Short Form of Stock: CIMC Stock Code: 000039 Serial No. of Announcement: [CIMC] 2012-011

CHINA INTERNATIONAL MARINE CONTAINERS (GROUP) CO., LTD.

(Incorporated in the People's Republic of China)

ANNUAL REPORT 2011 (SUMMARY)

§1. Important Notes

1.1 The Board of Directors, the Supervisory Committee and all directors, supervisors as well as senior executives of China International Marine Containers (Group) Co., Ltd. (hereinafter referred to as "the Company" or "CIMC") hereby confirm that there are no misstatements, misleading statements or material omissions in this Annual Report and will take individual and/or joint liabilities for the authenticity, accuracy and completeness of this report.

This Summary is abstracted from the full text of the Annual Report 2011, which is at the same time disclosed on www.cninfo.com.cn. Investors are suggested to read the full text of the Annual Report 2011 to understand more details.

1.2 The Financial Report 2011 of the Company has been audited by Klynveld Peat Marwick Goerdeler (KPMG) Certified Public Accountants Ltd, and a standard Auditor's Report with unqualified opinion has been issued for the Financial Report 2011.

1.3 Mr. Li Jianhong, Principal of the Company, Mr. Mai Boliang, Principal of the accounting work and Mr. Jin Jianlong, Person-in-charge of the Accounting Department, hereby ensure that the Financial Report enclosed in this Annual Report is true and complete.

English version for reference only. Should there be any discrepancy between the two versions, the Chinese version shall prevail.

§2. Company Profile

2.1 Basic information

Short form of the stock	CIMC, CIMC-B
Stock code	000039, 200039
Stock exchange	Shenzhen Stock Exchange

2.2 Contact information

	Company Secretary	Securities Affairs Representative
Name	Yu Yuqun	Wang Xinjiu
Contact address	CIMC R&D Center, 2 Gangwan Avenue, Shekou, Nanshan District, Shenzhen, Guangdong Province	CIMC R&D Center, 2 Gangwan Avenue, Shekou, Nanshan District, Shenzhen, Guangdong Province
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E-mail	shareholder@cimc.com	shareholder@cimc.com

§3. Financial and Business Highlights

3.1 Major accounting data

Unit: RMB'000

	2011	2010	Increase/decrease over last year (%)	2009
Gross revenues	64,125,053.00	51,768,316.00	23.87%	20,475,507.00
Operating profit	4,735,293.00	3,438,168.00	37.73%	1,320,470.00
Total profit	5,022,706.00	3,674,607.00	36.69%	1,465,385.00
Net profit attributable to the Company's shareholders	3,690,926.00	3,001,851.00	22.96%	958,967.00
Net profit attributable to the Company's shareholders after deducting non-recurring gains and losses	3,579,162.00	2,791,507.00	28.22%	-281,787.00
Net cash flows from operating activities	2,254,437.00	1,482,901.00	52.03%	969,685.00
	As at the end of 2011	As at the end of 2010	YoY increase/decrease (%)	As at the end of 2009
Total assets	64,361,714.00	54,130,649.00	18.90%	37,358,383.00
Total liabilities	42,748,042.00	34,923,949.00	22.40%	21,531,752.00
Owners' equity attributable to the Company's shareholders	18,633,154.00	16,223,057.00	14.86%	14,198,208.00
Total share capital (share)	2,662,396,051.00	2,662,396,051.00	0.00%	2,662,396,051.00

3.2 Major financial indexes

Unit: RMB Yuan

	2011	2010	Increase/decrease over last year (%)	2009
Basic earnings per share (Yuan/share)	1.39	1.13	23.01%	0.36
Diluted earnings per share (Yuan/share)	1.37	1.13	21.24%	0.36
Basic earnings per share after deducting non-recurring gains and losses (Yuan/share)	1.34	1.05	27.62%	-0.11
Weighted average ROE (%)	21.00%	20.00%	1.00%	7.00%
Weighted average ROE after deducting non-recurring gains and losses (%)	20.00%	18.00%	2.00%	-2.00%
Net cash flows per share from operating activities (Yuan/share)	0.85	0.56	51.79%	0.36
	As at the end of 2011	As at the end of 2010	YoY increase/decrease (%)	As at the end of 2009
Net assets per share attributable to the Company's shareholders (Yuan/share)	7.00	6.09	14.94%	5.33
Debt asset ratio (%)	66.42%	64.52%	1.90%	57.64%

3.3 Items of non-recurring gains and losses

√Applicable □Inapplicable

Unit: RMB'000

Items of non-recurring gains and losses	2011	Notes (if applicable)	2010	2009
Gain/loss from disposal of non-current assets	13,000.00		-164,757.00	-4,392.00
Government grants recorded into current gains and losses, excluding government subsidies with a close relationship with the Company's normal business and constantly enjoyed by the Company at a certain amount or quantity according to the state policy	267,349.00		93,685.00	142,583.00
Changes in fair value of financial assets and liabilities held for trading, and available-for-sale financial assets, excluding those held for effective hedges of normal operations	-152,179.00		209,457.00	1,455,347.00
Income generated when investment costs for the Company to acquire subsidiaries, associates and joint ventures are lower than the share of the fair value of investees' identifiable net assets attributable to the Company when investments were made	0.00		84,166.00	3,920.00
Other non-operating incomes and expenses except for the items mentioned above	20,350.00		79,139.00	6,724.00
Influence on enterprise income tax	-32,450.00		-62,571.00	-347,058.00
Influence on minority interests	-12,971.00		-36,694.00	-16,370.00
Occupation funds received from non-financial enterprises which are included in gains and losses for the reporting period	8,665.00		7,919.00	0.00
Total	111,764.00	-	210,344.00	1,240,754.00

§4. Particulars about Shareholding and Control Relationship Illustration

4.1 Particulars about shares held by the top ten shareholders and top ten shareholders holding shares not subject to trading moratorium

Unit: share

Total number of shareholders at the end of 2011	210,317	Total number of shareholders at the end of the month before the day when this report is disclosed		205,133

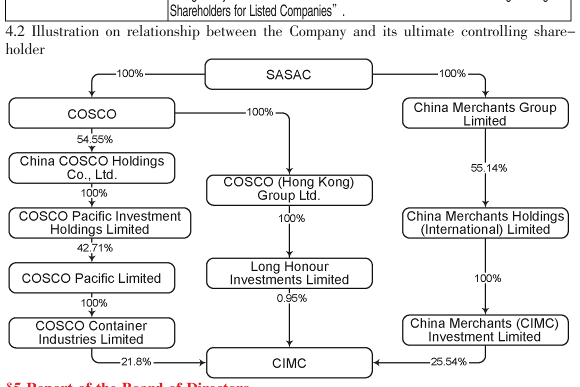
Particulars about shares held by the top ten shareholders

Name of shareholder	Nature of shareholder	Shareholding ratio (%)	Total number of shares held	Number of shares held subject to trading moratorium	Shares pledged or frozen
CHINA MERCHANTS (CIMC) INVESTMENT LIMITED	Foreign corporation	25.54%	679,927,917	0	0
COSCO CONTAINER INDUSTRIES LIMITED	Foreign corporation	16.23%	432,171,843	0	0
COSCO CONTAINER INDUSTRIES LIMITED	Foreign corporation	5.57%	148,320,037	0	0
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	Foreign corporation	3.42%	91,120,810	0	0
LONG HONOUR INVESTMENTS LIMITED	Foreign corporation	0.95%	25,322,106	0	0
GUOTAI JUNAN SECURITIES (HONGKONG) LIMITED	Foreign corporation	0.95%	25,313,120	0	0
NEW CHINA LIFE INSURANCE CO., LTD-DIVIDEND DISTRIBUTION-INDIVIDUAL DIVIDEND-018L-FH002 SHEN	Domestic non-state-owned corporation	0.60%	15,950,000	0	0
BANK OF CHINA-E FUND SHENZHEN STOCK EXCHANGE 100 EXCHANGE TRADED FUND	Domestic non-state-owned corporation	0.50%	13,339,467	0	0
TEMPLETON EMERGING MARKETS INVESTMENT TRUST	Foreign corporation	0.48%	12,801,432	0	0
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign corporation	0.40%	10,546,598	0	0
ICBC-RONGTONG SSE 100 INDEX FUND	Domestic non-state-owned corporation	0.35%	9,340,556	0	0

Particulars about shares held by the top ten shareholders holding shares not subject to moratorium

Name of shareholder	Number of shares not subject to moratorium held	Type of shares
CHINA MERCHANTS (CIMC) INVESTMENT LIMITED	679,927,917	Domestically listed foreign shares
COSCO CONTAINER INDUSTRIES LIMITED	432,171,843	RMB ordinary shares
COSCO CONTAINER INDUSTRIES LIMITED	148,320,037	Domestically listed foreign shares
CMBLSA RE FTIF TEMPLETON ASIAN GRW FD GTI 5496	91,120,810	Domestically listed foreign shares
LONG HONOUR INVESTMENTS LIMITED	25,322,106	Domestically listed foreign shares
GUOTAI JUNAN SECURITIES (HONGKONG) LIMITED	25,313,120	Domestically listed foreign shares
NEW CHINA LIFE INSURANCE CO., LTD-DIVIDEND DISTRIBUTION-INDIVIDUAL DIVIDEND-018L-FH002 SHEN	15,950,000	RMB ordinary shares
BANK OF CHINA-E FUND SHENZHEN STOCK EXCHANGE 100 EXCHANGE TRADED FUND	13,339,467	RMB ordinary shares
TEMPLETON EMERGING MARKETS INVESTMENT TRUST	12,801,432	Domestically listed foreign shares
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	10,546,598	Domestically listed foreign shares
ICBC-RONGTONG SSE 100 INDEX FUND	9,340,556	RMB ordinary shares
Explanation on associated relationship among the top ten shareholders or acting-in-concert	1. Association relationship and acting-in-concert person relation exist between COSCO Container Industries Limited and Long Honour Investments Limited, where COSCO Container Industries Limited is subordinate wholly-owned subsidiary of COSCO Pacific Limited under COSCO Group; Long Honour Investments Limited is subordinate wholly-owned subsidiary of COSCO Hong Kong (hereinafter refer to as "COSCO Hong Kong") under COSCO Group; These two and other shareholders are not acting-in-concert person specified in "Regulatory Provisions on Disclosure of Information on Shareholding Change of Shareholders for Listed Companies". 2. The Company is not aware of whether association relationship exists between other shareholders and whether they are acting-in-concert person as specified in "Regulatory Provisions on Disclosure of Information on Shareholding Change of Shareholders for Listed Companies".	

4.2 Illustration on relationship between the Company and its ultimate controlling shareholder



§5 Report of the Board of Directors

5.1 Discussion and analysis by the management team

I. Discussion and analysis by the management

(I) Changes in the industry and the influence thereof

After a growth rebound in 2010, the global economy continued to suffer from the economic crisis and the European Debt Crisis in 2011. Developed countries, especially the Euro zone, saw falling market demand, and economic growth in emerging countries also slowed down as a result. With a tight economic policy, the year 2011, the second half in particular, witnessed a drop in both China's fixed asset investment and export growth rate. Economic growth in China encountered quite a slowdown. Meanwhile, due to two major factors, i.e. falling trade growth and a surplus in shipping capacity, the global shipping market witnessed huge ups and downs. The Company's business results for 2011 hit a record high. Compared with last year, growth in the global economy, international trade and market demand for containers decreased further.

In face of a complex and changeable operating environment, the Group adopted flexible and effective operating strategies and measures. With common effort in all business segments, the Company's business results for 2011 hit a record high. In the year 2011, the Group carried forward its strategic upgrading, management upgrading and organizational reform, boosting breakthroughs in the strength of the Company and all of its business segments.

The year 2011 saw great fluctuations in the global container market. In terms of the container business, the management seized up the situation, adjusted strategies, created more competitive edges, pre-empted opportunities and improved the core strength of the business, bringing new highs to the sales income and net profit generated in this segment. In terms of the road transportation vehicle segment, domestic market demand slowed down in growth and overseas markets saw partial recovery. The management carried out the management policy that had been set, and took effective measures to reform management and adjusted the organization. As a result, the operating objective for this segment for 2011 was achieved. As for the energy, chemical & food equipment segment, the management precisely predicted the strong growth of market demand and seized opportunities to expand its production capacity in time, carry out proactive marketing & planning and employ a "one step first" new product development strategy, which effectively expanded overseas markets, solidified the market position of CIMC's best products, and achieved even greater growth in the sales income and operating profit in this segment. Concerning the offshore engineering segment in 2011, the management focused on pushing forward production and delivery in related to the existing orders, adjusted the management system, improved the basic management level, and at the same time made great effort in looking for new orders. And now the offshore engineering segment has gradually walked into a healthy development track.

Cold chain logistics is a new industry with great potential. Although China lags behind in developing cold chain logistics, it has now attached importance to the industry and unveiled support policies for it. The Group has great prospects in cold chain equipments. In search for coordinated development, it will integrate its resources of multi-modal combined transportation reefer containers, reefer trucks and other refrigerators in which CIMC has experience and competitiveness.

About the container industry: Throughout the year 2011, the prices and number of containers demanded kept rising, but with a first-fast-and-then-slow feature. For 2011, over 3.20 million TEU of containers were manufactured globally, including over 2.70 million TEU of dry cargo containers, rising close to 10% year on year; about 0.15 million TEU of reefer containers and about 0.09 million TEU of special-purposed containers, both decreasing slightly over last year. In terms of prices, the price for a TEU was between US$ 2,600 and US$ 3,000 in the first half of the year and dropped to around US$ 2,300-2,600 in the second half of the year. Due to greater new shipping need, old container replacement need, release of previously accumulated need and other factors, the strong demand for containers in the second half of 2010 lasted in the first half of 2011. But starting from the second half of 2011, the shipping market turned weak and demand had been largely released in the demand peak not long ago, so the container market plummeted.

About the road transportation vehicle industry: Affected by the European debt crisis and appreciation of Renminbi, China's export to the American and European countries slid in 2011. The continuous weakness of container throughput in China's ports caused a decreasing demand for flat-bed trucks. Due to a slowing-down domestic economy, a tight credit and the slowdown in growth of fixed asset investment, domestic needs for special vehicles encountered a soft growth. Market demand for semi-trailers went down about 30% on a year-on-year basis, refitted vehicles down about 10%, while demand for tank semi-trailers remained comparatively stable. Throughout the year, the domestic semi-trailer industry as a whole saw a general loss, with competition becoming fiercer for some sub-products.

As for policy changes for the industry, the State Council unveiled the Road Safety Rules in March 2011 and further restricted overloaded vehicles. In June, the State Council introduced 8 supporting measures to boost logistical development, and at the same time, the five ministries carried out a special check-up for illegal and irrational road fee charging. These measures further reduced highway & bridge charges and taxes for logistics enterprises, boosting transportation of agricultural products and development of logistics vehicles and reefer trucks.

About the energy & chemical & food equipment and service industry: Natural gas has become an important primary energy and clean energy for the world. Due to limited source, natural gas only accounts for about 4% in the primary energy chart in China, much lower than the global average ratio. China has an enormous potential demand for natural gas. During China's 12th five-year plan for development, China considers natural gas an important tool to adjust the energy structure and reduce coal consumption. The weight of natural gas will increase from 4% in 2010 to around 8% in 2015. Domestic demand for natural gas is expected to reach 230 billion cubic meters by 2015 and 350 billion cubic meters by 2020.

In recent years, especially when the second phase of the west-east natural gas transmission project is completed and some coastal LNG receiving stations are also completed one by one, short supply in natural gas is eased and needs start to rise. With to energy-saving and emission-reducing policy, as well as a rising energy supply, equipments related to natural gas have great prospects. Demand growth has moved into an expressway. Automobiles powered by CNG and LNG in particular have been introduced and encouraged worldwide. The Company's business plan "Clean Vehicle Plan" in 1999. Later, it unveiled and adopted a series of documents for special plans and policies to encourage development of natural gas automobiles such as the 11th Five-year Plan for Energy Development and the Natural Gas Utilization Policy, with the latter policy unveiled in 2007 to make developing gas-powered automobiles a priority and try to set up a healthy, green transportation system that went with the sustainable development.

Along with rapid development in the coal chemical, petrochemical and basic chemical industries, domestic demand for chemical equipments kept growing rapidly. More and more large-scaled and energy-saving chemical equipments appeared. More equipments needed to be upgraded and replaced. Demand in new fields such as polysilicon also grew. And the international market was further expanded. All these enabled the chemical equipment industry to keep a rapid development.

Due to the debt crisis and a saturated market, Europe recorded a growth slowdown in demand for alcoholic drinks, other kinds of drinks and other liquefied food equipments. However, strong economic growth, rising consumption and accelerated urbanization in developing countries such as China and India continued to boost rapid development in the liquefied food industry. It is expected that in the coming five years, the total output in China's liquefied food industry will grow at an annual rate of 12-15%. And development in the liquefied food industry will surely stimulate demand in the transportation, storage and processing equipment industry.

About the offshore engineering equipment industry: Oil fields onshore and in the shallow sea which are easy to be exploited have basically become dried. As such, the gap in the future oil demand can only be filled by oil and gas resources offshore, particularly those in deep sea. According to IEA prediction, oil will remain the biggest energy source for consumption until 2030. For the past 10 years, 53% of China's new oil output comes from offshore oil. And offshore oil and gas output has taken up over 25% of the total oil and gas output in China.

Therefore, the global offshore engineering market has great potential for growth. About US$ 300 billion is invested in exploiting offshore oil and gas every year in the global offshore engineering market. According to a rough estimate from ODS, an offshore engineering analysis authority, new global demand for offshore engineering platforms and auxiliary ships for the coming five years will be around US$ 56.5 billion and US$ 50 billion respectively. According to its 12th five-year plan for development, China National Offshore Oil Corp. will invest RMB 200 billion in deep-water oil and gas exploitation.

After years of lows, thanks to economic recovery and the rebound of crude oil prices, the second half of 2011 saw a gradual recovery in the global offshore engineering market. Orders for offshore engineering equipment, especially drilling devices, increased significantly. Judging from the competition in the deep-water platform building industry, South Korea and Singapore still take the lead, with China being one of the new competitors. Currently, China has some strength in developing the offshore engineering equipment industry, but the overall capability is still at a low level. Therefore, it has a great chance to grow. In 2010, the offshore engineering industry was included as a strategic emerging industry in China´s 12th five-year plan for development. In 2011, the government formulated the Innovation & Development Strategy for the Offshore Engineering Equipment Industry (2011-2020) as a medium-and long-term development plan for the industry. The plan put forward five major strategic tasks to gradually establish offshore engineering equipment makers with the ability to design and build such equipments independently, and to give more support to the industry over the fiscal policy, the taxation policy and financial service. It is thus expected that as the government support policy towards the industry is carried out, global offshore engineering equipment manufacturing bases will move to China in the coming few years and China will take up a much larger share in the global offshore equipment market.

A brief analysis to the influence of changes in macro-policies and the sector on the Company´s finance is set out below:

Global economic recovery slowed down in 2011, with increasing uncertainty and risk. Concerning the domestic economy, with a tight monetary policy and credit control, investment in fixed assets gradually slid, dragging down economic growth. Complex and changeable internal and external environment put great pressure on the Group´s operation. Proactively dealing with the said pressure, the Group adopted flexible operating strategies and effective measures. As a result, the Group managed to maintain a healthy state in terms of the financial structure, investment & acquisition, capital management, etc., and capital turnover and cash collection both improved over last year. Thanks to strong demand for containers and energy and chemical equipments, prices for the Group´s main products rose, the annual average rate of production capacity utilization was high, the business scale further expanded and the overall business performance hit a record high. As at 31 Dec. 2011, the total assets of the Company stood at RMB 64.362 billion, up 18.90% as compared to 2010; total liabilities at RMB 42.748 billion, up 22.40% on a year-on-year basis; the debt ratio at 66.42% at the year-end, representing a year-on-year increase; and net cash flows from operating activities at RMB 2.255 billion, representing a significant increase over 2010.

In 2011, international financial liquidity became loose, with inflation pressure and foreign exchange uncertainties. The Chinese monetary policy turned around with a tightening domestic liquidity. The Company carried out a prudent strategy on finance and risk control, made full use of its own financial business, and looked for a balance between business expansion and financial risk control. Meanwhile, it improved capital utilization centralization and efficiency, continued to keep a rational debt structure, effectively controlled risks and ensured capital safety. It also, based on its business development needs, used the leasing operation, financial products and foreign exchange instruments in a rational and flexibly way. In the debt structure, short-term borrowings from external parties took up a smaller proportion in the total liabilities and long-term borrowings rose significantly.

In 2011, despite fluctuations in the global economy and China´s macro-control of tightening the monetary policy, the Company successfully issued the first phase of medium-term notes of RMB 4 billion and obtained a syndicated financing of US$ 300 million. The Company continued to cooperate with main banks and obtained support from them. It signed strategic cooperation agreements with 8 domestic and foreign banks´ head offices, and signed an agreement with China Development bank concerning a credit line of US$ 3.6 billion for the "going global" strategy, which supported the Group´s overseas business expansion and reduced financing cost.

(Ⅱ) Business Review

1. General Performance

For 2011, the Company achieved revenue of RMB 64.125 billion (RMB 51.768 billion for 2010), representing an increase of 23.87% over 2010; and net profits attributable to the Company´s shareholders reaching RMB 3.691 billion (RMB 3.002 billion for 2010), a rise of 22.96% on a year-on-year basis. Both the revenue and profits hit a record high.

2. Operation of principal businesses of the Company

——Business of container manufacturing and service

The Group is currently the only container manufacturing and service enterprise that can provide whole series of containers, including dry cargo containers, refrigeration containers, tank containers, as well as other kinds of special purpose containers, and owns complete and independent intellectual properties. Besides, the Group has 18 container manufacturing bases in coastal areas and areas along rivers, enabling it to quickly deliver containers to not only each container quay and yard in China, but also to major ports and clients all around the world at low cost and good quality. Besides, CIMC had established container service sites in major costal port cities and inland container logistic centers in China, which formed perfect container service system and provided container service and application system covering the whole product cycle for clients.

In 2011, the Group closely monitored the container market, quickly responded to market changes, gave play to its collaboration advantage, coordinated internal resources and dealt well with the complex and changeable market environment. The container business recorded the best performance in the 30 years of the development of this business. For the year, the container business generated a sales income of RMB 35.04 billion, up 38.26% over last year, and generated net profits of RMB 3.629 billion, up 19.42% over last year. The production & sales volumes and operating revenues of the dry-cargo container and reefer container business segments hit a record high. And sales incomes and net profits generated in the special-purposed container, modularization and wood flooring business segments recorded significant year-on-year growth.

Dry-cargo containers generated a sales income of RMB 21.747 billion, representing a year-on-year growth of 11.23%; reefer containers a sales income of RMB 6.276 billion, up 71.57% over last year; and special-purposed containers a sales income of RMB 6.624 billion, an increase of 88.51% as compared with last year. In 2011, 1.413 million TEU standard dry-cargo containers were sold, an increase of 9.13% as compared with 1.296 million TEU in 2010. 0.1775 million TEU reefer containers and 77,100 TEU special-purposed containers were sold in the year, respectively increasing 106.88% from 85,800 TEU in 2010 and 24.56% from 61,900 TEU in 2010.

In 2011, significant achievements were made in the container business in terms of improving the core capability and exploring new space for business development. The strength of plants was reinforced in an all-round way by promoting lean manufacture and the "ONE" management mode, upgrading technologies and equipments, and cultural construction. Meanwhile, the Group carried out a strategic upgrading operation, formulating development plans, making strategic adjustments, pointing the strategic development direction for product and manufacturing technologies, proactively expanding new business and increasing input for it.

In particular, the Group kept improving itself internally and externally through service extension, technological upgrading, innovations in the business mode and the production organizational mode, etc., proactively exploring new growing space for business, so as to seize strategic opportunities ahead of others and lead the future development of the industry. A container automatic production line was built in Shenzhen—"the Dream Works"—to focus on water paint, bamboo flooring, modularization, etc. as a priority.

At present, profound changes have taken place in the internal and external environments for the container industry and the fierce competition continues. As restriction on resources goes tighter, the low-carbon environmental protection standard becomes stricter, the requirement for the working environment is more stringent and the labor cost keeps rising, the industry will encounter great challenges ahead. In recent years, the Group has been more and more aware of the severe situation and has been taking proactive measure to deal with that. The Group has been devoting great effort in upgrading the manufacturing mode, exploring the transformation of the production & management mode in the container business, and looking for a sustainable and healthy development path.

As a new business mode, the modularized building and container house business is more and more welcomed in the market. The year 2011 continued to record progress in the Group´s modularized building and container house business, with income from the modularized building business already exceeding US$ 100 million. The Group provides container businesses such as new-for-old service, re-design for old containers, maintenance, and rent of second-hand containers. Meanwhile, it has developed technologies and business of using second-hand containers as modularized houses, creating a whole new way of building, i.e. "integrated design + on-site installation". The Group is also trying to make itself a service provider integrating design, structural manufacture, decoration and after-sales service for modularized houses. Xinhui CIMC, one of the affiliated companies of the Group, won the first mine camp project order from BHPB in Mar. 2009, and won another camp project order valuing A$ 60 million from FMG, the third biggest iron ore miner later in April. At present, CIMC has become one of the mainstream camp providers in Australia.

——Road transport vehicle manufacturing and service business

CIMC Vehicle Group, one of the affiliated companies of the Group, is the largest manufacturer of road transport vehicles in China, with an annual capacity exceeding 200,000 units. CIMC´s business of road transport vehicle had set its strategic vision as providing top-ranking logistics equipment and service in land routes for global customers by replying on China´s advantage. As the strategic development direction, CIMC Vehicle Group focused on a complete value chain process of product design and development, product manufacturing and delivery, sales and service, as well as customer follow-up and feedback. CIMC Vehicle Group constantly insisted on creating sustainable value for customers, keeping improving customer satisfaction, and leading sustainable and healthy development in the industry.

In 2011, the European economy remained weak, and growth of the Chinese economy slowed down, with shrinking investments in fixed assets. In the second half of the year, domestic demand for special-purposed vehicles declined even faster. Under such circumstances, with ensuring profit and improving profitability as the core objective and guidance, CIMC Vehicle Group adjusted its operating strategies in a timely manner according to market changes and managed to basically accomplish the annual operating goals. Throughout the year, this business segment generated a sales income of RMB 16.725 billion and net profit of RMB 0.513 billion, down 0.17% and 12.65% respectively over last year. 152,400 units of vehicles were sold in the year, representing a slight year-on-year decrease. Meanwhile, due to a weakening logistics demand and a tighter credit, sales of semi-trailers, bulk lorries and flat-bed trucks decreased considerably on a year-on-year basis. Thanks to strong infrastructure demand in China, rapid recovery of the North America market, growing demand from emerging markets and other favorable factors, the refitted vehicle business and the export business both gave a good performance. Besides, through carrying out focused plans and moves, the North America-based Vanguard successfully stopped loss.

In 2011, domestic markets for the Group´s main vehicle products were further expanded. Market shares of logistics vehicles (including bulk lorries, flat-bed trucks, vans, liquid tank trucks and reefer containers) remained stable. And the market share of refitted vehicles (self-unloading trucks, mixer trucks and powder tank trucks) climbed higher to top the industry.

In the year, the Group continued to push forward strategic transformation in its vehicle business, emphasizing the value direction of taking profitability improvement as the core, starting from the marketing system, refining terminal marketing channels, reinforcing internal management and increasing the operating efficiency. The Group continued to improve the marketing channel system to reinforce the penetration in end users. The "One Hundred Store Plan" was carried forward. Upon official operation of the five major stores, the Group continued to build the regular chain. It now has over 40 stores in the regular chain, promoting direct sales through subordination, lease and other means. The Group promoted the management mode of unified service, i.e. to transform, within the marketing system, from separate service by plants to unified service mainly by the five major stores. By the end of 2011, nearly 300 signed service stations were built. Except for remote areas, a service station like this can basically reach any spot within 100 kilometers. The Group also continued to improve the vehicle logistics park mode and made investment to complete the second-phase project of the Chengdu Logistics Park. At the same time, the operating efficiency of distribution channels was increased through building an information platform for the service system and other measures. During the year, CIMC Vehicle Group continued to push forward integration of resources and finished the planned disposal of idle assets.

In 2011, CIMC Vehicle Group increased its investment in developing new products. Now it is running the European BSG project, with the purpose of making use of the advanced European technological resources, developing and introducing to China the third generation semi-trailer technologies, and preparing itself for launching brand products in the European market. Meanwhile, it developed a new generation of drop-side semi-trailers and increased investment to expand the relevant production capacity.

As a new business segment resulted from the extension of the Group´s industrial chain, the development strategy of "make high-end products, provide quality service and establish a top-class brand" was set for the heavy truck manufacturing business. In face of the first year of negative growth for the heavy truck industry of China since 2005, C&C Trucks put forward the operating strategy of "high-end positioning, competing over differentiation and developing unique comprehensive strength to bring new value to clients", adjusting the old operating strategy. It shrank markets and the production line, united resources from the best heavy truck industrial chain of the Chinese heavy truck industry, and tried to lay a preliminary foundation for future breakthroughs and sustained growth of the heavy truck business through effective measures such as developing customer-tailed products and launching star products in high-end logistics, commercial concrete mixing and construction-specialized heavy truck markets, particularly the LNG heavy truck market.

——Energy, chemicals, food equipment and service business

The Group operates the energy, chemical and liquefied food equipment business via the platform of CIMC Enric Holding Limited ("CIMC Enric"). The year 2011 recorded an unexpectedly fast growth of this business segment. This was mainly because the Group seized opportunities when LNG demand soared and the tank container market continued to recover in 2011, increased the production capacity in a forward-looking manner, and increased the utilization rate of the capacity. As a result, operating revenue and net profit generated in this business segment rose significantly on a year-on-year basis. For 2011, this business segment generated operating revenue of RMB 8.284 billion, up 58.42% over last year, and net profit of RMB 0.493 billion, representing a sharp rise of 159.59% on a year-on-year basis.

Energy (LNG, CNG and LPG) equipments: In 2011, the Group recorded aggregate sales income of RMB 4.484billion from energy equipment, up 34.45% over last year. At present, the Group is able to provide CNG, LNG and LPG products with the most complete specifications and the richest varieties. Via the project general contractor—TGE GAS TGE Gas Engineering GmbH ("TGE GAS") at which the Group holds a 60% stake, the Group greatly improved its systematic integration and engineering ability in the whole natural gas industrial chain and was able to provide "one-stop" systematic solutions for clients in terms of natural gas development and application. This equipment manufacturing and engineering business has effectively solved the "last kilometer" problem beyond natural gas lines and thus significantly propelled promotion and usage of natural gas in China.

In the coming few years, there will be more and more overland gas pipelines and coastwise LNG terminal stations being put into operation in China. Therefore, it is another business development goal of the Group to further expand the production capacity for energy equipments, so as to meet the demand resulted from the increasing gas resources. The Group plans to achieve the relevant business goals via internal growth, i.e. to expand the existing plants and construct new production lines. The Group is currently building a light spiralwound production line in Shijiazhuang, expanding LNG production facilities in Zhangjiagang and Jingmen LPG production plants, and making investment to increase the production capacity of the Nantong tank container production base.

Upon the acquisition of Nantong CIMC Transport Equipment Co., Ltd. ("Nantong Transport"), the Group further increased its production capacity for energy equipments, which brought about synergetic effect and increased the Group´s competitiveness. In 2011, TGE GAS, where the Group holds a 60% stake, generated operating revenue of RMB 1.226billion, up 35.62% over last year. In 2010, TGE GAS won an EPC contract for the Zhejiang Ningbo LNG receiving station tank project from China National Offshore Oil Corp., as well as an EPC contract for the second-phase construction expansion of the Portugal-based SINES LNG receiving station project. The said two projects are running well, with the safety management and quality well received by clients. They are expected to be completed and delivered in the middle of 2012, earlier than the contractual delivery date.

Chemical equipments: In 2011, the chemical equipment business recorded operating income of RMB 3.027 billion, up 136.67% over the same period of last year. The major production bases of chemical equipments include Nantong CIMC Tank Equipment Co., Ltd. and Dalian CIMC Heavy Chemical Equipment Co., Ltd., etc..

Nantong CIMC Tank Equipment Co., Ltd. (Nantong Tank) is mainly engaged in the business of manufacturing international standard tank containers. Due to the recovery of global economy, the demand of the chemical logistics equipment market closely associated with chemical raw materials and refined chemicals realized recovery growth, its income and profits in 2011 continued to increase substantially, returning back to the prosperity before the financial crisis. Now Nantong Tank is actively designed the special tank, carbon steel gas tank, wrapped bottle, accumulator, CNG steel cylinder and nuclear capacitor as well as other new products, which will significantly contribute to increase income.

The 1st phase project of Dalian CIMC Heavy Chemical Equipment Co., Ltd. (Dalian Heavy Chemical) has already owned the annual production capacity of 9,000 tons. Its main products include gasifier in the coal gasification equipment, ethylene cracking furnace in the ethylene equipment, large-scale synthetic ammonia, high-pressure equipment in the chemical fertilizer equipment, oil refining hydrogenation, hydrocracking, key equipments in the methanol device and evaporator in the sea water desalination device etc.

Liquid Food Equipments: In 2011, the liquid food equipment business recorded operating income of RMB 0.772 billion, up 37.60% over the same period of last year. Netherlands-based Holvrieka Holding B.V. is one of the leading suppliers of exclusive stainless steel static storage tanks and tank terminal equipments in Europe, under which, there are four production bases, namely Netherlands-based Emmen, Netherlands-Sneek, Denmark-based Danmark and Belgium-based NV. It offers a wide range of services to the liquid, gas and powder bulk tank transport sector in Europe including petrochemicals, beer, juice, milk and other food and beverage industries, such as all tank equipments and bulk water tank ships involved by orange juice from the juice, road transport to orange juice docks. Holvrieka (China) Co., Ltd. is the production base of Holvrieka of the Group in China, mainly engaged in manufacturing of stainless steel static storage tanks and crafts tanks used to store beer, fruit juice and other food and chemical products. Now it has owned a capacity of producing 1,000 units of large storage tanks annually.

In 2011, CIMC Enric fully realized the necessity and importance to develop engineering business at the same time of strengthening the equipments manufacturing business. The overall market scale of energy and chemical engineering business is big, which is also the natural extension of the tank equipment manufacturing business. At present, basing on the development of large storage project, gas station project and gas treatment project, CIMC Enric is exploring the new areas in well-head gas or methane recovery project from the treatment of medium-to-small sized liquefied gas, etc. In 2011, TGE GAS successfully acquired Technodyne (TD) Company in British, and formed the core competiveness of mechanical design in domestic low temperature tanks area. Besides, CIMC Enric also successfully acquired Nanjing Yangzi Petrochemical Design Engineering Company in Jan. 2011, which significantly improved the ability of R&D, design and project contracting in the area of energy and chemicals storage project; through the construction of the EPC contract project of large storage tanks for LNG receiving station by TGE, CIMC Enric enhanced its project management ability.

In 2011, CIMC Enric continued to strengthen the development of new technology and new products. It conducted research on 20 new products and applied for more than 80 patents, which mainly included the new products such as CNG ship application project, wrapped bottle for high-pressure long-tube trailer and refrigerant gas tank for tank container. Besides, CIMC adopted new technology to reduce the weight of natural gas storage tanks, industrial gas storage tanks and low temperature tank trucks for industrial gas, which not only increased its competiveness but also improved its market share.

In 2011, CIMC Enric also actively carried out effective collaboration with other business segments of the Group and among its own segmented business, as well as strengthened the exploration of international market.

——Offshore engineering business

CIMC Raffles Offshore (Singapore) Co., Ltd. (SCRO), the subsidiary of the Group, and its subsidiary, Yantai CIMC Raffles Offshore Co., Ltd. (YCRO) rank top offshore engineering equipment manufacturers in the world, and have been involved in global competitions in international market of offshore engineering. Its main products include jack up, semi-submersible and auxiliaries to offshore engineering. In 2011, offshore engineering business of the Group recorded a sales income of RMB 0.577 billion, down 76.41% over the same period of last year, with a loss of RMB 1.116 billion. Main reasons for losses on offshore engineering business: on one hand, it´s caused by the excessive expenditure for the costs and expenses of the delivered projects in 2011; on the other hand, the amount of completed works by YCRO in 2011 reduced substantially over the same period of last year, causing the idling of the main infrastructure and relevant resources, thus the depreciation and amortization of fixed assets were relevant large.

In 2011, after increasing investment on CIMC Raffles by joining in the second allotment of new shares and acquiring the whole shares of Zhang Liren family held in CIMC Offshore Holdings Limited, up to Jan. 2012, the Company´s equities held in CIMC Raffles Offshore (Singapore) Limited reached 88.58%.

Offshore engineering business of the Group basically defined its development directions in three main product lines, namely semi-submersibles, jack ups, and special offshore engineering vessels. The strategic layout of "one center and three bases" made up by Yantai, Haiyang, Longkou and Offshore engineering Research Center was completed and being developed. In terms of construction of production bases, Yantai Base was mainly applied for concentrated supply, approximation, and debugging. Haiyang Base and Longkou Base respectively acted as semi-submersible construction base and jack up construction base. HCRO had the ability to produce two semi-submersibles drilling platforms per year, while the annual production capacity of four jack ups drilling platforms had been formed by LCRO.

The year of 2011 saw the offshore engineering business of the Group get towards a new stage, the Group continued to successfully advance its delivery of orders. Of which, except the COSL 3#, the external orders received near the year of 2006 had all delivered to customers.

In Apr. 2011, SS Amazonia, the second deep-water semi-submersibles drilling platform established for Schahin in Brazil, was successfully delivered in Yantai; In May 2011, Super M2 H196, the first jack ups drilling platform constructed by LCRO, was successfully delivered to use; In Jun. 2011, STORNES, the flexible fallpipe vessel constructed for Van Oord Marine Services BV in Holland, was successfully delivered in Yantai. In Dec. 2012, COSL INNOVATOR, the second deep-water semi-submersibles drilling platform constructed by general contracting for the subsidiary of COSL—COSL Drilling Europe AS (CDE) by Yantai CIMC Raffles Offshore Ltd., (hereinafter referred as "YCRO") was delivered. Then, YCRO had successfully delivered the 5th deep-water semi-submersibles drilling platform. And the delivered platforms had already begun to work: in 4 Jun. 2011, SS PANTANAL, the deep-water semi-submersibles drilling platform constructed for Schahin in Brazil by CIMC Raffles begun to work offshore in Brazil; in Oct. 2011, COSLPIONEER, the first deep-water semi-submersibles drilling platform delivered by CIMC Raffles begun to provide drilling service for Statoil in the Sleipner Oilfield of North Sea, Norway, and successfully completed the work for the first well, as well as drilled out the oil in Jan. 2012. All the above means that the Group has the ability to mass construct the deep-water semi-submersibles drilling platforms.

In terms of enlargement of new orders, CIMC Raffles began to gain an encouraging breakthrough since the second half year of 2011. Up to Feb. 2012, the total contract amount of the in-hand orders (excluding self-constructing projects) of CIMC Raffles exceeded USD 1.5 billion. In Jul. 2011, CIMC Raffles signed a general contract on constructing two 50,000-ton multi-function semi-submersibles ships with United Faith Group Limited. In Dec. 2011, CIMC Raffles signed a general contract on constructing the deep-water semi-submersibles drilling platform—COSL PROSPECTOR with COSL Drilling Europe AS (CDE), which was expected to delivered in the third quarter of 2014. In Feb. 2012, CIMC Raffles signed a general contract on constructing the deep-water semi-submersibles drilling platform—North Dragon in North Sea, Norway with North Sea Rigs As.

CIMC raffles had established a R&D and design team of 800 people by structuring Yantai CIMC Offshore Engineering Research Institute and Shanghai CIMC Marine and Engineering Research Center, constructed a R&D and design platform integrated with R&D and design, which operated through the whole process of basic design, detailed design and production design, and independently completed analysis and design for several DP2 and DP3 products, which won high evaluation from ship owners and classification societies. In Jul. 2010, the Group was named and branded for the "National Energy Marine Petroleum Drill Platform R&D (Experiment) Center" by the National Bureau of Energy, which meant that the Group gained its national industrial status in several respects of scientific research offshore engineering, and thus acquired the qualification to undertake R&D, experiments, and manufacturing in important national offshore engineering equipment. As such, the leading advantage of the Group in domestic offshore engineering was strengthened, which enlarged the space for in-depth anticipation of the Group in future national energy development. The Company will continually strengthen construction of CIMC Offshore engineering Research Institute, further attract high-end talent, and build an international advanced design and R&D platform for offshore engineering equipment.

——Other businesses

Airport ground equipments business: After the slump in 2010, Tianda Airport Support Ltd. (CIMC Tianda), whose 70% equities is held by the Company, began to enter the rising channel with fast growth, and the position of boarding bridges ranking as the No. 1 for comprehensive strength worldwide, besides, it also gained substantial breakthrough and progress in the business of airport ground vehicles, automatic garage and automatic transmission equipment. In 2011, CIMC Tianda realized a sales income of RMB 0.571 billion, up 66.48% from RMB 0.343 billion in the same period of last year; and 208 sets of boarding bridges were sold, recording a year-on-year increase of 76.3%.

In 2011, the boarding bridges business of CIMC Tianda basically got over the influence of financial crisis in 2010 and made a big progress, with doubled and redoubled growth in the amounts of orders for boarding bridges. Due to the intense competition, the market shares of boarding bridges business in China declined to some extent, but the competition began to have some relieve from the second half year of 2011; then, the market shares of boarding bridges business in international market increased substantially; and boarding bridges began to enter the markets of 9 new countries and areas for the first time.

Under the drive of industrial upgrading in China and other factors, the average annual growth of the market demands for automatic logistics system stands at about 20%. Therefore, in accordance with the strategic development plan, CIMC Tianda actively explored new business area, and began to enter the market of airport baggage handling system, the automatic storage and transmission business outside the airport on the base of the original airport cargo handling system, with a good start. Due to the fast development, problem of parking in cities became increasingly serious, causing fast growth of demands for solid garage. In addition to conduct the sales of equipments, the Company also overall enlarged the project of garage in cities with the mode of BOT/BOO, and it has gained many projects. In the future, the Company will dedicate to create a parking industry chain of investment—manufacturing—operation.

Xinfa Airport Equipment Ltd. (hereinafter referred as "Xinfa") was established in 1997, which is a professional manufacturing enterprise involved in the R&D, manufacturing and service of airport apron bus and other ground support equipments (GSE). In 2011, CIMC Tianda increased investment on Xinfa and gained the controlling right with 70% equities of Xinfa. After the acquisition of Xinfa, CIMC Tianda would enrich its airport equipments production lines, and create a good synergistic effect in terms of market and manufacturing, etc.. In the future, CIMC Tianda will increase input on R&D and gradually integrate and expand relevant products and business basing on the said R&D platform, it dedicates to develop into a comprehensive GSE company.

Logistic equipment and service business: The Group is committed to providing special logistic equipment and comprehensive logistic solutions for customer from different trades. Our logistic equipment products mainly include pallet containers for automobiles, logistic, foods, chemical, and agriculture, stainless steel IBC (Intermediate Bulk Container) applicable in chemical and foods fields, and various special logistic equipments, such as wind power product logistic, commercial car assembly logistic equipment, and offshore container. The Group´s logistics industry is separated into manufacturing business and service business, and it currently owns 2 manufacturing bases, Tianjin and Dalian, 3 service bases, Shenzhen, Wuhu and Guangxi. At present, the Group´s annual production capacity of pallet containers amounts to 1.3 million set, and it is the biggest supplier for steel pallet containers and IBC as well as one of the leading supplier for pallet containers in the world.

The Group realized a sales income of RMB 1.654 billion in 2011, up by 44.61% from RMB 1.144 billion in the same period of last year. In 2011, the main products in China centralized in automobile parts industry, such as turnover box for engines or steel casting. With the development of automobile industry and the upgrade of the logistics mode of automobile industry in China, the requirements for the turnover efficiency of parts were higher and the relevant demands also increased significantly. Under the condition of maintaining the stable development of logistics equipments manufacturing business, the rent of steel pallet containers, a special business of logistics service, and the solution for the transportation of busdeck had gained a big progress in the year, with the service business increasing over 100%.

Taking advantage of the opportunity and policy support of "National the Fifth-five Year Plan", logistics service business is making efforts to become the important support for logistics industry. In Jun. 2011, eight measurements to promote the health development of logistics industry were proposed in the session of state council, which mainly included relieving the tax burden for logistics enterprise, strengthening the land policy, advancing the innovation and application of logistic technology, etc.. Besides, the Ministry of Finance and State Administration of Taxation issued the pilot program on changing the land use tax and turnover tax to value added tax, so as to strengthen the policy support for logistics industry.

In 2011, the Group focused on investing on and upgrading the production line, soft and business system in logistics industry, so as to expand its production capacity, enhance efficiency and improve the working environment.

Financial service business: CIMC Finance Co., Ltd. and CIMC Financing and Leasing Co., Ltd., both consist the financial business segment of the Group, provide financing, financial and operating collaborative services inside and outside the Group, which can give full play to the function of regulation and allotment for the capital pool of the Group. Besides, they gradually inset in the overall value chain of the main business of the Group through the organic infiltration with the strategic industries of offshore engineering, energy & chemical equipments, vehicles and modular construction, etc., so as to make contribution for the Company.

In 2011, under the circumstances of unstable global economic environment and deflated financial policy from the national macro control, the Group´s financial segment provided low-cost capital and operating security to effectively support the operation of every business. At the end of the year, the collecting ratio of the Group´s domestic collectable funds exceeded 80%, which effectively enhance the operating efficiency and function of the Group´s capital. In 2011, the Group gained a sales income of RMB 0.575 billion from its financial business segment and a net profit of RMB 0.44 billion, both increasing significantly as compared to last year.

CIMC Finance Co., Ltd. could provide financial service for the Group´s member enterprises at low interest rates and save their financing costs. CIMC Financing and Leasing Co., Ltd. fully displayed its operational collaborative ability to become the important drive for the Group´s extension to service from the business mode. Under the negative circumstances of global financial crisis and the deflated monetary policy in China, CIMC Financing and Leasing Co., Ltd. made close collaboration with various industrial segments and fully displayed CIMC´s advantage in China, so as to provide solutions on the sales of goods and financing, as well as strengthen the relationship with the customers, thus improved the competiveness of the Group.

Others: Dalian CIMC Railway Equipment Co., Ltd., the subsidiary of the Group, dedicates to the exploration on railway equipment business. In 2011, it realized a sales income of RMB 0.165 billion with a substantial increase over the same period of last year. Besides, the Company also has minor real estate development business, which is mainly in Jiangmen, Yangzhou and Zhenjiang, etc..

(III) Outlook of the Company´s Future Development

1. Economic Environment and Policies

In 2012, the global economy faces a large uncertainty, and the world is at the crossroad for reformation. As for American economy, it needs to reduce the proportion of financial and service industries in the overall economic body, while strengthen manufacturing industry, i.e. "eliminate financialization". As for Europe, it needs to cut financial deficit for a long time, reform its old labor system and reduce its welfare, so as to increase its competitiveness, i.e. "eliminate welfare". While as for China, it faces the economic transition under the new circumstance, which shall get rid of the reliance on real estate industry, i.e. "eliminate capitalization or real estate industry". Besides, as for developed economic bodies, European debt crisis will still be one of the key factors to affect the global economic, trading and financial market. Subject to the economic & policy mechanism and welfare & social system, as well as other structural factors under the framework of Euro Zone, it is predicted that the European debt crisis is hard to be solved quickly and stably. Amecian economic growth mode is still pulled by consumption and employment, it is predicted that the modest recovery situation will continue, while maintain slow growth in the future years. And the prospect of Japanese economic growth is