class A qualifications on thermal power engineering consultation in addition to its existing qualifications, and won the first-class prize of scientific technology awarded by SINOMACH. CMEC Expo actively made advancement and had great achievements once again. It won the award of "2012 Top 10 Chinese Exhibition Project Enterprises (2012年度中國十佳品牌展覽工程企業)" awarded by the China Convention & Exhibition Society.

CORPORATE GOVERNANCE

On December 21, 2012, our H Shares were successfully listed in Hong Kong. We recorded an excellent result of approximately 57.88 times oversubscription in the Hong Kong capital market and was honored as the "King of Oversubscription" in the Hong Kong stock market 2012. The successful Listing of our H Shares in Hong Kong marked another important milestone for the development of the Group. Upon Listing in Hong Kong, our capital base for future development was further strengthened, which widened our development capacity.

We had strictly complied with the Listing Rules upon Listing. We cautiously utilized all of the proceeds, aiming at maximizing Shareholders' interests and maintaining stable growth in the overall value of CMEC. We established a comprehensive corporate governance system and systems for internal control, risk management and crisis management. We continued to improve our corporate governance and regulate our operations.

CHAIRMAN'S STATEMENT

OUTLOOK

Looking forward, the global landscape will continue to change with far-reaching and complex effects in 2013. The global economy will enter a period of great transition. A general recovery is far from assured. There are still plenty of risks facing the global financial sector. Protectionism in various forms is on the increase. Economic development still has a great mission and a long journey ahead. Based on the trend of development of the international market and our own fortes, the Group will develop our own original strategic ideas. We will consolidate internal and external resources and adopt effective measures to ensure safety production. We will continue to transform our organizational structure by enhancing corporate management as well as strengthening the competitiveness of our core business, aiming at achieving better results in various areas at a new starting point.

2013 marks a new beginning for CMEC upon our Listing. We take the opportunities arising from Listing, aiming at developing our strategies and focusing on management enhancement. We strongly enhance market exploration, innovate operating model, control risk effectively and strengthen our competitiveness in core businesses while remain in compliance with the Listing Rules. CMEC strives to become a world-class international engineering contracting and services provider.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our Shareholders and people in various sectors for their concern and support for CMEC. I would also like to express my heartfelt gratitude to all employees within the Group for their diligent services during the past year.

YANG Wansheng
Chairman

Beijing, the PRC
April 17, 2013

MESSAGE FROM THE PRESIDENT

Dear Shareholders,

2012 marked an extraordinary milestone in the development history of the Group. Facing the challenging economic environment within and outside the PRC, all staff within the Group had worked diligently in accordance with the strategies of the Board, thereby allowing various operations of the Group achieve excellent results.

INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

The global economy was sluggish in 2012. However, the slow growth of the global economy had limited effect on the infrastructure projects in developing countries. During the year, the Group continued to focus on EPC projects, especially power projects. The revenue generated from our International Engineering Contracting Business increased by 9.9% to RMB13,244.7 million as compared to 2011, representing approximately 62.2% of the total revenue of the Group for 2012. The gross profit amounted to RMB2,772.4 million, representing 74.2% of the gross profit of the Group. During the year, the newly effective contract value of our International Engineering Contracting Business increased by 96.0% to US$4,364.7 million as compared to 2011.

As of December 31, 2012, our total backlog of International Engineering Contracting Business amounted to US$7,058.4 million. The backlog of our Power sector remained as the Core Sector of our International Engineering Contracting Business, accounting for approximately 87.9% of the total backlog. The backlog of our Transportation and telecommunications sectors accounted for approximately 4.1% and 1.5%, respectively, of the total backlog of our International Engineering Contracting Business. During the year, while consolidating our market share in the traditional market, the Group strengthened the new market expansion through well-planned, well-organized and systematic development. At present, the marketing network of the International Engineering Contracting Business of the Group has reached more than 60 countries and regions. As of December 31, 2012, our signed contracts pending to be effective amounted to US$12.1 billion.

TRADING BUSINESS

As of the end of 2012, in order to commence our international trading business, the Group established an extensive sales and marketing network in more than 150 countries and regions. We provided one-stop services and solutions for domestic and overseas purchasers and suppliers who wished to source or sell various products within or outside the PRC. We also exported and imported as well as domestically trade complete sets of plant and equipment and various machinery, electrical and instrumental products for customers in the PRC and overseas through our subsidiaries and overseas branch offices.

MESSAGE FROM THE PRESIDENT

In 2012, our Trading Business actively explored opportunities under the slow global trading environment. The revenue generated from our Trading Business amounted to approximately RMB7,163.1 million, representing approximately 33.6% of our total revenue for 2012. Gross profit increased by approximately 33.3% to approximately RMB581.5 million as compared to 2011.

During the year, our trading subsidiaries sought to rightly position ourselves in the market to establish our core business. We focused our resources on serving major high-end customers, and strengthened, optimized and expanded our representative products in the area we had the most knowledge. We also penetrated into overseas target markets, actively explored new areas for business growth and continuously strived to develop new business models.

OTHER BUSINESSES

Our Other Businesses include the provision of logistics services, exhibitions services, tendering agency services, and other services (including the export-import agency services and design services), and conducting strategic equity investment.

As of December 31, 2012, the revenue generated from our Other Businesses increased by approximately 14.8% to approximately RMB888.3 million as compared to 2011, representing approximately 4.2% of our total revenue for 2012. Gross profit increased by approximately 22.8% to approximately RMB337.6 million as compared to 2011.

SAFETY PRODUCTION

In 2012, we faced challenges in overseas safety work as we implemented various projects across many regions. All staff across the Group dedicated much attention to safety production and strictly implemented safety measures. During the year, the Group revised and published the "Comprehensive Contingency Plan on Accidents of Production Safety and Emergencies (《生產安全事故及突發事件綜合應急預案》)" and increased our efforts on on-site safety management. Our management led teams to supervise and inspect work safety in high-risk regions. We also held work safety trainings and experience-sharing sessions, focusing on safety production in different aspects. There was no general and material safety production accident within the Group throughout 2012.

ENTRENCHING OUR MARKET POSITION AND ENHANCING OUR BUSINESS

In 2012, in view of the domestic and overseas economic situation, our management resolved that the International Engineering Contracting Business should focus on turning key projects into becoming effective and signing key projects on an ongoing basis, whilst the Trading Business should focus on strengthening its risk control, creating new business paradigms, nurturing new areas for business growth as well as improving its profitability. A synergistic and unified working system for our business divisions, related functional departments and management was established by realizing operational goals upon annual and interim work meetings, quarterly business operation meetings as well as monthly operational analysis meetings. This provided a strong base for the long-term development of the Group.

MESSAGE FROM THE PRESIDENT

DEVELOPMENT STRATEGIES

Looking forward, the global and domestic economies will remain in a tough situation in 2013 and abound with opportunities and challenges. The Group will formulate our annual strategy and design orderly, effective and practical implementation measures based on the trend of development of the international market and our own strengths.

In respect of the International Engineering Contracting Business, we will strictly adhere to the national strategy of "going out" and fully leverage national policies to grasp any opportunities when they arise. We will actively contract projects in accordance with our strategic plans and execute projects with high quality. In respect of the Trading Business, we will further improve the structure of trading subsidiaries, actively explore their operation in developing countries, seek for new areas for business growth, make gradual progress of industrialization of the Trading Business, and establish a high standard management system for the Trading Business. In respect of the Other Business, we will strengthen the development of relevant services and businesses, as well as enhancing the professionalism of various services and businesses. We will actively explore overseas markets, and strengthen the internal cooperation and synergy between business segments and the core business. Meanwhile, we will fully utilize external resources to conduct our core business, and adopt effective measures to ensure safety production. We will combine the regulated management and management enhancement measures so as to further strengthen our management system.

On December 21, 2012, the Company successfully listed in Hong Kong and was honored as the "King of oversubscription" in the Hong Kong stock market in 2012. The financing channels of the Group were expanded after our successful Listing on the Hong Kong bourse, which also provided the Group with more business opportunities. Our management will actively monitor risk exposures, improve our production and operation, enhance development quality, improve capital management and enhance management standard in accordance with our development strategies. Adhering to our "people-oriented, innovative, competitive, cooperative, faithful, respectful and harmonious culture", we strive to become a leading international engineering contracting and services provider, and provide greater returns to our Shareholders.

Zhang Chun
Executive Director and President

Beijing, the PRC
April 22, 2013

COMPANY PROFILE

The Company was established in 1978 and was the first state-owned industrial and trading enterprise in the PRC. The Company is a subsidiary controlled by SINOMACH. The Company was listed on the Main Board of the Stock Exchange on December 21, 2012 at an issue price of HK$5.4 per H Share. As at December 31, 2012, the Company had a total of 908,270,000 H Shares and 3,217,430,000 Domestic Shares issued.

Principal activities: The Company is a leading international engineering contracting and services provider 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. The Company also conducts the Trading Business and Other Businesses.

Strategic objects: To maintain its success to date and to achieve future growth, the Company aspires and endeavours to entrench its leading position in the power sector, enlarge its market share in the transportation and telecommunications sectors as well as other non-Core Sectors and countries for the International Engineering Contracting Business, and enlarge its market share in the Trading Business. The Company consolidates its strengths through its existing market leading position, diversified and internationalized operations, extensive worldwide business networks, professional and experienced business teams with deep industry knowledge, efficient fund usage and management innovation.

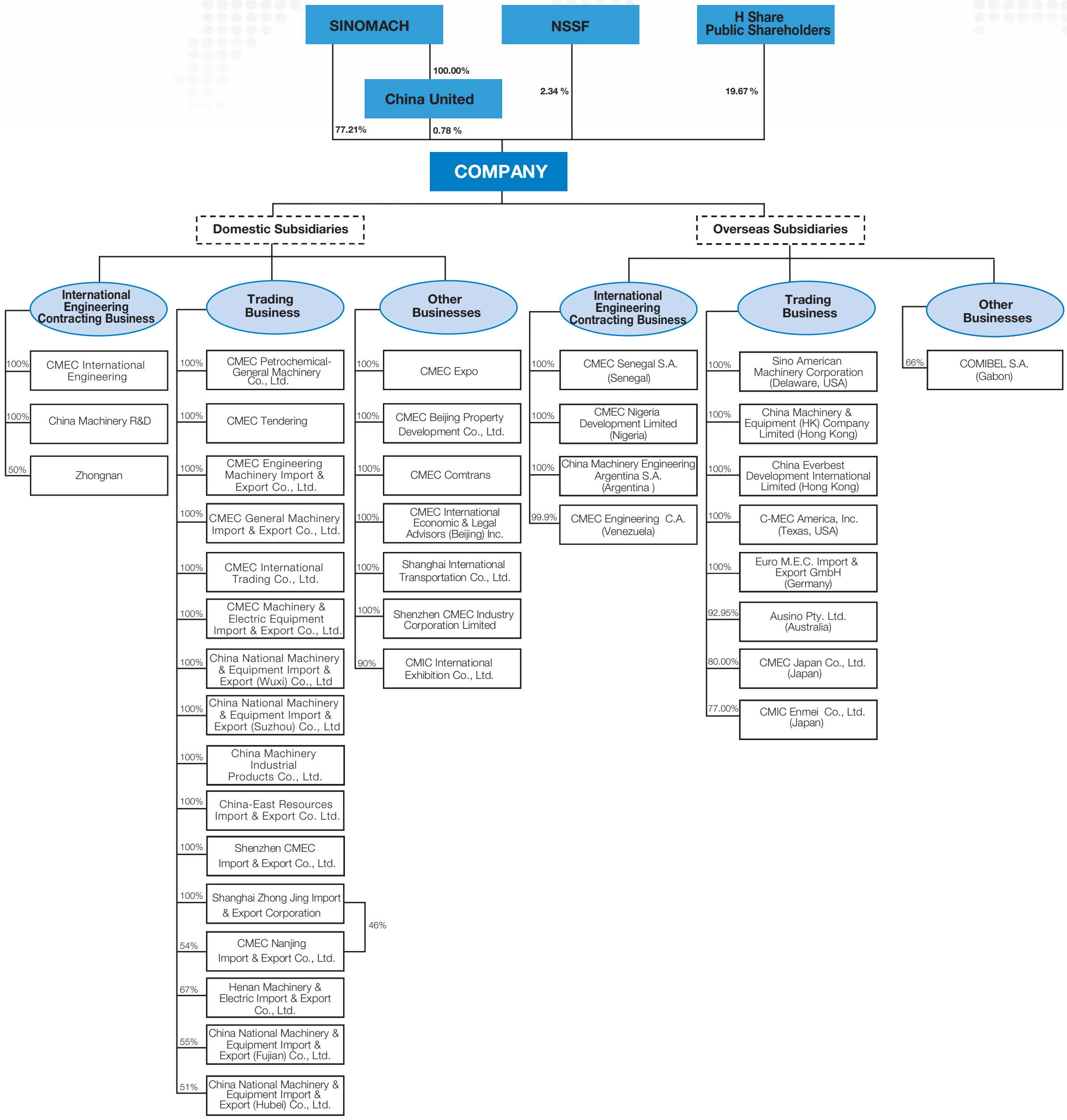
International Engineering Contracting Business: With over 30 years of experience in the International Engineering Contracting Business, the Company is able to provide project owners with one-stop customized and integrated turnkey solutions and services to manage and implement the engineering contracting projects, especially in developing countries, and also undertakes engineering contracting projects in more than 46 countries, primarily in Asia and Africa. Power, transportation and telecommunications sectors are the Company's Core Sectors. The Company is also engaged in the non-Core Sectors, such as water supply and treatment projects, building and construction projects, manufacturing and processing plant projects and mining and resources exploitation projects.

Trading Business: The Company conducts the Trading Business through the sales and marketing network which covers over 150 countries and regions. The 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.

Other Businesses: To a lesser extent, the Company is involved in the Other Businesses that provide logistics services, exhibition services, tendering agency services and other services (including design services and export-import agency services).

COMPANY PROFILE

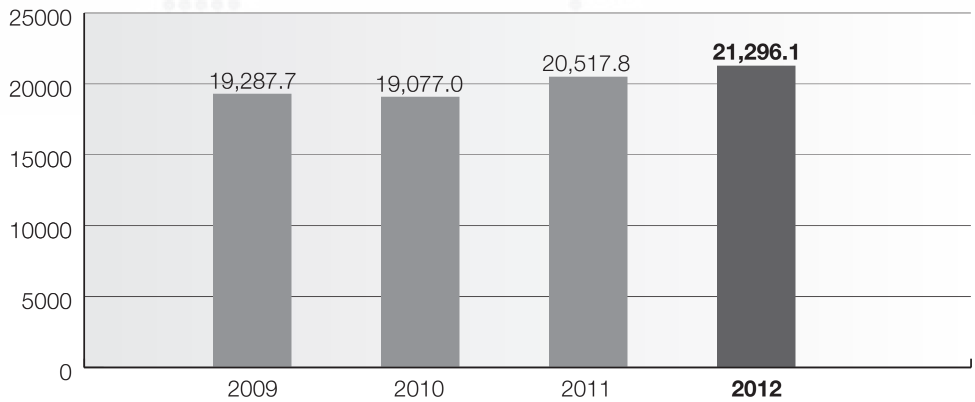
Corporate Structure: as at December 31, 2012, the Company's corporate structure was as follows:



KEY OPERATING AND FINANCIAL DATA

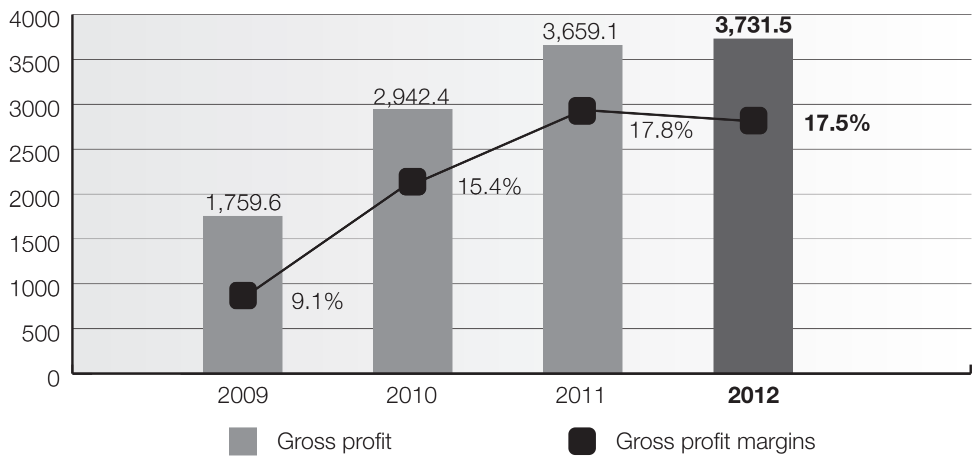
1. REVENUE

Unit: RMB million



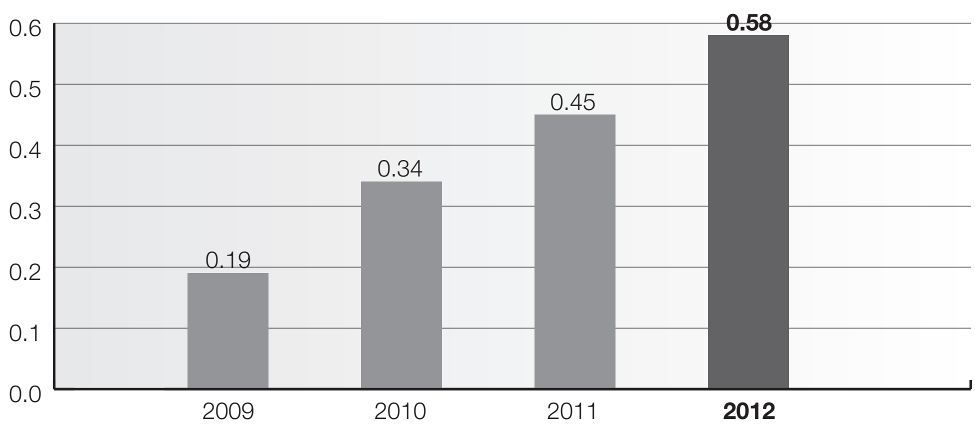
2. GROSS PROFIT AND GROSS PROFIT MARGINS

Unit: RMB million



3. BASIC EARNINGS PER SHARE

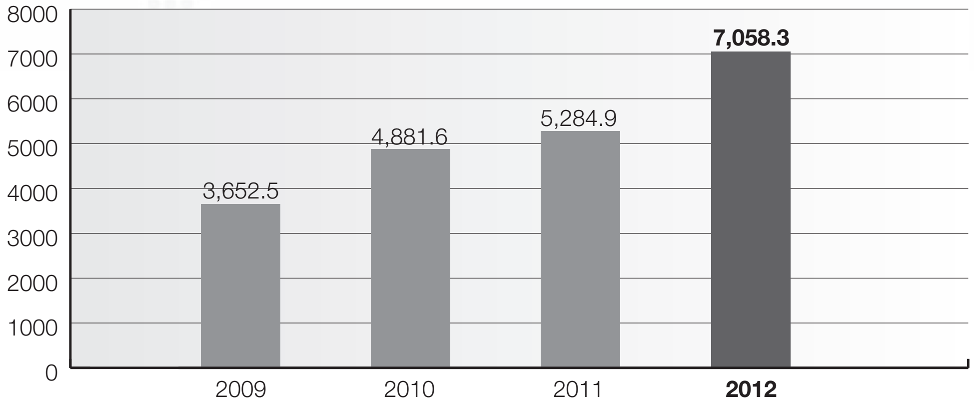
Unit: RMB



KEY OPERATING AND FINANCIAL DATA

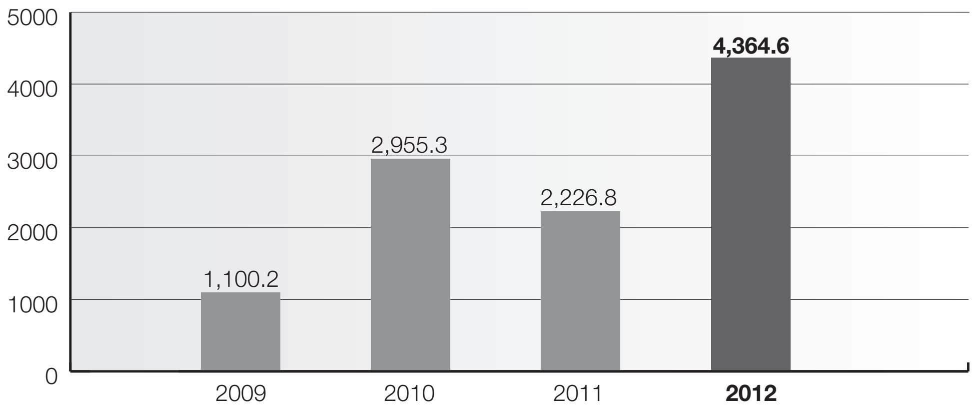
4. BACKLOG FOR THE INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Unit: US$ million



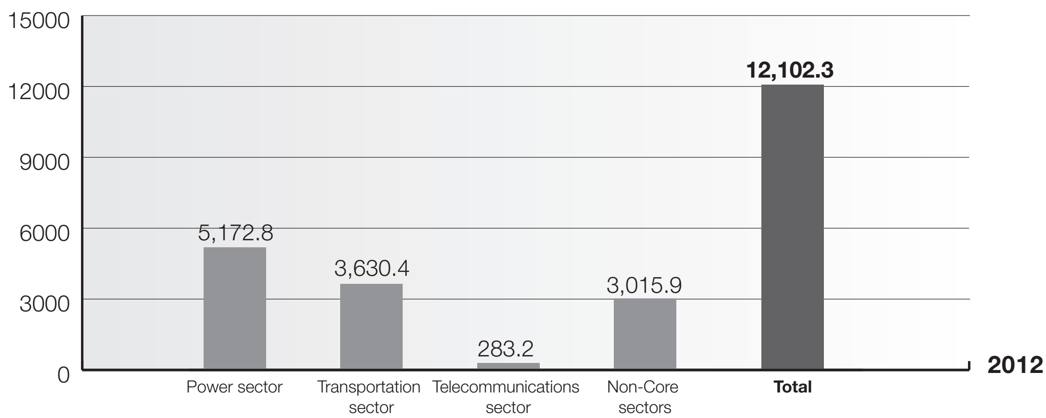
5. NEWLY EFFECTIVE CONTRACT VALUE FOR THE INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Unit: US$ million



6. SIGNED CONTRACTS PENDING TO BE EFFECTIVE FOR THE INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Unit: US$ million



FINANCIAL HIGHLIGHTS

	Year ended December 31,			
	2012	2011	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**21,296,063**	20,517,769	19,077,015	19,287,696
Gross profit	**3,731,510**	3,659,031	2,942,373	1,759,611
Other revenue and other income/(expenses), net	**22,115**	6,637	9,166	(12,053)
Operating expenses	**(1,690,383)**	(1,521,026)	(1,416,200)	(1,189,516)
Profit from operations	**2,063,242**	2,144,642	1,535,339	558,042
Profit before taxation	**2,615,878**	1,987,369	1,561,417	834,669
Income tax	**(687,716)**	(515,026)	(429,248)	(224,520)
Profit for the year	**1,928,162**	1,472,343	1,132,169	610,149
Total other comprehensive income	**(3,720)**	1,235	3,042	(270)
Total comprehensive income for the year	**1,924,442**	1,473,578	1,135,211	609,879
Profit attribute to:				
– Shareholders of the Company	**1,927,689**	1,474,893	1,136,475	613,600
– Non-controlling interests	**473**	(2,550)	(4,306)	(3,451)
Total comprehensive income attributable to:				
– Shareholders of the Company	**1,925,325**	1,475,096	1,137,945	613,647
– Non-controlling interests	**(883)**	(1,518)	(2,734)	(3,768)
Basic and diluted earnings per share (expressed in RMB per share)	**0.58**	0.45	0.34	0.19
Total non-current assets	**6,833,778**	7,277,172	6,768,437	6,841,762
Total current assets	**27,936,051**	19,331,069	18,619,812	13,037,629
Total assets	**34,769,829**	26,608,241	25,388,249	19,879,391
Total non-current liabilities	**581,888**	737,109	1,976,772	2,372,515
Total current liabilities	**24,270,518**	20,497,237	19,446,465	14,486,335
Total liabilities	**24,852,406**	21,234,346	21,423,237	16,858,850
Equity attributable to shareholders of the Company	**9,920,341**	5,379,736	3,969,407	3,022,038
Non-controlling interests	**(2,918)**	(5,841)	(4,395)	(1,497)
Total equity	**9,917,423**	5,373,895	3,965,012	3,020,541
Total equity and liabilities	**34,769,829**	26,608,241	25,388,249	19,879,391

Note:

The financial information of the Group for the years ended December 31, 2009, 2010 and 2011 was extracted from Appendix I to the Prospectus, which also set forth the details of the basis of presentation of the audited consolidated financial statements. The financial information of the Group for the year ended December 31, 2012 is set forth on pages 115 to 213, and is presented on the basis set out in note 2(b) to the audited consolidated financial statements.

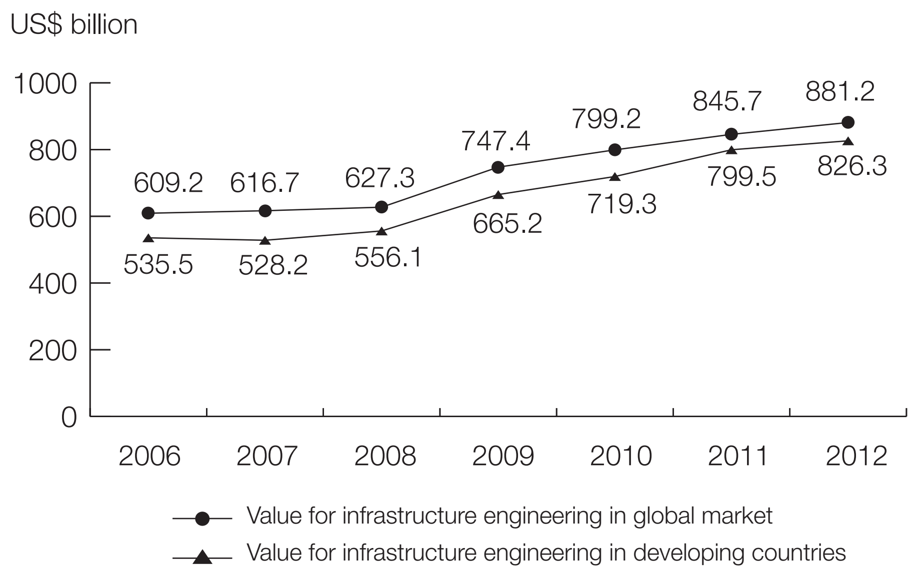
MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

In 2012, the global market experienced fluctuations and volatility. A trend of slow global economic growth persisted due to factors such as the European sovereign debt crisis, the weak economic recovery in the United States and the slowdown in the growth of the emerging economies. The economic and social development in China displayed a trend of stable growth but risks and challenges still lay ahead.

For our International Engineering Contracting Business, the trend of slow global economic growth has minimal impact on the infrastructure engineering projects of the developing countries because these projects are usually funded by the local governments. 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. Total new contract value of infrastructure engineering projects for the developing countries grew faster than that for the global market from 2006 to 2012 at a CAGR of approximately 7.5%. 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 2012



Note:

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

Source: Ipsos

MANAGEMENT DISCUSSION AND ANALYSIS

According to Ipsos, Chinese contractors are well-positioned in the international infrastructure engineering contracting market. In addition, with strong financial support from the Chinese government, Chinese contractors typically prefer to invest in the 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. In 2012, the new contract value in China accounted for approximately 17.8% of the total value of infrastructure engineering projects in the global market. Chinese contractors were gradually moving into the European and American markets over the past decade. The following table sets forth the new contract value of the Chinese contractors in terms of types of international infrastructure engineering projects in the global market in 2012.

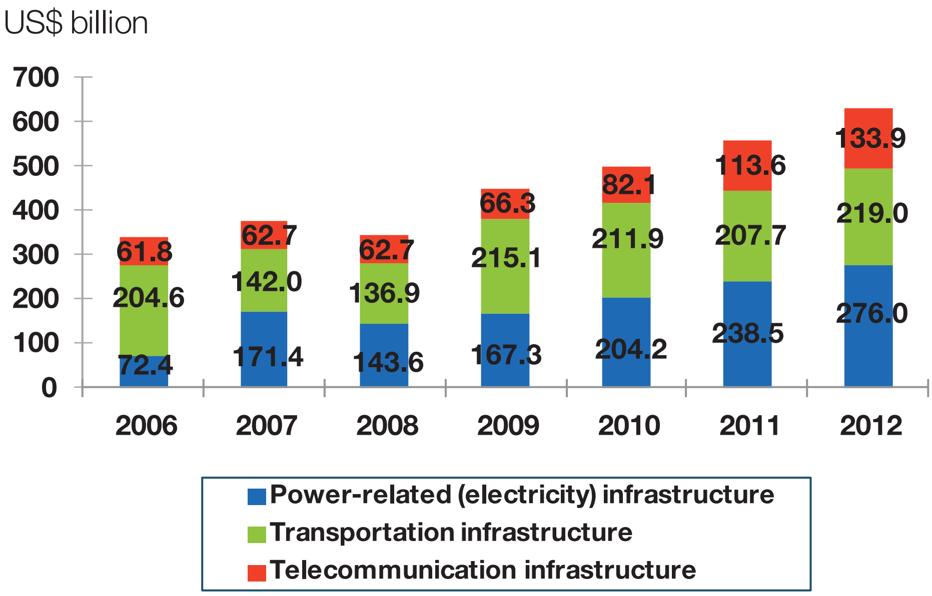
Rank	**Type of international infrastructure engineering and construction**	**New Contract Value**	**Value Contribution**
		(US$ billion)	(%)
1	Power	35.1	22.5
2	Housing construction	30.6	19.5
3	Transportation	30.3	19.3
4	Petrochemical	20.1	12.9
5	Telecommunications	15.8	10.1
6	Water and sewage	6.4	4.1
7	Manufacturing	5.5	3.5
8	Mining and metals	1.8	1.1
9	Environment protection	0.5	0.3
10	Others	10.5	6.7
	Total	156.6	100.0

Source: Ipsos

MANAGEMENT DISCUSSION AND ANALYSIS

The total new contract value of infrastructure engineering projects in the developing countries was approximately US$826.3 billion in 2012. New contract value of power-related, transportation and telecommunications projects together accounted for approximately 76.1% of the total new contract value in 2012, of which power-related, transportation and telecommunications projects each accounted for approximately 33.4%, 26.5% and 16.2% of the total value, respectively. The new contract value of power-related infrastructure engineering projects displayed the fastest growth among the three types of projects at a CAGR of approximately 25.0% from 2006 to 2012, having reached approximately US$276.0 billion in 2012. The new contract value of transportation infrastructure engineering projects in the developing countries displayed the slowest growth among the three types of projects at a CAGR of approximately 1.1% from 2006 to 2012, having reached US$219.0 billion in 2012. The following chart shows the new contract value of infrastructure engineering projects by infrastructure types in the developing countries for the periods specified.

New Contract Value of Infrastructure Engineering Projects[(1)] by Infrastructure Types in Developing Countries from 2006 to 2012

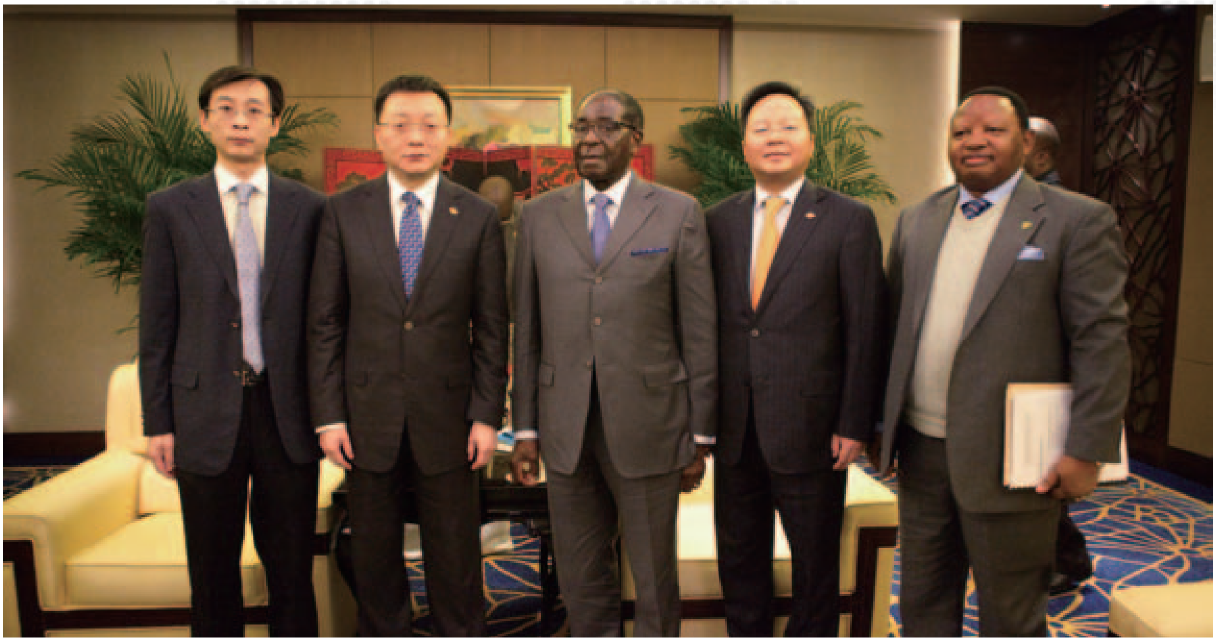


Note:

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

Source: Ipsos

MANAGEMENT DISCUSSION AND ANALYSIS



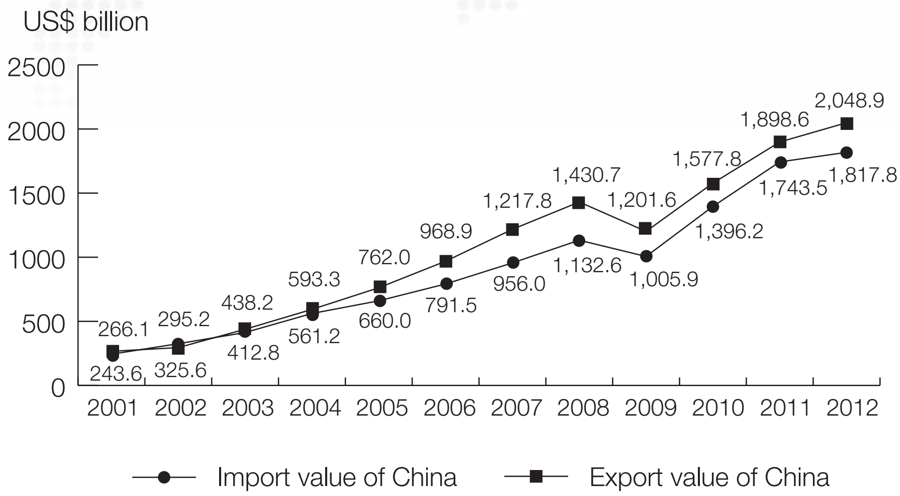
According to Ipsos, the global trend of continuous improvement on people's livelihood and public infrastructure, increasing government investment in residential construction in the developing countries and regional governments' fiscal stimulus in response to the European sovereign debt crisis, will boost the demand for infrastructure engineering in the global market. Furthermore, increasing urbanization will continue to provide room for market growth in the long-run. It is expected that the world's urban population will reach approximately 6.3 billion by 2050. In particular, strong economic growth in the developing countries will accelerate the pace of new construction in these countries.

According to the statistics released by the Ministry of Commerce, namely, the Top 50 Chinese Contractors in Terms of Revenue from Completed Overseas Engineering Business (《2012年我國對外承包工程業務完成營業額前50家企業》) and the Top 50 Chinese Contractors in terms of Newly Signed Overseas Engineering Contract Value (《2012年我國對外承包工程業務新簽合同額前50家企業》), we ranked seventh in terms of our revenue in 2012, up one place from 2011, and we ranked ninth in terms of our newly signed contract value, up four places from 2011. According to Ipsos, our Company ranked fourth among the Chinese contractors in terms of revenue from international power-related projects in the global market in 2012.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Import and Export Value of China to Global Trading from 2001 to 2012



Sources: China statistics yearbook 2012; Ipsos

China's international trade value slowed down in 2012 to approximately 6.2%, compared to approximately 22.5% in 2011. Slowdown in trade was mainly attributable to a deepening European sovereign debt crisis and a sluggish world economy which caused demand in the global market to slump. In particular, China's trade with Europe, its biggest trade partner, declined approximately 3.7% year-on-year in 2012. The United States took over Europe as the biggest buyer of China's export in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

II. BUSINESS OVERVIEW

A. International Engineering Contracting Business

We are an international engineering contracting and services provider with a primary focus on EPC projects and particular expertise in the power sector. Our International Engineering Contracting Business is one of the traditional core business of the Company, which represents approximately 62.2% of the Company's total revenue in 2012.

Details of the International Engineering Contracting Business for the year ended December 31, 2012, as compared to those for the year ended December 31, 2011, are set out in the table below:

Unit: RMB million

		2012	**% of Total**	2011	Year-on-year Growth
Revenue	Power	**10,047.3**	**75.9%**	9,569.4	5.0%
	Transportation	**1,202.1**	**9.1%**	1,104.4	8.8%
	Telecommunications	**733.9**	**5.5%**	2.3	>100%
	Non-Core Sectors	**1,261.4**	**9.5%**	1,379.1	-8.5%
	Total	**13,244.7**	**100%**	12,055.2	9.9%
Gross profit	Power	**2,437.7**	**87.9%**	2,603.8	-6.4%
	Transportation	**78.4**	**2.8%**	77.7	0.9%
	Telecommunications	**64.7**	**2.3%**	0.3	>100%
	Non-Core Sectors	**191.6**	**7.0%**	233.7	-18.0%
	Total	**2,772.4**	**100%**	2,915.5	-4.9%

MANAGEMENT DISCUSSION AND ANALYSIS

Unit: US$ million

		2012	% of Total	2011	Year-on-year Growth
Backlog	Power	**6,205.6**	**87.9%**	4,161.8	49.1%
	Transportation	**287.5**	**4.1%**	468.8	-38.7%
	Telecommunications	**105.3**	**1.5%**	210.6	-50.0%
	Non-Core Sectors	**460.0**	**6.5%**	443.7	3.7%
	Total	**7,058.4**	**100%**	5,284.9	33.6%
Newly effective contract value	Power	**4,126.8**	**94.4%**	1,582.8	>100%
	Transportation	**9.0**	**0.2%**	406.8	-97.8%
	Telecommunications	**11.4**	**0.3%**	209.0	-94.5%
	Non-Core Sectors	**217.5**	**5.1%**	28.2	>100%
	Total	**4,364.7**	**100%**	2,226.8	96.0%
Signed contracts pending to be effective	Power	**5,172.8**	**42.7%**	6,735.0	-23.2%
	Transportation	**3,630.4**	**30.1%**	2,712.3	33.8%
	Telecommunications	**283.2**	**2.3%**	99.9	183.5%
	Non-core Sectors	**3,015.9**	**24.9%**	2,911.8	3.6%
	Total	**12,102.3**	**100%**	12,459.0	-2.9%

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 in 2012:

	2012
Power	**12**
Transportation	**1**
Telecommunication	**–**
Non-Core Sectors	**5**
Total	**18**

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth a breakdown of the international engineering contracting projects that were ongoing as at December 31, 2012, in the power, transportation and telecommunications sectors and the non-Core Sectors:

	2012
Power	34
Transportation	9
Telecommunication	3
Non-Core Sectors	11
Total	**57**

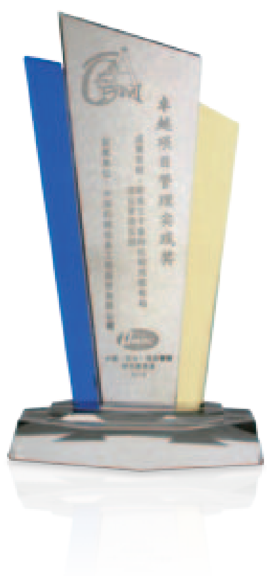
As of December 31, 2012, our engineering contracting projects were undertaken in more than 46 countries over the world, primarily in Asia and Africa. The following map indicates the locations of our engineering contracting projects from 2009 to 2012:

In 2012, our International Engineering Contracting Business continued to grow while maintaining its overall stability. Our scale of business expanded, profitability maintained at a higher level and new effective contracts reached a record high. Meanwhile, we strengthened our capability in managing and controlling aspects such as project design, procurement and construction by adherence to promoting refined management, optimizing project execution procedures and enhancing our subcontracting management model.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Commendable Project Performance

In 2012, our engineering contracting projects won prizes from national and nationwide industry associations for the first time and received commendation from governments of the countries where our projects locate, which highlighted our strength and enhanced our brand recognition. The supercritical coal fired power plant in Turkey was awarded the Luban Prize (overseas project), the highest prize for construction engineering in China. This marked the first time that a coal fired power plant having won the Luban Prize (overseas project). Phase I of Puttalam coal power project in Sri Lanka won the "China Project Management Achievement Award" awarded by the Project Management Research Committee China (中國（雙法）項目管理研究委員會) at the 11th China Congress on Project Management in November 2012. The president of Equatorial Guinea, attended the completion ceremony for the national electric power dispatching center project in Equatorial Guinea and presented medals of honors to SINOMACH and our Company in recognition and appreciation of our outstanding contribution to the economic growth of Equatorial Guinea. In 2012, we successfully completed various engineering contracting projects, including the receipt of the completion certificate for several projects such as the highway reconstruction and asphalt paving project in the Republic of Congo and the alkali processing plant project in Turkey.



MANAGEMENT DISCUSSION AND ANALYSIS

2. Breakthrough in Becoming Effective of Projects

At the beginning of 2012, we analyzed each signed projects pending to be effective and identified a group of key projects to procure their becoming effective. Bottlenecks of those key projects were identified and overcome by means of our concerted efforts under the collaboration and interaction among our management, functional departments and business departments. Meanwhile, we further improved the business compatibility mechanism (業務對接機制) with the financial and insurance institutions by holding business compatibility conferences with China Export & Credit Insurance Corporation ("**Sinosure**") and the Export-Import Bank of China to facilitate the signing and becoming effective of related projects. A group of key projects came into effect on schedule with the volume of projects becoming effective hitting a record high through the concerted efforts of the Company. For instance, the construction of the Salah Al-Din power plant project in Iraq was officially commenced, which had a power unit with an installed capacity of 630,000 kW, being the largest power unit in Iraq thus far. The Serbia power plant project (Phase I) became effective successfully, which was another significant breakthrough in the Eastern European market since our presence in Belarus. Our 2.5G network expansion and 3G mobile network construction project in Bangladesh led the country into a brand new information era.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Continued Deepening of Project Origination

In 2012, while consolidating our market share in the traditional market, we strengthened the guidance and support of new market expansion through well-planned, well-organized and systematic project origination. The sales and marketing network of our International Engineering Contracting Business has reached more than 60 countries and regions. Our business divisions proactively participated in competitive bidding projects and were successful.

In 2012, our newly signed projects with a contract value of more than US$100 million each included:

- a railway project of US$990 million in Ghana
- a power plant project of US$950 million in Ukraine
- a power transmission and transformation station project of US$337 million in Soyo, Luanda of Angola
- a power station extension project of US$185 million in Kazakhstan
- a power station for oil refinery project of US$160 million in Tema, Ghana
- a power plant project of US$152 million in Chad; and
- a national infra-network project (phase II) of US$133 million in Bangladesh.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Remarkable Success in Safety Management of Project Works

In 2012, we faced challenges in overseas safety work as we implemented various projects across many regions. In view of this, our management dedicated much attention and priority to work safety. During the year, we revised and published the "Comprehensive Contingency Plan on Accidents of Production Safety and Emergencies (《生產安全事故及突發事件綜合應急預案》)" and increased our efforts on on-site safety management. 11 specialised safety management officers were newly assigned on site for projects in countries such as Venezuela, Belarus and Iraq. Our management also led teams to supervise and inspect work safety in new regions and high-risk regions. We also held work safety trainings and experience-sharing sessions to enhance the analytical skills of the safety management officers in respect of accidents and day-to-day management skills. In 2012, there was no general and more severe work safety accident.

5. Strengthened Capability in Project Engineering Technology

In 2012, we completed the acquisition of 50% equity interest in Zhongnan to strengthen our capability in engineering technology. Meanwhile, we also established a professional team specialised in project origination of municipal environmental protection and civil engineering projects through the technical service platform of China Machinery R&D. China Machinery R&D made gradual progress to undertake small-sized power generation project and 220KV (and below) power transmission and transformation projects.

6. Heightened Project Integration Capability

We heightened our competitive edge by establishing strategic alliance with large and medium-sized equipment manufacturers. In 2012, we entered into strategic cooperation agreements with three major domestic suppliers.

MANAGEMENT DISCUSSION AND ANALYSIS

B. Trading Business

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 and domestic 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.

In 2012, our trading subsidiaries actively and continuously sought to rightly position ourselves in the market and establishing our core business. We focused our resources on serving major high-end customers, and strengthened, optimized and expanded our representative products in the areas we had the most knowledge. In particular, 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) penetrated into overseas target markets and developed its international market, such as Japan and Singapore. At the same time, our Company strived to seek new areas for growth. We promoted the concept of establishing an overseas market for machinery equipment of China and are dedicated to exploring new business paradigms and development models for our Trading Business.

Details of our Trading Business for the year ended December 31, 2012, as compared to those for the year ended December 31, 2011 are set out in the table below:

Unit: RMB million

		2012	**% of Total**	2011	Year-on-year Growth
Revenue	International trade	**5,854.4**	**81.7%**	5,209.9	12.4%
	Domestic trade	**1,308.7**	**18.3%**	2,478.7	-47.2%
	Total	**7,163.1**	**100%**	7,688.6	-6.8%
Gross profit	International trade	**472.6**	**81.3%**	312.7	51.1%
	Domestic trade	**108.9**	**18.7%**	123.4	-11.8%
	Total	**581.5**	**100%**	436.1	33.3%

MANAGEMENT DISCUSSION AND ANALYSIS

C. Other Businesses

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 strategic equity investment.

In 2012, China Machinery R&D, which is engaged in the design services, not only strengthened its technical skills and improved its core competitiveness, but also provided our engineering contracting projects with strong technical support. China Machinery R&D obtained a number of Class A qualifications on thermal power engineering consultation in addition to its existing qualifications, and won the first-class prize of scientific technology awarded by SINOMACH. Revenue and profit of CMEC Comtrans, which is engaged in the logistics services, maintained a stable growth. CMEC Expo , which is engaged in the exhibition services, continued with its excellent performance while making great advancement, and won the award of "2012 Top 10 Chinese Exhibition Project Enterprises (2012年度中國十佳品牌展覽工程企業)" awarded by the China Convention & Exhibition Society. In addition, our tendering services maintained stable development through exploration into new business areas despite the difficulties resulting from the drop of tendering agency business for wind power projects.

MANAGEMENT DISCUSSION AND ANALYSIS

Details of our Other Businesses for the year ended December 31, 2012, as compared to those for the year ended December 31, 2011 are set out in the table below:

Unit: RMB million

		2012	**% of Total**	2011	Year-on-year Growth
Revenue	Logistics services	**284.2**	**32.0%**	192.0	48.0%
	Exhibition services	**217.4**	**24.5%**	199.1	9.2%
	Tendering agency services	**29.0**	**3.3%**	42.6	-31.9%
	Export-import agency services	**61.7**	**6.9%**	75.2	-18.0%
	Design services	**239.3**	**26.9%**	233.7	2.4%
	Other	**56.7**	**6.4%**	31.4	80.6%
	Total	**888.3**	**100%**	774.0	14.8%
Gross profit	Total	**377.6**	**100%**	307.5	22.8%

D. Entrenching Our Market Position and Innovating Our Business

At the beginning of 2012, in view of the domestic and overseas economic situation, our management resolved that the International Engineering Contracting Business should focus on turning key projects into becoming effective and signing key projects on an ongoing basis in the first and second half of the year, respectively, whilst the Trading Business should focus on strengthening its risk control, creating new business paradigms, nurturing new areas for business growth as well as improving its profitability. A work system, was established by realising operational goals upon annual and interim work meetings, quarterly business operation meetings as well as monthly operational analysis meetings. Through such work system, synergistic interaction among the Company's business divisions, related functional departments and management was realized.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Gradually Improving System Establishment

In 2012, we issued and implemented the following guidelines and measures to enhance our internal control system:

- In order to strengthen the management of the International Engineering Contracting Business, we issued the Administrative Measures for Approval and Decision of Significant Matters Relating to the International Engineering Contracting Business (Trial Implementation) (《工程成套業務重大事項審批決策管理辦法（試行)》) and the Administrative Measures for "Two Strengths" Project Finance Management (Trial Implementation) (《"兩優"貸款項目管理辦法（試行)》).

- In order to improve the post-project assessment system, we drew up the Administrative Measures for Post-project Assessment (《項目後評價管理辦法》).

- In order to encourage our investment business, we formulated and issued the Guidelines on Promoting Overseas Investment Businesses (Including BOT) (Trial Implementation) (《關於促進境外BOT等投資業務發展的指導意見（試行)》) and the Administrative Measures for BOT Business (《BOT業務管理辦法》).

- In order to improve risk management of the Trading Business, we issued the Administrative Measures for the Trading Business Review (Trial Implementation) (《貿易業務評審管理辦法（試行)》).

- In order to strengthen the risk control over monetary assets, we drew up and introduced the Implementation Rules of Designated Borrowing Management of Subsidiaries (《子公司專項借款管理實施細則》), the Administrative Measures for Fixed Asset Management (Trial Implementation) (《固定資產管理辦法（試行)》), the Implementation Rules of Overseas On-Site Financial Management of the International Engineering Contracting Business (Trial Implementation) (《工程成套項目境外現場財務管理實施細則（試行)》), the Implementation Rules of Project Payment Approval Process (《業務項下付款審批程序實施細則》), the Administrative Measures for Designated Funds/Assets (Trial Implementation) (《特殊資金（資產）管理辦法（試行)》) and the Administrative Rules for the Use of Financial Information (《財務信息使用管理細則》).

2. Continuously Expanding Financial Channels

In 2012, we further widened our financing channels and optimized our business compatibility mechanism with the financial and insurance institutions. We actively expanded the scope of business cooperation with the financial institutions such as the China Development Bank to build up a new business financing platform, thereby promoting the diversification of business financing channels and business collaboration models.

MANAGEMENT DISCUSSION AND ANALYSIS

III. MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL POSITION AND OPERATING RESULTS

The following section should be read in conjunction with the audited consolidated financial statements of the Group and accompanying notes herein.

I. OVERVIEW

The Group's profitability improved substantially in 2012. Profit for the year increased by 31.0% to RMB1,928.1 million in 2012 compared to RMB1,472.3 million in 2011. Profit attributable to the Shareholders amounted to RMB1,927.6 million in 2012.

II. CONSOLIDATED OPERATING RESULTS

1. Revenue

The Group generated its revenue from the International Engineering Contracting Business, Trading Business and Other Businesses.

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,			
	2012		2011	
	(RMB million)	***(%)***	*(RMB million)*	*(%)*
International Engineering Contracting Business				
Power	**10,047.3**	**47.2%**	9,569.4	46.6%
Transportation	**1,202.1**	**5.6%**	1,104.4	5.4%
Telecommunications	**733.9**	**3.4%**	2.3	0.0%
Non-Core Sectors	**1,261.4**	**5.9%**	1,379.1	6.7%
Trading Business				
International trade	**5,854.4**	**27.5%**	5,209.9	25.4%
Domestic trade	**1,308.7**	**6.1%**	2,478.7	12.1%
Other Businesses	**888.3**	**4.3%**	774.0	3.8%
Total	**21,296.1**	**100%**	20,517.8	100%

MANAGEMENT DISCUSSION AND ANALYSIS

1) International Engineering Contracting Business

The Group's revenue generated from its International Engineering Contracting Business increased by 9.9% to RMB13,244.7 million in 2012 compared to RMB12,055.2 million in 2011, primarily due to the increase in revenue generated from the projects in the power and telecommunications sectors.

The revenue generated from the power sector increased by 5.0% to RMB10,047.3 million in 2012 as compared to RMB9,569.4 million in 2011, primarily due to the commencement of the construction of our power station projects in South America and Europe in 2012.

The revenue generated from the transportation sector increased by 8.8% to RMB1,202.1 million in 2012 as compared to RMB1,104.4 million in 2011, primarily due to the greater progress made in the construction of vessel projects with European project owners in 2012.

The revenue generated from the telecommunications sector increased by more than 100% to RMB733.9 million in 2012, as compared with RMB2.3 million in 2011, primarily due to the greater progress made in our telecommunications projects in Asia in 2012.

The revenue generated from the non-Core Sectors decreased by 8.5% to RMB1,261.4 million in 2012 as compared to RMB1,379.1 million in 2011, primarily due to lesser progress made in 2012 in our water treatment project in Africa.

2) Trading Business

The Group's revenue generated from its Trading Business decreased by 6.8% to RMB7,163.1 million in 2012 compared to RMB7,688.6 million in 2011, primarily due to the decrease of certain non-recurring domestic bulk trades, which were executed in 2011.

The revenue generated from international trade increased by 12.4% to RMB5,854.4 million in 2012 as compared to RMB5,209.9 million in 2011, primarily due to the higher shipping volume of equipment exports to an African country in 2012.

The revenue generated from domestic trade decreased by 47.2% to RMB1,308.7 million in 2012 as compared to RMB2,478.7 million in 2011, primarily due to a relatively smaller domestic trading volume resulting from the decrease of certain non-recurring bulk trades, which were executed in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

3) Other Businesses

The Group's revenue generated from its Other Businesses increased by 14.8% to RMB888.3 million in 2012 compared to RMB774.0 million in 2011, primarily due to the increase in revenue generated from the exhibition and logistics services of the Group.

2. Cost of sales

The Group's cost of sales increased by 4.2% to RMB17,564.6 million in 2012 compared to RMB16,858.7 million in 2011. This increase is mainly attributable to the increase in revenue from the International Engineering Contracting Business, as a result of the greater progress made in projects in the power and telecommunications sectors, with the corresponding increase in cost.

3. Gross Profit and Gross Profit Margin

(i) Gross profit of the Group in 2012 and 2011 consists of the following:

	Year ended December 31,			
	2012		2011	
	(RMB million)	***(%)***	*(RMB million)*	*(%)*
International Engineering Contracting Business				
Power	**2,437.7**	**65.3%**	2,603.8	71.2%
Transportation	**78.4**	**2.1%**	77.7	2.1%
Telecommunications	**64.7**	**1.7%**	0.3	0.0%
Non-Core Sectors	**191.6**	**5.1%**	233.7	6.4%
Trading Business				
International trade	**472.6**	**12.7%**	312.7	8.5%
Domestic trade	**108.9**	**2.9%**	123.4	3.4%
Other Businesses	**377.6**	**10.2%**	307.5	8.4%
Total	**3,731.5**	**100%**	3,659.1	100%

MANAGEMENT DISCUSSION AND ANALYSIS

(ii) Gross profit margins of the Group in 2012 and 2011 are set out in the following table:

	Year ended December 31,	
	2012	2011
	(%)	*(%)*
International Engineering Contracting Business	**20.9%**	24.2%
Power	**24.3%**	27.2%
Transportation	**6.5%**	7.0%
Telecommunications	**8.8%**	10.8%
Non-Core Sectors	**15.2%**	16.9%
Trading Business	**8.1%**	5.7%
International trade	**8.1%**	6.0%
Domestic trade	**8.3%**	5.0%
Other Businesses	**42.5%**	39.7%
Total	**17.5%**	17.8%

The Group's gross profit increased by 2.0% to RMB3,731.5 million in 2012 compared to RMB3,659.1 million in 2011. This increase is mainly attributable to the increase in gross profit from the international trading business. The Group's overall gross profit margin remained relatively stable in 2012.

1) International Engineering Contracting Business

(a) *Gross profit*

The gross profit generated from the International Engineering Contracting Business decreased by 4.9% to RMB2,772.4 million in 2012 as compared to RMB2,915.5 million in 2011, primarily due to the decrease in gross profit from the power and non-Core Sectors.

The gross profit generated from the power sector decreased by 6.4% to RMB2,437.7 million in 2012 as compared to RMB2,603.8 million in 2011, primarily due to the completion or near completion of certain power projects with relatively higher gross profit margin in Africa and Asia in 2011.

The gross profit generated from the transportation sector amounted to RMB78.4 million in 2012, which remained stable as compared to RMB77.7 million in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

The gross profit generated from the telecommunications sector increased by more than 100% to RMB64.7 million in 2012 as compared to RMB0.3 million in 2011, primarily due to the substantive progress made with regard to our telecommunications project in Asia.

The gross profit generated from the non-Core Sectors decreased by 18.0% to RMB191.6 million 2012 as compared to RMB233.7 million in 2011, primarily due to lesser progress made in 2012 in our water treatment project in Africa.

(b) *Gross Profit Margin*

The gross profit margin generated from the International Engineering Contracting Business decreased to 20.9% in 2012 as compared to 24.2% in 2011, primarily due to the decrease in gross profit margin from the power and telecommunications sectors.

The gross profit margin generated from the power sector decreased to 24.3% in 2012 as compared to 27.2% in 2011, primarily due to the completion or near completion of certain power projects with relatively higher gross profit margin in Africa and Asia in 2011.

The gross profit margin generated from the transportation sector remained relatively stable in 2012.

The gross profit margin generated from the telecommunications sector decreased to 8.8% in 2012 as compared to 10.8% in 2011, primarily due to the substantive progress made with regard to our telecommunications project in Asia which had a relatively lower gross profit margin in 2012.

The gross profit margin generated from the non-Core Sectors remained relatively stable in 2012.

2) Trading Business

(a) *Gross profit*

The gross profit generated from the Trading Business increased by 33.3% to RMB581.5 million in 2012 as compared to RMB436.1 million in 2011, primarily due to the increase in gross profit in the international trading business.

The gross profit generated from international trade increased by 51.1% to RMB472.6 million in 2012 as compared to RMB312.7 million in 2011, primarily due to the increase in sales revenue from the export service of complete sets of equipment in 2012, which had a relatively higher gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

The gross profit generated from domestic trade decreased by 11.8% to RMB108.9 million in 2012 as compared to RMB123.4 million in 2011, primarily due to the decrease in the overall scale of domestic trade.

(b) *Gross Profit Margin*

The gross profit margin generated from the Trading Business increased to 8.1% in 2012 as compared to 5.7% in 2011, primarily due to the improvements in achieving higher gross profit margins in both international trade and domestic trade.

The gross profit margin generated from international trade increased to 8.1% in 2012 as compared to 6.0% in 2011, primarily due to a relatively higher gross profit margin achieved from the export of complete set of equipment.

The gross profit margin generated from domestic trade increased to 8.3% in 2012 as compared to 5.0% in 2011, primarily due to the decrease of certain non-recurring bulk trades which were executed in 2011 and had a relatively lower gross profit margin.

3) Other Businesses

(a) *Gross profit*

The gross profit generated from the Other Businesses increased by 22.8% to RMB377.6 million in 2012 as compared to RMB307.5 million in 2011, primarily due to the increase in gross profit generated from the export-import agency services and the exhibition services.

(b) *Gross Profit Margin*

The gross profit margin generated from the Other Businesses remained relatively stable in 2012.

4. Other revenue

The Group's other revenue increased by 23.7% to RMB12.0 million in 2012 compared to RMB9.7 million in 2011. This increase is mainly attributable to the increase in dividend income from unquoted equity securities received in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

5. Other income and expenses, net

The Group's net other income amounted to RMB10.1 million in 2012 compared to the net other expenses of RMB3.1 million in 2011. Income increased by 425.8%. This increase is mainly attributable to the increase in income from changes in fair value of foreign currency forward contracts and an interest rate swap contract.

6. Selling and marketing expenses

The Group's selling and marketing expenses increased by 11.1% to RMB1,086.6 million in 2012 compared to RMB978.3 million in 2011. This increase is mainly attributable to the increases in wages and marketing expenses.

7. Administrative expenses

The Group's administrative expenses increased by 17.7% to RMB478.3 million in 2012 compared to RMB406.4 million in 2011. This increase is mainly attributable to the increases in depreciation and amortization expenses and consultation fees (including the Listing-related service fees).

8. Other operating expenses

The Group's other operating expenses decreased by 8.0% to RMB125.5 million in 2012 compared to RMB136.4 million in 2011. This decrease is mainly attributable to the slight decrease in impairment losses on receivables as compared to 2011.

9. Profit from operations

The Group's profit from operations decreased by 3.8% to RMB2,063.2 million in 2012 compared to RMB2,144.6 million in 2011. This decrease is mainly attributable to the increases in selling and marketing expenses and administrative expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

10. Finance income/finance expenses

Finance income and expenses of the Group in 2012 are set out in the following table:

	For the year ended December 31,	
	2012	2011
	RMB million	*RMB million*
Finance income on receivables from customers	**276.4**	209.7
Interest income	**306.6**	192.6
Finance income	**583.0**	402.3
Finance expenses	**30.3**	559.6
Finance income/(expenses), net	**552.7**	(157.3)

The Group's finance income increased by 44.9% to RMB583.0 million in 2012 compared to RMB402.3 million in 2011. This increase is mainly attributable to the increase in interest income.

In 2012, finance income on receivables from customers of the Group increased by 31.8% to RMB276.4 million as compared to RMB209.7 million in 2011. Some of our seller's credit projects in Africa had completed and entered into payment collection period and incurring interest income. Hence, there is a greater increase in finance income.

In 2012, our interest income from deposits increased by 59.2% to RMB306.6 million as compared to RMB192.6 million in 2011. As the payment terms of some of our contracts in International Engineering Contracting Business and trading business of complete sets of equipment are more favourable, especially substantial advance received from power projects in South America and Asia, there is a greater increase in our cash and time deposits in 2012. Therefore, interest income from deposits greatly increased.

The Group's finance expenses decreased by 94.6% to RMB30.3 million in 2012 compared to RMB559.6 million in 2011. This decrease is mainly attributable to the decrease in foreign exchange losses.

As a result, the Group's net finance income increased by 451.4%, amounting to RMB552.7 million in 2012 compared to the net finance expense of RMB157.3 million in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

11. Income tax

The Group's income tax increased by 33.5% to RMB687.7 million in 2012 compared to RMB515.0 million in 2011. This increase is mainly attributable to the increase in the profit before tax for 2012. Effective tax rate has remained relatively stable in 2012.

12. Profit for the year

As a result of the foregoing, the Group's net profit for the year increased by 31.0 % to RMB1,928.1 million in 2012 compared to RMB1,472.3 million in 2011 and its net profit margin increased by 1.9% to 9.1% in 2012 compared to 7.2% in 2011.

13. Profit attributable to the Shareholders

The profit attributable to the Shareholders increased by 30.7% to RMB1,927.6 million in 2012 compared to RMB1,474.9 million in 2011.

14. Profit attributable to the holders of non-controlling interests

The profit attributable to the holders of non-controlling interests of the Group increased by 119.2% to RMB0.5 million in 2012 compared to a loss of RMB2.6 million in 2011.

15. Major investment

The Group made no major investment during the year of 2012.

16. Major acquisition and disposal

On June 4, 2012, the Company and China Power Engineering Consulting Group Zhongnan Power Design Institute* (中國電力工程顧問集團中南電力設計院) entered into a share transfer agreement in relation to the acquisition of 50% equity interest in Zhongnan for a total consideration of RMB4.6 million. In September 2012, the Company completed the acquisition of Zhongnan.

III. LIQUIDITY

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 and proceeds from Listing.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Cash Flows

The following table sets forth a summary of our cash flows for the year ended December 31, 2012, with the corresponding figures for the year ended December 31, 2011:

	For the year ended December 31,	
	2012	2011
	RMB million	*RMB million*
Net cash generated from operating activities	**6,972.1**	2,828.2
Net cash used in investing activities	**(2,597.5)**	(533.1)
Net cash generated from/(used in) financing activities	**2,549.5**	(2,130.1)
Net increase in cash and cash equivalents	**6,924.1**	165.0
Cash and cash equivalents at the beginning of the year	**5,170.7**	5,078.8
Effect of foreign exchange rate changes	**(5.4)**	(73.1)
Cash and cash equivalents at the end of the year	**12,089.4**	5,170.7

As at December 31, 2012, the Group's cash and cash equivalents increased by 133.8% to RMB12,089.4 million in 2012 compared to RMB5,170.7 million as at December 31, 2011. The main sources of the Group's operating capital are net cash flow generated from operating activities and funds raised from Listing.

2. Cash flows from operating activities

For the year ended December 31, 2012, we had net cash generated from operating activities of RMB6,972.1 million. Net cash generated from operating activities was a result of operating profit before changes in working capital in the amount of RMB2,538.5 million, a cash inflow due to changes in working capital of RMB5,037.0 million and income tax paid in the amount of RMB603.4 million. The changes in working capital mainly included (i) a decrease in receivables for construction contracts of RMB639.9 million, (ii) an increase in receipts in advance of RMB2,394.4 million, (iii) a decrease in trade and other receivables of RMB865.2 million and (iv) an increase in trade and other payables of RMB1,165.2 million.

3. Cash flows from investing activities

For the year ended December 31, 2012, our net cash used in investing activities was RMB2,597.5 million. Our cash outflow for investing activities mainly consisted of (i) payments for acquisition of property, plant and equipment of RMB97.5 million, (ii) payment for acquisition of land use right of RMB206.6 million and (iii) an increase in time deposits of RMB2,516.9 million. Such amount was partially offset by interest income received of RMB272.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Cash flows from financing activities

For the year ended December 31, 2012, our net cash generated from financing activities was RMB2,549.5 million. Our cash inflow from financing activities primarily consisted of (i) net proceeds from public offer shares of RMB3,012.3 million and (ii) proceeds from borrowings of RMB138.6 million. Such amount was partially offset by (i) repayment of borrowings from banks of RMB236.6 million and (ii) dividends paid to Shareholders of RMB354.2 million.

5. Capital expenditures

Our capital expenditures consisted primarily of the purchase of property, plant and equipment, investment properties, lease prepayments and intangible assets. The Group's capital expenditure decreased by 68.3% to RMB333.2 million in 2012 compared to RMB1,051.3 million in 2011, mainly due to the higher expenses on land use rights in 2011 as compared to those in 2012.

6. Working capital

(a) 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 the turnover days of the average trade receivables and the turnover days of the average trade payables of the Company for the year ended December 31, 2012 and 2011.

	For the year ended December 31,	
	2012	2011
	days	*days*
The turnover days of the average trade receivables for Trading Business *(Note 1)*	**80**	77
The turnover days of the average trade payables *(Note 2)*	**184**	173

Note 1: The average trade receivables for the Trading Business are the sum of opening balance and the closing balance of trade receivables for the Trading Business divided by two. The turnover days of the average trade receivables for the Trading Business are the average trade receivables for the Trading Business divided by revenue of the Trading Business and multiplied by 360.

Note 2: The average trade payables are the sum of opening balance and the closing balance of trade payables divided by two. The turnover days of the average trade payables are the average trade payables divided by cost of sales and multiplied by 360.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the aging analysis of trade and bill receivables (net of allowance of doubtful debts) based on the invoice date as at December 31, 2012 and 2011.

	As at December 31,	
	2012	2011
	(RMB million)	*(RMB million)*
Within 3 months	**1,814.7**	2,247.3
3 to 6 months	**398.9**	649.0
6 months to 1 year	**370.6**	349.0
Over 1 year	**507.1**	242.7
	3,091.3	3,488.0

The Group's credit policies with its customers for the year ended December 31, 2012 remained the same as that for the year ended December 31, 2011. 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, 2012, allowance for doubtful debts for our trade and bill receivables amounted to RMB407.6 million, accounting for 11.6% of our trade and bill receivables, as compared to RMB280.0 million, accounting for 7.4% of our trade and bill receivables as at December 31, 2011. The increase in allowance for doubtful debt from 2011 to 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(b) 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 the aging analysis of our trade and bills payables based on the invoice date as at December 31, 2012 and 2011.

	As at December 31,	
	2012	2011
	(RMB million)	*(RMB million)*
Within 3 months	**6,039.3**	5,729.3
3 to 6 months	**468.6**	556.7
6 months to 1 year	**547.1**	347.5
Over 1 year	**2,540.6**	1,686.2
	9,595.6	8,319.7

The Group's credit policies with its suppliers for the year ended December 31, 2012 remained the same as that for the year ended December 31, 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

IV. INDEBTEDNESS

1. Borrowings

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

	As at December 31,	
	2012	2011
	RMB million	*RMB million*
Current:		
Short-term borrowings		
Bank loans		
unsecured	**18.6**	14.9
secured	**33.8**	3.2
Subtotal	**52.4**	18.1
Add: current portion of long-term borrowings	**81.5**	142.0
Subtotal	**133.9**	160.1
Non-current:		
Long-term borrowings		
Bank loans		
secured	**236.1**	367.5
Subtotal	**236.1**	367.5
Less: current portion of long-term borrowings	**81.5**	142.0
Subtotal	**154.6**	225.5
Total	**288.5**	385.6

Our short-term borrowings primarily include credit borrowings, mortgage borrowings and guarantee borrowings from commercial banks and other financial institutions. As at December 31, 2012, our short-term borrowings (including the current portion of long-term borrowings) amounted to RMB133.9 million, accounting for 46.4% of our total borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

Our long-term borrowings primarily included pledge 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 RMB216.8 million as at December 31, 2012. As at December 31, 2012, our long-term borrowings (excluding the current portion) amounted to RMB154.6 million, accounting for 53.6% of our total borrowings. The significant decrease in our interest-bearing borrowings to RMB154.6 million as at December 31, 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.

There had been no material defaults in payment of our bank borrowings and breaches of the finance covenants during the year ended December 31, 2012.

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

	As at December 31,	
	2012	2011
	(RMB million)	*(RMB million)*
Within 1 year or on demand	**133.9**	160.1
After 1 year but within 2 years	**73.6**	71.4
After 2 years but within 5 years	**77.9**	151.2
After 5 years	**3.1**	2.9
Total	**288.5**	385.6

The Group monitors capital on the basis of the gearing ratio. Gearing ratio is derived by dividing total borrowings by total assets multiplied by 100%. In 2012, the Group's gearing ratio was 0.8%, 0.6 percentage points lower than 1.4% in 2011, mainly due to the repayments of borrowings and capital injection as a result of Listing.

MANAGEMENT DISCUSSION AND ANALYSIS

2. 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. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the Directors believe that any resulting liabilities will not have a material adverse impact on the financial position, liquidity, or operating results of the Group.

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 typically issued to provide security to the buyer in paying an advance to a seller before the actual goods are received, and we do not receive separate consideration for issuing such guarantees. In order for us to issue these letters of guarantee, we require the sellers to provide us with security interests on their assets or guarantees from third parties that must be sufficient to cover the total outstanding amount under the respective letters of guarantee issued. As at December 31, 2012, the total outstanding amount under these letters of guarantee issued were RMB662.0 million (2011: RMB1,727.3 million), which are secured by the sellers' assets or guaranteed by certain banks on behalf of the sellers.

V. RISK FACTORS AND RISK MANAGEMENT

We are exposed to various types of risks, including currency risk, interest rate risk, credit risk, liquidity risk, competition risk and counterparty risk in the normal course of our business. Our management monitors our exposure to these risks to ensure appropriate measures are in place and are implemented in a timely and effective manner.

1. 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 and Euros. We entered into foreign currency forward contracts to lock in the value in RMB of some of our future cash receipts, primarily in respect of the proceeds of our international engineering contracting projects 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

MANAGEMENT DISCUSSION AND ANALYSIS

in hedging activities. Hence, our foreign currency hedging activities were limited to these foreign currency forward contracts. Our foreign currency forward contracts corresponded to our business volume, i.e. the amounts and the terms of such contracts corresponded to the amounts of the foreign currency expected 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, 2012, we had 126 foreign currency forward contracts outstanding (2011: 14). We entered into more foreign currency forward contracts in smaller amounts in 2012 to better accommodate our business needs and to better manage our cash flow in light of the forecasted high volatility of exchange rates. 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". As at December 31, 2012, the net fair value liabilities of our foreign currency forward contracts were RMB4.7 million, representing gross fair value assets and liabilities of such contracts of RMB15.1 million and RMB19.8 million, respectively, which represent our exposure under the foreign currency forward contracts estimated as at December 31, 2012. We maintain and follow our internal policies and controls for managing our Group's use of derivative financial instruments.

2. 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. 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. 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 December 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". As at December 31, 2012, the net and gross fair value liabilities of our interest rate swap contract were RMB13.4 million, which represent our exposure under the interest rate swap estimated as at December 31, 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

3. 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 our 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 are set forth in the relevant engineering contracting contracts. Some of our international engineering contracting projects were financed by export seller's credit, which 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. We conduct monthly reviews of our credit risk as an internal control 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 the Trading Business, we and our trading subsidiaries are required to buy unified export credit insurance from Sinosure; for the International Engineering Contracting Business financed by export seller's credit, we typically buy export credit insurance from Sinosure for our projects in order to meet financing needs as well as to control credit risk for trade and other receivables. Our concentration of credit risk stems from trade and other receivables due from certain individual customers. As at December 31, 2012, 9.6% of the total trade and other receivables was due from our largest customer (2011: 7.8%), and 24.6% of the total trade and other receivables was due from the five largest customers (2011: 21.5%).

4. Liquidity Risk

Liquidity risk is the risk that we have net current liabilities at the balance sheet date. We are exposed to liquidity risk if we are unable to raise sufficient funds to meet our financial obligations when they fall due. 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. As at December 31, 2011, our net current liabilities amounted to RMB1,166.2 million. In 2012, our liquidity exposure has improved. As at December 31, 2012, our net current assets amounted to RMB3,665.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS

5. Competition Risk

In terms of our International Engineering Contracting Business, 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, we will continue to leverage our competitive advantage in pricing, especially in the developing countries, due to lower labor cost and price of the equipment. 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.

In terms of our Trading Business, 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.

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 believe 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.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Counterparty Risk

We conduct a large part of our business with counterparties in foreign countries and regions, including the 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 which affects our operations and our counterparties. Therefore, the Company has set up a comprehensive risk assessment system which is implemented before entering into a new market or an unstable market. The relevant risk prevention measures, include (but not limited to): (1) enhancing the review on financing sources of projects to secure a stable source of revenue; (2) purchasing relevant insurance for overseas engineering contracting projects and including incorporating contractual terms regarding advance payment and losses from force majeure events to minimise the Company's risk; (3) strengthening project management while formulating emergency plan based on the actual situation; (4) strengthening communications with the local governments and project owners in order to have a better grasp of risk-related information; and (5) maintaining a diversified operation to minimise the risks of operating in a single country.

VI. PROSPECTS

In 2013, the Company will formulate its annual strategy and design practical implementation measures based on the trend of development of the international market and our own fortes, as well as the annual operational and business plan. Our development strategy will be implemented at various levels in various stages. Meanwhile, according to this development strategy, we will continue to promote the transformation of our organizational structure to adapt to the needs for future development. In addition, we will develop the investment business as a future business segment in addition to our International Engineering Contracting Business, Trading Business and Other Businesses to promote our transformation and upgrade.

MANAGEMENT DISCUSSION AND ANALYSIS

A. Business Development Strategies

1. Optimize and Strengthen the International Engineering Contracting Business

(1) Increase Market Share through Active Market Expansion

Strictly adhering to the national strategy of "going out", we will leverage national policies, especially the financial and insurance policies, conduct in-depth study of the market from a strategic perspective to seize opportunities, work on intensive development planning, and proactively undertake projects. Each business division will innovate its new operation model to strengthen the synergy between engineering contracting and trading, and explore undertaking projects by way of regional development etc. Meanwhile, we will formulate policies to encourage business development and continue to optimize project and business management processes.

(2) Promote the Implementation of Signed Contracts Pending to be Effective

As at December 31, 2012, we had signed contracts pending to be effective amounting to US$12.1 billion. We will give priority to procuring these projects to become effective. We will individually analyze the key factors for such projects to become effective and sort out the projects to be pushed forward. We will communicate with the project owners and relevant departments closely to make breakthroughs by way of concerted efforts and procure the projects to become effective.

(3) Complete Ongoing Projects With High Quality

In 2013, with the implementation of several sizeable projects, we will continue to put emphasis on the project manager accountability. We pay attention not only to progress, quality and safety but also to the suitability of the project structure and personnel in place. We will also strengthen the management of design institutes, and other subcontractors for construction and installation. In addition, we will vigorously promote the model of project management by international project management professionals (IPMP) and reinforce the management and control over factors such as cost, progress, quality and safety.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Steadily Develop the Trading Business

(1) Optimize our organizational structure and enhance the operational capabilities of the trading subsidiaries

In 2013, we will introduce a series of criteria for the restructuring, merger and acquisition, and closure of the trading subsidiaries. We will increase the registered capital of the trading subsidiaries with sound corporate governance structure, strong risk control, high economies of scale, remarkable economic efficiency as well as an innovative business model to enhance their sustainable development.

(2) Expand the Trading Business Market

The international market will still the principal market of our Trading Business in 2013. We will actively explore business in the developing countries while keeping close attention to the developed countries. We will only participate in domestic transactions in sizeable quantities when their risks are manageable.

(3) Effectively Control the Risks of the Trading Business

In order to effectively control the risks of the Trading Business, we will search for new areas for business growth by taking control of the critical junctures in the trading chain and establishing our key products, to improve profitability and make gradual progress of industrialization of the Trading Business, which will pave the way for creating a trading business model in line with its actual circumstances. Meanwhile, each trading subsidiary will intensify its examination and analysis of its suppliers, customers, market and business model, and reinforce the control over various links such as sourcing, product ownership, warehousing, logistics as well as product transfer, thereby gradually realizing specialized operation, team management and workflow standardization in the management and control system of the Trading Business.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Strengthen the Development of Other Businesses

We will strengthen the development of the Other Businesses with specialized services to complement the development of our core businesses. We will also actively explore external markets in order to enhance our competiveness. In 2013, we will continue to support China Machinery R&D to internally undertake design and engineering businesses in respect of hospital, municipal environmental protection and construction with a higher competitive edge. China Machinery R&D will continue to serve as a technology platform for our overseas engineering contracting projects to improve its capabilities in designing power stations and power transmission and transformation stations. CMEC Comtrans will give priority to serve our core business by safely delivering equipment to project sites on a timely basis in strict adherence to project progress plans. CMEC Expo will strengthen its synergy with our core businesses. It will explore holding exhibitions promoting our brands in our core and regionally significant markets to exploit new business opportunities. CMEC Tendering will continue to play its role as a platform for tendering agency services. It will well-utilize its advantages and resources in the area of new energy and strengthen the internal cooperation with the International Engineering Contracting Business and Trading Business to search for new areas for growth.

B. Other Strategic Steps

1. Integrate External Resources for Servicing Our Core Businesses

We will firmly promote the business of Zhongnan which will serve as a technology platform and to provide support for the preliminary works such as project origination, project tendering and technological negotiation of contracts for our engineering contracting projects in the power sector for our International Engineering Contracting Business. Meanwhile, for our core businesses, we will study and probe into merger and acquisition opportunities of domestic and overseas design institutes as well as subcontractors and IPP developers in developed countries. In addition, we will establish alliance with major domestic suppliers to form competitive advantages in terms of market, skill and price, which will allow us to cope with fierce competition in the power sector. Moreover, we will accelerate the formation of a power generation operation and management company and get prepared for providing after-sale services for projects, hence presenting a unique competitive edge for our Company.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Take Effective Measures to Safeguard Work Safety

We will further improve the work safety management system, and heighten the awareness of work safety responsibility to prevent work safety emergencies. Projects in new regions and high-risk regions as well as the newly effective projects with sizeable structure in Venezuela, Belarus and Iraq will be our focus of supervision and inspection. We will take measures against each project to ensure work safety, thereby maintaining the good record of work safety in 2012.

3. Enhance Corporate Management and Strengthen Our Competitive Edge

We will launch a management enhancement program to optimize management processes to increase management efficiency and quality. Meanwhile, we will gradually improve relevant operational policies and procedures. We will firmly adhere to the concept of and raise the awareness of "lawful business, compliant management and regulated operation". We will operate in strict compliance with China's laws and regulations as well as the practices of the global capital markets. We will integrate our compliant management with the management enhancement program to effectively manage compliance risks.

(1) Continue to Enhance Financial Management Capability

We will establish a value-oriented financial management system, which focuses on comprehensive budget management and promotes a compact management of the budgeting procedures in terms of preparation, execution and control, analysis, adjustment and examination. Through the process of informationization, the overall budget management procedures will be further consolidated, the controls over the whole budgeting process will be increased, and the rigorous restrictions on budgeting will be strengthened. Meanwhile, we will continue to enhance the application of reporting procedures for material financial issues, increase the financial management on overdue receivables and improve the financial management standard, which altogether provide a sustainable, healthy and quality development for us.

(2) Continue to Strengthen Financing Capability

We will fully utilize the two financial markets within and outside China. We will formulate the best financing solution and continue to improve our overall financing capability. We will actively explore overseas financial markets and establish wide business relationships with various overseas financial institutions. We will also explore various financing channels outside China so as to search for an international financing channel for us.

MANAGEMENT DISCUSSION AND ANALYSIS

(3) Continue to Enhance the Technology Management Capability to Optimize the Standard of Information Technology

In 2013, we will enhance our management of technical knowhow, complete the policy formulation regarding information management, and regulate information management on engineering contracting projects. Meanwhile, we will further enhance the review process after the completion of projects. We will undertake post-project assessments and gradually establish a post-project assessment system. We thrive on the accumulation and heritage of knowledge and experience. In addition, we will enhance our problem-solving ability on technical problems in projects and establish a core technical capability with our own intellectual property, hence increasing the competitiveness of international engineering contracting projects. We will also implement plans according to our information technology policy, and gradually establish the structure of standard information system, information technology system, security system, IT management and servicing system and application system. Hence, the development and implementation plan of information technology can be applied and the informationization of human resources will continue.

(4) Increase Human Resources Management Level and Talent Development Level

We will further improve our performance management system. We will establish an incentive management system for all employees, with a special focus for senior management, key staff and staff with excellent performance. We will regulate the remuneration and incentive policy, enhance the allocation structure of the overall remuneration and optimize the allocation structure of internal income. Meanwhile, we will improve the standard of our staff, formulate medium to long term human resources development policy, expand the career path for different talents and continue to strengthen our internal and external professional teams. In addition, we will train our staff based on the IPMP model, and actively explore different types of career advancement channels for our staff, such as management, project management and technical professionals. We will endeavor to change the single career advancement model and provide various opportunities for various talents to develop their career in the Company.

REPRESENTATIVE PROJECTS OF OUR INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

The following table shows some of the representative projects in the power, transportation and telecommunications sectors and the non-Core Sectors we completed in 2012 for our International Engineering Contracting Business :

Project	Brief Description	Contract Value *(US$ million)*
Power		
Supercritical coal fired power plant in Turkey	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. The plant was awarded the Luban Prize (overseas project), the highest prize for construction engineering in China. 	612.6
Expansion project for turbo-gas power plant in Malabo, the Republic of Equatorial Guinea	We contracted with the government of the Republic of Equatorial Guinea for an EPC expansion project in relation to a turbo-gas power plant in Malabo, the Republic of Equatorial Guinea. The project involved installation of three single cycle turbo-gas generators with a total installed capacity of 126MW. At present, the total installed capacity of the operating power plant in the European region of Malabo was only 28MW. The design and construction involved in the expansion work under the project will complement the electric grid and city network to be completed, in order to provide power supply for the whole Malabo City. 	124.4

REPRESENTATIVE PROJECTS OF OUR INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Project	Brief Description	Contract Value *(US$ million)*
Power transmission and transformation engineering project in the Republic of Congo	We contracted with the government of the Republic of Congo for the construction works of the power transmission and transformation EPC project. The project was a follow-up of the Imboulou hydropower station project and involved connecting the Imboulou hydropower station, a completed project in which we also acted as the contractor, with several small power stations to construct the "major power channel" between Ponite-Noire, Brazzaville and Ouesso in the Republic of Congo. This project is designed to supply power for the capital and surrounding areas, which will greatly reduce power shortage in the Republic of Congo. The scope of works for this project included: design, construction, equipment procurement, installation, testing, staff training, guidance on commercial operation and spare parts provision.	514.2

Project	Brief Description	Contract Value *(US$ million)*
Transportation		
Highway reconstruction and asphalt paving in the Republic of Congo	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

REPRESENTATIVE PROJECTS OF OUR INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Project	Brief Description	Contract Value *(US$ million)*
Non-Core Sectors		
Construction of 1,000 housing units in Hulhumale, Maldives	We contracted with the government of the Republic of Maldives for the construction of 1,000 housing units in Hulhumale.	76.0
Water supply project in Luanda, Angola	We contracted with a stated-owned company of Angola for an EPC project in relation to the enhancement of the water supply system in Luanda, Angola. Following the completion of phase I of the enhancement project of the water supply system in Luanda, Angola, the government of Angola intended to construct a new water treatment plant, reconstruct the pump house and network of water supply centers, aiming to resolve the drinking water problem of local citizens and domestic sewage treatments, and to further improve the phase I water supply system. The scope of works included design, construction, equipment delivery, installation, testing, staff training, etc.	28.1

REPRESENTATIVE PROJECTS OF OUR INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

The following table shows some of the representative ongoing projects in the power, transportation and telecommunications sectors and the non-Core Sectors in which we were involved as at December 31, 2012 for our International Engineering Contracting Business:

Project	Expected Completion Date	Brief Description	Contract Value *(US$ million)*
Power			
Puttalam coal power project in Sri Lanka (Phases II)	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 of the project that involved the construction of one thermal power station with an installed capacity of 1 x 300 MW has been completed, 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. 	891.0
Thermal power station in Brest and Vitebsk, the Republic of Belarus	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

REPRESENTATIVE PROJECTS OF OUR INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Project	Expected Completion Date	Brief Description	Contract Value *(US$ million)*
Hydropower station in Pakistan	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
Power transmission and transformation station in the Republic of Chad	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
Power plant project in Salah AL-din, Iraq	May 2017	We contracted with the government of Iraq for an EPC project in relation to a power plant in Salah AL-din, Iraq, which was situated 16 km from the southeast of Samarra, Salah AL-din, Iraq and north of Tigris River. We were responsible for the construction of two gas turbine generators with capacity of 630MW each. The scope of work involved all construction works, including, but not limited to, land leveling, surveying, design, provision of parts for the formation of a complete set of generator (included gas turbines, boilers, generators and ancillary equipment) with an installed capacity of 2×630MW, construction, installation and testing, as well as the construction and installation of ancillary buildings and facilities. It is the largest generator in terms of installed capacity to be built in Iraq at present.	1,298.9

REPRESENTATIVE PROJECTS OF OUR INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Project	Expected Completion Date	Brief Description	Contract Value *(US$ million)*
Transportation			
Reconstruction of the Naypyidaw Airport in Myanmar	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

Project	Expected Completion Date	Brief Description	Contract Value *(US$ million)*
Highway construction in the Republic of Cote d'Ivoire	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
Telecommunications			
2.5G network expansion and 3G mobile network construction project in Bangladesh	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
Nationwide telecommunications network project (phase I) in the Republic of Congo	September 2013	We formed a joint venture with a telecommunications enterprise in the PRC and jointly signed the contracting contract for an EPC project in relation to the nationwide telecommunications network project (phase I) in the Republic of Congo. The project involved the completion of optic telecommunications fiber of approximately 155 km long and the construction of 18 telecommunications stations.	10.1

REPRESENTATIVE PROJECTS OF OUR INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Project	Expected Completion Date	Brief Description	Contract Value *(US$ million)*
Non-Core Sectors			
Water supply system enhancement in the Republic of Congo	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
Reconstruction of water supply network in the Republic of Angola (Phase II)	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.	68.7

MAJOR EVENTS IN 2012

January 2012	CMEC was honored by SINOMACH Group as "2011 Advanced Unit of China National Machinery Industry Corporation (中國機械工業集團有限公司2011年度先進單位)".
March 2012	President of Maldives, Mohamed Nasheed, visited the project site for the construction of 1000 housing units on Hulhumale, and expressed high acclaim on the construction progress.
March 2012	CMEC received AAA credit rating in the press conference of "Enterprise Credit Evaluation by CCME (China Chamber of Commerce for Import and Export of Machinery and Electronic Products) (2011年度機電商會企業信用等級評價結果發佈會)".
April 2012	The Imboulou hydropower station with an installed capacity of 120 MW in Congo-Brazzaville undertaken by the Company passed the final acceptance test.

June 2012	The completion ceremony of the power project in Malabo, Equatorial Guinea was held with the presence of the President of Equatorial Guinea, Obiang.
June 2012	Under the witness of China's former President Wen Jiabao and President of Argentina, Madam Cristina Kirchner, a loan agreement for the Argentina Belgrano freight railway renovation project was signed. On the same day, the Company entered into an amendment agreement for this project.
June 2012	The Company was honored by the Ministry of Commerce of the PRC as an "Outstanding Organization in the Statistical Work on China's Overseas Engineering Contracting and Labor Service Cooperation from 2009 to 2011 (2009-2011年度全國對外承包工程、勞務合作統計工作先進集體)".
July 2012	The documentary film "Together (攜手)", filming of which CMEC participated, had its maiden broadcast on CCTV channel 4.

MAJOR EVENTS IN 2012

August 2012 The opening ceremony of the highway project in Grand Bassam, Abidjan, the Republic of Cote d'ivoire undertaken by CMEC was held in Grand Bassam with the presence of Alassane Ouattara, the president of the Republic of Cote d'ivoire.

August 2012 The engineering contracting contract for the power station project in Karaganda, Kazakhstan became effective.

September 2012 Mr. HUI Liangyu, the former Vice Premier of the State Council of the PRC, visited the project site of the Geely water plant project in the Republic of Congo undertaken by CMEC and expressed high recognition of CMEC's accomplishment.

October 2012 The commemoration ceremony for the Djiploho power transmission and transformation project in Equatorial Guinea undertaken by the Company was held at the project site.

October 2012 The commercial opening ceremony of the 2.5G network expansion and 3G mobile network construction project in Bangladesh undertaken by CMEC was held in the International Exhibition Centre of Dhaka with the presence of Sheikh Hasina, the President of Bangladesh.

October 2012 The foundation-laying ceremony for the research and development center project of China Machinery R&D was held.

December 2012 The supercritical coal fired power plant project undertaken by the Company in Turkey won the 2012 China Construction Engineering Luban Prize (overseas project) (中國建設工程魯班獎（境外工程)). It also represented the first coal-fired power plant that won such prize.

December 2012 The Company's H Shares were successfully listed on the Main Board of the Stock Exchange on December 21, 2012.

January 2013 Based on the Top 50 Chinese Contractors in Terms of Revenue from Completed Overseas Engineering Business (《2012年我國對外承包工程業務完成營業額前50家企業》) and the Top 50 Chinese Contractors in terms of Newly Signed Overseas Engineering Contract Value (《2012年我國對外承包工程業務新簽合同額前50家企業》) released by the Department of Outward Investment & Economic Cooperation of the Ministry of Commerce of the PRC, the Company ranked seventh in terms of our revenue in 2012 and ranked ninth in terms of our newly signed contract value in 2012.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group prepared in accordance with IFRS for the year ended December 31, 2012.

GLOBAL OFFERING

The Company was incorporated in the PRC on January 18, 2011 as a joint stock company with limited liability under the Companies Law. The Company's H Shares were listed on the Stock Exchange on the Listing Date.

PRINCIPAL ACTIVITIES

The Company is a leading international engineering contracting and services provider 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. The Company also conducts the Trading Business and Other Businesses.

Details of the Company's subsidiaries are set out in Note 18 to the audited consolidated financial statements.

RESULTS

The audited results of the Group for the year ended December 31, 2012 are set out in the consolidated statement of comprehensive income on pages 115 to 116 of this annual report. The financial position of the Group and the Company as at December 31, 2012 are set out in the consolidated balance sheet on pages 117 to 118 and the balance sheet on pages 119 to 120 of this annual report, respectively. The cash flows of the Group for the year ended December 31, 2012 is set out in the consolidated cash flow statement on pages 122 to 123 of this annual report.

A discussion and analysis of the Group's performance during the year and the key factors affecting its results and financial position are set out in the Management Discussion and Analysis on pages 13 to 53 of this annual report.

FINAL DIVIDENDS

The Board recommends the distribution of a final dividend of RMB0.1636 per Share (pre-tax) for 4,125,700,000 Shares for the period from January 1, 2012 to December 31, 2012, representing a total amount of RMB674,964,520 (pre-tax).

According to the Articles of Association, dividends will be denominated and declared in Renminbi. Dividends on the Domestic Shares will be paid in Renminbi and dividends on the H Shares will be paid in Hong Kong dollars.

The proposed final dividend is subject to approval at the AGM to be held on Monday, June 17, 2013.

In accordance with tax law and relevant requirements under taxation regulatory institutions of the PRC, the Company is required to withhold 10% enterprise income tax when it distributes the final dividend for the year ended December 31, 2012 to all non-resident enterprise shareholders (including HKSCC Nominees Limited, other nominees, trustees or other entities and organizations, who will be deemed as non-resident enterprise shareholders) whose names appear on the H share register of members of the Company on June 26, 2013.

REPORT OF DIRECTORS

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得税法》), the Implementation Regulations of the Individual Income Tax Law《(中華人民共和國個人所得税法實施條例》), the Tentative Measures on Withholding and Payment of Individual Income Tax《(個人所得税代扣代繳暫行辦法》) and other relevant laws and regulations and based on the Company's consultation with the relevant PRC tax authorities, the Company is required to withhold and pay 20% individual income tax for the Company's individual H shareholders whose names appear on the register of members of H shares of the Company (the "**Individual H Shareholders**"). Pursuant to the Notice on Matters concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (《關於國税發[1993]045號文件廢止後有關個人所得税征管問題的通知》) issued by the State Administration of Tax of the PRC and the letter titled "Tax arrangements on dividends paid to Hong Kong residents by Mainland companies" issued by the Stock Exchange, the overseas resident individual shareholders of the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax arrangements between the countries where they reside and China and the tax arrangements between China mainland and Hong Kong (Macau). The Company will identify the country of domicile of the Individual H Shareholders according to their registered address on the H share register of members of the Company on June 26, 2013 (the "**Registered Address**"). The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the Individual H Shareholders and for any claims arising from or in connection with any delay in or inaccurate determination of the tax status or tax treatment of the Individual H Shareholders or any disputes over the withholding mechanism or arrangements. Details of arrangements are as follows:

- For Individual H Shareholders who are Hong Kong or Macau residents or those whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders.

- For Individual H Shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the Individual H Shareholders. If relevant Individual H Shareholders would like to apply for a refund of the additional amount of tax withheld and paid, the Company can assist the relevant shareholder to handle the application for the underlying preferential tax benefits pursuant to the tax treaties, provided that the relevant shareholder shall submit to the Company the information required under the "Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative)" (Guo Shui Fa [2009] No.124) (《國家税務總局關于印發<非居民享受税收協定待遇管理辦法(試行)>的通知》(國税發[2009]124號)) (the "**Tax Treaties Notice**") on or before June 20, 2013. Upon examination and approval by competent tax authorities, the Company will assist in refunding the additional amount of tax withheld and paid.

- For Individual H Shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will finally withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty.

- For Individual H Shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or a country which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will finally withhold and pay individual income tax at the rate of 20% on behalf of the Individual H Shareholders.

REPORT OF DIRECTORS

If the domicile of an Individual H Shareholder is not the same as the Registered Address or if the Individual H Shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the Individual H Shareholder shall notify and provide relevant supporting documents to the Company on or before June 20, 2013. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding provisions and arrangements. Individual H Shareholders may either personally or appoint a representative to attend to the procedures in accordance with the requirements under the Tax Treaties Notices if they do not provide the relevant supporting documents to the Company within the time period stated above.

Shareholders are recommended to consult their tax advisers regarding the PRC, Hong Kong and other tax implications arising from or in connection with their holding and disposal of the H Shares of the Company.

CLOSURE OF REGISTER

In order to confirm the identity of shareholders who qualify for attending the forthcoming AGM to be held on June 17, 2013, the register of members of the Company will be closed from May 18, 2013 to June 17, 2013 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by the relevant H share certificates and transfer forms must be lodged with the Company's H shares registrar, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on May 16, 2013.

In order to confirm the identity of shareholders who qualify for final dividend, the register of members of the Company will also be closed from June 21, 2013 to June 26, 2013 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by the relevant H share certificates and transfer forms must be lodged with the Company's H shares registrar, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on June 20, 2013.

FINANCIAL SUMMARY

A summary of the Group's results, assets, liabilities for the last four financial years are set out in the Financial Highlights on page 12 of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

The net proceeds from the listing of the Company's H Shares on the Stock Exchange on the Listing Date (after the exercise of the Over-allotment Option (as defined in the Prospectus) and deducting underwriting fees and related expenses) amounted to approximately HK$4,295.9 million, which are intended to be applied in the manner consistent with that disclosed in the Prospectus.

REPORT OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2012, the Group's five largest suppliers accounted for 13.8% (2011: 13.8%) of the Group's total purchases.

For the year ended December 31, 2012, the Group's sales to its five largest customers accounted for 28.0% (2011: 36.1%) of the Group's total sales.

None of the Directors of the Company or any of their associates or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended December 31, 2012 are set out in note 14 to the audited consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the audited consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 30 to the audited consolidated financial statements, and details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 121 of this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of Companies Law, amounted to approximately RMB2,377.5 million (as at December 31, 2011: 1,145.2 million).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at December 31, 2012 are set out in note 25 to the audited consolidated financial statements.

REPORT OF DIRECTORS

DIRECTORS

The Directors during the year ended December 31, 2012 and up to the date of this report were:

Executive Directors:

Mr. YANG Wansheng *(Chairman)* (appointed on January 13, 2011)
Ms. LI Taifang *(Vice Chairperson)* (appointed on July 29, 2011)
Mr. ZHANG Chun *(President)* (appointed on March 16, 2012)

Non-executive Director:

Mr. PAN Chongyi (appointed on January 13, 2011)
Mr. WANG Zhian (appointed on January 13, 2011)

Independent non-executive Directors:

Mr. LIU Li (appointed on January 13, 2011)
Ms. LIU Hongyu (appointed on January 13, 2011)
Mr. FANG Yongzhong (appointed on July 29, 2011)
Mr. CHAN Kin Ho Philip (appointed on December 30, 2011)

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 101 to 109 of this annual report.

REPORT OF DIRECTORS

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the INEDs and the Company considers such Directors to be independent for the year ended December 31, 2012.

DIRECTORS' SERVICE CONTRACTS AND LETTER OF APPOINTMENTS

Each of the executive Directors and non-executive Directors has entered into a service agreement with the Company on November 10, 2012 for a term commencing from the date of the general meeting in which the respective executive Directors or non-executive Directors were appointed, until the end of the term of the first session of the Board and may be terminated in accordance with the respective terms of the service agreements.

Each of the independent non-executive Directors has signed a letter of appointment on November 10, 2012 for a term commencing from the date of the general meeting in which the respective independent non-executive Directors were appointed until the end of the term of the first session of the Board.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended December 31, 2012.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2012.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The Company does not adopt any pre- or post-IPO share award scheme and share option scheme as incentive to eligible employees.

REPORT OF DIRECTORS

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the directors and five highest paid individuals are set out in notes 9 and 10 to the audited consolidated financial statements.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

During the year ended December 31, 2012, there were no changes to information which are required to be disclosed and has been disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

INTERESTS, SHORT POSITIONS AND SHARE OPTION SCHEME OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2012, none of the Directors, Supervisors or senior management of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this report, no time during the year ended December 31, 2012 were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

REPORT OF DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of January 31, 2013, to the best of the Directors' knowledge, having made all reasonable enquiry, the following persons (other than the Directors, senior management or Supervisors of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Class of Share	Capacity/Nature of interest	Number of Shares/Underlying Shares Held (Share)	Percentage in the Relevant Class of Share Capital *(Note 1)* (%)	Percentage in the Total Share Capital *(Note 1)* (%)
SINOMACH	Domestic shares	Interests of beneficial owner and controlled corporation	3,217,430,000 *(Note 2)* (Long position)	100%	77.99%
NSSF	H shares	Interests of beneficial owner	96,486,000 (Long position)	10.62%	2.34%
FIL Limited	H shares	Interests of beneficial owner	83,411,700 (Long position)	9.18%	2.02%
The People's Insurance Co. (Group) of China Ltd.	H shares	Interests of beneficial owner	71,759,000 (Long position)	7.90%	1.74%
China South Locomotive & Rolling Stock Corporation Limited 中國南車股份有限公司	H shares	Interests of controlled corporation	71,759,000 *(Note 3)* (Long position)	7.90%	1.74%
CSR (Hong Kong) Company Limited 中國南車（香港）有限公司	H shares	Interests of beneficial owner	71,759,000 *(Note 3)* (Long position)	7.90%	1.74%
CSR Group 中國南車集團公司	H shares	Interests of controlled corporation	71,759,000 *(Note 3)* (Long position)	7.90%	1.74%

Notes:

(1) This percentage is calculated on the basis of the number of underlying Shares/total Shares that had been issued by the Company as of January 31, 2013.

(2) SINOMACH was beneficially interested in 3,185,260,000 Domestic Shares, representing approximately 77.21% of our total share capital. China United was interested in 32,170,000 Domestic Shares, representing approximately 0.78% 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.

REPORT OF DIRECTORS

(3) CSR Group is interested in 55% of the total shares of China South Locomotive & Rolling Stock Corporation Limited and CSR (Hong Kong) Company Limited. China South Locomotive & Rolling Stock Corporation Limited is interested in 100% of the total shares of CSR (Hong Kong) Company Limited. Therefore, CSR Group is deemed to have the interests in the H Shares held by CSR (Hong Kong) Company Limited.

Save as disclosed above, and as at January 31, 2013, the Directors were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to December 31, 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Law, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

NON-COMPETITION UNDERTAKING

SINOMACH entered into a non-competition agreement dated July 12, 2011 as supplemented by a supplemental agreement dated December 10, 2012 (together as "**Non-Competition Agreement**") with the Company. Pursuant to the agreement, SINOMACH provided certain non-competition undertakings to the Company and granted the option to acquire certain retained business which overlaps with the Company's International Engineering Contracting Business in the Core Sectors (the "**Relevant Sectors**") and right of first refusal for any new business opportunities in relation to the Relevant Sectors. Pursuant to the Non-competition Agreement, the INEDs are responsible for reviewing the implementation of the undertakings under the agreement on an annual basis. During the year, the INEDs have reviewed the implementation of the Non-Competition Agreement and confirmed that SINOMACH has been in full compliance with the agreement and there was no breach by SINOMACH.

SINOMACH has confirmed in writing to the Company of its compliance with the Non-competition Agreement for disclosure in this annual report during the period from the Listing Date to December 31, 2012.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at December 31, 2012, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Group.

REPORT OF DIRECTORS

CONNECTED TRANSACTION

I. Non-exempt One-off Connected Transaction

During the year of 2012, the Group has not entered into any non-exempt one-off connected transactions which were discloseable or subject to independent Shareholders' approval under the Listing Rules.

II. Non-exempt Continuing Connected Transaction

The connected transactions of the Company are also related party transactions, which are disclosed in note 34 to the audited consolidated financial statements in accordance with International Accounting Standard 24 "Related Party Disclosure".

In terms of the non-exempt continuing connected transactions of category 1 to category 4 as stated below, the Company obtained approval from the Stock Exchange in respect of the annual caps of such continuing connected transactions when the Company's H Shares were listed, and was granted a waiver from strict compliance with the announcement and independent Shareholders' approval requirements.

The table below set out the annual caps and the actual transaction amount of such connected transactions for 2012:

	Connected Transactions	Connected Person	Annual cap for 2012	Actual Transaction Amount for 2012
1	Provision of engineering services and products by our Group to SINOMACH Group	SINOMACH	RMB1,091.0 million	RMB826.5 million
2	Receipt of engineering services and products From SINOMACH Group by our Group	China CMIIC Engineering & Construction Corporation* (中國機械工業建設總公司) China National General Machinery Engineering Corporation* (中國通用機械工程總公司) China JK Institute of Engineering Investigation and Design Institute* (機械工業勘察設計研究院)	RMB950.0 million	RMB466.8 million

	Connected Transactions	Connected Person	Annual cap for 2012	Actual Transaction Amount for 2012
		Shanghai Sino Perfect Co., Ltd.* (上海中浦供銷有限公司)		
		Harbin Power Plant Equipment Design & Research Institute* (哈爾濱電站設備成套設計研究所)		
		China Machine-Building International Corporation* (中國機械對外經濟技術合作總公司)		
		Hefei Tongyong Special Material Equipment Co., Ltd.* (合肥通用特種材料設備有限公司)		
		China Construction Machinery Co., Ltd.* (中工工程機械成套有限公司)		
		Beijing Scientech International Project Management Co., Ltd.* (北京興電國際工程管理有限公司)		
		Tianjin Design & Research Institute of Electric Drive* (天津電氣傳動設計研究所)		
		Guangzhou Kinte Industrial Co., Ltd.* (廣州擎天實業有限公司)		
		China National Electric Engineering Co., Ltd.* (中國電力工程有限公司)		
		China Ocean Engineering Construction General Bureau* (中海工程建設總局)		
		China National Automation Control System Corporation* (中國自動化控制系統總公司)		
3	Trading procurement by our Group from SINOMACH Group	Dingsheng Tiangong Construction Machinery Co., Ltd.* (鼎盛天工工程機械銷售有限公司)	RMB15.0 million	RMB11.7 million
		China-Africa Machinery Corp.* (中非重工投資有限公司)		

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	Connected Transactions	Connected Person	Annual cap for 2012	Actual Transaction Amount for 2012
4	Provision of integrated services by our Group to SINOMACH Group	SUMEC Group Corporation* (江蘇蘇美達集團公司)	RMB28.0 million	RMB12.1 million
		China Auto Caiec Ltd.* (中汽凱瑞貿易有限公司)		
		China Ocean Aviation Group Incorporation* (中國海洋航空集團公司)		
		China Machine-Building International Hebei Co., Ltd.* (河北中機合作有限公司)		
		China Abrasives Import & Export Corporation* (中國磨料磨具進出口公司)		
		Guangdong CMIC Import & Export Co., Ltd.* (廣東艾希機械對外合作有限公司)		
		China Geo-Equipment Corporation* (中國地質裝備總公司)		
		China National Bearing Joint Import Export Corporation* (中國軸承進出口聯營公司)		
		CMIC Heilongjiang Import & Export Co., Ltd.* (黑龍江中經進出口有限公司)		
		Beijing Hoist Tool Factory* (北京起重工具廠)		
		China CMIIC Engineering & Construction Corporation* (中國機械工業建設總公司)		
		Beijing SNL Trading Co., Ltd.* (北京海洲貿易有限責任公司)		
		Zhangjiakou Exploration Machinery General Factory* (張家口中地裝備探礦工程機械有限公司)		
		Beijing Drilling Tools Factory* (北京鑽探工具廠)		
		Chongqing Geological Instrument Factory* (重慶地質儀器廠)		
		Hengyang Zhongdi Equipment Prospecting Engineering Machinery Co., Ltd.* (衡陽中地裝備探礦工程機械有限公司)		
		Wuxi Drilling Tools Factory* (地質礦產部無錫鑽探工具廠)		

* *For identification purposes only*

REPORT OF DIRECTORS

1. Provision of engineering services and products by our Group to SINOMACH Group

The Company entered into a framework agreement on provision of engineering services and products with SINOMACH on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the "**Provision of Engineering Services and Products Agreement**"). Pursuant to the agreement, the Group provides 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 subcontracted to our Group by SINOMACH Group.

Please refer to relevant disclosure below for principal terms and conditions of the Provision of Engineering Services and Products Agreement.

SINOMACH is the controlling shareholder of the Company and is, together with its subsidiaries, connected person of the Company under the Listing Rules.

During the reporting period, the annual cap of this continuing connected transaction for 2012 was RMB1,091.0 million and the actual transaction amount was RMB826.5 million.

2. Receipt of engineering services and products From SINOMACH Group by our Group

The Company entered into a framework agreement on receipt of engineering services and products with SINOMACH on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the "**Receipt of Engineering Services and Products Agreement**"). Pursuant to the agreement, our Group receives engineering services and products from SINOMACH Group, including but not limited to, design, installation, construction, building, subcontracting and procurement services and products relating to its engineering contracting projects.

Please refer to relevant disclosure below for principal terms and conditions of the Receipt of Engineering Services and Products Agreement.

SINOMACH is the controlling shareholder of the Company and is, together with its subsidiaries, connected person of the Company under the Listing Rules.

During the reporting period, the annual cap of this continuing connected transaction for 2012 was RMB950.0 million and the actual transaction amount was RMB466.8 million.

3. Trading procurement by our Group from SINOMACH Group

The Company entered into a framework agreement on the provision of trading products by SINOMACH Group to our Group on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the "**Trading Procurement Agreement**"). Pursuant to the agreement,

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our Group sources various trading products from SINOMACH Group to support our Trading Business, which consist of, but not limited to, agriculture machinery and equipment, agriculture transportation vehicles, logging equipment and mining equipment.

Please refer to relevant disclosure below for principal terms and conditions of the Trading Procurement Agreement.

SINOMACH is the controlling shareholder of the Company and is, together with its subsidiaries, connected person of the Company under the Listing Rules.

During the reporting period, the annual cap of this continuing connected transaction for 2012 was RMB15.0 million and the actual transaction amount was RMB11.7 million.

4. Provision of integrated services by our Group to SINOMACH Group

The Company entered into a framework agreement on the provision of integrated services by our Group to SINOMACH Group on July 12, 2011 as supplemented by the supplemental agreement dated December 10, 2012 (the "**Integrated Services Agreement**"). Pursuant to the agreement, our Group provides 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.

Please refer to relevant disclosure below for principal terms and conditions of the Integrated Services Agreement.

SINOMACH is the controlling shareholder of the Company and is, together with its subsidiaries, connected person of the Company under the Listing Rules.

During the reporting period, the annual cap of this continuing connected transaction for 2012 was RMB28.0 million and the actual transaction amount was RMB12.1 million.

Principal terms of the agreement

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 that comprises the general terms and conditions upon which the Group and SINOMACH Group shall carry out the particular type of transactions contemplated thereunder. Members of SINOMACH Group and members of the 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 the 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 the 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 the 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.

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, the 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.

The INEDs have reviewed each of the above mentioned continuing connected transactions and confirmed that the transactions have been conducted:

(1) in the usual course of business of the Company;

(2) on normal commercial terms or, if there are no sufficient comparable transactions to determine whether they are on normal commercial terms, from the perspective of the Company, on terms no less favorable than the terms available to or from independent third parties; and

(3) in accordance with relevant agreements governing the relevant transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to conduct a limited assurance engagement on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their conclusion to the Board stating that:

a. nothing has come to the auditor's attention that causes the auditor to believe that the non-exempt continuing connected transactions have not been approved by the Board;

REPORT OF DIRECTORS

b. for transactions involving the provision of goods or services by the Group, nothing has come to the auditors' attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

c. nothing has come to the auditor's attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the non-exempt continuing connected transactions set out above, nothing has come to the auditor's attention that causes the auditor to believe that the non-exempt continuing connected transactions have exceeded the maximum aggregate annual value disclosed above.

The auditor has issued their unqualified letter containing their findings and conclusions in respect of the abovementioned transactions in accordance with Rule 14A.38 of the Listing Rules. The Company has provided a copy of the said letter to the Stock Exchange.

In respect of the above-mentioned non-exempt connected transactions, the Directors also confirmed that the Company was in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in note 37 to the audited consolidated financial statements.

AUDIT COMMITTEE

The audit committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. Specific enquiry has been made to all the Directors and the Directors have confirmed that they had complied with such code of conduct during the period from the Listing Date to December 31, 2012.

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 81 to 96 of this annual report.

REPORT OF DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

The Stock Exchange granted to the Company a waiver from strict compliance with Rule 8.08(1) of the Listing Rules (the "**Public Float Waiver**"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of Shares which must be in public hands must not be less than 22.01% of the total issued share capital of the Company. Based on information publicly available to the Company and to the knowledge of the Directors, at least 22.01% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the waiver and permitted under the Listing Rules, are held by the public at all times as of the date of this report.

AUDITORS

KPMG (畢馬威會計師事務所) and Da Hua Certified Public Accountants (Special General Partnership) (大華會計師事務所(特殊普通合夥)) were appointed as the Company's international and domestic auditors, respectively, for the year ended December 31, 2012. The 2012 financial statements of the Company prepared in accordance with IFRS have been audited by KPMG. The Company has retained the services of KPMG and Da Hua Certified Public Accountants since the date of preparation of its Listing. A resolution to reappoint KPMG and Da Hua Certified Public Accountants as the Company's international and domestic auditors respectively will be proposed at the upcoming AGM on June 17, 2013.

COMPLIANCE WITH SANCTIONS UNDERTAKINGS

As disclosed in the Prospectus, the Company and the Directors have covenanted to the Stock Exchange that they will not, directly or indirectly, (1) use any of the 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 the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010) or the Executive Order 13590 (the "**Executive Order**") for so long as the ISA and Executive Order remain in effect (the "**Sanctions Undertakings**"). The Directors confirmed that both the Company and the Directors were in compliance with the Sanctions Undertakings as at the date of this report. In particular, the Company has taken the following measures to ensure compliance with the Sanctions Undertakings:

1. Proceeds Account – The Company has opened and maintained separate designated banks account for the proceeds from the Listing in Hong Kong as at the date of this report (the "**Proceeds Accounts**"). The Proceeds Account is 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 Account records all transactions and activities within these bank accounts and trace the flow of funds in and out of the Proceeds Account.

2. Accounting measures – The Company has ensured that separate books and records are in place to monitor the activities, including deposits and disbursements, of the Proceeds Accounts.

3. Internal control policies – We have formulated a dedicated set of internal control policies particularly in respect of the Proceeds Account to regulate various aspects of operating the Proceeds Account, 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, responsible personnel to be appointed, accountability and reporting line and other necessary operational procedures.

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4. Internal compliance program ("**ICP**") on export control – With the Company's existing ICP platform, the export control office has continued 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.

On behalf of the Board
Mr. YANG Wansheng
Chairman

Beijing, PRC, April 17, 2013

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the annual report of the Company for the period from December 21, 2012, the Listing Date, to December 31, 2012 (the "**Relevant Period**"). In addition, certain information regarding the Directors and the board committees has been updated as at the date of the annual report.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The CG Code has been adopted as the Company's own code of corporate governance. Save for the deviations disclosed in this report with reasons explained for the deviations, the Company has complied with the code provisions as set out in the CG Code for the Relevant Period. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions, exercises effective supervision over the management, ensures that the Company's interests are protected, reports to the Shareholders and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established five Board committees namely the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**"), the strategy and development committee (the "**Strategy and Development Committee**") and the operation and risk management committee ("**Operation and Risk Management Committee**") (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Liability insurance for the Directors of the Company was maintained by the Company with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

CORPORATE GOVERNANCE REPORT

Board Composition

As at the date of this report, the Board comprises three executive Directors, namely Mr. SUN Bai, Ms. LI Taifang, Mr. ZHANG Chun, two non-executive Directors, namely Mr. PAN Chongyi and Mr. WANG Zhian, and four INEDs, namely Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. CHAN Kin Ho Philip. The biographies of the Directors are set out under the section headed "Profile of Directors, Supervisors and Senior Management" of this annual report.

As disclosed in an announcement on February 20, 2013, the Company received a notice ("**Notice**") was from SINOMACH. According to the Notice, as Mr. YANG Wansheng (楊萬勝) has reached the retirement age, it was proposed that Mr. YANG be retired from his position as the chairman and executive Director of the Company. The proposed retirement contemplated under the Notice is subject to approval of the Shareholders at a shareholders' meeting in accordance to the Articles of Association.

Pursuant to the Notice, Mr. SUN Bai (孫柏) was also nominated to succeed Mr. YANG Wansheng as the chairman and executive Director of the Company. The proposed nomination contemplated under the Notice is subject to approval of the Shareholders at a shareholders' meeting in accordance to the Articles of Association.

At the extraordinary general meeting held on April 19, 2013, the Shareholders approved the retirement of Mr. YANG Wansheng and the appointment of Mr. SUN Bai.

Since the Listing Date and up to the date of this report, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

Under Rule 3.10A of the Listing Rules, listed issuers are required to appoint independent non-executive director representing more than one-third of the board of directors. The Company has four INEDs currently representing four-ninths of the Board and therefore the Company has complied with Rule 3.10A during the Relevant Period.

The Company has received written annual confirmation from each INED of his or her independence pursuant to the requirements of the Listing Rules. The Company considers all INEDs to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including the INEDs, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. INEDs are invited to serve on the Audit Committee, the Remuneration Committee, the Nomination Committee, the Strategy and Development Committee and the Operation and Risk Management Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as their identity and the time involved to the issuer, the Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Prior to Listing, all the Directors have attended a formal, tailor-made and comprehensive training.

Each newly appointed Director would also receive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

CORPORATE GOVERNANCE REPORT

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary. From time to time, the Directors are provided with written training materials to develop and refresh their professional skills. The Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge his or her duties. From July 27 to July 29, 2012, the Company held an employee training on export control presented by outside U.S. legal advisers. The training included an overview of OFAC economic sanctions programs, penalties under U.S. sanctions and review of current state of Iran sanctions. A summary of training received by the Directors since April 1, 2012 up to December 31, 2012 according to the records maintained by the Company is as follows:

Name of Directors	Training on corporate governance regulatory development and other relevant topics	Training on export control
Executive Directors		
Mr. YANG Wansheng	√	√
Ms. LI Taifang	√	√
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 Philip	√	√

Chairman and President

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organization structure of the Company, Mr. Sun Bai is our Chairman of the Board and Mr. ZHANG Chun is the President. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprise experienced and high caliber individuals. The Board currently comprises three executive Directors, two non-executive Directors and four INEDs and therefore has a fairly strong independence element in its composition. Pursuant to the Articles of Association, the primary duties and responsibilities of the chairman include:

a) presiding over the shareholders' general meetings and convening and presiding over meetings of the Board, examining the implementation of the resolutions of the Board;

CORPORATE GOVERNANCE REPORT

b) organizing the formulation of regulations on the operation of the Board, and coordinating the operation of the Board;

c) receiving regular or non-regular performance reports on the Company's senior management; and

d) giving opinions guiding the execution of board resolutions and signing the Company's share certificates, debentures and other important documents.

The major responsibilities of the president include:

a) leading the production, operation and management of the Company, and reporting his works to the Board;

b) organizing the implementation of the resolutions of the Board, the Company's annual business plans and investment plans;

c) preparing the Company's annual budgets and final accounts, and providing recommendations to the Board;

d) formulating the plans for merger, division or reorganization of the wholly-owned subsidiaries and controlled subsidiaries of the Company;

e) preparing plans for the establishment of the Company's basic management system and the internal management structure, preparing plans for the establishment of domestic and overseas branches of the Company, formulating specific rules and regulations of the Company;

f) appointing or removing the management personnel, except for those that shall be appointed or removed by the Board;

g) formulating the remunerations, benefits and incentive programs, as well as the appointment and removal of the Company's employees;

h) proposing to convene an extraordinary board meeting when emergency arises; and

i) determining on investment, financing, contracts and transactions of the Company within the scope of authorization of the Board.

CORPORATE GOVERNANCE REPORT

Appointment and Re-Election of Directors

Each of the executive Directors (save for Mr. Sun Bai) and non-executive Directors has entered into a service agreement with the Company on November 10, 2012 for a term commencing from the date of the general meeting in which the respective executive Directors or non-executive Directors were appointed, until the end of the term of the first session of the Board and may be terminated in accordance with the respective terms of the service agreements.

Each of the INEDs has signed a letter of appointment with the Company on November 10, 2012 for a term commencing from the date of the general meeting in which the respective INEDs were appointed until the end of the term of the first session of the Board.

Mr. SUN Bai has entered into a service agreement with the Company on April 19, 2013 for a term commencing from the date of the general meeting in which he was appointed as executive Director, until the end of the term of the first session of the Board and may be terminated in accordance with the terms of the service agreement.

None of the Directors has a service agreement which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In accordance with the Articles of Association, all Directors shall be elected or replaced at the Shareholders' general meetings with a term of office of three years. Upon expiry of the term of office, a director shall be eligible to offer himself for re-election and reappointment. Any person appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the Company's next AGM and that person shall then be eligible for re-election and reappointment.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment, re-election and succession planning of Directors.

Board Meetings

The Company adopts the practice of holding board meetings regularly, at least four times a year. Notices of not less than fourteen days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least fourteen days before the regular meetings and at least five days before the extraordinary meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When the Directors or committee members are unable to attend a meeting, he or she may appoint in writing another Director to attend the meeting on his or her behalf. The power of attorney shall specify the scope of authorization. The proxy shall exercise the rights of the Director within the scope of the authorization. A Director failing to attend the board meeting in person or by proxy shall be deemed as having waived his or her voting rights at such meeting.

CORPORATE GOVERNANCE REPORT

Minutes of the board meetings and committee meetings are recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are sent to the Directors for comments as soon as possible after the date on which the meeting is held.

During the Relevant Period, the Company considered one written resolution via mail and facsimile. Out of nine Directors, two executive Directors abstain from voting with the remaining seven Directors voted in favour of the resolution. Subsequent to the end of the Relevant Period and up to the date of this report, six board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. YANG Wansheng (retired on April 19, 2013)	5/5
Mr. SUN Bai (appointed on April 19, 2013)	2/2
Ms. LI Taifang	7/7
Mr. ZHANG Chun	7/7
Mr. PAN Chongyi	7/7
Mr. WANG Zhian	7/7
Mr. LIU Li	7/7
Ms. LIU Hongyu	7/7
Mr. FANG Yongzhong	7/7
Mr. CHAN Kin Ho Philip	7/7

The chairman of the Company held a meeting with the non-executive Directors (including the INEDs) without the presence of the executive Directors during the Relevant Period.

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code during the Relevant Period.

During the Relevant Period, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company in respect of their dealings in the Company's securities.

CORPORATE GOVERNANCE REPORT

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to significant transactions entered into by the management as defined under the relevant Working Rules for the President (總經理工作規則).

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which include:

a. To develop, review and implement the Company's policy and practices on corporate governance;

b. To review and monitor the training and continuous professional development of Directors and senior management;

c. To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

d. To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;

e. To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

f. To develop, review and monitor the implementation of the Shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance Shareholders' relationship with the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

Nomination Committee

The Nomination Committee currently comprises three members, namely Mr. SUN Bai (chairman), Ms. LIU Hongyu and Mr. FANG Yongzhong, the majority of them are INEDs.

The principal duties of the Nomination Committee include the following:

a) To review the structure, size and composition of the Board on a regular basis according to the operating activities, asset size and equity structure of the Company and make recommendations regarding any proposed changes;

b) To make recommendations to the Board on appointment or re-appointment of and succession planning for Directors;

c) To identify candidates who are qualified/suitable to join the Board and to select or make recommendations to the Board on the selection of candidates nominated for directorships;

d) To assess the candidates for the senior management of the Company and its wholly-owned and controlled subsidiaries, and provide appraisal opinions to the Board; and

e) To assess the independence of the INEDs.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

As the Company was listed on the Stock Exchange on December 21, 2012, no Nomination Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this report, one meeting of the Nomination Committee was held on March 25, 2013 to assess the independence of the INEDs and discuss the working procedures and working plan of the Nomination Committee for 2013. The attendance record of the Nomination Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. YANG Wansheng (retired on April 19, 2013)	1/1
Mr. SUN Bai (appointed on April 19, 2013)	–/–
Ms. LIU Hongyu	1/1
Mr. FANG Yongzhong	1/1

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. FANG Yongzhong (chairman), Mr. SUN Bai and Mr. LIU Li, the majority of them are INEDs.

The primary duties of the Remuneration Committee include the following:

a) To make recommendations to the Board on the Company's policy and structure for remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing the remuneration policy;

b) To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

c) To determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, or to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

Their written terms of reference are available on the websites of the Stock Exchange and the Company.

As the Company was listed on the Stock Exchange on December 21, 2012, no Remuneration Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this report, one meeting of the Remuneration Committee was held on March 13, 2013 to review and make recommendation on the remuneration packages of the executive Directors and senior management and the director's fee of the INEDs. The attendance record of the Remuneration Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. FANG Yongzhong (retired on April 19, 2013)	1/1
Mr. YANG Wansheng	1/1
Mr. SUN Bai (appointed on April 19, 2013)	–/–
Mr. LIU Li	1/1

CORPORATE GOVERNANCE REPORT

Emoluments of senior management

There were eight employees being classified as senior management during the Relevant Period. Details of the remuneration of the eight members of the senior management by band for the Relevant Period are set out below:

Remuneration bands (RMB)	Number of persons
1,000,000 to 1,200,000	1
1,200,000 to 1,400,000	–
1,400,000 to 1,600,000	6
1,600,000 to 1,800,000	–
1,800,000 to 2,000,000	1

Audit Committee

The Audit Committee comprises two independent non-executive Directors and one non-executive Director, namely Mr. LIU Li (chairman), Ms. LIU Hongyu and Mr. WANG Zhian, the majority of them are INEDs. The main duties of the Audit Committee include the following:

a) To review the financial statements and reports and consider any significant or unusual items raised by the internal audit division or external auditor before submission to the Board;

b) To review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor; and

c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function.

Their written terms of reference are available on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

As the Company was listed on the Stock Exchange on December 21, 2012, no Audit Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this report, one meeting of the Audit Committee was held on March 21, 2013 to review the Group's financial result for the year ended December 31, 2012 before submission to the Board for approval. The attendance record of the Audit Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. LIU Li	1/1
Ms. LIU Hongyu	1/1
Mr. WANG Zhian	1/1

Strategy and Development Committee

The Strategy and Development Committee comprises five members, namely Mr. SUN Bai (chairman), Ms. LI Taifang, Mr. ZHANG Chun, Mr. PAN Chongyi and Mr. LIU LI. The main duties of the Strategy and Development Committee include the following:

a) To conduct 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;

b) To present assessment reports on the implementation of our Company's strategic planning, management and business development; and

c) To research and analyze major issues encountered by our Company in the course of its development.

As the Company was listed on the Stock Exchange on December 21, 2012, no Strategy and Development Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this report, one meeting of the Strategy and Development Committee was held on March 27, 2013 to discuss the working procedures and working plan of the Strategy and Development Committee for 2013. The attendance record of the Strategy and Development Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. YANG Wansheng (retired on April 19, 2013)	1/1
Mr. SUN Bai (appointed on April 19, 2013)	–/–
Ms. LI Taifang	1/1
Mr. ZHANG Chun	1/1
Mr. PAN Chongyi	1/1
Mr. LIU Li	1/1

CORPORATE GOVERNANCE REPORT

Operation and Risk Management Committee

The Operation and Risk Management Committee comprises four members, namely Ms. LI Taifang (chairman), Mr. PAN Chongyi, Mr. WANG Zhian and Mr. FANG Yongzhong. The main duties of the Operation and Risk Management Committee include the following:

a) To review and evaluate the progress of major investments, operations, and major business;

b) To review and evaluate the decision making standards and mechanisms as regards major operational decisions, major risks, major events, and major business processes; and

c) To establish 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.

As the Company was listed on the Stock Exchange on December 21, 2012, no Operation and Risk Management Committee meeting was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this report, one meeting of the Operation and Risk Management Committee was held on March 27, 2013 to discuss the working procedures and work plan of the Operation and Risk Management Committee for 2013, as well as the risk management in respect of the Sanctions Undertakings. The attendance record of the Operation and Risk Management Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Ms. LI Taifang	1/1
Mr. PAN Chongyi	1/1
Mr. WANG Zhian	1/1
Mr. FANG Yongzhong	1/1

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2012 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

Pursuant to code provision C.1.1 of the CG Code, the management would provide such explanation and information to the Board as will enable the Board to make an informal assessment of the financial and other information put before the Board for approval The Company also provides all members of the Board with monthly updates on Company's performance, positions and prospects.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board executes the decision-making right on operation. It endeavors to establish and improve the internal control policies and plans and supervise the implementation of the internal control system to safeguard shareholder investments and Company assets, thus being responsible for the establishment and supervision of the internal control system of the Company. It is the responsibility of the Board to establish, improve, review and effectively implement the internal control system.

In accordance with applicable PRC laws and regulations, the Company has formulated over 147 internal control policies and management rules 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. The Directors believe the current procedures on internal control are designed to promote the completeness, reasonableness and effectiveness of such system. In 2012, the Company conducted an assessment on the effectiveness of the internal controls of the Group for the Company's Listing. Based on the result of the assessment, nothing has come to the attention of the Board in relation to the internal controls of the Company.

In 2012, the Company prepared the "Operational Guide for Senior Management on Comprehensive Risk and Internal Control Management Manual (高級管理人員全面風險和內控管理手冊使用指南)", and the "Operational Manual for Risk and Internal Control Management (風險和內控管理操作手冊)" for each of its departments. In order to enhance our staff's knowledge of and understanding on internal control, the Company engaged a consulting company to conduct a comprehensive training for the senior and middle management of the Company in March 2012. In December 2012, a sample test was conducted on the execution of the Company's "Management Process for Comprehensive Engineering Project (工程成套項目管理流程)" and "Management Process for Material Procurement (物資採購管理流程)" with the assistance from a consulting company to promote an effective operation and continuous improvement of the Company's internal control system. No material weakness was identified during the test. In order to improve the internal control standards of the Company's trading subsidiaries, the Company revised and consolidated the key operation procedures of two representative trading subsidiaries, including material procurement management, trade management, contract management, currency and capital management, trade receivables management and tax management, and formulated the Risk Management Manual and Business Internal Control Manual.

The Company also completed the "Implementation Program of Risk Management and Control Measures of Trading (Including Vessel Trading) Agency Business Adopted by CMEC (CMEC 落實貿易(含船舶)代理業務風險管控措施的實施方案)". The Company carried out a fundamental financial study and self-examination on taxation, implemented a reporting system of significant financial issues, and identified and promptly rectified financial management issues, thereby avoiding tax and financial risks in a practical manner. Meanwhile, the Company continued to strengthen its control over capital risk. It formulated capital management and exchange rate management schemes to improve the Company's capital management and risk management level.

CORPORATE GOVERNANCE REPORT

The Group's internal control system will be reviewed and assessed on an on-going basis by the Audit Committee which will report the same to the Board, and will be further reviewed and assessed at least once each year by the Board.

INTERNAL AUDIT

The audit department will conduct independent review and assessment on the appropriateness, rationality and effectiveness of the governance, risk management and internal control system. The audit department is under the supervision and guidance of the Audit Committee, and will provide analysis and recommendation for the Board and the senior management. It is responsible for all material control, including financial, operational, compliance and risk management. In 2012, the audit department did not discover any circumstances involving fault, non-compliance or violation against laws, regulations and rules or severe insufficient control.

AUDITOR'S REMUNERATION

For the year ended December 31, 2012, the remunerations paid or payable to the external auditors in respect of its annual audit services, reporting accountant service fees related to the Listing and non-audit services were approximately RMB6.0 million, RMB10.6 million and RMB1.2 million, respectively. The amount for 2012 non-audit services comprised mainly the services fee on internal control. The Audit Committee was satisfied that the non-audit services in 2012 did not affect the independence of the auditor.

COMPANY SECRETARY

Mr. CHEN Minjian, secretary to the Board and one of our joint company secretaries, is responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. TSANG Fung Chu, as its joint company secretary to assist Mr. Chen to discharge his duties as company secretary of the Company. For the purpose of Code F.1.1 of the CG Code, Ms. Tsang keeps close contact with Mr. Chen, being the person with sufficient seniority at the Company.

For the year under review, Mr. CHEN and Ms. TSANG have undertaken 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

In 2012, the Company successfully completed its Listing in Hong Kong. Through roadshow presentations around the globe, its investor relations website, investor enquiry hotline, investor mailbox and other communication channels, the Company maintains close liaisons with investors worldwide in a timely and efficient manner. Moreover, through investment forums, corporate visits, teleconferences and various other channels, the Company maintains proactive and frank exchanges with investors and analyses. The Company has attached great importance to listening and accepting reasonable suggestions and opinions from Shareholders and investors. It strives to continuously enhance its operating results, present a true picture of the Company's financial and operational status to Shareholders and investors, actively facilitate the internal communications in respect of the feedback from the capital market, and continuously perfect and enrich the system aiming to canvass information in relation to investor relations. The management over investor relations involves an all-faceted interactive communication process.

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions. In 2013, the Company will further step up communications and exchanges with investors, in a bid to increase their understanding of the Company, whilst canvassing the support and attention from investors, so that they may provide more valuable opinions. The Company will also put great efforts in furthering the exploration and innovation in its investor relations management to bolster the Company's position in domestic and overseas capital markets.

The AGM of the Company provides opportunity for shareholders to communicate directly with the Directors. The chairman of the Board, the president of the Company, the chairman of each of the Board Committees and the external auditor of the Company, KPMG, will attend the AGM to answer Shareholders' questions.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its Shareholders and maintains a website at www.cmec.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access. The Company also maintained frequent contacts with Shareholders and investors through various channels such as meetings, telephone and emails. For example, we will convene telephone meetings to answer enquiries from Shareholders and investors, as well as arrange one-on-one conversation with investors. In addition, we arranged on-site visits to the Group's projects and non-deal roadshows for investors and research analysts.

INFORMATION DISCLOSURE

The Company discloses information in compliance with the Listing Rules, and publishes periodic reports and announcements to the public in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate, truthful and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions regarding the Company.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, when the Company convenes an AGM, Shareholders holding 3% or more of the total voting shares of the Company shall be entitled to propose new resolutions to the Company in writing which should be submitted to the convener 10 days prior to the convening of the general meeting. The convener of the general meeting shall issue a supplemental notice of general meeting to other Shareholders within 2 days of the receipt of such proposal and incorporate such newly proposed matters falling within the scope of duties of the general meeting into the agenda of such meeting. The new agenda shall be tabled to the general meeting for consideration.

Pursuant to article 57 of the Articles of Association, general meetings shall be convened where Shareholders who individually or jointly hold 10% or more of the Company's Shares make a request to convene an extraordinary general meeting in writing. The matter for consideration proposed by the party requesting the holding of the extraordinary general meeting shall be included in the agenda of such meeting.

As regards proposing a person for election as a director, the procedures are set out in the Articles of Association which is available on the websites of the Company and the Stock Exchange.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to Room 804, 8/F, Tower 1, South Sea Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended December 31, 2012, there is no significant change in the constitutional documents of the Company.

2012 ANNUAL GENERAL MEETING

All Shareholders are encouraged to attend the forthcoming AGM and exercise their right to vote. Further details of business to be conducted at the general meeting will be set out in the circular to the Shareholders to be sent together with this annual report and posted on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

I. CAPITAL MARKET REVIEW

On December 21, 2012, the Shares of the Company were successfully listed on the Main Board of the Stock Exchange. The initial public offering of the Company recorded approximately 57.88 times oversubscription and the Group was honored as the "King of Oversubscription" in the Hong Kong stock market in 2012. On the Listing Date, the Company's Shares closed at HK$6.3, nearly 16.7% higher than the listing price of HK$5.4 with high trading volume. As the Company's Shares were listed in Hong Kong, their remarkable performance reflected a strong response from investors in the Company's unique business mode and our prospects. Our diversified shareholder's structure laid a solid foundation for the performance and development of the Company's shares.

II. PLAN FOR INVESTOR RELATIONS

Upon our Listing, the Company is committed to investor relations management, giving priority to enhancing attention from investors and maintaining positive communications between the Company and investors. With a view to progressing each task in respect of investor relations, the Company has established the Investor Relations Department in early 2013. Leveraging our pragmatic and proactive attitude, the Company strives to maintain solid communications with investors and forge an all-round investor relations system.

1. Disclosure of information in a timely and accurate manner

A key factor to efficient communications with investors lies in the announcement of information relating to the Company in a timely and accurate manner. Since the Listing Date, the Group has simultaneously launched a website of the Company for the public, which principally sets out the Company's information such as news, announcements and financial reports. Further improvements and real-time updates will be made to contents of the website.

In 2013, the Company will publish our results announcements in due course during the interim and annual results announcement seasons, and convene results conferences in Hong Kong, including presentations for investors and press conferences, in a timely manner to accurately disclose our latest results information to the public and investors, thus safeguarding the public's rights to be informed. As for tasks relating to investor relations in the future, the Company will further enhance the cooperation among internal divisions, to build up a more transparent and on-going information disclosure mechanism, thereby ensuring the public to be provided with more timely, comprehensive and accurate business information of the Group.

INVESTOR RELATIONS

2. Positive and efficient communications with investors

In addition to building a platform for resources sharing to make full information disclosure, the Group also takes various means to extensively contact investors in order to achieve efficient communications with investors.

In 2013, apart from annual and interim results conferences, the Group will also actively invite investors and analysts to participate in reverse roadshows and non-deal roadshows, which will enable them to deepen their understanding and recognition of the Group's businesses. The Group will endeavor to satisfy the requirements raised by investors. We will respond to investors' enquiries earnestly and frankly in conference calls and one-on-one meetings. As for analysts' reports and interview requests by the financial press, the Group's Investor Relations Department will also provide sufficient support and cooperation. We will be in close contact and have good communications with overseas and domestic investors and analysts and maintain good relations with the financial press. Meanwhile, the Group will set up an investor relations hotline as an efficient channel for investors to understand the Group's businesses.

Looking forward, the Group will continue to pay high attention to investor relations and consider the maintenance of investor relations as a sustainable strategic management. On the basis of frank and efficient communications, the Group will unceasingly improve our investor relations and maintain healthy communications with investors in all aspects and at all levels, striving for the best returns to our Shareholders.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board is pleased to present this report of the Supervisory Board in the annual report of the Company for the period from December 21, 2012, the Listing Date, to December 31, 2012 (the "**Relevant Period**").

In 2012, all members of the Supervisory Board have earnestly performed their supervisory functions to safeguard the rights and interests of the Group and the Shareholders in accordance with the Companies Law, the Articles of Associations, the Rules of Procedures of the Supervisory Board and the relevant provisions in the Listing Rules. Members of the Supervisory Board carried out examination of the Company's financial accounts and supervision of the Directors, the president and other senior management officers for their compliance with the laws, administrative regulations and the Articles of Association in executing their respective duties.

I. MEETINGS OF THE SUPERVISORY BOARD

As the Company was listed on the Stock Exchange on December 21, 2012, no meeting of the Supervisory Board was held during the Relevant Period. However, subsequent to the end of the Relevant Period and up to the date of this report, one meeting of the Supervisory Board was held on March 27, 2013 to consider the 2012 audited financial report of the Company and the report of the Supervisory Board for 2012 and to receive the report on the 2012 results announcement of the Company.

II. INDEPENDENT OPINIONS ISSUED BY THE SUPERVISORY BOARD ON RELEVANT MATTERS

1. Operation and management of the Company

During the Relevant Period, the Company managed to achieve satisfying results in areas of operation, cost control, project origination, implementation and management, internal management, work safety and market expansion. The management of the Company further strengthened the systems of internal controls, and enhanced, in particular, the system of business processes of all functional departments of the Company, making further progress in corporate governance. The management of the Company faithfully fulfilled their duties and responsibilities as stipulated in the Articles of Association and earnestly implemented the resolutions approved by the Board.

REPORT OF THE SUPERVISORY BOARD

2. Financial matters of the Company

Members of the Supervisory Board monitored and examined the financial management system and the financial condition and reviewed relevant financial information of the Company. Upon examination, the Supervisory Board concluded that the Company had strictly complied with the relevant financial laws, regulations and financial policies, and that the financial management system was sound and implemented effectively; the accounting treatment was in line with the consistency principles; and the Company's financial reports gave an objective and fair view of the financial position and operating results of the Company.

The Supervisory Board reviewed the unqualified audit opinions issued by KPMG and Da Hua Certified Public Accountant (Special General Partnership) in respect of the audited consolidated financial statements of the Company for the year ended December 31, 2012 prepared in accordance with IFRS and Accounting Standards for Business Enterprises of the PRC respectively, and raised no objection to such reports.

3. Connected transactions

The Supervisory Board reviewed the connected transactions between the Group and SINOMACH and its subsidiaries and its respective connected persons during the reporting period, and was of the opinion that all the connected transactions complied with the relevant requirements of the Stock Exchange, and that the pricing of the connected transactions was reasonable, open and fair and there was not any matter prejudicial to the interests of the Company or Shareholders.

4. Implementation of the resolutions of General Meetings

The Supervisory Board made no objection to the reports and motions tabled at the general meetings and considered that the Board earnestly implemented the resolutions approved by the general meetings.

In 2013, the Supervisory Board will continue to carry out its fiduciary duties to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Companies Law, the Articles of Association, the Terms of Reference for the Supervisory Board and the Listing Rules; and pay close attention to the operation and management status of the Company as well as any significant development of the Company, so as to facilitate the profit growth of the Company and to dutifully protect the interests of all Shareholders and the Company.

By Order of the Supervisory Board
QUAN Huaqiang
Chairman of the Supervisory Board

Beijing, the PRC, March 27, 2013

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. EXECUTIVE DIRECTORS

Mr. SUN Bai (孫柏), aged 55, was appointed as the chairman and an executive Director of our Company on April 19, 2013, and the party secretary of the Communist Party of China committee ("**CPC Committee**") (黨委書記) on February 18, 2013. Mr. SUN has more than 30 years of management experience. From November 1980 to January 1994, he worked in Changchun Testing Machine Institution (長春試驗機研究所). Mr. SUN joined Zhonggong Electrical and Mechanical Development Corporation (中工機電發展總公司) in January 1994 and then served as its general manager from May 1994 to June 1999. He worked as the general manager of China North Industrial Equipment Corporation (中國北方工業裝備總公司), which changed its name to China North Industrial Equipment Co. Ltd. (中國北方工業裝備有限公司), from June 1999 to August 2005. He joined China National Complete Engineering Corporation (中國成套工程有限公司) ("**CMCEC**"), which is an enterprise established in the PRC and wholly-owned by SINOMACH, as its general manager in August 2005 and also served as its chairman of the board from December 2011. On March 14, 2013, Mr. SUN has resigned as the general manager of CMCEC. Mr. SUN obtained a master degree of economics from Jilin University (吉林大学) in 1993. He is a senior economist.

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) undertook postgraduate studies from September 1984 to September 1986 at the same institute. Ms. LI is currently and independent non-executive director of Xuanhua Construction Machinery Co., Ltd. (河北宣化工程機械有限公司), 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).

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 the vice president of our Company from August 2011 until March 2012. 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.

II. NON-EXECUTIVE DIRECTORS

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 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 CMIIC 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.

III. 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), Langfang Development Co., Ltd. (廊坊發展股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600149), 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).

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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. From March 2008 to December 2012, Mr. FANG was 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

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 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). From December 2012 to present, Mr. CHAN served as an executive director of Willing International Capital (Shanghai) Company Limited, responsible for provision of financial advisory services. 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

IV. SUPERVISORS

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 44, a senior accountant, 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, vice chief accountant and vice general manager at China National Harvester Machinery Corporation (中國收穫機械總公司) (a subsidiary of SINOMACH). From September 2006 to September 2008, Mr. QIAN served as an 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.

Mr. BAI Ming (白明), aged 45, 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 a tax accountant, international accountant and certified enterprise risk manager.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

V. SENIOR MANAGEMENT

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 56, 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.

Mr. ZHANG Jianguo (張建國), aged 52, 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 vice party secretary of CPC Committee (黨委副書記) and 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.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 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 practicing 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. From September 2009 to January 2013, Mr. Chen was a vice director of the office of company reorganization of our Company as well as serving as a vice director of the general office of our Company from January 2011 to June 2011. From June 2011 to November 2011, Mr. CHEN was the director of the general office and became the secretary to the Board of our Company since 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.

HUMAN RESOURCES

I. PROFILE OF HUMAN RESOURCES

As at December 31, 2012, the Group had 2,384 employees in total. The following table sets forth the number of employees according to different job functions and by geographical locations:

	Asia	Africa	Europe	North America	South America	Oceania	Number of Employees
Business staff							2,086
International Engineering Contracting Business	1,084	79	95	35	–	31	1,324
Trading Business	534	–	–	4	–	1	539
Other Businesses	223	–	–	–	–	–	223
Management, finance and administration	225	–	–	–	–	–	225
Others	43	–	–	–	–	–	43
Total	2,139	79	95	39	–	32	2,384

The following tables set forth the Company's staff structure by academic qualification and age, respectively:

Analysis of the Company's staff by academic qualification

No.	Academic qualification	Number of staff	Percentage
1	Postgraduate or above	205	27.4%
2	Undergraduate	454	60.7%
3	College diploma	70	9.4%
4	Technical secondary school or below	19	2.5%
	Total	**748**	**100.0%**

HUMAN RESOURCES

Analysis of the Company's staff by age

No.	Age	Number of staff	Percentage
1	56 years old and above	53	7.1%
2	46-55 years old	223	29.8%
3	36-45 years old	156	20.9%
4	35 years old and below	316	42.2%
	Total	**748**	**100.0%**

The following tables set forth the Group's staff structure by academic qualification and age, respectively:

Analysis of the Group's staff by academic qualification

No.	Academic qualification	Number of staff	Percentage
1	Postgraduate or above	483	20.3%
2	Undergraduate	1,387	58.2%
3	College diploma	371	15.5%
4	Technical secondary school or below	143	6.0%
	Total	**2,384**	**100%**

Analysis of the Group's staff by age

No.	Age	Number of staff	Percentage
1	56 years old and above	128	5.4%
2	46-55 years old	497	20.8%
3	36-45 years old	434	18.2%
4	35 years old and below	1,325	55.6%
	Total	**2,384**	**100%**

HUMAN RESOURCES

II. STAFF INCENTIVES

To cope with its development, the Company has established a comprehensive accountability system, a performance appraisal system for all employees and a multi-level incentive mechanism. The Company has optimized responsibilities and job positions of its functional departments. It prepared the "Functional Department Job Position Description (職能部門崗位說明書)" and the "Model of Competency and Quality for the Functional Management Members (職能管理人員能力素質模型)". It also completed the preliminary stage of the "Structure Planning for Job Positions in Functional Departments (職能部門崗位編製規劃方案)". Meanwhile, scientific evaluation tools were used to make a preliminary assessment and classification of the value of the job positions in the functional departments for. Through clearly locating position-oriented performance targets and formulating performance standards, the Company has managed to assess employees' performance in an objective manner. By materializing reward and penalty in the performance-related portion of the employees' remuneration, the Company is able to boost the potential and morale of employees, thus achieving the coexistence of incentives and restraints.

III. STAFF REMUNERATION

Staff's remuneration comprises of basic salary and performance salary. The performance salary is determined according to the assessment of performance of the whole staff.

IV. STAFF TRAINING

We provide systematic and effective training for our employees. We provide sustainable and specific education training for our senior management, middle management as well as technical and operational staff with a view to improving the quality and ability of our staff at different levels.

To regulate the management of staff training, the Company has formulated comprehensive measures for administering employees' education and training, which effectively promote the establishment of the Company's education training system. The Company focuses on the training needs of the senior management, middle management, technical and operational staff as well as the development needs of the Company when formulating and implementing education training programmes. The Company aims to implement a diversified training system for the staff so as to encourage the staff to participate in training.

The training provided by the Company in 2012 was divided into six categories: training for middle and senior management, training for core operational staff, training for core technical staff, relevant professional knowledge talks, selective training and orientation training for new staff.

V. GUARANTEE OF STAFF RIGHTS

The Group strictly complies with the relevant PRC laws and regulations and makes contributions to various pension contribution plans, medical insurance plans, unemployment insurance plans, maternity insurance plans and personal injury insurance plans.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
China Machinery Engineering Corporation
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Machinery Engineering Corporation (the "Company") and its subsidiaries (together the "Group") set out on pages 115 to 213, which comprise the consolidated and company balance sheets as at December 31, 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

March 27, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Note	**2012** **RMB'000**	2011 RMB'000
Revenue	4	**21,296,063**	20,517,769
Cost of sales		**(17,564,553)**	(16,858,738)
Gross profit		**3,731,510**	3,659,031
Other revenue	5	**11,985**	9,699
Other income/(expenses), net	6	**10,130**	(3,062)
Selling and marketing expenses		**(1,086,621)**	(978,257)
Administrative expenses		**(478,253)**	(406,388)
Other operating expenses		**(125,509)**	(136,381)
Profit from operations		**2,063,242**	2,144,642
Finance income		**582,992**	402,274
Finance expenses		**(30,270)**	(559,538)
Net finance income/(expenses)	7(a)	**552,722**	(157,264)
Share of profits less losses of associates		**(86)**	(9)
Profit before taxation	7	**2,615,878**	1,987,369
Income tax	8	**(687,716)**	(515,026)
Profit for the year		**1,928,162**	1,472,343
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas subsidiaries		**(3,720)**	1,235
Total comprehensive income for the year		**1,924,442**	1,473,578

The notes on pages 124 to 213 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Note	2012 RMB'000	2011 RMB'000
Profit attributable to:			
Shareholders of the Company		**1,927,689**	1,474,893
Non-controlling interests		**473**	(2,550)
Profit for the year		**1,928,162**	1,472,343
Total comprehensive income attributable to:			
Shareholders of the Company		**1,925,325**	1,475,096
Non-controlling interests		**(883)**	(1,518)
Total comprehensive income for the year		**1,924,442**	1,473,578
Basic and diluted earnings per share (RMB)	*12*	**0.58**	0.45

The notes on pages 124 to 213 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	14	**444,205**	391,645
Investment properties	15	**15,711**	32,255
Lease prepayments	16	**1,827,148**	1,630,371
Intangible assets	17	**7,659**	5,205
Interest in associates		**413**	499
Other non-current assets	19	**253,952**	253,490
Trade and other receivables	21	**39,050**	106,929
Construction contracts	22	**4,114,329**	4,774,293
Deferred tax assets	29(b)	**131,311**	82,485
Total non-current assets		**6,833,778**	7,277,172
Current assets			
Inventories	20	**225,731**	212,285
Trade and other receivables	21	**5,510,059**	6,426,789
Construction contracts	22	**3,191,436**	3,176,301
Restricted deposits	23	**447,351**	389,720
Time deposits with original maturity over three months		**6,472,079**	3,955,217
Cash and cash equivalents	24	**12,089,395**	5,170,757
Total current assets		**27,936,051**	19,331,069
Current liabilities			
Borrowings	25	**133,920**	160,108
Receipts in advance	26	**12,710,410**	10,316,022
Trade and other payables	27	**10,943,270**	9,671,321
Retirement and other supplemental benefit obligation	28(a)	**31,660**	31,770
Income tax payable	29(a)	**451,258**	318,016
Total current liabilities		**24,270,518**	20,497,237
Net current assets/(liabilities)		**3,665,533**	(1,166,168)
Total assets less current liabilities		**10,499,311**	6,111,004

The notes on pages 124 to 213 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Note	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Borrowings	25	**154,618**	225,529
Trade and other payables	27	**60,956**	131,036
Retirement and other supplemental benefit obligation	28(a)	**365,540**	379,630
Deferred tax liabilities	29(b)	**774**	914
Total non-current liabilities		**581,888**	737,109
NET ASSETS		**9,917,423**	5,373,895
CAPITAL AND RESERVES	30		
Share Capital		**4,018,000**	3,300,000
Reserves		**5,902,341**	2,079,736
Total equity attributable to the shareholders of the Company		**9,920,341**	5,379,736
Non-controlling interests		**(2,918)**	(5,841)
TOTAL EQUITY		**9,917,423**	5,373,895

Approved and authorized for issue by the board of directors on March 27, 2013.

Name: Yang Wansheng
Position: Chairman

Name: Li Taifang
Position: Director

The notes on pages 124 to 213 form part of these financial statements.

BALANCE SHEET

At December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Note	**2012** ***RMB'000***	2011 *RMB'000*
Non-current assets			
Property, plant and equipment	*14*	**294,680**	281,387
Investment properties	*15*	**16,203**	17,224
Lease prepayments	*16*	**1,487,307**	1,491,337
Intangible assets	*17*	**4,440**	3,994
Investments in subsidiaries	*18*	**1,780,915**	1,775,316
Interest in associates		**413**	499
Other non-current assets	*19*	**252,340**	252,340
Trade and other receivables	*21*	**4,383**	–
Construction contracts	*22*	**3,973,699**	4,522,766
Deferred tax assets	*29(b)*	**67,863**	26,922
Total non-current assets		**7,882,243**	8,371,785
Current assets			
Inventories	*20*	**27,611**	55,633
Trade and other receivables	*21*	**4,282,918**	4,396,802
Construction contracts	*22*	**2,905,004**	2,900,842
Restricted deposits	*23*	**382,479**	309,994
Time deposits with original maturity over three months		**6,315,902**	3,777,394
Cash and cash equivalents	*24*	**10,707,249**	4,145,759
Total current assets		**24,621,163**	15,586,424
Current liabilities			
Borrowings	*25*	**69,769**	140,510
Receipts in advance	*26*	**12,083,943**	9,052,432
Trade and other payables	*27*	**9,329,793**	8,223,483
Retirement and other supplemental benefit obligation	*28(a)*	**24,570**	24,710
Income tax payable	*29(a)*	**384,792**	254,890
Total current liabilities		**21,892,867**	17,696,025
Net current assets/(liabilities)		**2,728,296**	(2,109,601)
Total assets less current liabilities		**10,610,539**	6,262,184

The notes on pages 124 to 213 form part of these financial statements.

BALANCE SHEET

At December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Note	2012 RMB'000	2011 RMB'000
Non-current liabilities			
Borrowings	25	**147,081**	217,381
Trade and other payables	27	**23,501**	15,489
Retirement and other supplemental benefit obligation	28(a)	**276,990**	292,010
Total non-current liabilities		**447,572**	524,880
NET ASSETS		**10,162,967**	5,737,304
CAPITAL AND RESERVES	30		
Share Capital		**4,018,000**	3,300,000
Reserves		**6,144,967**	2,437,304
TOTAL EQUITY		**10,162,967**	5,737,304

Approved and authorized for issue by the board of directors on March 27, 2013.

Name: Yang Wansheng
Position: Chairman

Name: Li Taifang
Position: Director

The notes on pages 124 to 213 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Attributable to the shareholders of the Company							
	Share capital *RMB'000*	Capital reserve *RMB'000*	Reserve fund *RMB'000*	Exchange reserve *RMB'000*	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *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 *(note 30(d)(i))*	–	602,379	–	–	(16,061)	586,318	–	586,318
Appropriation to reserves	–	–	135,052	–	(135,052)	–	–	–
Dividends paid to shareholders of the Company *(note 30(b))*	–	–	–	–	(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	3,300,000	601,123	135,052	19,781	1,323,780	5,379,736	(5,841)	5,373,895
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 year	**-**	**-**	**-**	**-**	**1,927,689**	**1,927,689**	**473**	**1,928,162**
Other comprehensive income	**-**	**-**	**-**	**(2,364)**	**-**	**(2,364)**	**(1,356)**	**(3,720)**
Total comprehensive income	**-**	**-**	**-**	**(2,364)**	**1,927,689**	**1,925,325**	**(883)**	**1,924,442**
Issuance of shares upon public offering, net of issuing expenses *(note 30(c))*	**718,000**	**2,294,300**	**-**	**-**	**-**	**3,012,300**	**-**	**3,012,300**
Capital contributions	**-**	**-**	**-**	**-**	**-**	**-**	**261**	**261**
Acquisition of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**3,822**	**3,822**
Distribution to the controlling shareholder of the Company before public offering *(note 34(a))*	**-**	**-**	**-**	**-**	**(42,782)**	**(42,782)**	**-**	**(42,782)**
Appropriation to reserves	**-**	**-**	**181,038**	**-**	**(181,038)**	**-**	**-**	**-**
Dividends paid to shareholders of the Company *(note 30(b))*	**-**	**-**	**-**	**-**	**(354,238)**	**(354,238)**	**-**	**(354,238)**
Dividends paid to non-controlling interests of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**(277)**	**(277)**
At December 31, 2012	**4,018,000**	**2,895,423**	**316,090**	**17,417**	**2,673,411**	**9,920,341**	**(2,918)**	**9,917,423**

The notes on pages 124 to 213 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Note	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Profit before taxation		**2,615,878**	1,987,369
Adjustments for:			
Depreciation	*7(c)*	**60,400**	50,310
Amortization	*7(c)*	**38,402**	21,402
Impairment of trade and other receivables	*7(c)*	**123,004**	96,004
Impairment of construction contracts	*7(c)*	**2,164**	40,045
Write-down of inventories to net realizable value		**–**	100
Provision for foreseeable losses on construction contracts	*7(c)*	**2,788**	146
Net (gains)/losses on disposal of property, plant and equipment	*6*	**(17)**	167
Finance income	*7(a)*	**(306,581)**	(192,560)
Finance expenses	*7(a)*	**10,758**	18,605
Net foreign exchange losses		**6,339**	55,057
Dividend income	*5*	**(9,745)**	(8,094)
Net (gains)/losses on foreign currency forward exchange contracts and interest rate swaps	*6*	**(5,009)**	8,323
Share of profits less losses of associates		**86**	9
Operating profit before changes in working capital		**2,538,467**	2,076,883
Increase in inventories		**(13,446)**	(37,661)
Decrease in construction contracts		**639,877**	1,612,119
Decrease/(increase) in trade and other receivables		**865,193**	(1,427,371)
Increase in receipts in advance		**2,394,388**	1,645,071
Increase/(decrease) in trade and other payables		**1,165,225**	(219,850)
Decrease in retirement and other supplemental benefit obligation		**(14,200)**	(13,400)
Decrease in provisions		**–**	(125,000)
Cash generated from operations		**7,575,504**	3,510,791
Income tax paid	*29(a)*	**(603,440)**	(682,557)
Net cash generated from operating activities		**6,972,064**	2,828,234

The notes on pages 124 to 213 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

	Note	2012 RMB'000	2011 RMB'000
Cash flows from investing activities			
Payments for acquisition of property, plant and equipment		**(97,539)**	(50,202)
Payments for acquisition of investment properties		**–**	(168)
Payments for acquisition of land use rights		**(206,623)**	(873,642)
Payments for acquisition of intangible assets		**(4,398)**	(688)
Payments for settlement of foreign currency forward exchange contracts and interest rate swaps		**(1,717)**	(12,337)
Proceeds from disposal of property, plant and equipment		**992**	790
Net cash received from acquisition of investment in a subsidiary		**4,291**	–
Dividends received		**9,745**	8,349
Interest income received		**272,310**	195,379
(Increase)/decrease in time deposits		**(2,516,862)**	391,324
Increase in restricted deposits		**(57,631)**	(191,896)
Net cash used in investing activities		**(2,597,432)**	(533,091)
Cash flows from financing activities			
Net proceeds from issuance of shares under the public offering		**3,012,300**	–
Capital contributions		**261**	20,451
Proceeds from borrowings		**138,623**	140,219
Repayment of borrowings		**(236,632)**	(1,572,378)
Dividends paid to shareholders of the Company		**(354,238)**	(698,016)
Dividends paid to non-controlling interests of subsidiaries		**(28)**	(292)
Interest paid		**(10,851)**	(20,125)
Net cash generated from/(used in) financing activities		**2,549,435**	(2,130,141)
Net increase in cash and cash equivalents		**6,924,067**	165,002
Cash and cash equivalents at January 1		**5,170,757**	5,078,823
Effect of foreign exchange rate changes		**(5,429)**	(73,068)
Cash and cash equivalents at December 31	*24*	**12,089,395**	5,170,757

The notes on pages 124 to 213 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

1 PRINCIPAL ACTIVITIES AND ORGANIZATION

China Machinery Engineering Corporation (the "Company") was established in the People's Republic of China (the "PRC") on January 18, 2011 as a joint stock company with limited liability as part of the reorganization (the "Reorganization") of China National Machinery & Equipment Import & Export Corporation (the "Predecessor"), a state-owned enterprise. The Company and its subsidiaries (the "Group") are mainly engaged in international construction contracting business and trading business.

Prior to the Reorganization and 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", 中國機械工業集團有限公司). 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.

In December 2012, the Company issued an aggregate of 718,000,000 H shares with a nominal value of RMB1.00 each, at a price of HKD5.40 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, a total of 71,800,000 domestic state-owned shares of RMB1.00 each owned by SINOMACH and China United were converted into H shares on a one-for-one basis and transferred to the National Council for Social Security Fund of the PRC ("NSSF"). As at December 31, 2012, a total of 789,800,000 H shares were listed on The Stock Exchange of Hong Kong Limited ("HKSE").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations promulgated by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on HKSE. A summary of the significant accounting policies adopted by the Group is set out below.

The Group has adopted all those new and revised IFRSs that are first effective for the accounting period beginning January 1, 2012 in preparing the financial statements for the year ended December 31, 2011. The Group has not early adopted any new and revised IFRSs that are not yet effective for the accounting period beginning January 1, 2012 in the current or previous accounting period (see note 36).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2012 comprise the Group and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments (see note 2(g)) are stated at their fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements 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 statements and major sources of estimation uncertainty are discussed in note 3.

(c) Functional and presentation currency

The financial statements are 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) 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 consolidated financial statements 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 consolidated financial statements. 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 sheet within equity, separately from equity attributable to the equity shareholders 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 between non-controlling interests and the equity shareholders 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 sheet in accordance with notes 2(p) or (q) 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 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(e)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) 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 consolidated financial statements 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 2(l)). 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 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 2(f)).

In the Company's balance sheet, interest in associates are stated at cost less impairment losses (see note 2(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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 sheet at cost less impairment losses (see note 2(l)).

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

(g) 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.

(h) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(k)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(l)). 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 2(v)(iv).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(l)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, 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 2(x)).

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.

(j) 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 2(l)).

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

Both the period and method of amortization are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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 instalments 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.

(l) Impairment of assets

(i) Impairment of investments in 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;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

– 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 investments in subsidiaries and interest in associates (including those recognized using the equity method (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

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 to reduce the carrying amount of the 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 favourable 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. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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.

(n) 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 2(v)(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 sheet 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 sheet under “Trade and other receivables”. Amounts received before the related work is performed are included in the balance sheet under “Receipts in advance”.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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 2(l)), 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.

(p) 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.

(q) Trade and other payables

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with note 2(u)(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.

(r) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) 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 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 provides supplementary pension subsidies to employees in the PRC, who retired before January 1, 2010. In addition, the Group also provides 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax

Income tax for the year 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 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, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) 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 2(u)(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Revenue recognition (continued)

(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 instalments 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Revenue recognition (continued)

(vii) Government grants

Government grants are recognized in the balance sheet 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 initially as deferred income and consequently are effectively recognized in profit or loss on a systematic basis over the useful life of the asset.

(w) Translation of foreign currencies

Foreign currency transactions during the year 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) 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.

(y) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in these financial statements, 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.

3 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES 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 statements. 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 polices and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

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3 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

(a) Construction contracts

As explained in the accounting policy notes 2(n) and (v)(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 22 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 2(l)(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.

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3 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES IN APPLYING THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

(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.

NOTES TO THE FINANCIAL STATEMENTS

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4 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:

	2012 ***RMB'000***	2011 *RMB'000*
Revenue from construction contracts	**13,244,660**	12,055,186
Sales of goods in trading business	**7,163,140**	7,688,577
Others *(note (i))*	**888,263**	774,006
	21,296,063	20,517,769

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, 2011, revenue from construction contracts from an external customer in Sri Lanka accounted for 11% of total revenue of the Group. For the year ended December 31, 2012, there was no revenue from an external customer accounted for more than 10% of total revenue of the Group.

5 OTHER REVENUE

	2012 ***RMB'000***	2011 *RMB'000*
Dividend income from unquoted equity securities	**9,745**	8,094
Government grants	**2,240**	1,605
	11,985	9,699

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6 OTHER INCOME/(EXPENSES), NET

	2012 **RMB'000**	2011 RMB'000
Net gains/(losses) on disposal of property, plant and equipment	**17**	(167)
Net gains/(losses) on foreign currency forward exchange contracts and interest rate swaps	**5,009**	(8,323)
Others	**5,104**	5,428
	10,130	(3,062)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/crediting:

(a) Finance income and finance expenses

	2012 **RMB'000**	2011 RMB'000
Finance income on receivables from customers	**276,411**	209,714
Interest income	**306,581**	192,560
Finance income	**582,992**	402,274
Interest cost recognized in respect of defined benefit retirement plans *(note 28(a)(iii))*	**14,140**	16,050
Interest expenses on borrowings wholly repayable within five years	**10,643**	16,223
Interest expenses on other borrowings	**115**	4,153
Foreign exchange (gains)/losses, net	**(2,341)**	505,185
Bank charges and others	**7,713**	19,698
	30,270	561,309
Less: Interest expenses capitalized in construction contracts*	**–**	1,771
Finance expenses	**30,270**	559,538
Net finance income/(expenses) recognized in profit or loss	**552,722**	(157,264)

* There was no borrowing cost capitalized for the year ended December 31, 2012. The borrowing costs have been capitalized at rates 4.32% for the year ended December 31, 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
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7 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff costs

	2012 RMB'000	2011 RMB'000
Contributions to defined contribution retirement plans	**77,656**	66,109
Expenses recognized in respect of defined benefit retirement plans *(note 28(a)(iii))*	**2,800**	2,750
Salaries, wages and other benefits	**956,672**	863,383
	1,037,128	932,242

(c) Other items

	2012 RMB'000	2011 RMB'000
Amortization		
– lease prepayments	**36,458**	19,448
– intangible assets	**1,944**	1,954
	38,402	21,402
Depreciation		
– property, plant and equipment	**58,113**	47,805
– investment properties	**2,287**	2,505
	60,400	50,310
Impairment losses on		
– trade and other receivables	**123,004**	96,004
– construction contracts *(note (i))*	**2,164**	40,045
Operating lease charges		
– hire of properties	**19,787**	21,330
– hire of other assets	**59**	–
	19,846	21,330

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For the year ended December 31, 2012
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7 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items (continued)

	2012	2011
	RMB'000	*RMB'000*
Auditors' remuneration		
– audit services	**5,996**	797
– tax services	**496**	393
– other services	**11,300**	18,217
	17,792	19,407
Provision for foreseeable losses		
on construction contracts	**2,788**	146
Rental income from investment properties		
– Gross rental	**22,842**	29,436
– Direct outgoings	**(4,081)**	(4,613)
– Net rental	**18,761**	24,823
Cost of inventories *(note (ii))*	**6,469,206**	7,250,944

Notes:

(i) The impairment loss made on the construction contracts in 2011 and 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 2011 and 2012.

(ii) Cost of inventories includes RMB5,410,000 (2011: RMB6,526,000) 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 7(b) for each of these types of expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
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8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of comprehensive income represents:

	2012	2011
	RMB'000	*RMB'000*
Current tax		
– PRC Corporate Income Tax	**718,347**	544,017
– Hong Kong Profits Tax	**48**	564
– Others	**18,287**	8,376
	736,682	552,957
Deferred tax *(note 29(b))*	**(48,966)**	(37,931)
	687,716	515,026

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 for the years ended December 31, 2011 and 2012.

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 24% and 25% for 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% for the years ended December 31, 2011 and 2012. 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% for the year ended December 31, 2011.

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8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2012	2011
	RMB'000	*RMB'000*
Profit before taxation	**2,615,878**	1,987,369
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**654,667**	495,734
PRC tax concessions	**(3)**	(2,073)
Effect of non-deductible expenses	**26,606**	10,080
Effect of non-taxable income	**(2,415)**	(1,966)
Tax effect of unused tax losses and deductible temporary differences not recognized	**8,685**	8,259
Others	**176**	4,992
Actual tax expense	**687,716**	515,026

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9 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
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended December 31, 2012					
Executive Directors:					
Mr. Yang Wansheng	–	501	769	33	1,303
Ms. Li Taifang	–	541	1,369	33	1,943
Mr. Jia Zhiqiang	–	160	99	7	266
Mr. Zhang Chun	–	494	1,340	33	1,867
Non-executive Directors:					
Mr. Pan Chongyi	50	20	–	–	70
Mr. Wang Zhian	50	20	–	–	70
Independent non-executive Directors:					
Mr. Liu Li	50	21	–	–	71
Ms. Liu Hongyu	50	20	–	–	70
Mr. Fang Yongzhong	50	21	–	–	71
Mr. Chan Kin Ho	–	6	–	–	6
Supervisors:					
Mr. Quan Huaqiang	–	–	–	–	–
Mr. Qian Xiangdong	–	–	–	–	–
Mr. Bai Ming	–	351	13	33	397
	250	2,155	3,590	139	6,134

NOTES TO THE FINANCIAL STATEMENTS

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9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

	Directors' and Supervisors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
	271	2,511	1,271	120	4,173

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.

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10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2011: three) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of other three (2011: two) individuals are as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries and other emoluments	**1,456**	922
Discretionary bonuses	**3,162**	645
Retirement scheme contributions	**98**	60
	4,716	1,627

The emoluments of the three (2011: two) individuals with the highest emoluments are within the following bands:

	2012	2011
	Number of individuals	*Number of individuals*
HKD1,000,001 to HKD1,500,000	**–**	2
HKD1,500,001 to HKD2,000,000	**3**	–

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11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company includes a profit of RMB1,745,569,000 (2011: RMB1,289,478,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2012	2011
	RMB'000	*RMB'000*
Amount of consolidated profit attributable to shareholders dealt with in the Company's financial statements	**1,745,569**	1,289,478
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved during the year	**65,798**	61,721
Impairment losses of subsidiaries and associates	**(984)**	(684)
Company's profit for the year *(note 30(a))*	**1,810,383**	1,350,515

Details of dividends paid and payable to shareholders of the Company are set out in note 30(b).

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the year ended December 31, 2012 of RMB1,927,689,000 (2011: RMB1,474,893,000) and the weighted average number of shares in issue of 3,321,638,000 (2011: 3,300,000,000).

The weighted average number of shares for the years ended December 31, 2011 represented the number of shares issued and outstanding upon the establishment of the Company on January 18, 2011 as if such shares were outstanding throughout the year. The weighted average number of shares for the year ended December 31, 2012 also reflects the issuance of 718,000,000 shares in December 2012 in connection with the Company's initial public offering (see note 30(c)). The weighted average number of shares in issue is set out below:

	2012	2011
	Thousands shares	*Thousands shares*
Shares issued to SINOMACH and China United upon formation of the Company on January 18, 2011	**3,300,000**	3,300,000
Effect of shares issued in 2012 *(note 30(c))*	**21,638**	–
Weighted average number of shares at December 31	**3,321,638**	3,300,000

There was no difference between the basic and diluted earnings per share as there were no dilutive potential shares outstanding for the years presented.

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13 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.

NOTES TO THE FINANCIAL STATEMENTS

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13 SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (continued)

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, 2011 and 2012 is set out below:

	Year ended December 31, 2012			
	Construction contracts *RMB'000*	Trading business *RMB'000*	Other businesses *RMB'000*	Total *RMB'000*
Revenue from external customers	13,244,660	7,163,140	888,263	21,296,063
Inter-segment revenue	–	–	462,318	462,318
Reportable segment revenue	13,244,660	7,163,140	1,350,581	21,758,381
Reportable segment profit	2,009,305	168,500	228,355	2,406,160
Interest income on receivables from customers	273,904	2,507	–	276,411
Interest expenses	6,862	3,892	4	10,758
Depreciation and amortization	–	–	2,587	2,587
Provision of impairment losses				
– trade and other receivables	82,301	37,741	12,695	132,737
– construction contracts	2,164	–	–	2,164
– foreseeable losses on construction contracts	2,788	–	–	2,788
Reportable segment assets	10,184,428	2,488,884	743,233	13,416,545
– capital expenditure	–	–	–	–
Reportable segment liabilities	20,293,790	2,401,958	652,400	23,348,148

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13 SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (continued)

	Year ended December 31, 2011			
	Construction contracts *RMB'000*	**Trading business** *RMB'000*	**Other businesses** *RMB'000*	**Total** *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	12,055,186	7,688,577	1,227,156	20,970,919
Reportable segment profit	1,734,229	74,563	145,510	1,954,302
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

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13 SEGMENT REPORTING (CONTINUED)

(b) Reconciliation of reportable segment revenue, profit/(loss), assets and liabilities

	2012 RMB'000	2011 RMB'000
Revenue		
Reportable segment revenue	**21,758,381**	20,970,919
Elimination of inter-segment revenue	**(462,318)**	(453,150)
	21,296,063	20,517,769
Profit		
Reportable segment profit	**2,406,160**	1,954,302
Share of profits less losses of associates	**(86)**	(9)
Other revenue	**9,745**	8,094
Other expenses, net	**(471)**	(1,136)
Interest income from bank deposits	**306,581**	192,560
Interest cost recognized in respect of defined benefit retirement plans	**(14,140)**	(16,050)
Foreign exchange losses, net	**(5,429)**	(73,068)
Depreciation and amortization	**(96,215)**	(68,477)
Reversal of impairment losses/(impairment losses recognized) on other receivables	**9,733**	(8,847)
	2,615,878	1,987,369

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For the year ended December 31, 2012
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13 SEGMENT REPORTING (CONTINUED)

(b) Reconciliation of reportable segment revenue, profit/(loss), assets and liabilities (continued)

	2012	2011
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**13,416,545**	15,362,618
Elimination of inter-segment receivables	**(412,984)**	(706,662)
	13,003,561	14,655,956
Restricted deposits	**447,351**	389,720
Time deposits with original maturity over three months	**6,472,079**	3,955,217
Cash and cash equivalents	**12,089,395**	5,170,757
Property, plant and equipment	**444,205**	391,645
Lease prepayments	**1,814,951**	1,592,801
Intangible assets	**7,659**	5,205
Interest in associates	**413**	499
Deferred tax assets	**131,311**	82,485
Other non-current assets	**253,952**	253,490
Other unallocated assets	**104,952**	110,466
	34,769,829	26,608,241
Liabilities		
Reportable segment liabilities	**23,348,148**	19,994,348
Elimination of inter-segment payables	**(412,984)**	(706,662)
	22,935,164	19,287,686
Retirement and other supplemental benefit obligation	**397,200**	411,400
Accrued salaries, wages and benefits	**557,407**	459,219
Income tax payable	**451,258**	318,016
Deferred tax liabilities	**774**	914
Other unallocated liabilities	**510,603**	757,111
	24,852,406	21,234,346

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13 SEGMENT REPORTING (CONTINUED)

(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.

	2012	2011
	RMB'000	*RMB'000*
Revenue from external customers		
China (Mainland)	**2,403,451**	4,010,122
Venezuela	**2,208,441**	34,041
Angola	**2,081,669**	849,822
Belarus	**1,899,738**	441,799
Sri Lanka	**1,418,008**	2,184,199
Equatorial Guinea	**1,269,250**	1,919,082
Turkey	**1,093,373**	939,396
United States	**1,076,329**	1,257,022
The Republic of Congo	**670,610**	1,574,552
Nigeria	**452,983**	1,338,958
Others	**6,722,211**	5,968,776
	21,296,063	20,517,769
Specified non-current assets		
China (Mainland)	**2,523,083**	2,302,499
Others	**26,005**	10,966
	2,549,088	2,313,465

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For the year ended December 31, 2012
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14 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings *RMB'000*	Motor vehicles *RMB'000*	Office and other equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:					
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 *(note 30(d)(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	**10,905**	**34,045**	**10,562**	**42,038**	**97,550**
Transfer from investment properties	**28,530**	**–**	**–**	**–**	**28,530**
Disposals	**(30,503)**	**(9,372)**	**(2,631)**	**–**	**(42,506)**
Exchange adjustments	**397**	**(181)**	**82**	**–**	**298**
At December 31, 2012	**467,359**	**106,821**	**60,511**	**60,099**	**694,790**
Accumulated depreciation:					
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 *(note 30(d)(i))*	(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 year	**34,865**	**14,559**	**8,689**	**–**	**58,113**
Transfer from investment properties	**14,353**	**–**	**–**	**–**	**14,353**
Written back on disposals	**(30,503)**	**(8,603)**	**(2,598)**	**–**	**(41,704)**
Exchange adjustments	**278**	**117**	**155**	**–**	**550**
At December 31, 2012	**167,928**	**49,453**	**33,204**	**–**	**250,585**
Net book value:					
At December 31, 2011	309,095	38,949	25,540	18,061	391,645
At December 31, 2012	**299,431**	**57,368**	**27,307**	**60,099**	**444,205**

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For the year ended December 31, 2012
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14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company

	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, 2011	375,174	35,091	30,583	–	440,848
Additions	–	7,538	4,890	15,911	28,339
Disposals	–	(1,274)	(2,030)	–	(3,304)
Revaluation *(note 30(d)(i))*	(36,914)	(6,779)	(13,492)	–	(57,185)
At December 31, 2011	338,260	34,576	19,951	15,911	408,698
At January 1, 2012	**338,260**	**34,576**	**19,951**	**15,911**	**408,698**
Additions	**–**	**12,992**	**8,150**	**15,101**	**36,243**
Disposals	**–**	**(1,355)**	**(558)**	**–**	**(1,913)**
At December 31, 2012	**338,260**	**46,213**	**27,543**	**31,012**	**443,028**
Accumulated depreciation:					
At January 1, 2011	151,499	24,961	18,914	–	195,374
Charge for the year	22,810	6,570	3,139	–	32,519
Written back on disposals	–	(1,250)	(1,928)	–	(3,178)
Revaluation *(note 30(d)(i))*	(74,661)	(10,250)	(12,493)	–	(97,404)
At December 31, 2011	99,648	20,031	7,632	–	127,311
At January 1, 2012	**99,648**	**20,031**	**7,632**	**–**	**127,311**
Charge for the year	**14,224**	**3,762**	**4,346**	**–**	**22,332**
Written back on disposals	**–**	**(832)**	**(463)**	**–**	**(1,295)**
At December 31, 2012	**113,872**	**22,961**	**11,515**	**–**	**148,348**
Net book value:					
At December 31, 2011	238,612	14,545	12,319	15,911	281,387
At December 31, 2012	**224,388**	**23,252**	**16,028**	**31,012**	**294,680**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) The analysis of net book value of properties is as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outside Hong Kong				
– long leases	**41,719**	41,014	**35,930**	38,510
– medium-term leases	**213,231**	231,006	**159,541**	170,091
– freehold	**44,481**	37,075	**28,917**	30,011
	299,431	309,095	**224,388**	238,612

(b) As at December 31, 2012, certain of the Group's borrowings were secured by certain of the Group's buildings with an aggregate net book value of RMB5,063,000 (2011: RMB nil).

(c) As at December 31, 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 RMB51,146,000. The directors are of the opinion that the Group is entitled to lawfully occupy or use these buildings.

NOTES TO THE FINANCIAL STATEMENTS

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15 INVESTMENT PROPERTIES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost:				
At the beginning of the year	**56,148**	58,968	**21,266**	44,199
Additions	**–**	168	**–**	–
Transfer to property, plant and equipment	**(28,530)**	(1,028)	**–**	–
Revaluation *(note 30(d)(i))*	**–**	(1,878)	**–**	(22,933)
Disposals	**(80)**	–	**(22)**	–
Exchange adjustments	**–**	(82)	**–**	–
At the end of the year	**27,538**	56,148	**21,244**	21,266
Accumulated depreciation:				
At the beginning of the year	**23,893**	26,867	**4,042**	18,005
Charge for the year	**2,287**	2,505	**999**	1,415
Transfer to property, plant and equipment	**(14,353)**	(38)	**–**	–
Revaluation *(note 30(d)(i))*	**–**	(5,425)	**–**	(15,378)
Exchange adjustments	**–**	(16)	**–**	–
At the end of the year	**11,827**	23,893	**5,041**	4,042
Net book value:	**15,711**	32,255	**16,203**	17,224

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
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15 INVESTMENT PROPERTIES (CONTINUED)

(a) The analysis of net book value of properties is as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In Hong Kong				
– freehold	**1,273**	1,294	**–**	–
Outside Hong Kong				
– long leases	**–**	4,704	**–**	–
– medium-term leases	**14,438**	26,257	**16,203**	17,224
	15,711	32,255	**16,203**	17,224

(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 February 28, 2013, the fair value as at December 31, 2012 of the Group's and the Company's investment properties, including land use rights, which have been classified in "lease prepayments" (note 16), are RMB131,530,000 (2011: RMB372,018,000) and RMB76,129,000 (2011: RMB70,359,000), 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 and the Company's total future minimum lease payments under non-cancellable operating lease are receivables as follow:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**7,250**	23,618	**4,194**	4,193
After 1 year but within 5 years	**10,096**	18,916	**5,432**	8,248
After 5 years	**40**	1,378	**–**	1,378
	17,386	43,912	**9,626**	13,819

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16 LEASE PREPAYMENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost:				
At the beginning of the year	**1,660,966**	87,630	**1,515,392**	37,217
Additions	**233,235**	1,000,136	**30,000**	1,000,000
Revaluation *(note 30(d)(i))*	**–**	573,200	**–**	478,175
At the end of the year	**1,894,201**	1,660,966	**1,545,392**	1,515,392
Accumulated amortization:				
At the beginning of the year	**30,595**	14,023	**24,055**	9,271
Charge for the year	**36,458**	19,448	**34,030**	17,583
Revaluation *(note 30(d)(i))*	**–**	(2,876)	**–**	(2,799)
At the end of the year	**67,053**	30,595	**58,085**	24,055
Net book value:	**1,827,148**	1,630,371	**1,487,307**	1,491,337

(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:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Outside Hong Kong				
– long leases	**6,404**	7,290	**–**	–
– medium-term leases	**1,820,744**	1,623,081	**1,487,307**	1,491,337
	1,827,148	1,630,371	**1,487,307**	1,491,337

(b) As at December 31, 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 RMB8,592,000 (2011: RMB nil).

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17 INTANGIBLE ASSETS

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost:				
At the beginning of the year	**6,850**	11,477	**4,827**	9,325
Additions	**4,398**	688	**2,121**	682
Disposals	**–**	(2,328)	**–**	(2,193)
Revaluation *(note 30(d)(i))*	**–**	(2,987)	**–**	(2,987)
At the end of the year	**11,248**	6,850	**6,948**	4,827
Accumulated amortization:				
At the beginning of the year	**1,645**	4,858	**833**	4,172
Charge for the year	**1,944**	1,954	**1,675**	1,694
Disposals	**–**	(2,281)	**–**	(2,147)
Revaluation *(note 30(d)(i))*	**–**	(2,886)	**–**	(2,886)
At the end of the year	**3,589**	1,645	**2,508**	833
Net book value:	**7,659**	5,205	**4,440**	3,994

Intangible assets mainly represent computer software. The amortization charge for the year is included in “administrative expenses” in the consolidated statement of comprehensive income.

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18 INVESTMENTS IN SUBSIDIARIES

The Company

	2012	2011
	RMB'000	*RMB'000*
Unlisted investments, at cost	**1,782,488**	1,775,991
Less: impairment losses	**(1,573)**	(675)
	1,780,915	1,775,316

As at December 31, 2012, the subsidiaries of the Company, all of which are unlisted limited liability companies, were listed as follows:

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
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

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18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
6 CMEC Comtrans International Co., Ltd. 中設國際商務運輸代理有限責任公司 *(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. 中設國際貿易有限責任公司 *(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責任公司 *(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責任公司 *(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責任公司 *(note i)*	The PRC January 9, 1995	RMB6,000,000	100%	–	Trading

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18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
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

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18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
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
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

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18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
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 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
33 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
34 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
35 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
36 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
37 CMEC Nigeria Development Limited 中國機械設備進出口總公司尼日利亞發展有限公司	Nigeria March 25, 2011	NGN20,000,000	100%	–	Construction contracting

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18 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place and date of incorporation/ establishment	Issued and paid-in capital/ registered capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
38 China Machinery Engineering Argentina S.A. 中國機械設備工程阿根廷股份有限公司	Argentina July 30, 2012	ARS429,000	90%	10%	Construction contracting
39 China Power Construction Engineering Consulting Central Southern Corporation 中國電力建設工程諮詢中南有限公司 *(note i and ii)*	The PRC January 11, 1993	RMB5,000,000	50%	–	Engineering design

Notes:

(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., Euro M.E.C. Import & Export GmbH and CMEC Nigeria Development Limited 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 names of CMEC Engineering, C.A. and China Machinery Engineering Argentina S.A. are 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.

(ii) China Power Construction Engineering Consulting Central Southern Corporation was acquired by the Company in September 2012. The Company holds 60% of voting power in this company.

19 OTHER NON-CURRENT ASSETS

	The Group 2012 *RMB'000*	The Group 2011 *RMB'000*	The Company 2012 *RMB'000*	The Company 2011 *RMB'000*
Unquoted equity investments in non-listed companies, at cost	**254,222**	253,760	**252,340**	252,340
Less: impairment losses	**(270)**	(270)	**–**	–
	253,952	253,490	**252,340**	252,340

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20 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Goods in transit *(note (i))*	**32,211**	65,773	**27,314**	52,779
Finished goods *(note (ii))*	**155,434**	90,994	**–**	–
Entrusted processing materials *(note (iii))*	**28,126**	36,821	**297**	2,854
Others *(note (iv))*	**9,960**	18,697	**–**	–
	225,731	212,285	**27,611**	55,633

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:

The Group

	2012	2011
	RMB'000	*RMB'000*
Carrying amounts of inventories sold	**6,469,206**	7,250,844
Write down of inventories	**–**	100
	6,469,206	7,250,944

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21 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills receivable	**20,500**	504,366	**–**	–
Trade receivables				
– SINOMACH *(note 21(d))*	**265,913**	–	**265,913**	–
– fellow subsidiaries *(note 21(d))*	**2,591**	1,019	**200**	–
– subsidiaries *(note 21(d))*	**–**	–	**150**	–
– third parties	**3,209,931**	3,262,650	**1,902,955**	1,928,476
Less: allowance for doubtful debts	**(407,592)**	(280,029)	**(172,210)**	(93,454)
Trade and bills receivables	**3,091,343**	3,488,006	**1,997,008**	1,835,022
Amount due from/advances to fellow subsidiaries *(note 21(d))*	**206,150**	63,412	**206,150**	60,271
Amount due from/advances to subsidiaries *(note 21(d))*	**–**	–	**825,521**	890,892
Advances to suppliers	**1,243,476**	1,850,247	**736,322**	1,214,566
Other receivables related to agency services	**313,344**	625,174	**54,614**	168,940
Derivative financial instruments	**15,117**	–	**15,117**	–
Others	**738,191**	581,636	**499,848**	291,225
Less: allowance for doubtful debts	**(58,512)**	(74,757)	**(47,279)**	(64,114)
	5,549,109	6,533,718	**4,287,301**	4,396,802
Less: portion classified as current assets	**5,510,059**	6,426,789	**4,282,918**	4,396,802
Non-current portion	**39,050**	106,929	**4,383**	–

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21 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

The ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 3 months	**1,814,702**	2,247,313	**1,271,283**	1,393,719
3 to 6 months	**398,909**	649,044	**251,508**	253,382
6 months to 1 year	**370,638**	348,974	**192,877**	120,396
Over 1 year	**507,094**	242,675	**281,340**	67,525
	3,091,343	3,488,006	**1,997,008**	1,835,022

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 31(a).

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21 TRADE AND OTHER RECEIVABLES (CONTINUED)

(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 2(l)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At the beginning of the year	**354,786**	259,499	**157,568**	70,400
Impairment losses recognized	**123,004**	96,004	**72,568**	87,168
Uncollectible amounts written off	**(11,686)**	(717)	**(10,647)**	–
At the end of the year	**466,104**	354,786	**219,489**	157,568
Attributable to:				
Trade and bills receivables	**407,592**	280,029	**172,210**	93,454
Other receivables	**58,512**	74,757	**47,279**	64,114

As at December 31, 2012, the Group's trade and bills receivables of RMB1,142,991,000 (2011: RMB1,015,303,000) and the Company's trade and bills receivables of RMB870,449,000 (2011: RMB486,872,000) 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, as at December 31, 2012, specific allowances for doubtful debts of RMB407,592,000 (2011: RMB280,029,000) and RMB172,210,000 (2011: RMB93,454,000) were recognized by the Group and the Company, respectively.

As at December 31, 2012, the Group's other receivables of RMB68,433,000 (2011: RMB86,941,000) and the Company's other receivables of RMB48,296,000 (2011: RMB64,114,000) 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, as at December 31, 2012, specific allowances for doubtful debts of RMB58,512,000 (2011: RMB74,757,000) and RMB47,279,000 (2011: RMB64,114,000) were recognized by the Group and the Company, respectively.

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21 TRADE AND OTHER RECEIVABLES (CONTINUED)

(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:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**1,721,295**	2,525,307	**774,222**	1,337,562
Within 3 months past due	**268,828**	112,877	**252,546**	104,042
More than 3 months to 6 months past due	**259,524**	1,078	**233,112**	–
More than 6 months to 1 year past due	**38,295**	77,945	**20,320**	–
More than 1 year past due	**68,002**	35,525	**18,569**	–
	634,649	227,425	**524,547**	104,042
	2,355,944	2,752,732	**1,298,769**	1,441,604

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) These balances 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, 2012, certain of the Group's borrowings were secured by certain of the Group's trade receivables with an aggregated amount of RMB6,754,000 (2011: RMB1,176,000).

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22 CONSTRUCTION CONTRACTS

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Gross amount due from contract customers for contract work				
– current portion	**3,191,436**	3,176,301	**2,905,004**	2,900,842
– non-current portion	**4,114,329**	4,774,293	**3,973,699**	4,522,766
	7,305,765	7,950,594	**6,878,703**	7,423,608
Contract costs incurred plus recognized profits less recognized losses to date	**52,473,571**	45,318,732	**50,139,957**	42,805,936
Less: progress billings	**44,992,689**	37,195,185	**43,086,137**	35,209,375
allowance for doubtful debts for construction contracts	**175,117**	172,953	**175,117**	172,953
	7,305,765	7,950,594	**6,878,703**	7,423,608

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22 CONSTRUCTION CONTRACTS (CONTINUED)

(a) As at December 31, 2012, the amount of retentions receivable from customers, recorded within "Construction contracts" of the Group and the Company are RMB300,333,000 (2011: RMB188,756,000), which are expected to be recovered as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**138,341**	–	**138,341**	–
After more than one year	**161,992**	188,756	**161,992**	188,756
	300,333	188,756	**300,333**	188,756

(b) As at December 31, 2012, certain of the Group's borrowings were secured by certain unbilled amount of the Group's construction contracts with an aggregate net book value of RMB30,759,000 (2011: RMB nil).

23 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.

24 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**1,429**	848	**117**	28
Cash at bank and other financial institutions	**12,087,966**	5,169,909	**10,707,132**	4,145,731
Cash and cash equivalents	**12,089,395**	5,170,757	**10,707,249**	4,145,759

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25 BORROWINGS

	The Group				The Company			
	2012		2011		**2012**		2011	
	Interest rate (%)	***RMB'000***	*Interest rate (%)*	*RMB'000*	***Interest rate (%)***	***RMB'000***	*Interest rate (%)*	*RMB'000*
Current:								
Short-term borrowings								
Bank loans								
– unsecured	**3.43-7.07**	**18,621**	4.80-5.14	14,914		**–**		–
– secured	**5.17-7.20**	**33,801**	4.70-5.84	3,148		**–**		–
		52,422		18,062		**–**		–
Add: current portion of long-term borrowings		**81,498**		142,046		**69,769**		140,510
		133,920		160,108		**69,769**		140,510
Non- current:								
Long-term borrowings								
Bank loans								
– secured	**1.80-5.17**	**236,116**	2.18-3.28	367,575	**2.67**	**216,850**	2.52	357,891
		236,116		367,575		**216,850**		357,891
Less: current portion of long-term borrowings		**81,498**		142,046		**69,769**		140,510
		154,618		225,529		**147,081**		217,381
		288,538		385,637		**216,850**		357,891

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25 BORROWINGS (CONTINUED)

(a) The borrowings are repayable as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year or on demand	**133,920**	160,108	**69,769**	140,510
After 1 year but within 2 years	**73,601**	71,476	**71,969**	69,940
After 2 years but within 5 years	**77,894**	151,181	**75,112**	147,441
After 5 years	**3,123**	2,872	**–**	–
	154,618	225,529	**147,081**	217,381
	288,538	385,637	**216,850**	357,891

(b) As at December 31, 2011 and 2012, certain borrowings were secured by the Group's property, plant and equipment, lease prepayments, construction contracts, trade and other receivables and restricted deposits.

As at December 31, 2012, no borrowings of the Group were guaranteed by SINOMACH (2011: RMB357,891,000).

26 RECEIPTS IN ADVANCE

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Receipts in advance for construction contracts *(note (i))*				
– SINOMACH	**–**	698,179	**–**	698,179
– third parties	**12,023,465**	8,216,695	**11,925,068**	7,711,226
Receipts in advance for sales of goods	**614,442**	1,310,338	**151,873**	641,469
Others				
– fellow subsidiaries	**–**	568	**–**	–
– third parties	**72,503**	90,242	**7,002**	1,558
	12,710,410	10,316,022	**12,083,943**	9,052,432

Note:

(i) The balances as at December 31, 2011 and 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.

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27 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bills payable	**39,917**	–	**–**	–
Trade payables				
– fellow subsidiaries *(note 27(b))*	**236,446**	265,303	**235,026**	251,717
– subsidiaries *(note 27(b))*	**–**	–	**171,289**	144,977
– third parties	**9,319,206**	8,054,429	**7,971,314**	6,594,955
Trade and bills payables	**9,595,569**	8,319,732	**8,377,629**	6,991,649
Amount due to SINOMACH *(note 27(b))*	**–**	500	**–**	500
Amount due to fellow subsidiaries *(note 27(b))*	**2,360**	1,193	**2,221**	1,193
Amount due to subsidiaries *(note 27(b))*	**–**	–	**36,669**	400,442
Other payables related to agency services	**401,938**	632,696	**76,904**	154,562
Accrued salaries, wages and benefits	**557,407**	459,219	**493,101**	391,536
Other taxes payable	**99,164**	125,537	**94,862**	87,716
Others	**314,110**	238,273	**238,700**	186,557
Financial liabilities measured at amortized costs	**10,970,548**	9,777,150	**9,320,086**	8,214,155
Derivative financial instruments	**33,208**	24,817	**33,208**	24,817
Others	**470**	390	**–**	–
	11,004,226	9,802,357	**9,353,294**	8,238,972
Less: portion classified as current liabilities	**10,943,270**	9,671,321	**9,329,793**	8,223,483
Non-current portion	**60,956**	131,036	**23,501**	15,489

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27 TRADE AND OTHER PAYABLES (CONTINUED)

(a) The ageing analysis of trade and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 3 months	**6,039,306**	5,729,292	**5,553,722**	5,010,529
3 to 6 months	**468,593**	556,671	**381,383**	324,341
6 months to 1 year	**547,112**	347,566	**158,466**	148,651
Over 1 year	**2,540,558**	1,686,203	**2,284,058**	1,508,128
	9,595,569	8,319,732	**8,377,629**	6,991,649

(b) These balances are unsecured, non-interest bearing and have no fixed terms of repayment.

28 EMPLOYEE BENEFITS

(a) Defined benefit retirement plans

The Group provides supplementary pension subsidies (including post-retirement medical benefits) to its employees who retired prior to January 1, 2010. In addition, the Group provides 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 sheet are as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Present value of defined benefit obligations	**413,950**	424,470	**309,960**	320,660
Net unrecognized actuarial losses	**(16,750)**	(13,070)	**(8,400)**	(3,940)
	397,200	411,400	**301,560**	316,720
Less: portion classified as current liabilities	**31,660**	31,770	**24,570**	24,710
Non-current portion	**365,540**	379,630	**276,990**	292,010

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28 EMPLOYEE BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

(ii) Movements of the defined benefit obligations recognized in the balance sheet are as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At the beginning of the year	**411,400**	424,800	**316,720**	329,580
Benefits paid during the year	**(31,140)**	(32,200)	**(24,910)**	(24,950)
Interest cost	**14,140**	16,050	**10,620**	12,350
Recognized prior service cost	**900**	300	**–**	–
Actuarial losses/(gains)	**1,900**	2,450	**(870)**	(260)
At the end of the year	**397,200**	411,400	**301,560**	316,720

(iii) Expense recognized in the consolidated statement of comprehensive income is as follows:

	2012	2011
	RMB'000	*RMB'000*
Interest cost	**14,140**	16,050
Recognized prior service cost	**900**	300
Net actuarial losses recognized	**1,900**	2,450
	16,940	18,800

The expense is recognized in the following line items in the consolidated statement of comprehensive income:

	2012	2011
	RMB'000	*RMB'000*
Finance expenses	**14,140**	16,050
Administrative expenses	**2,800**	2,750
	16,940	18,800

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28 EMPLOYEE BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

(iv) The principal actuarial assumptions used for the purpose of the actuarial valuation are as follows:

	2012	2011
	RMB'000	*RMB'000*
Discount rate	**3.50%**	3.50%
Early retirees' salary and retirees' supplementary benefits increase rate	**nil-10.00%**	3.00%-4.50%
Medical cost increase rate	**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:

	2012	2011
	RMB'000	*RMB'000*
Increase in effect on the interest cost	**160**	180
Decrease in effect on the interest cost	**(140)**	(150)

	2012	2011
	RMB'000	*RMB'000*
Increase in effect on the defined benefit obligations	**4,510**	5,110
Decrease in effect on the defined benefit obligations	**(3,890)**	(4,390)

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28 EMPLOYEE BENEFITS (CONTINUED)

(b) Defined contribution retirement plans

Pursuant to the relevant labour 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 28(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.

29 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Income tax payable in the consolidated balance sheet represents:

	The Group		**The Company**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Income tax payable at the beginning of the year	**318,016**	432,135	**254,890**	366,500
Provision for the year *(note 8)*	**736,682**	552,957	**653,142**	479,429
Provision for revaluation	**–**	15,481	**–**	15,481
Income tax paid	**(603,440)**	(682,557)	**(523,240)**	(606,520)
Income tax payable at the end of the year	**451,258**	318,016	**384,792**	254,890

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29 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (CONTINUED)

(b) Deferred tax assets and liabilities recognized:

(i) The components of deferred tax assets/(liabilities) recognized and the movements during the years are as follows:

The Group

	Impairment loss on receivables *RMB'000*	Construction contracts *RMB'000*	Accrued expenses *RMB'000*	Provision *RMB'000*	Surplus on revaluation of property, plant and equipment *RMB'000*	Surplus on revaluation of lease prepayments *RMB'000*	Others *RMB'000*	Total *RMB'000*
At January 1, 2011	91,504	10,580	71,372	31,250	–	–	3,434	208,140
Credited/(charged) to profit or loss *(note 8(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 8(a))*	27,009	(6,939)	26,678	–	560	3,219	(1,561)	48,966
At December 31, 2012	150,037	105	124,281	–	(7,537)	(114,371)	(21,978)	130,537

The Company

	Impairment loss on receivables *RMB'000*	Construction contracts *RMB'000*	Accrued expenses *RMB'000*	Provision *RMB'000*	Surplus on revaluation of property, plant and equipment *RMB'000*	Surplus on revaluation of lease prepayments *RMB'000*	Others *RMB'000*	Total *RMB'000*
At January 1, 2011	46,928	10,580	64,539	31,250	–	–	5,281	158,578
Credited/(charged) to profit or loss	29,370	(3,536)	25,464	(31,250)	3,672	4,182	4,942	32,844
Charged to reserves	–	–	–	–	(11,769)	(121,772)	(30,959)	(164,500)
At December 31, 2011	76,298	7,044	90,003	–	(8,097)	(117,590)	(20,736)	26,922
Credited/(charged) to profit or loss	20,229	(6,939)	25,668	–	560	3,219	(1,796)	40,941
At December 31, 2012	96,527	105	115,671	–	(7,537)	(114,371)	(22,532)	67,863

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29 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (CONTINUED)

(b) Deferred tax assets and liabilities recognized: (continued)

(ii) Reconciliation to the balance sheet:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net deferred tax assets recognized in the consolidated balance sheet	**131,311**	82,485	**67,863**	26,922
Net deferred tax liabilities recognized in the consolidated balance sheet	**(774)**	(914)	**–**	–
	130,537	81,571	**67,863**	26,922

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in note 2(t), the Group has not recognized deferred tax assets in respect of unused tax losses and certain deductible temporary differences of RMB167,705,000 as at December 31, 2012 (2011: RMB146,373,000), 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 Group's unused tax losses of RMB145,458,000 as at December 31, 2012 include tax losses of RMB16,075,000 that will expire, if unused, on or before December 31, 2024 and tax losses of RMB129,383,000 with no expiry date under relevant tax legislation.

The Company has no unused tax losses as at December 31, 2012.

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30 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital *RMB'000*	Capital reserve *RMB'000*	Reserve fund *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At January 1, 2011	740,254	80,822	1,409,798	1,043,163	3,274,037
Changes in equity:					
Profit for the year	–	–	–	1,350,515	1,350,515
Total comprehensive income	–	–	–	1,350,515	1,350,515
Capital contributions	33,000	13,931	–	–	46,931
Revaluation, net of tax effect *(note 30(d)(i))*	–	1,781,606	–	(17,769)	1,763,837
Appropriation to reserves	–	–	135,052	(135,052)	–
Dividend paid to shareholders of the Company *(note 30(b))*	–	–	–	(698,016)	(698,016)
Capitalization upon establishment of the Company	2,526,746	(719,282)	(1,409,798)	(397,666)	–
At December 31, 2011	3,300,000	1,157,077	135,052	1,145,175	5,737,304
At January 1, 2012	**3,300,000**	**1,157,077**	**135,052**	**1,145,175**	**5,737,304**
Changes in equity:					
Profit for the year	**–**	**–**	**–**	**1,810,383**	**1,810,383**
Total comprehensive income	**–**	**–**	**–**	**1,810,383**	**1,810,383**
Issuance of shares upon public offering, net of issuing expenses *(note 30(c))*	**718,000**	**2,294,300**	**–**	**–**	**3,012,300**
Distribution to the controlling shareholder of the Company before public offering *(note 34(a))*	**–**	**–**	**–**	**(42,782)**	**(42,782)**
Appropriation to reserves	**–**	**–**	**181,038**	**(181,038)**	**–**
Dividend paid to shareholders of the Company *(note 30(b))*	**–**	**–**	**–**	**(354,238)**	**(354,238)**
At December 31, 2012	**4,018,000**	**3,451,377**	**316,090**	**2,377,500**	**10,162,967**

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30 CAPITAL AND RESERVES (CONTINUED)

(b) Dividends

Dividends payable to shareholders of the Company attributable to the year:

	2012	2011
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period	**674,965**	354,238

The directors of the Company resolved on March 27, 2013 that RMB0.1636 per share is to be distributed to the shareholders for 2012, subject to approval of the shareholders at the forthcoming Annual General Meeting. The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

(c) Share capital

	No. of shares	
	'000	*RMB'000*
Ordinary shares, registered issued and fully paid:		
Domestic shares of RMB1.00 each		
At January 1, 2012	3,300,000	3,300,000
Converted to H shares for NSSF *(note 1)*	(71,800)	(71,800)
At December 31, 2012	3,228,200	3,228,200
H shares of RMB1.00 each		
At January 1, 2012	–	–
Issuance of shares by IPO *(note 1)*	718,000	718,000
Converted from domestic shares for NSSF *(note 1)*	71,800	71,800
At December 31, 2012	789,800	789,800
Total		
At January 1, 2012	3,300,000	3,300,000
At December 31, 2012	4,018,000	4,018,000

All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

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For the year ended December 31, 2012
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30 CAPITAL AND RESERVES (CONTINUED)

(d) Reserves

(i) Capital reserve

Capital reserve includes:

– the contributions or distributions to shareholders;

– share premium as the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the IPO; 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 in 2009 to 2011.

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 statements 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 shareholders.

The transfer to the reserve fund must be made before distribution of a dividend to shareholders. 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 statements 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 2(w).

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For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

30 CAPITAL AND RESERVES (CONTINUED)

(d) Reserves (continued)

(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 30(d)(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. As at December 31, 2012, the aggregate amount of reserves available for distribution to shareholders of the Company was RMB2,377,500,000 (2011: 1,145,175,000).

(e) 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 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 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 ratio of the Group as at December 31, 2012 is 71% (2011: 80%).

There were no changes in the Group's approach to capital management compared with 2011. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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31 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, 2012, 10% of the total trade and other receivables was due from the Group's largest customer (2011: 8%), and 25% of the total trade and other receivables was due from the five largest customers (2011: 22%).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

(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.

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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's and the Company'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 and the Company can be required to pay:

The Group

	Contractual undiscounted cash outflow					
	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	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2012						
Borrowings	**139,786**	**76,376**	**78,831**	**3,266**	**298,259**	**288,538**
Trade and other payables	**10,475,475**	**500,778**	**2,440**	**–**	**10,978,693**	**10,970,548**
	10,615,261	**577,154**	**81,271**	**3,266**	**11,276,952**	**11,259,086**
Interest rate swaps (net settled)	**7,117**	**4,564**	**1,721**	**–**	**13,402**	**13,388**
Derivatives settled gross:						
Foreign currency forward exchange contracts:						
– outflow	**944,662**	**665,638**	**327,189**	**–**	**1,937,489**	
– inflow	**(953,046)**	**(664,832)**	**(313,982)**	**–**	**(1,931,860)**	
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
	9,349,303	650,487	197,393	2,979	10,200,162	10,162,787
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)	

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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

The Company

	Contractual undiscounted cash outflow					
	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	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At December 31, 2012						
Borrowings	**74,312**	**74,616**	**75,802**	**-**	**224,730**	**216,850**
Trade and other payables	**8,867,139**	**452,947**	**-**	**-**	**9,320,086**	**9,320,086**
	8,941,451	**527,563**	**75,802**	**-**	**9,544,816**	**9,536,936**
Interest rate swaps (net settled)	**7,117**	**4,564**	**1,721**	**-**	**13,402**	**13,388**
Derivatives settled gross:						
Foreign currency forward exchange contracts:						
– outflow	**944,662**	**665,638**	**327,189**	**-**	**1,937,489**	
– inflow	**(953,046)**	**(664,832)**	**(313,982)**	**-**	**(1,931,860)**	
At December 31, 2011						
Borrowings	147,135	74,252	150,608	–	371,995	357,891
Trade and other payables	7,785,637	428,518	–	–	8,214,155	8,214,155
	7,932,772	502,770	150,608	–	8,586,150	8,572,046
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)	

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company'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:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net fixed rate instruments:				
Trade and other receivables	**101,000**	227,161	**–**	–
Construction contracts	**5,221,298**	6,188,474	**4,922,132**	5,791,827
Bank deposits	**14,346,426**	6,709,294	**13,671,399**	6,256,898
Less: Borrowings	**282,128**	302,548	**216,850**	284,486
Trade and other Payables	**109,307**	245,844	**–**	–
	19,277,289	12,576,537	**18,376,681**	11,764,239
Net variable rate instruments:				
Bank deposits	**4,660,970**	2,805,552	**3,734,114**	1,976,221
Less: Borrowings	**6,410**	83,089	**–**	73,405
	4,654,560	2,722,463	**3,734,114**	1,902,816

(ii) Sensitivity Analysis

At December 31, 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 RMB34,951,000 (2011: RMB20,539,000).

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 2011.

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For the year ended December 31, 2012
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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(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, 2012, the Group had foreign currency forward exchange contracts hedging forecast transactions with a net fair value of RMB nil (2011: RMB(313,000)), recognized as derivative financial instruments recorded in "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 6). 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, 2012 was RMB(4,703,000) (2011: RMB(3,370,000)), recognized as derivative financial instruments recorded in "trade and other receivables" and "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 and the Company'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 end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(iii) Exposure to currency risk (continued)

The Group

	Exposure to foreign currencies (expressed in RMB)		
	USD	**EUR**	**Others**
	RMB'000	*RMB'000*	*RMB'000*
At December 31, 2012			
Cash and cash equivalents	**1,786,327**	**227,344**	**3,184,506**
Restricted deposits	**14,229**	**9,610**	**9,466**
Trade and other receivables	**1,807,280**	**306,968**	**253**
Construction contracts	**6,657,999**	**76,269**	**104,041**
Borrowings	**(223,366)**	**(12,105)**	**–**
Trade and other payables	**(2,239,753)**	**(135,225)**	**(46,134)**
Gross exposure arising from recognized assets and liabilities	**7,802,716**	**472,861**	**3,252,132**
Notional amounts of foreign currency forward exchange contracts	**(1,909,305)**	**–**	**–**
Net exposure arising from recognized assets and liabilities	**5,893,411**	**472,861**	**3,252,132**
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

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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(iii) Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies (expressed in RMB)		
	USD	**EUR**	**Others**
	RMB'000	*RMB'000*	*RMB'000*
At December 31, 2012			
Cash and cash equivalents	**1,722,072**	**219,903**	**3,176,536**
Restricted deposits	**215**	**14**	**–**
Trade and other receivables	**1,241,758**	**304,608**	**–**
Construction contracts	**6,388,141**	**76,269**	**–**
Borrowings	**(216,850)**	**–**	**–**
Trade and other payables	**(2,213,681)**	**(72,784)**	**(41,970)**
Gross exposure arising from recognized assets and liabilities	**6,921,655**	**528,010**	**3,134,566**
Notional amounts of foreign currency forward exchange contracts	**(1,909,305)**	**–**	**–**
Net exposure arising from recognized assets and liabilities	**5,012,350**	**528,010**	**3,134,566**
At December 31, 2011			
Cash and cash equivalents	1,089,506	207,157	155,058
Restricted deposits	215	14	–
Trade and other receivables	1,553,304	118,557	122,229
Construction contracts	7,070,066	16,532	–
Borrowings	(357,891)	–	–
Trade and other payables	(1,372,593)	(100,301)	(65,252)
Gross exposure arising from recognized assets and liabilities	7,982,607	241,959	212,035
Notional amounts of foreign currency forward exchange contracts	(685,807)	–	–
Net exposure arising from recognized assets and liabilities	7,296,800	241,959	212,035

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For the year ended December 31, 2012
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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's and the Company's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at those dates, assuming all other risk variables remained constant.

	The Group				The Company			
	2012		2011		**2012**		2011	
	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%**	**221,191**	5%	319,675	**5%**	**187,963**	5%	273,630
USD	**(5%)**	**(221,191)**	(5%)	(319,675)	**(5%)**	**(187,963)**	(5%)	(273,630)
EUR	**10%**	**35,486**	10%	22,819	**10%**	**39,601**	10%	18,147
EUR	**(10%)**	**(35,486)**	(10%)	(22,819)	**(10%)**	**(39,601)**	(10%)	(18,147)
Others	**5%**	**122,206**	5%	11,793	**5%**	**117,546**	5%	7,951
Others	**(5%)**	**(122,206)**	(5%)	(11,793)	**(5%)**	**(117,546)**	(5%)	(7,951)

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 statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2011.

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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(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, 2011 and 2012 are all measured under level 2.

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Level 2				
Assets				
Derivative financial instruments				
– foreign currency forward exchange contracts	**15,117**	–	**15,117**	–
Liabilities				
Derivative financial instruments				
– foreign currency forward exchange contracts	**19,820**	3,683	**19,820**	3,683
– interest rate swaps	**13,388**	21,134	**13,388**	21,134

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31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(e) Fair values (continued)

(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, 2011 and 2012 except as follows:

	The Group				The Company			
	2012		2011		**2012**		2011	
	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	**7,306,183**	**7,160,490**	7,978,770	7,811,272	**6,879,121**	**6,725,164**	7,451,784	7,270,844
Long-term borrowings	**(236,116)**	**(224,068)**	(367,575)	(353,225)	**(216,850)**	**(204,802)**	(357,891)	(343,541)

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

32 COMMITMENTS

(a) Capital commitments outstanding at the year end not provided for in the financial statements were as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted for	**82,128**	68,507	**56,297**	68,507
Authorized but not contracted for	**1,476,172**	1,575,908	**913,493**	914,109
	1,558,300	1,644,415	**969,790**	982,616

The Company's capital commitments outstanding as at December 31, 2012 represented capital commitments amounted to RMB969,790,000 for the planned construction of a new office building located in Beijing in the PRC.

(b) At the year end, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**13,549**	10,730	**10,103**	10,470
After 1 year but within 5 years	**6,119**	12,714	**4,545**	12,714
	19,668	23,444	**14,648**	23,184

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

33 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, 2012, the maximum liability of the Group and the Company under these guarantees issued are the outstanding amount of letter of guarantee issued through certain banks to the buyers of RMB662,039,000 (2011: RMB1,727,327,000) and RMB662,039,000 (2011: RMB1,727,327,000), respectively, which are secured by certain assets of the sellers or letter of guarantees through certain banks from sellers.

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 December 31, 2012, the maximum liability of the Company under these guarantees issued for its subsidiaries are the banking facilities drawn down by the subsidiaries of RMB744,105,000 (2011: RMB865,576,000).

The directors of the Company do not consider it probable that a claim will be made against the Group under any other guarantees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

34 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with SINOMACH and fellow subsidiaries

Apart from those disclosed elsewhere in the financial statements, the principal related party transactions with SINOMACH and fellow subsidiaries, which were carried out in the ordinary course of business are as follows:

	2012	2011
	RMB'000	*RMB'000*
Non-exempt continuing connected transactions		
Provision of engineering services and products to		
– SINOMACH	**826,472**	511,941
Receipt of engineering services and products from		
– Fellow subsidiaries	**466,757**	209,369
Trading procurement from		
– Fellow subsidiaries	**11,688**	11,714
Provision of integrated services to		
– Fellow subsidiaries	**12,057**	11,162
Exempt continuing connected transactions		
Lease expenses paid to		
– A fellow subsidiary	**315**	312
Exempt connected transactions		
Net deposits placed with/(withdrawn from)		
– A fellow subsidiary	**(1,452,642)**	(2,690,926)
Borrowings from		
– A fellow subsidiary	**–**	14,622
Borrowings repaid to		
– A fellow subsidiary	**–**	35,360
Working capital received from		
– A fellow subsidiary	**(50,441)**	(109,201)
Interest income charged to		
– A fellow subsidiary	**13,029**	83,297
Interest expenses paid to		
– A fellow subsidiary	**–**	70
Guarantees revoked by		
– SINOMACH	**357,891**	899,943

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

34 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with SINOMACH and fellow subsidiaries (continued)

Note:

(i) The related party transactions listed above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on HKSE (the "Listing Rules"). The detailed disclosures required by Chapter 14A of the Listing Rules are provided in the "Report of Directors" section of the annual report for the year ended December 31, 2012.

(ii) During the year ended December 31, 2012, the Group assigned the rights and liabilities under the underlying contract of an ongoing construction contract project in Sudan to a subsidiary of SINOMACH without any assignment fee. Taking into consideration of the transferring of assets and liabilities of RMB45.6 million and RMB2.8 million, respectively, of the project as a whole, the Group incurred a loss of RMB42.8 million as a result of the assignment of the contract, which was recognized directly in equity as a deemed distribution to shareholder.

(b) Outstanding balances with SINOMACH and fellow subsidiaries

	2012	2011
	RMB'000	*RMB'000*
Cash deposits placed with		
– A fellow subsidiary	**–**	1,452,642
Trade and other receivables due from		
– SINOMACH	**265,913**	–
– Fellow subsidiaries	**208,741**	64,431
Receipts in advance from		
– SINOMACH	**–**	698,179
– Fellow subsidiaries	**–**	568
Trade and other payables due to		
– SINOMACH	**–**	500
– Fellow subsidiaries	**238,806**	266,496
Guarantees provided by		
– SINOMACH	**–**	357,891

The directors of the Company confirm that all amounts due from/to related parties as at December 31, 2012 are all trading in nature.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

34 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Contributions to defined contribution plans

The Group participates in various defined contribution retirement plans organized by relevant local government authorities of the PRC and SINOMACH for its employees. As at December 31, 2012, there was no material outstanding contribution to post-employment benefit plans. Details of the defined contribution retirement plans are set out in note 28(b).

(d) 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"). For the years ended December 31, 2011 and 2012, 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 theses 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:

	2012	2011
	RMB'000	*RMB'000*
Interest income	**305,029**	99,910
Interest expense	**9,875**	15,807
Borrowings received	**90,390**	80,915
Borrowings repaid	**174,553**	1,466,154
Net deposits	**11,007,951**	2,189,798

The balances due from/to other state-controlled entities transactions are as follows:

	2012	2011
	RMB'000	*RMB'000*
Bank deposits	**18,334,049**	7,326,098
Borrowings	**275,771**	359,024

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

34 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(e) 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 Company's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 9, and certain of the highest paid employees as disclosed in note 10, is as follows:

	2012	2011
	RMB'000	*RMB'000*
Short-term employee benefits	**15,413**	9,115
Retirement scheme contributions	**328**	317
	15,741	9,432

35 PARENT AND ULTIMATE HOLDING COMPANY

The directors of the Company consider its parent and ultimate holding company to be SINOMACH, which is a state-owned enterprise established in the PRC. SINOMACH does not produce financial statements available for public use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING JANUARY 1, 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning January 1, 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	July 1, 2012
IFRS 10, *Consolidated financial statements*	January 1, 2013
IFRS 11, *Joint arrangements*	January 1, 2013
IFRS 12, *Disclosure of interests in other entities*	January 1, 2013
IFRS 13, *Fair value measurement*	January 1, 2013
IAS 27, *Separate financial statements* (2011)	January 1, 2013
IAS 28, *Investments in associates and joint ventures* (2011)	January 1, 2013
Revised IAS 19, *Employee benefits*	January 1, 2013
IFRIC 20, *Stripping costs in the production phase of a surface mine*	January 1, 2013
Amendments to IFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	January 1, 2013
Amendments to IFRS 1, *First-time adoption of International Financial Reporting Standards – Government loans*	January 1, 2013
Annual Improvements to IFRSs – 2009-2011 Cycle	January 1, 2013
Amendments to IFRS 10, *Consolidated financial statements*, IFRS 11, *Joint arrangements* and IFRS 12, *Disclosure of interests in other entities – Transition guidance*	January 1, 2013
Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*	January 1, 2014
Amendments to IAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	January 1, 2014
IFRS 9, *Financial instruments* (2009)	January 1, 2015
IFRS 9, *Financial instruments* (2010)	January 1, 2015
Amendments to IFRS 9, *Financial instruments* and IFRS 7 *Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	January 1, 2015

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012
(Expressed in Renminbi unless otherwise stated)

37 SUBSEQUENT EVENTS

(a) Issue of shares

On January 2, 2013, the over-allotment option granted by the Company was fully exercised. The Company issued and allotted an aggregate of 107,700,000 H shares at HKD5.40 each. Accordingly, a total of 10,770,000 domestic state-owned shares of RMB1.00 each owned by SINOMACH and China United were converted into H shares on a one-for-one basis and transferred to NSSF. After the issuance and allotment of these shares, the registered and issued ordinary shares of the Company increased to 4,125,700,000 shares with 908,270,000 H shares being listed on HKSE.

(b) Dividends distribution

On March 27, 2013, the directors of the Company have proposed a final dividend. Further details are disclosed in note 30(b).

FINANCIAL STATEMENT OF CHINA POWER CONSTRUCTION ENGINEERING CONSULTING CENTRAL SOUTHERN CORPORATION*

Independent Auditors' Report

Da Hua Certified Public Accountants
(Special General Partnership)
Addr: 12F, #7 Building, #16 Court,
Xisihuan Zhong Street
Post Code: 100039

Tel: +86-10-58350011
Fax: +86-10-58350006
e-mail: dahua@dahua-cpa.com

To the shareholders of
CHINA POWER CONSTRUCTION ENGINEERING CONSULTING CENTRAL SOUTHERN CORPORATION
(Incorporated in Wuhan with limited liability)

We have audited the financial statements of CHINA POWER CONSTRUCTION ENGINEERING CONSULTING CENTRAL SOUTHERN CORPORATION (the "Company") set out on pages 214 to 229, which comprise the balance sheet as at December 31, 2009, 2010 and 2011, the statement of comprehensive income and the statement of changes in equity and cash flow for the year from 2009 to 2011, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standards Board (the "IASB"), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

FINANCIAL STATEMENT OF CHINA POWER CONSTRUCTION ENGINEERING CONSULTING CENTRAL SOUTHERN CORPORATION*

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2009, 2010 and 2011, and of its profit and cash flow for the year from 2009 to 2011 in accordance with IFRS and have been properly prepared in accordance with the IFRS.

Da Hua Certified Public Accountants (Special General Partnership)
Certified Public Accountants
Beijing

March 7, 2013

STATEMENT OF COMPREHENSIVE INCOME

		Years ended December 31,		
		2011	2010	2009
	Note	***RMB***	*RMB*	*RMB*
Revenue	*4*	**16,202,103.60**	10,556,628.00	10,166,800.00
Cost of sales	*5*	**(13,505,621.83)**	(8,511,632.61)	(8,196,242.19)
Administrative expenses	*6*	**(860,976.58)**	(511,300.65)	(168,165.36)
Other expenses	*7*	**(936,774.37)**	(609,535.35)	(589,674.40)
Profit from operations		**898,730.82**	924,159.39	1,212,718.05
Finance income, net	*8*	**295,595.88**	202,628.94	262,690.83
Profit before taxation	*9*	**1,194,326.70**	1,126,788.33	1,475,408.88
Income tax	*10*	**(225,589.75)**	(323,811.88)	(369,664.97)
Profit for the year		**968,736.95**	802,976.45	1,105,743.91
Other comprehensive income		**–**	–	–
Total comprehensive income		**968,736.95**	802,976.45	1,105,743.91

BALANCE SHEET

	Note	At December 31, 2011 RMB	2010 RMB	2009 RMB
Non-current assets				
Property, plant and equipment	*11*	**–**	1,175.00	10,995.00
Interest in other entity	*12*	**500,000.00**	–	–
Deferred tax assets		**–**	–	35,339.66
Total non-current assets		**500,000.00**	1,175.00	46,334.66
Current assets				
Trade and bill receivables	*13*	**–**	2,000,000.00	–
Cash and cash equivalents	*14*	**17,906,485.84**	44,101,435.40	21,668,616.75
Total current assets		**17,906,485.84**	46,101,435.40	21,668,616.75
Current liabilities				
Receipts in advance	*15*	**1,064,775.00**	5,948,000.00	3,822,700.00
Other payables and accrued expenses	*16*	**10,125,372.94**	33,907,009.45	7,947,626.91
Total current liabilities		**11,190,147.94**	39,855,009.45	11,770,326.91
Net assets		**7,216,337.90**	6,247,600.95	9,944,624.50
Equity attributable to the Company owner				
Share capital	*17*	**5,000,000.00**	5,000,000.00	5,000,000.00
Reserves		**2,216,337.90**	1,247,600.95	4,944,624.50
Total Equity		**7,216,337.90**	6,247,600.95	9,944,624.50

DAI Hui
Director

LIU Jing
Director

STATEMENT OF CHANGES IN EQUITY

	Share capital *RMB*	Surplus reserve *RMB*	Retained profits *RMB*	Total *RMB*
At January 1, 2009	5,000,000.00	461,963.78	3,376,916.81	8,838,880.59
Profit for the year	–	–	1,105,743.91	1,105,743.91
Appropriation to statutory surplus reserve	–	110,574.39	(110,574.39)	–
At December 31, 2009	5,000,000.00	572,538.17	4,372,086.33	9,944,624.50
At January 1, 2010	5,000,000.00	572,538.17	4,372,086.33	9,944,624.50
Profit for the year	–	–	802,976.45	802,976.45
Appropriation to statutory surplus reserve	–	80,297.65	(80,297.65)	–
Proposed dividend	–	–	(4,500,000.00)	(4,500,000.00)
At December 31, 2010	**5,000,000.00**	**652,835.82**	**594,765.13**	**6,247,600.95**
At January 1, 2011	**5,000,000.00**	**652,835.82**	**594,765.13**	**6,247,600.95**
Profit for the year	**–**	**–**	**968,736.95**	**968,736.95**
Appropriation to statutory surplus reserve	**–**	**96,873.70**	**(96,873.70)**	**–**
At December 31, 2011	**5,000,000.00**	**749,709.52**	**1,466,628.38**	**7,216,337.90**

STATEMENT OF CASH FLOW

	Years ended December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Cash flows from operating activities			
Profit for the year	**968,736.95**	802,976.45	1,105,743.91
Adjustments for:			
Depreciation of property, plant and equipment	**–**	9,820.00	5,330.00
Loss on disposal of property, plant and equipment	**1,175.00**	–	–
Operating profit before working capital changes	**969,911.95**	812,796.45	1,111,073.91
Decrease/(increase) in deferred tax assets	**–**	35,339.66	(35,339.66)
Decrease/(increase) in trade and bill receivables	**2,000,000.00**	(2,000,000.00)	–
(Decrease)/increase in receipts in advance, other payables and accrued expenses	**(28,664,861.51)**	28,084,682.54	(2,019,431.72)
Net cash (used in)/generated from operating activities	**(25,694,949.56)**	26,932,818.65	(943,697.47)
Cash flows from investing activities			
Investment payment	**(500,000.00)**	–	–
Net cash used in investing activities	**(500,000.00)**	–	–
Cash flows from financing activities			
Dividends paid	**–**	(4,500,000.00)	–
Net cash used in financing activities	**–**	(4,500,000.00)	–
Net (decrease)/increase in cash and cash equivalents	**(26,194,949.56)**	22,432,818.65	(943,697.47)
Cash and cash equivalents at beginning of year	**44,101,435.40**	21,668,616.75	22,612,314.22
Cash and cash equivalents at end of year	**17,906,485.84**	44,101,435.40	21,668,616.75
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents with an original maturity of three months or less:			
Cash deposits in banks and financial institutions	**17,906,485.84**	44,081,559.87	21,648,814.00
Short-term deposits in banks and a financial institution	**–**	19,875.53	19,802.75

NOTES TO FINANCIAL STATEMENTS 2009-2011

1. CORPORATE INFORMATION

CHINA POWER CONSTRUCTION ENGINEERING CONSULTING CENTRAL SOUTHERN CORPORATION (the "Company") is a limited liability company incorporated in Wuhan, Hubei, PRC. The registered office of the Company is located at Building D, #668 Min Zhu Road, Wu Chang District, Wuhan City.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The financial statements have been prepared on the going concern concept.

3.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB").

3.2 BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention and are presented in Renminbi (RMB), which is also the Company's functional currency.

3.3 ISSUED BUT NOT YET EFFECTIVE IFRS

The Company has not applied the new and revised IFRSs, that have been issued but are not yet effective, in these financial statements. The Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application but is not yet in a position to state whether these new and revised IFRSs would have a significant impact on the Company's results of operations and financial position.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

When the outcome of a transaction can be estimated reliably, revenue is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) The amount of revenue can be measured reliably;

(b) It is probable that the economic benefits will flow to the Company;

(c) The stage of the completion at the reporting date can be measured reliably; and

(d) The costs incurred to date and costs to complete the transactions can be measure reliably.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the outcome of a transaction cannot be measured reliably, revenue is recognised only to the extent the expenses recognised are recoverable.

Other investments in equity securities

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 recognised in the balance sheets at cost less impairment losses.

Investments are recognised/derecognised on the date the Company commits to purchase/sell the investments or they expire.

Impairment of non-financial assets

The Company assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If such an indication exists, the Company makes an estimate of the asset's recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its 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 assets. 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 recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of the impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. The reversal of the impairment loss is credited to profit or loss in the year in which it arises.

NOTES TO FINANCIAL STATEMENTS 2009-2011

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

i. has control or joint control over the Company;

ii. has significant influence over the Company; or

iii. is a member of the key management personnel of the Company or of a holding company of the Company;

or

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

i. the entity and the Company are members of the same group;

ii. one entity is an associate or joint venture of the other entity (or any of a holding company, subsidiary or fellow subsidiary of the other entity);

iii. the entity and the Company 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 Company or an entity related to the Company;

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

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 holding company of the entity).

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

The Company classifies its financial instruments into the following categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. Purchases and sales of the financial assets are recognised using trade date accounting.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment allowances.

The Company recognises losses for impaired loans promptly where there is objective evidence that impairment of a loan or a portfolio of loans has occurred. Impairment allowances are assessed either individually for individually significant loans or collectively for loan portfolios with similar credit risk characteristics including those individually assessed balances for which no impairment provision is made on an individual basis.

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

(b) Financial liabilities

Financial liabilities including the amount due to intermediate holding company is initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Company has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where control is not retained. Financial liability is derecognised when it is extinguished, i.e., when the obligation is discharged or cancelled, or expires.

NOTES TO FINANCIAL STATEMENTS 2009-2011

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the end of the reporting period are used to determine the deferred tax.

Deferred tax liabilities are provided in full while deferred tax assets are recognised, to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

4. REVENUE

	Years ended December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Consultancy service income	**16,190,597.60**	10,556,628.00	10,166,800.00
Bid Bail	**11,506.00**	–	–
	16,202,103.60	10,556,628.00	10,166,800.00

5. COST OF SALES

	Years ended December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Labor cost	**6,678,188.88**	6,869,913.63	6,574,963.77
Subcontract	**4,050,000.00**	–	–
Conference fee	**1,778,474.14**	692,582.54	323,561.60
Administration	**234,212.90**	323,561.60	429,172.00
Others	**764,745.91**	625,574.84	868,544.82
	13,505,621.83	8,511,632.61	8,196,242.19

NOTES TO FINANCIAL STATEMENTS 2009-2011

6. ADMINISTRATIVE EXPENSES

	Years ended December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Bonus	**478,127.25**	159,577.50	–
Administration	**32,577.90**	47,777.00	119,327.90
Others	**350,271.43**	303,946.15	48,837.46
	860,976.58	511,300.65	168,165.36

7. OTHER EXPENSES

	Years ended December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Business tax	**809,529.88**	527,831.40	508,340.00
Urban construction tax	**56,667.10**	36,948.20	35,583.80
Education surplus	**24,285.89**	15,834.94	15,250.20
Local Education Surplus	**15,145.24**	7,837.55	10,166.80
Embankment maintenance fees	**16,190.60**	10,556.63	10,166.80
Price adjustment fund	**13,780.66**	10,526.63	10,166.80
Loss on disposal of property, plant and equipment	**1,175.00**	–	–
	936,774.37	609,535.35	589,674.40

8. FINANCE INCOME, NET

	Years ended December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Interest income	**302,422.46**	204,458.90	263,171.71
Bank surcharge	**(6,826.58)**	(1,829.96)	(480.88)
	295,595.88	202,628.94	262,690.83

9. PROFIT BEFORE TAXATION

Auditors' remuneration is paid by Central Southern China Electric Power Design Institute (CSEPDI).

NOTES TO FINANCIAL STATEMENTS 2009-2011

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Company did not generate any assessable profits arising in Hong Kong during the year period.

A reconciliation of the tax position applicable to profit before tax at the statutory rate to the tax position at the effective tax rate is as follows:

	Years ended December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Profit before tax	**1,194,326.70**	1,126,788.33	1,475,408.88
Notional tax on profit before taxation, calculated at the rates applicable	**298,581.68**	281,697.08	368,852.22
Effect of non-deductible expenses	**–**	42,114.80	812.75
Others	**(72,991.93)**	–	–
Actual tax expense	**225,589.75**	323,811.88	369,664.97

11. PROPERTY, PLANT AND EQUIPMENT

	Cost	**Depreciation**	**Net Value**
At January 1, 2009	26,650.00	10,325.00	16,325.00
Additions	–	5,330.00	(5,330.00)
At December 31, 2009	26,650.00	15,655.00	10,995.00
At January 1, 2010	26,650.00	15,655.00	10,995.00
Additions	–	9,820.00	(9,820.00)
Disposals/write-offs	(3,150.00)	(3,150.00)	–
At December 31, 2010	23,500.00	22,325.00	1,175.00
At January 1, 2011	23,500.00	22,325.00	1,175.00
Disposals/write-offs	(23,500.00)	(22,325.00)	(1,175.00)
At December 31, 2011	–	–	–

The Company has only one type of property, plant and equipment which is electronic equipment.

NOTES TO FINANCIAL STATEMENTS 2009-2011

12. INTEREST IN OTHER ENTITY

	At December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Unlisted investment, at cost	**500,000.00**	–	–

Particulars of interest in other entity are as follows:

Name	Place of Registration and operations	Registered capital RMB	Ownership Interest	Percentage of Voting Power	Profit Share	Principal Activity
Wuhan Zhong Dian Bid Ltd.* (武漢中電招標有限公司)	The People's Republic of China/Mainland China	2,000,000.00	25	–	–	Biding agent

The Company did not have any voting power in the board of directors of Wuhan Zhong Dian Bid Ltd. during 2011.

13. TRADE AND BILL RECEIVABLES

	At December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Bill receivables	**–**	2,000,000.00	–

14. CASH AND CASH EQUIVALENTS

	At December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Cash and bank balances	**17,906,485.84**	44,101,435.40	21,668,616.75

As at December 31, 2009, 2010 and 2011, the Company did not have any cash or cash equivalents in limitation, and there is no pledged deposits.

15. RECEIPTS IN ADVANCE

	At December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Receipts in advance from survey and design activity	**1,064,775.00**	5,948,000.00	3,822,700.00

NOTES TO FINANCIAL STATEMENTS 2009-2011

16. OTHER PAYABLES AND ACCRUED EXPENSES

	At December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Other payables	**9,616,152.77**	33,165,572.00	6,300,506.00
Local tax obligation (Note i)	**304,038.35**	489,514.15	688,656.61
Labor expense	**205,181.82**	251,923.30	958,464.30
	10,125,372.94	33,907,009.45	7,947,626.91

(Note i): Local tax obligation include business tax and surplus as follow:

	At December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Business tax payable	**75,606.01**	17,023.60	68,700.00
Urban construction tax payable	**5,292.43**	1,191.65	4,809.00
Income tax payable	**193,314.78**	371,197.25	452,390.00
Individual income tax	**22,532.19**	93,720.00	155,944.61
Education surplus	**2,268.16**	510.71	2,061.00
Local Education Surplus	**3,492.66**	–	1,374.00
Embankment maintenance fees	**1,512.12**	340.47	1,374.00
Price adjustment fund	**–**	3,230.47	2,004.00
Stamp duty	**20.00**	2,300.00	–
	304,038.35	489,514.15	688,656.61

17. SHARE CAPITAL

	At December 31,		
	2011	2010	2009
	RMB	*RMB*	*RMB*
Authorized:			
5,000,000 ordinary shares of RMB1 each	**5,000,000.00**	5,000,000.00	5,000,000.00
Issued and fully paid:			
5,000,000 ordinary shares of RMB1 each	**5,000,000.00**	5,000,000.00	5,000,000.00

The Company's share capital was invested by its parent company CSEPDI, a state-owned enterprise.

NOTES TO FINANCIAL STATEMENTS 2009-2011

18. RELATED PARTY TRANSACTIONS

Related party information

Related Parties	Relationship to the Company
CSEPDI*（中國電力工程顧問集團中南電力設計院）	Controlling investor
Wuhan Dongliyuan Auto-mobile Service Ltd.*（武漢動力源汽車服務有限公司）	Controlled by the same parent company
Central Southern Hubei Electrical Construction Supervision Ltd.*（湖北中南電力建設監理有限責任公司）	Controlled by the same parent company
Wuhan Central Southern Electrical Design Ltd.*（武漢中南電力設計有限公司）	Controlled by the same parent company
Wuhan Central Southern Electrical Property Management Ltd.*（武漢中南電力物業管理有限公司）	Controlled by the same parent company
South Wuhan Geotechnical Engineering Technique Co., Ltd *（武漢南方岩土工程技術有限責任公司）	Controlled by the same parent company
Central Southern Hubei Electrical Guesthouse Ltd.*（湖北中南電力賓館有限責任公司）	Controlled by the same parent company
Wuhan Central Southern Electrical Press Ltd.*（武漢中南電力出版有限公司）	Controlled by the same parent company

a) Balances with related parties

The Company did not have any balances with related parties as at December 31, 2009, 2010 and 2011.

b) Transactions during the year

		Years ended December 31,		
Related Entity	Category	**2011**	2010	2009
CSEPDI*（中國電力工程顧問集團中南電力設計院）	Providing service	**–**	2,232,000.00	–

19. CONTINGENT ITEMS

As at December 31, 2009, 2010 and 2011, no contingent items need to be disclosed.

20. COMMITMENT ITEMS

As at December 31, 2009, 2010 and 2011, no commitment items need to be disclosed.

21. SUBSEQUENT EVENTS

On June 4, 2012, CSEPDI signed a share transfer agreement with China Machinery Engineering Corporation ("CMEC") to transfer 50% equity interest of the Company to CMEC for a total consideration of RMB4.6 million. In September 2012, CMEC completed the acquisition of the Company and holds 60% voting power in the Company. The acquisition does not affect the Company's financial position as at December 31, 2009, 2010 and 2011.

22. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on March 7, 2013.

GLOSSARY OF TERMS

"AGM"	the annual shareholders' general meeting of our Company
"Articles of Association"	the articles of association of our Company, adopted on February 14, 2011 and as amended from time to time
"Board"	the board of Directors of the Company
"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
"CG Code"	the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules
"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 December 11, 2012
"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 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 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

GLOSSARY OF TERMS

"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
"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
"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' Congress on October 27, 2005 and which became effective on January 1, 2006, as amended, supplemented or otherwise modified from time to time
"Core Sectors"	the core sectors of our International Engineering Contracting Business which are the power sector, transportation sector and telecommunications sector
"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
"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
"Global Offering"	The offering by the Company of 825,700,000 H Shares for subscription by the public in Hong Kong and placing with professional and institutional investors outside the United Stated in December 2012
"Group", "Our Group", "we" or "us"	the Company and, except where the context otherwise requires, all its subsidiaries

GLOSSARY OF TERMS

"H Share(s)"	overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, which are listed on the Stock Exchange and subscribed for and traded in HK$
"HK$"	Hong Kong dollars, the lawful currency of the Hong Kong Special Administration Region
"IFRS"	International Financial Reporting Standards
"independent third party(ies)"	person(s) or company(ies) which is (are) independent of the directors, supervisors, controlling shareholder, substantial shareholder and the chief executive (such terms as defined in the Listing Rules) of the Company or any of its subsidiaries or an associate of any of them
"INED(s)"	the independent non-executive Director(s) of our Company
"International Engineering Contracting Business"	the international engineering contracting business conducted by our Group with a primary focus on EPC projects
"IPP"	international power producers
"Ipsos"	Ipsos Hong Kong Limited, an independent third party, 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; it is responsible for conducting a research on the industry information included in this annual report and providing the relevant data
"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)
"km"	unit of distance, kilometer. 1km = 1,000m
"kV"	unit of electric potential, kilovolt. 1kV = 1,000 volts
"kW"	unit of energy, kilowatt. 1 kW = 1,000 watts
"Listing"	listing of our H Shares on the Stock Exchange
"Listing Date"	December 21, 2012

GLOSSARY OF TERMS

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"MW"	unit of energy, megawatt. 1 MW = 1,000 kW. The installed capacity of power plants is generally expressed in MW
"non-Core Sectors"	any sectors that do not fall within the Core Sectors of our International Engineering Contracting Business
"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
"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
"Prospectus"	the prospectus of the Company dated December 11, 2012
"RMB"or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"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
"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
"SINOMACH Group"	SINOMACH and its subsidiaries, which excludes our Group
"Supervisor(s)"	one (or all) of our Company's supervisors

GLOSSARY OF TERMS

"Supervisory Board"	the supervisory board of our Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SZSE"	Shenzhen Stock Exchange (深圳證券交易所), a self-regulated legal entity established on December 1, 1990 and supervised by the China Securities Regulatory Commission
"Trading Business"	the international and domestic trading business conducted by our Group
"United States" or "U.S."	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
"Zhongnan"	China Power Construction Engineering Consulting Central Southern Corporation* (中國電力建設工程諮詢中南有限公司) that was 50% held by China Power Engineering Consulting Group Zhongnan Power Design Institute* (中國電力工程顧問集團中南電力設計院) and 50% held by us
"%"	per cent.

*　Denotes English translation of the name of a Chinese company or entity or vice versa and is provided for identification purposes only.

CORPORATE INFORMATION

LEGAL NAME OF THE COMPANY

中國機械設備工程股份有限公司

ENGLISH NAME OF THE COMPANY

China Machinery Engineering Corporation*

REGISTERED OFFICE

No. 178 Guang'anmenwai Street
Beijing, PRC

HEAD OFFICE IN THE PRC

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

AUTHORIZED REPRESENTATIVES

Ms. LI Taifang
Mr. CHEN Minjian

JOINT COMPANY SECRETARIES

Mr. CHEN Minjian
Ms. TSANG Fung Chu

* *For Identification Purposes Only*

AUDIT COMMITTEE

Mr. LIU Li *(Independent Non-executive Director)* *(Chairman)*
Mr. WANG Zhian *(Non-executive Director)*
Ms. LIU Hongyu *(Independent Non-executive Director)*

NOMINATION COMMITTEE

Mr. SUN Bai *(Executive Director) (Chairman)*
Ms. LIU Hongyu *(Independent Non-executive Director)*
Mr. FANG Yongzhong *(Independent Non-executive Director)*

REMUNERATION COMMITTEE

Mr. FANG Yongzhong *(Independent Non-executive Director) (Chairman)*
Mr. SUN Bai *(Executive Director)*
Mr. LIU Li *(Independent Non-executive Director)*

STRATEGY AND DEVELOPMENT COMMITTEE

Mr. SUN Bai *(Executive Director) (Chairman)*
Ms. LI Taifang *(Executive Director)*
Mr. ZHANG Chun *(Executive Director)*
Mr. PAN Chongyi *(Non-executive Director)*
Mr. LIU Li *(Independent Non-executive Director)*

OPERATION AND RISK MANAGEMENT COMMITTEE

Ms. LI Taifang *(Executive Director) (Chairman)*
Mr. PAN Chongyi *(Non-executive Director)*
Mr. WANG Zhian *(Non-executive Director)*
Mr. FANG Yongzhong *(Independent Non-executive Director)*

CORPORATE INFORMATION

AUDITORS

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

LEGAL ADVISORS

As to Hong Kong law
Shearman & Sterling
12th Floor, Gloucester Tower
The Landmark
15 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,

- 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

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

01829

INVESTOR INQUIRIES

Investor Hotline: 86 10 6331 2262
Fax:86 10 6339 5011
Website: www.cmec.com

中國機械設備工程股份有限公司

China Machinery Engineering Corporation*

*For identification purposes only