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## HISTORY AND REORGANIZATION

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### OUR HISTORY AND DEVELOPMENT

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

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

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

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

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

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

### Our Important Milestones

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

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

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

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

### OUR REORGANIZATION

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

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

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

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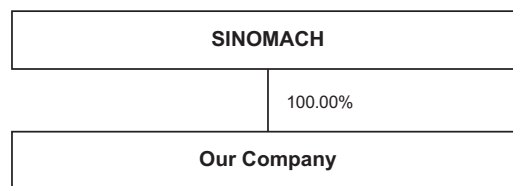
- contractual rights and obligations relating to such business, operations, assets and liabilities;
- employees associated with such business and operations;
- qualifications, licenses and approvals related to such business and operations; and
- business and financial records, books and accounts, and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

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

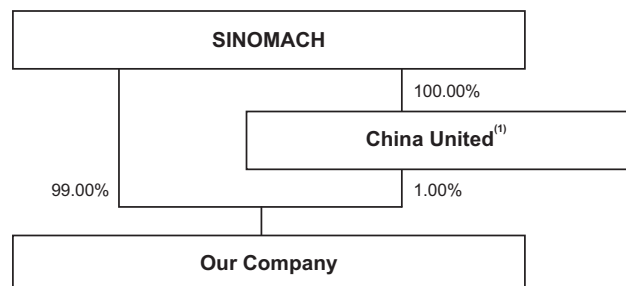
We were established as a part of our Reorganization by converting China National Machinery & Equipment Import & Export Corporation, our predecessor, into a joint stock company with limited liability on January 18, 2011 and had a total of 3.3 billion issued and outstanding Domestic Shares, with a par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

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

Before Reorganization:



After Reorganization:



Note:

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

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

### **Representations and warranties**

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

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

### **Indemnities**

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

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

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## NON-COMPETITION AGREEMENT

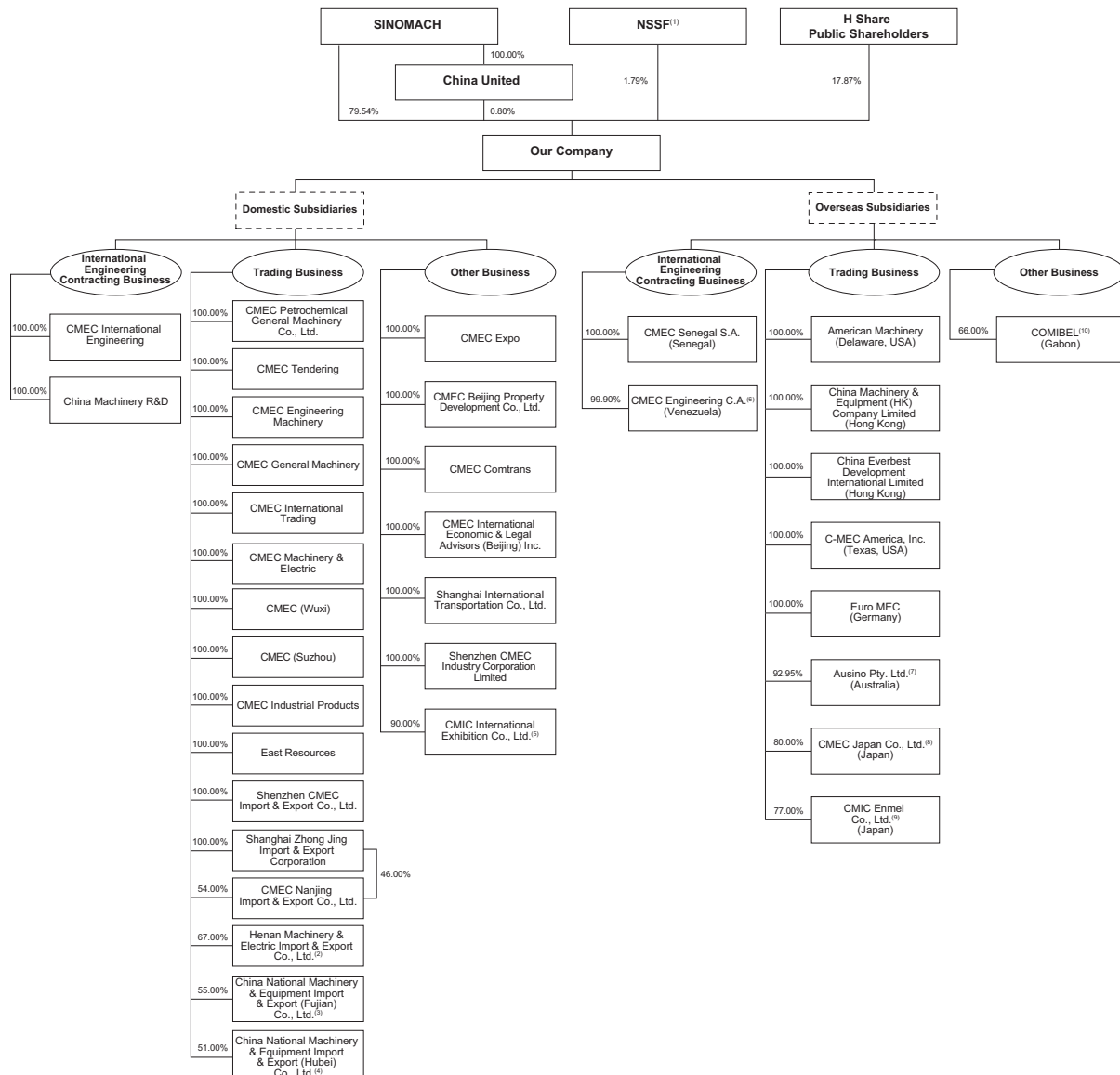
We have entered into the Non-competition Agreement with SINOMACH. See “Relationship with Controlling Shareholder” for details.

## APPROVALS

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

## OUR CORPORATE STRUCTURE

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



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*Notes:*

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