

OVERVIEW

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

We also conduct Trading Business through our sales and marketing network which covers over 150 countries and regions. Such network spans primarily in Asia, Europe and Africa and, to a lesser extent, in North America, South America and Oceania. Our sales and marketing network is established through years of international engineering contracting and trading experiences and business transactions involving export and import of products and services to and from these countries and regions. To a lesser extent, we are involved in the Other Businesses that provide logistics services, exhibition services, tendering agency services and other services (including export-import agency services and design services), and we also conduct certain strategic equity investment. We believe that the combination of our International Engineering Contracting Business and Trading Business has created a platform that allows us to gather market information in an efficient manner and enables us to capture the growth opportunities in the international engineering contracting and trading markets. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our total revenue was approximately RMB19,287.7 million, RMB19,077.0 million, RMB20,517.8 million and RMB10,354.1 million, respectively.

International Engineering Contracting Business

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

Note:

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

BUSINESS

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

We consider power, transportation and telecommunications sectors to be our Core Sectors. See “Relationship with Controlling Shareholder – Non-competition Agreement” for further details. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, engineering contracting projects in our Core Sectors in aggregate accounted for approximately 93.0%, 89.7%, 88.6% and 91.7%, respectively, of the total revenue of our International Engineering Contracting Business during the same periods. In addition, we are also engaged in engineering contracting projects in the non-Core Sectors such as water supply and treatment, building and construction, manufacturing and processing plants, mining and resources exploitation. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenue generated from our International Engineering Contracting Business was approximately RMB13,646.7 million, RMB12,019.6 million, RMB12,055.2 million and RMB6,426.1 million, respectively, representing approximately 70.8%, 63.0%, 58.7% and 62.1%, respectively, of our total revenue during the same periods.

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

Trading Business

We are also engaged in the Trading Business. With extensive sales and marketing networks built through experiences and transactions in our International Engineering Contracting Business and Trading Business in more than 150 countries and regions, we provide bridging solutions to (i) domestic and overseas purchasers who wish to source products, or (ii) domestic and overseas suppliers who wish to sell their products, outside or in the PRC. Through our Company as well as our subsidiaries in the PRC and other countries (such as Germany, the United States, Australia, Japan and Hong Kong) and overseas representative offices, we principally export and, to a lesser extent, import and domestically trade complete sets of plants and equipment and various machinery, electrical and instrumental products, including mining equipment, ship components, automobile parts, medical instruments, household appliances, electricity meters, manufacturing machineries and construction materials, for customers in the PRC and overseas. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenue generated from our Trading Business was approximately RMB4,979.1 million, RMB6,295.5 million, RMB7,688.6 million and RMB3,522.2 million, respectively, representing approximately 25.8%, 33.0%, 37.5% and 34.0%, respectively, of our total revenue during the same periods.

Other Businesses

In addition to our International Engineering Contracting Business and Trading Business, we also operate the Other Businesses that provide logistics services, exhibition services, tendering agency services and other services (including export-import agency services and design services) and we conduct certain strategic equity investment. In particular, our logistics services support our International Engineering Contracting Business by providing logistics consultations and solutions. Our exhibition services provide a marketing platform for our International Engineering Contracting

BUSINESS

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

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

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

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

OUR COMPETITIVE STRENGTHS

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

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

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

BUSINESS

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

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

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

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

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

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

Note:

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

BUSINESS

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

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

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

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

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

Note:

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

BUSINESS

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

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

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

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

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

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

BUSINESS

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

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

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

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

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

OUR BUSINESS STRATEGIES

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

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

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

BUSINESS

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

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

BUSINESS

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

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

Selectively undertake international projects in our non-Core Sectors.

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

Utilize local resources to improve our profit margin and efficiency.

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

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

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

BUSINESS

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

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

Continue to advance and enhance the quality of our personnel.

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

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

INTERNATIONAL ENGINEERING CONTRACTING BUSINESS

Overview

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

BUSINESS

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

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

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, we completed 53 international engineering contracting projects in total and our International Engineering Contracting Business generated revenue of approximately RMB13,646.7 million, RMB12,019.6 million, RMB12,055.2 million and RMB6,426.1 million, respectively, accounting for approximately 70.8%, 63.0%, 58.7% and 62.1%, respectively, of our total revenue during the same periods.

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

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

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

Note:

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

BUSINESS

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

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

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

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

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

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

Note:

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

BUSINESS

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

Scope of Our International Engineering Contracting Business

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

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

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

Our Major Engineering Contracting Projects

We have accumulated extensive experience in international engineering contracting projects, particularly in EPC projects, since 1980. We have been involved in landmark projects across various countries and regions, including projects that contributed significantly to the overall infrastructure of certain cities or regions within some developing countries. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, we completed a total of 13, 18, 14 and eight projects, respectively. This section provides an overview of the types of engineering contracting projects as well as some representative projects that we have completed during the Track Record Period and those that were ongoing as at June 30, 2012. Our selection of these representative projects was based on a combination of factors including contract value, project profile, landmark significance and geographical coverage, in order to provide a synoptic and meaningful understanding of the portfolio, capabilities and recent experiences of our International Engineering Contracting Business.

Power Projects

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

(1) Thermal Power Stations

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

(2) Hydropower Stations

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

(3) Power transformation stations and transmission lines

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

Completed Projects

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

BUSINESS

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

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



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

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

BUSINESS

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



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

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

BUSINESS

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



Power transformation stations and transmission lines

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

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

BUSINESS

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



Note:

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

BUSINESS

Ongoing Projects

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

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

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



BUSINESS

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

BUSINESS

Transportation and Telecommunications Projects

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

Completed Projects

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

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

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



Note:

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

BUSINESS

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

Ongoing Projects

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

Note:

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

BUSINESS

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

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

BUSINESS

Other Projects

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

Completed Projects

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

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

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



Notes:

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

BUSINESS

Ongoing Projects

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

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

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

Notes:

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

BUSINESS

Backlog and Signed Contracts Pending to be Effective

Backlog

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

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

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

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

Signed contracts pending to be effective

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

Notes:

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

BUSINESS

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

Newly Effective Contract Value

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

Our aggregate newly effective contract value as at December 31, 2009, 2010 and 2011 and June 30, 2012 amounted to approximately US\$1,100.2 million, US\$2,955.3 million, US\$2,226.8 million and US\$2,158.6 million, respectively.

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

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

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

International Coverage

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



BUSINESS

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

	Year Ended December 31,						Six Months Ended June 30,	
	2009		2010		2011		2012	
	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)
Asia⁽¹⁾	3,521.3	25.8	2,346.7	19.5	3,771.4	31.3	1,609.9	25.1
Power.....	3,159.0	23.1	1,431.6	11.9	2,619.9	21.7	769.8	12.0
Transportation.....	–	–	376.4	3.1	692.9	5.8	276.0	4.3
Telecommunications ⁽⁵⁾	–	–	–	–	2.3	–	342.5	5.3
Non-Core Sectors.....	362.3	2.7	538.7	4.5	456.3	3.8	221.6	3.5
Africa⁽²⁾	6,090.9	44.6	6,915.6	57.5	6,927.1	57.4	2,252.8	35.0
Power.....	4,311.4	31.6	5,690.0	47.3	5,598.4	46.4	1,896.0	29.5
Transportation.....	590.9	4.3	171.3	1.4	411.5	3.4	40.6	0.6
Telecommunications.....	734.9	5.4	410.1	3.4	–	–	3.2	–
Non-Core Sectors.....	453.7	3.3	644.2	5.4	917.2	7.6	313.0	4.9
Europe⁽³⁾	3,985.6	29.2	2,757.3	23.0	1,349.6	11.2	1,605.2	25.0
Power.....	2,874.5	21.1	2,310.8	19.2	1,347.0	11.2	1,396.6	21.7
Transportation.....	1,022.3	7.5	390.9	3.3	–	–	207.4	3.3
Telecommunications ⁽⁵⁾	–	–	–	–	–	–	–	–
Non-Core Sectors.....	88.8	0.6	55.6	0.5	2.6	–	1.2	–
Others⁽⁴⁾	48.9	0.4	–	–	7.1	0.1	958.2	14.9
Total	13,646.7	100.0	12,019.6	100.0	12,055.2	100.0	6,426.1	100.0

Notes:

- (1) Includes Afghanistan, Pakistan, Laos, Maldives, Malaysia, Bengal, Myanmar, Sri Lanka, Singapore, Yemen, Iraq, Iran, India, Indonesia, Vietnam and China.
- (2) Includes Angola, Equatorial Guinea, Republic of Congo, Cameroon, Nigeria, Senegal, Sudan, Zambia, the Republic of Cote d'Ivoire and Chad.
- (3) Includes Belarus, Germany, Turkey and Italy.
- (4) Includes Trinidad and Tobago, Ecuador and Venezuela.
- (5) No revenue was recorded for any telecommunications projects in Asia and Europe during the Track Record Period since there were no ongoing or completed telecommunications projects in those regions during the said period for which revenue was recognized.

BUSINESS

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

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

Notes:

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

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

Engineering contracting projects in Asia

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

Engineering contracting projects in Africa

We have been involved in a number of significant engineering contracting projects in Africa. Over the Track Record Period, we have been engaged in engineering contracting projects in countries such as the Republic of Angola, the Republic of Congo, the Federal Republic of Nigeria, the Republic of Equatorial Guinea and the Republic of Chad. The revenue of our International Engineering Contracting Business generated from Africa constituted approximately 44.6%, 57.5%, 57.4% and 35.0%, respectively, of the total revenue from our International Engineering Contracting Business for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. Our International Engineering Contracting Business in this region mostly derived from power projects for the African governments and state-owned enterprises.

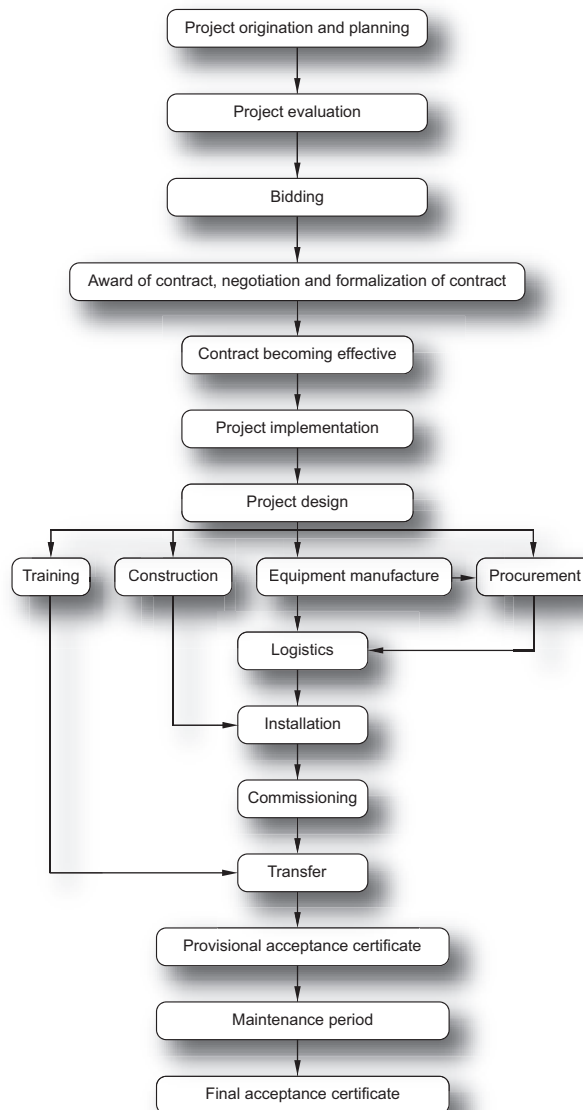
BUSINESS

Engineering contracting projects in Europe

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

Business Process

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



BUSINESS

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

Project origination and planning

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

Project evaluation

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

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

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

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

Bidding process and award of contract

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

The bidding process – pre-qualification and clarification

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

The bidding process – bidding strategy

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

The bidding process – cooperation

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

BUSINESS

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

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

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

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

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

Project implementation

Designating a project team

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

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

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

BUSINESS

- working programs detailed for each phase of the project.

Overall project management and work scope modification

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

Engaging subcontractors

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

Project design

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

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

Procurement and logistics

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

BUSINESS

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

Construction and installation

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

Commissioning and training

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

Project transfer

Maintenance

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

Warranty provision and maintenance cost

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

Completion

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

Subcontracting Arrangement

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

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

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

BUSINESS

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

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

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

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

BUSINESS

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

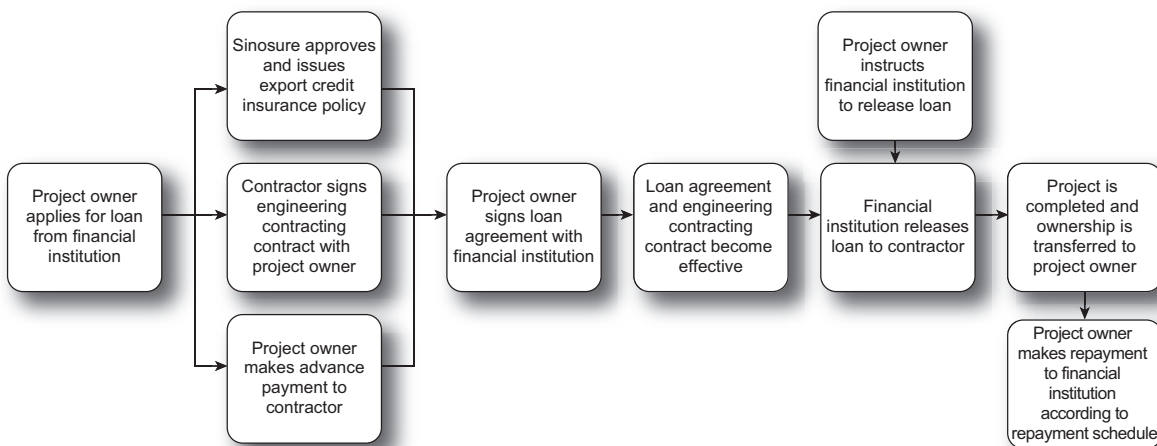
For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our subcontracting cost was approximately RMB3,267.9 million, RMB4,323.2 million, RMB4,320.3 million and RMB1,915.7 million, respectively, accounting for approximately 26.1%, 43.6%, 47.3% and 38.4% of the cost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

Financing for Projects

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

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

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



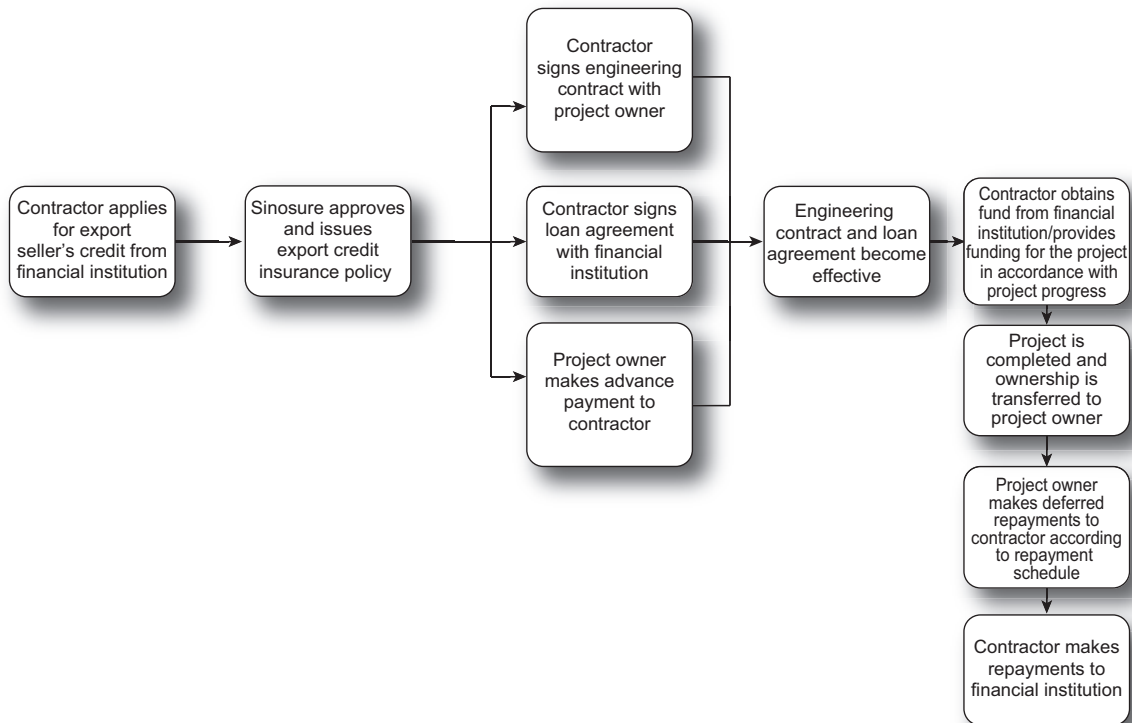
BUSINESS

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

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

BUSINESS

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



Export credit insurance

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

BUSINESS

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

Payment and settlement terms

Bid deposit or bid bond

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

Advance payment and advance payment bond

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

Performance guarantee or performance bond

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

Letter of credit and progress payments

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

BUSINESS

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

Retention fund or retention bond

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

Liquidated damages

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

Risk management

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

BUSINESS

Market risks

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

Operational risks

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

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

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

Competition

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

BUSINESS

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

TRADING BUSINESS

Overview

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

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

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

Trading Business by Companies and Product Types

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

BUSINESS

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

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

BUSINESS

Export, Import and Domestic Trading Services

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

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

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

International Coverage

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

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

Notes:

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

BUSINESS

General Operation Process

Export Service

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



Import Service

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



Domestic Trading

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

Core Components of our Trading Business

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

BUSINESS

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

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

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

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

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

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

BUSINESS

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

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

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

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

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

Competition

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

BUSINESS

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

OTHER BUSINESSES

Overview

In addition to our International Engineering Contracting Business and Trading Business, we also operate the Other Businesses, including the provision of logistics services, exhibitions services, tendering agency services, and other services (including the export-import agency services and design services), and conducting certain strategic equity investment. Our logistics services support our International Engineering Contracting Business by providing logistics consultations and services. Our exhibition services provide a marketing platform for our International Engineering Contracting Business and Trading Business through participation in the exhibitions. Our tendering agency services promote our Trading Business by providing opportunities to meet potential suppliers or purchasers for our Trading Business and to understand their needs. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our Other Businesses generated revenue of approximately RMB661.9 million, RMB761.9 million, RMB774.0 million and RMB405.8 million respectively, accounting for approximately 3.4%, 4.0%, 3.8% and 3.9% of our total revenue in the respective periods. The following table sets forth our revenue by type of services from our Other Businesses for the periods indicated:

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

Logistics Services

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

BUSINESS

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

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

Exhibition Services

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

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

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

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

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

Tendering agency services

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

BUSINESS

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

Other Services

Export-Import Agency Services

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

Design services

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

Certain Strategic Equity Investment

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

BUSINESS

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

Competition

Logistics services

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

Exhibition services

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

Tendering agency services

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

Note:

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

BUSINESS

OUR CUSTOMERS

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

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

OUR SUPPLIERS AND SUBCONTRACTORS

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

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

BUSINESS

EMPLOYEES

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

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

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

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

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

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

BUSINESS

RESEARCH AND DEVELOPMENT

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

QUALIFICATIONS

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

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

BUSINESS

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

BUSINESS

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

QUALITY, SAFETY AND ENVIRONMENTAL PROTECTION CONTROL

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

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

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

BUSINESS

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

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

INTERNAL CONTROL

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

INTELLECTUAL PROPERTY

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

INSURANCE

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

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

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

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

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

BUSINESS

PROPERTIES

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

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

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

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

BUSINESS

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

Construction of new buildings

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

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

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

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

BUSINESS

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

For the three proceedings that had a disputed amount equal to or more than RMB50 million each, we acted as claimant in all of them. A brief summary of each of these three legal proceedings is as follows:

- In March 2009, our subsidiary, CMEC International Trading initiated a lawsuit against Shanghai Ludi Petroleum Sales Company Limited* (上海陸地石油銷售有限公司) (“**Shanghai Ludi**”) in the Beijing Municipal High People’s Court (北京市高級人民法院) claiming for payment of an outstanding contract amount of approximately RMB170 million and related interest. In February 2008, CMEC International Trading had entered into an agency agreement (the “**Original Agreement**”) with Sanxing Jiateng Company* (三興加騰公司) and Hebei Dagang Company* (河北大港公司) (together the “**Requestors**”) whereas CMEC International Trading acted as agent of the Requestors in importing 41,000 tonnes of fuel oil for an amount of RMB200 million. Upon the Requestors’ failure to pay CMEC International Trading in full, CMEC International Trading obtained ownership of the fuel oil pursuant to the Original Agreement. Subsequently, in September 2008, CMEC International Trading entered into a sales agreement with Shanghai Ludi for the sale of 30,000 tonnes of fuel oil in an amount of RMB165 million. CMEC International Trading delivered 30,000 tonnes of fuel oil to Shanghai Ludi, but Shanghai Ludi failed to pay the contract amount. After the discovery stage of the legal proceedings, the Beijing Municipal People’s High Court joined the Requestors as third parties in May 2010 as a matter of court procedures. As at the Latest Practicable Date, the lawsuit was still in progress, and no judgment has been handed down.
- In January 2008, we initiated a lawsuit against Chhattisgarh State Electricity Board of India (the “**Electricity Board**”) in the Court of VIIth Additional District Judge Raipur seeking, *inter alia*, a declaration that the Electricity Board had no right to cash a bid bond of US\$8 million (the “**Bid Bond**”). We submitted a bid in December 2006 pursuant to the Electricity Board’s invitation of bids for its power project. In view of excessive delay on the part of the Electricity Board in finalizing the bidding process, we agreed to extend our bid on the condition that further discussion regarding the technical requirements of the power project and some other commercial issues would be effected. Nonetheless, while the conditions of our extension were unsatisfied, the Electricity Board sent us a letter of award in July 2007, which we did not accept. In October 2007, despite our request to resolve the pending issues before the conclusion of a legal and binding contract, the Electricity Board encashed the Bid Bond. The Electricity Board has filed its defense in June 2008. However, as of the Latest Practicable Date, no further progress has been made by the Indian court, and no judgment has been handed down.

* For identification purposes

BUSINESS

- In January 2011, our Company initiated a lawsuit against the Hangzhou Baoshi Branch of the China Construction Bank (“**CCB**”) for the encashment of a performance bond amounting to RMB56,153,348 (the “**Performance Bond**”). Pursuant to an EPC contract signed between us and a subcontractor in November 2005, the subcontractor arranged for CCB to issue the Performance Bond in favor of us, one of the terms of which was that should it fail to fulfill any of its obligations under the EPC contract, regardless of any objections that it may have, CCB should pay us the Performance Bond upon receipt of a notice of breach from us. Subsequently, due to the subcontractor’s failure in fulfilling certain of its obligations, we issued a notice of breach to CCB for the payment of the Performance Bond. CCB refused to make the payment. As at the Latest Practicable Date, the lawsuit was still in progress, and no judgment has been handed down.

Our Directors and PRC legal advisors confirmed that none of the aforesaid three legal proceedings with a disputed amount equal to or more than RMB50 million, individually or in aggregate, would have a material effect on our business and operations. Furthermore, our Directors believe that the outcome of these legal proceedings will not have a material impact on our financial position given the fact that these proceedings arose from the ordinary course of our business, for which proper accounting treatment has been made to recognise the financial loss arisen from the relevant transaction, as applicable, and that we acted as claimant in these proceedings for which no provisions are required to be made.

During the Track Record Period, we entered into a settlement agreement with a private company for an amount of US\$9,988,775. The claim originated from a framework cooperation agreement in October 2001 relating to our procurement of services on project planning and market development in Nigeria. The settlement amount was paid by us on September 30, 2011. Save for the above, no other significant provisions related to legal proceedings were made during the Track Record Period.

Except as described herein, as at the Latest Practicable Date there were no current legal or arbitral proceedings against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

Legal and compliance matters

Our PRC counsel, Jia Yuan Law Offices, has confirmed that during the Track Record Period and up to the Latest Practicable Date, we were not in breach of all relevant PRC laws and regulations in all material respects and have obtained all necessary licenses, approvals and permits from relevant and appropriate regulatory authorities for our business operations in the PRC.

We also have 11 overseas subsidiaries incorporated in eight jurisdictions. We were advised by respective local counsels that during the Track Record Period and up to the Latest Practicable Date, the operations of our overseas subsidiaries were not in breach of applicable laws and regulations of the relevant jurisdictions. In view of the advice of the respective local counsels, our Directors also confirm that our overseas subsidiaries’ business operations were in compliance with the applicable laws and regulations of the jurisdictions where the overseas subsidiaries were incorporated during the Track Record Period.

RESTRUCTURING OF BUSINESS IN THE SANCTIONED COUNTRIES

The US and other jurisdictions have comprehensive or broad economic sanctions targeting the Sanctioned Countries. For the three years ended December 31, 2009, 2010 and 2011 and the

BUSINESS

six months ended June 30, 2012, revenues generated from our International Engineering Contracting Business and Trading Business in the Sanctioned Countries amounted to approximately RMB744.0 million, RMB1,382.0 million, RMB1,665.2 million and RMB315.6 million, accounting for approximately 3.9%, 7.2%, 8.1% and 3.0%, respectively, of our total revenue during the same periods. Prior to Listing, we underwent a restructuring of our International Engineering Contracting Business and Trading Business in the Sanctioned Countries by terminating or transferring to parties outside of our Group all ongoing and future business in the Sanctioned Countries such that we will not conduct business or operate in the Sanctioned Countries after Listing (the “**Restructuring**”).

Restructuring of our International Engineering Contracting Business

In terms of our International Engineering Contracting Business, prior to the Restructuring, we had two types of projects in the Sanctioned Countries, namely (a) two projects that were under construction, and (b) two signed contracts incapable of becoming effective (collectively, the “**Sanctioned Country Contracts**”). Separately, we had four completed projects which were financed by export seller’s credit with all revenue for the project work recognized as at June 30, 2012 but we will continue to receive deferred payments including certain interest in connection with these projects after Listing.

Projects under Construction in the Sanctioned Countries

Prior to the Restructuring, we had two engineering contracting projects under construction in Sudan. For one of the projects, we assigned our rights and liabilities under the underlying contract to a subsidiary of SINOMACH by entering into an assignment agreement. For the other project, we issued a notice of termination to the project owner and validly terminated the contract.

The following table shows the two engineering contracting projects which were assigned or terminated prior to Listing:

Project and brief description	Commencement Date	As at June 30, 2012			Termination/Assignment
		Contract Value	Recognized Revenue	Estimated Backlog	
		(US\$ million)			
Water supply project on EPC basis in Sudan (“ Water Supply Contract ”)	January 2007	40.3	23.1	17.2	An assignment agreement (the “ Assignment Agreement ”) was signed on December 4, 2012 between our Company and CMIC, a subsidiary of SINOMACH (the “ Assignee ”), with nil assignment fee.
Thermal power plant on EPC basis in Sudan (“ Power Plant Contract ”)	November 2009	680.3	291.4	388.9	On January 12, 2012, our Company issued a notice of termination to the project owner pursuant to the contractual provision of the Power Plant Contract.

No costs (including subcontracting cost) relating to the estimated backlog of the Water Supply Contract and the Power Plant Contract as at June 30, 2012 were paid or incurred by our Group up to the Latest Practicable Date.

BUSINESS

Water Supply Contract

The works under the Water Supply Contract in Sudan had been suspended since August 2008 and up to the Latest Practicable Date due to various reasons including local security and safety reasons and lack of site access. For the recognized revenue of approximately US\$23.1 million as at June 30, 2012, approximately US\$13.8 million has been paid and settled while the remainder of approximately US\$9.3 million was recorded in our balance sheet as “accounts receivable” and “construction contracts”. Taking into account the interest receivable of approximately US\$1.6 million generated from the export seller’s credit and the outstanding receivable of US\$9.3 million, and deducting the bad debt allowance and foreseeable loss of approximately US\$3.7 million, the net receivable amount was approximately US\$7.2 million as at June 30, 2012.

Under the Assignment Agreement, the Assignee agreed to be bound by all the provisions of the Water Supply Contract as if it were named in the Water Supply Contract in place of our Company, and to perform, discharge and observe all obligations and liabilities on the part of our Company under the Water Supply Contract which would, but for the Assignment Agreement, fall to be performed, discharged or observed by our Company. Furthermore, under the Assignment Agreement, the Assignee agreed to indemnify and hold harmless our Company against and from all liabilities, demands, claims, actions, causes of action, assessments, costs, damages, losses and expenses (including legal fees and expenses), including but not limited to any claims by the project owner, arising out of, in connection with, in the course of or by reason of (i) its performance (or non-performance) and discharge (or non-discharge) of the obligations and liabilities under the Water Supply Contract which it has undertaken to perform, discharge and observe in the Assignment Agreement, and (ii) the performance (or non-performance) of the Water Supply Contract by our Company (if any) prior to the date of the Assignment Agreement (the “**Indemnity**”).

In respect of the Assignment Agreement that was governed by Sudanese law, our Sudanese counsel advised us that under Sudanese law, (1) a party to a contract can assign the contract without the written consent of the other party provided that the contract does not prohibit assignment without consent and the contract does not require the obligations thereunder to be performed personally by the assignor; (2) the Water Supply Contract does not contain such prohibition against assignment without consent, nor any provision which requires the contract to be performed personally by our Company; it also expressly allows our Company to subcontract the works to be performed by the subcontractor on its behalf; (3) the Assignment Agreement constituted legal, valid, binding and enforceable obligations on our Company and the Assignee; and (4) the Indemnity was legal, valid, binding and enforceable under the Sudanese Law. Our Sudanese counsel also advised us that under the Sudanese law, the project owner may also seek specific performance of the Water Supply Contract by us. However, our Directors believe that it will be unlikely for the project owner to enforce a specific performance order in Sudan as we have no assets or operations in Sudan. Our Directors have undertaken to the Stock Exchange and the Underwriters that our Group will not perform any of the obligations under the Water Supply Contract under any circumstances. Furthermore, in view of the above, our Controlling Shareholder, SINOMACH, has agreed to indemnify us for all liabilities, losses, damages, costs and expenses (if any) that may be incurred by us arising out of, or in connection with, any claims that may be brought forward by the project owner in relation to the assignment of the Water Supply Contract.

Taking into consideration the transferring of assets and liabilities to the Assignee of RMB45.6 million (which include the total net receivables amount of US\$7.2 million) and RMB2.8 million, respectively, of the project as a whole, our Company incurred a loss of RMB42.8 million as a result of the assignment of the Water Supply Contract, which was recognized directly in equity as a deemed distribution to shareholder upon the completion of the Assignment Agreement and the incurred loss was less than 3% of profit attributable to the equity owners of our Company for the

BUSINESS

year ended December 31, 2011. In addition, the estimated backlog of the Water Supply Contract of approximately US\$17.2 million only accounted for approximately 0.3% of our aggregate backlog as at June 30, 2012. Our Directors were of the view that the impact of the assignment of the Water Supply Contract was immaterial to our aggregate backlog and the Water Supply Contract would not be sanctionable under current US law and there would be no risk that SINOMACH or our Company would be targeted by US indirect sanctions as a result of the assignment or the continuation of the Water Supply Contract by the Assignee. Based on the foregoing, our Directors believe that the assignment of the Water Supply Contract had no material adverse impact on the reputation, operations and financial position of our Company.

Power Plant Contract

For the Power Plant Contract, since certain contractual obligation was not performed by the project owner, our Company was contractually entitled to terminate the Power Plant Contract and issued a notice of termination to the project owner on January 12, 2012 pursuant to the contractual provision. We were advised by our Sudanese counsel that the Power Plant Contract was validly terminated. Furthermore, our Controlling Shareholder, SINOMACH, has agreed to indemnify us for all liabilities, losses, damages, costs and expenses (if any) that may be incurred by us arising out of, or in connection with, any claims that may be brought forward by the project owner in relation to the termination of the Power Plant Contract. The recognized revenue of approximately US\$291.4 million as at June 30, 2012 has been fully paid and settled. The estimated backlog in relation to the Power Plant Contract of approximately US\$388.9 million was not included in our aggregate backlog of US\$6,051.4 million as at June 30, 2012 and no further costs (including subcontracting cost) relating to the estimated backlog of the Power Plant Contract as at 30 June 2012 were paid or incurred by us up to the Latest Practicable Date. Therefore, no provision or write off has been made. Based on the foregoing, our Directors believe that the termination of the Power Plant Contract had no material adverse impact on the reputation, operations and financial position of our Company.

Signed Contracts Incapable of Becoming Effective in the Sanctioned Countries

There were two signed contracts incapable of becoming effective in Sudan prior to Listing. Since the relevant conditions precedent of the underlying contracts could not be satisfied (the satisfaction of which was not the obligation of our Company), these contracts did not come into effect and hence we were not obliged to and will not perform any part of these contracts after Listing. Since the obligation of fulfilling the condition precedent stipulated in the two contracts does not fall on our Company and the contracts never became effective, there was no contractual relationship between our Company and the project owners, and the project owners had no right to seek for any compensation, damages, losses or specific performance. No revenue was recognized for any of these contracts.

Completed Projects Financed by Export Seller's Credit

We had four completed projects which were financed by export seller's credit and the revenues for the project work completed were fully recognized before June 30, 2012. As these projects were completed already, we had no obligation to make any performance under these projects. Also, as at the Latest Practicable Date, the maintenance period for these four projects expired already and we are not required to provide maintenance service for these projects. According to the repayment schedules of these four projects, after Listing, we will continue to receive deferred payments including certain interest from the project owners and the last deferred payment under these four completed projects was scheduled in December 2018. The aggregate amount of the deferred payments including interest from these four projects for the period from July 1, 2012 to December 31, 2018 was estimated to be approximately US\$311.7 million according to the latest repayment schedules for the projects.

BUSINESS

The deferred payments will either be made in currencies other than US dollars or be transferred on the books of the Chinese financial institutions without actions within the US jurisdiction that could serve as a basis for application of US sanctions regulations to the transfer and hence such transfer would have no impact from the perspective of US sanctions on our Company, the investors of our H Shares, the Stock Exchange, HKSCC and HKSCC Nominees.

The following table shows the four completed projects which were financed by export seller's credit:

<u>Project and brief description</u>	<u>Project Completion Date</u>	<u>Contract Value</u>	<u>As at June 30, 2012</u> <u>Estimated Deferred Payments Including Interest to be received</u>
		<i>(US\$ million)</i>	<i>(US\$ million)</i>
Thermal power plant in Sudan with a state-owned enterprise	December 2010	132.2	72.6
Thermal power plant in Sudan with a state-owned enterprise	April 2011	183.3	116.0
Power transmission and transformation project in Sudan with a state-owned enterprise	March 2010	219.7	112.4
Grain depot in Sudan with the government of Sudan	November 2009	22.9	10.7

Representative Offices in Iran and Sudan

In addition, our Company previously maintained a representative office in each of Tehran, Iran and Khartoum, Sudan to offer local support for our project teams responsible for the engineering contracting projects in Iran and Sudan. Following the Restructuring, we commenced the procedures to close these two representative offices and will not have any project teams or employees working in these offices after Listing.

Restructuring of our Trading Business

In terms of our Trading Business, prior to Listing, we completed the trading contracts with the counterparties in Sudan and Iran and had no other ongoing projects or signed contracts pending to be effective with any counterparties in the Sanctioned Countries.

Following the Restructuring, save for the four projects financed by export seller's credit, we currently do not have any ongoing business with any person or entity of, or conduct any business in, any Sanctioned Countries. Given historically for the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our revenue generated in the Sanctioned

BUSINESS

Countries only accounted for approximately 3.9%, 7.2%, 8.1% and 3.0% of our total revenue, respectively, our Directors believe that the Restructuring will not have any material adverse impact on our Company as a whole in the future.

Impact of US Sanctions Law

Certain of the countries in which we conducted business, including Sudan, Iran, Cuba and Syria, are the target of comprehensive sanctions administered by OFAC and, in the case of Iran, separate sanctions imposed pursuant to the ISA and the Executive Order (among others). We note that some of our past business activities covered by the ISA or the Executive Order could, if pursued by the US government, limit our ability to engage in certain trade transactions in the United States or obtaining certain types of financing from the United States or US companies and financial institutions, although we do not believe this risk to be material. Our activities were generally not related to the development of the Iranian petroleum industry, although we have had limited supply relationships with companies that are involved in that industry as described under “Risk Factors – Risk Relating to our Business and the Industries in which we Operate – We could be adversely affected as a result of our historical operations in certain countries that are subject to economic sanctions or if the US government were to determine that our prior Iran-related business activities are sanctionable under US Iranian sanction laws and regulations.” In addition, our activities are not related to the development of petroleum refining capacity in Iran, the exportation of refined petroleum products to Iran or Iran’s domestic production of petrochemical products, and we do not sell to or in Iran any technology that is useful in the development of nuclear energy, nuclear weapons, weapons of mass destruction or advanced conventional weapons. As noted above, pursuant to the Restructuring, all ongoing and future business in the Sanctioned Countries was terminated prior to Listing. Although this action will minimize the risk of our violating OFAC regulations or engaging in sanctionable activity in the future, it does not fully eliminate the risk of such penalties being imposed on us in relation to past actions. We have no reason to believe such penalties are likely.

We also note that the United States asserts jurisdiction over the re-export of US-origin goods and services by non-US persons, either because those goods or services are subject to “dual-use” export controls or because the recipient or the recipient’s jurisdiction is subject to US sanctions. If we were to violate those restrictions, any such violation could lead to the imposition of civil or criminal sanctions and to the imposition of restrictions barring the export or re-export of US-origin goods and services to our Company and its affiliates.

OFAC

As a non-US corporation, we are generally not subject to sanctions administered by OFAC. In the three years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenues generated from our business in the Sanctioned Countries in aggregate amounted to approximately RMB744.0 million, RMB1,382.0 million, RMB1,665.2 million and RMB315.6 million, accounting for approximately 3.9%, 7.2%, 8.1% and 3.0%, respectively, of our total revenue for the same periods. We have restructured our business to terminate future activities in these countries, although we will continue to receive certain payments relating to four completed projects financed by export seller’s credit. See “Business – Restructuring of Business in the Sanctioned Countries” for more details. Although the relevant regulations are generally applicable only to US persons and certain other persons subject to US jurisdiction and therefore have a limited effect on us, if any of our transactions is conducted in or through the United States, or otherwise involves US persons, US dollar clearing in the United States, or US-origin goods, US sanctions regulations may be applicable to some or all of such transaction. We believe that our limited activities in the US and our decision to terminate existing business with the Sanctioned Countries

BUSINESS

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

Iran-Iraq Arms Non-Proliferation Act of 1992, the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991, and the Iran Nonproliferation Act of 2000

On July 25, 2002, our predecessor, China National Machinery & Equipment Import & Export Corporation (中國機械設備進出口總公司), and one of our subsidiaries, CMEC Machinery & Electric, were listed in a notice appearing in the Federal Register of the United States as parties determined by the US Department of State (the “**Department of State**”) to have engaged in conduct sanctionable under the Iran-Iraq Arms Non-Proliferation Act of 1992 (the “**1992 Act**”) and the Arms Export Control Act and the Export Administration Act of 1979, as amended by the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the “**1991 Act**”). On January 24, 2002, and May 16, 2002, variations of the name of CMEC Machinery & Electric were listed in Federal Register notices as parties determined by the Department of State to have engaged in conduct sanctionable under the Iran Nonproliferation Act of 2000 (the “**2000 Act**”). Other than these Federal Register notices, our Company has not received any official notification of the sanctions or explanation of their basis. However, based on our internal investigation, we have identified that the sanctions may be based on a transaction in 2002 by our subsidiary, CMEC Machinery & Electric, which acted as an agent in exporting to Iran spare parts of enamel glass-lined reactor and insulation materials valued at US\$5,000. The purpose stated by the Iranian buyer, which was an independent third party, was for the production of herbicide. At that time of the transaction, the equipment exported was cleared by the PRC customs authority and was not controlled under PRC law. Furthermore, our PRC legal advisors did not identify any then applicable PRC export control laws that were violated by the export of the equipment. See “– Legal Proceedings and Regulatory Compliance – Legal and compliance matter” for more details.

As advised by our Company’s US legal advisors on US economic sanctions, pursuant to the sanctions imposed under the 1991 Act, the US government will not procure or enter into any contract for the procurement of any goods or services from China National Machinery & Equipment Import & Export Corporation, CMEC Machinery & Electric, or their respective successors (including our Company), and importation into the United States of any products produced by China National Machinery & Equipment Import & Export Corporation, CMEC Machinery & Electric, or their respective successors (including our Company) is prohibited. According to the Federal Register Notice, these sanctions against us under the 1991 Act remain in force until further notice. Under the 1992 Act, the Department of State imposed the following measures upon the listed entities and any successor entities, parents or subsidiaries thereof, for a period of two years, (i) the US government would not procure, or enter into any contract for the procurement of, any goods or services from the listed entities; and (ii) the US government would not issue any license for any export by or to the listed entities. Under the 2000 Act, the Department of State imposed the following measures upon the listed entities and any successor, sub-unit, or subsidiary thereof, for a period of two years, (i) the US government would not procure, or enter into any contract for the procurement of, any goods or services from the listed entities; (ii) the listed entities were barred from receiving any assistance from the US government; (iii) the US government would not sell any item on the United States Munitions List to the listed entities, and all sales of defense articles or defense services under the

BUSINESS

Arms Export Control Act were terminated; and (iv) for a period of two years, no licenses to export goods controlled under the Export Administration Regulations to the listed entities were available. By the terms of the relevant Federal Register notices, these additional sanctions under the 1992 Act and the 2000 Act expired in 2004.

Status of sanctions

Save for the sanctions under the 1991 Act, we are not currently subject to any other US sanctions. Also, no new US sanctions have been imposed on us by any other agency of the US government. Pursuant to the 1991 Act, the above-mentioned sanctions can only be removed when the President of the United States or his designee certifies to the United States Congress that reliable information indicates that the sanctioned person has ceased the sanctionable activity. We can provide no assurances that the sanctions will be removed, and we have no reason to expect that the sanctions will be lifted in the near future. As this matter may involve political and diplomatic considerations between the PRC and the United States, our Directors consider that the prospects for removal of the sanctions will remain uncertain for the foreseeable future.

We further note that the US economic sanctions laws, including the sanctions under the 1991 Act, the 1992 Act, and the 2000 Act, impose no restrictions on the listing or trading of shares on the Stock Exchange solely on the basis of economic activity of the issuer in Iran, where the issuer is not itself designated as or owned by any targets of US sanctions. Rather, in order for US sanctions to apply to such listing or trading, such activity would have to involve facilitation by a person subject to US jurisdiction of the issuer's activities with US-sanctioned parties activity or facilitation by a non-US person of activity sanctionable under US sanctions ("**Proscribed Activity**"). We have covenanted to the Stock Exchange and the Underwriters that we will not apply any of the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to any activity with any US-sanctioned person or in any Sanctioned Country. Under US economic sanctions regulations and practice, for facilitation liability to be applied to an investor who is a US Person in a context in which an issuer does not use the proceeds specifically to finance business with a US-sanctioned party, we believe that the issuer would have to engage in substantial business with such parties, which our Company will not do (see "– Internal Control on Sanctions and Export Control – On-going Monitoring of Sanctions Risk – II. Undertakings with respect to sanctions") for our sanctions-related undertakings, and so, although limited official guidance and precedent are available with respect to this subject, we see no practical risk of an enforcement action against such investors. We also do not believe that US authorities would have any factual or legal basis to find that the Stock Exchange or investors in the Global Offering had knowingly facilitated Proscribed Activity by participating in the Global Offering. Secondary trading in our Company's shares also would not appear to involve any Proscribed Activity by buyers and sellers of our Shares if our Company does not receive any funds in the connection with that share transaction (assuming no person subject to US sanctions had an interest in the secondary trade). For these reasons, and because our Company is not itself designated as or owned by a target of US economic sanctions, we do not believe that US sanctions restrict US Persons from purchasing share in our Company, either directly or, through HKSCC Nominees, preclude HKSCC Nominees or HKSCC from acting as nominee for our Company's H Shares.

See "– Internal Control on Sanctions and Export Control – Internal Compliance Program on Export Control" for more information on the internal control measures relating to export controls we have in place.

Impact of Sanctions Law of the EU and Security Council Resolutions of the United Nations

The EU applies non-comprehensive economic sanctions (restrictive measures) in relation to certain countries including Iran, Sudan and Syria. EU sanctions in relation to those countries comprise targeted sanctions aimed at designated persons and entities and at particular activities. Our Directors believe that, after consulting with external legal counsel: (i) we are a non-EU incorporated entity and therefore EU sanctions do not apply to us with respect to our business interests or dealings outside of the EU (including in the Sanctioned Countries); (ii) in view of (i) above, we did not breach EU sanctions laws in relation to Iran, Sudan or Syria in entering into, performing or continuing to perform, or subsequently terminating the Sanctioned Country Contracts, nor in maintaining or having once maintained offices in Tehran, Iran and Khartoum, Sudan nor in relation to any of our other past activities in the Sanctioned Countries; (iii) we are not a designated target of EU sanctions; (iv) in light of considerations (i) – (iii) and as we will not conduct any business with and will not operate in the Sanctioned Countries, EU investors are not prohibited by EU sanctions in relation to Iran, Sudan or Syria from investing in us or holding our H Shares, whether directly or through HKSCC Nominees; (v) since the Stock Exchange, HKSCC and HKSCC Nominees are not EU-incorporated entities, EU sanctions do not apply to them; and (vi) therefore EU sanctions impose no applicable restrictions on the listing or trading of our H Shares on the Stock Exchange, and HKSCC Nominees would not breach any EU sanctions laws by acting as nominee for Shareholder.

The United Nations Security Council imposes sanctions through Security Council Resolutions, in accordance with which UN Member States apply relevant measures to give effect to the Resolutions (“**UN Sanctions**”). UN Sanctions currently apply in relation to various countries, including Iran, Sudan and Syria. These are non-comprehensive sanctions and include targeted sanctions aimed at designated persons and entities and at particular activities. Our Directors believe that, after consulting with our external legal counsel: (i) none of the Sanctioned Country Contracts or any of our other past activities in the Sanctioned Countries fall within the scope of activity subject to UN Sanctions; (ii) we are not a designated target of UN Sanctions; and (iii) UN Sanctions include no applicable restrictions on investors in relation to investing in or holding our H Shares, whether directly or through HKSCC Nominees; or on the listing or trading of our H Shares on the Stock Exchange, or on HKSCC Nominees acting as nominee for any Shareholder.

Impact of Sanctions Laws of Australia

Australia applies economic sanctions under the *Charter of the United Nations Act 1945* (Cth), the *Autonomous Sanctions Act 2011* (Cth) and associated regulations (collectively, the “**Australian Sanctions Laws**”). The offences created by the Australian Sanctions Laws are mainly in relation to the making of assets or financial services available, directly or indirectly, to a person or entity that is either itself subject to Australian Sanctions Laws or is controlled by a person subject to Australian Sanctions Laws.

Our Directors believe, after consulting with our external legal advisors, that our Company's historical activities in connection with certain persons or entities in the Sanctioned Countries under the Australian Sanctions Laws (including the Sanctioned Country Contracts) and maintaining representative offices in Iran and Sudan are unlikely to have breached the Australian Sanctions Laws. This is because the relevant jurisdictional link cannot be established as both the historical activities and the results flowing from those activities occurred outside of Australia. Following Listing, our Company will continue to receive payments from four completed projects financed by export seller's credit in Sudan. These payments will be made to our Company in the PRC and not in Australia or through our Australian subsidiary. In relation to the receipt of deferred payments under these completed projects, we consider that in receiving these funds our Company will not commit an offence under the Australian Sanctions Laws because there is no relevant jurisdictional link with Australia.

BUSINESS

Furthermore, our Directors believe, after consulting with our external legal advisors, that the Australian Sanctions Laws do not apply to the Global Offering. The primary reason for this is that the necessary jurisdictional link with Australia cannot be established because: (A) our Company is not incorporated in Australia and our Company's business in the Sanctioned Countries under the Australian Sanctions Laws is not conducted from or through Australia (including by involving our subsidiary incorporated in Australia); and (B) the result of any breach of the Australian Sanctions Laws that could be committed cannot, or is unlikely to, occur in Australia.

In addition, our Directors also believe, after consulting with our external legal advisors, that:

- (a) the risk to our investors of breaching the Australian Sanctions Laws in connection with the Global Offering is remote because our Company will not issue the H Shares in the Global Offering for the purposes of funding any transactions that would be prohibited under the Australian Sanctions Laws (if they were to have the relevant jurisdictional link); and
- (b) none of the Stock Exchange, HKSCC or HKSCC Nominees will breach the Australian Sanctions Laws in connection with the Global Offering. This is primarily because the relevant jurisdictional link to Australia cannot be established.

INTERNAL CONTROL ON SANCTIONS AND EXPORT CONTROL

Internal Compliance Program on Export Control

On August 8, 2002, our Company issued the "Notice Relating to Strengthening the Management of Import and Export Business (《有關加強進出口業務管理的通知》)" to strengthen the management of exporting export-sensitive products and services (including our International Engineering Contracting Business and Trading Business), to carry out business in sensitive regions and to establish strict regulations for internal reviewing and approval system with the corresponding penalties for violation of the regulations. In August 2007, MOFCOM promoted the establishment of the internal compliance program on export control ("ICP") by the PRC corporations. With the assistance of the China Arms Control and Disarmament Association and its partner, Center for International Trading & Security of the University of Georgia (which, according to publicly-available information, is a leader in the field of strategic trade control analysis, having conducted assessments of national strategic trade control systems in many countries), since 2008, our Company had begun establishing our ICP. According to our PRC counsel, Jia Yuan Law Offices, our ICP has complied with PRC laws and regulations relating to export control in all material respects. Based on the aforesaid, we believe that our ICP accords with the PRC and US standards and business practices. The ICP is currently included in the corporate risk control system. Specifically, our ICP includes the following seven features:

(1) *Issue of policy statement*

Since the establishment of the ICP, each legal representative of our Company signed a statement of the export compliance regulations policy when he or she first assumes office. Our Company publishes internally and externally the statement for the purpose of proclaiming our support to and compliance with the PRC Government's law and regulations in relation to export control as well as the PRC Government's commitment in relation to the export control internationally and the respective resolutions of the United Nations Security Council which the PRC signed and recognized.

BUSINESS

(2) *Signing of the “Letter of the Responsibility in Export Control” (《出口管制責任書》)*

To ensure the implementation of the ICP in an organized and highly efficient manner, our president and the general manager of each business division, as well as the general managers of subsidiaries, each signed the Letter of the Responsibility in Export Control at the beginning of each year. Being responsible for the export control in each business unit, the general manager of each business division and each subsidiary undertakes to comply with the national laws and our Company’s regulatory system in relation to export control and to stringently control export control risk. Each subsidiary of our Company is required to integrate management systems related to internal compliance into its management system.

(3) *Establishment of the Export Control Organizational Structure*

To ensure the implementation of the ICP in an organized manner within our Company, we established a top-to-bottom, three-level export control organizational structure, which consists of an export control committee and export control office formed at our Company’s headquarter level, together with export controller in each business division and subsidiary.

Our Company has established an export control committee, which has the highest authority in our export control to conduct a compliance audit of our Company’s export operations. The president of our Company (ZHANG Chun) is the chairman of the committee and the vice president (LI Chaoyang) is the vice chairman. The committee consists of heads of principal functional departments, including the export control office, legal and compliance department, general department of business management, general department of finance, financial settlement department, corporate office and human resources department as well as other business divisions and representatives from our subsidiaries.

Our Company also established an independent export control office, formalizing the internal export control system and regulations as a part of our Company’s risk management system. The export control office is responsible for project approval, risk management for compliance with export control regulations and day-to-day communication with domestic and foreign government departments relating to export control. The export control office consisted of three members who all received education in laws and legal trainings. Moreover, two of the members received trainings at the Center for International Trade & Security at the University of Georgia on international export control policy in 2009.

Each of the business divisions and subsidiaries has an internal export controller (who is not a member of the export control office) for assisting with the initial audit of the business (including our International Engineering Contracting Business and Trading Business) of respective division and communication with the export control office, etc.

(4) *Formation of the Export Control Management System*

Our Company has formed various internal management system and implementation procedures for export control. Simultaneously, we have compiled the “Handbook of CMEC’s Export Control” (《CMEC出口管制管理手冊》), which is divided into three sections: (1) internal documents of export control, (2) PRC laws and regulations relating to export control and (3) information relating to international export control. The first section of the handbook sets out our Company’s internal ICP regulations and policies which are to provide a systematic guidance and framework to various business divisions and subsidiaries (including those that operate our International Engineering Contracting Business and Trading Business) regarding their internal export control, while the second and third sections set out an overview of the PRC and other international export control

efforts. For updated details regarding the PRC and international export control efforts and export control lists (for example, for items or counterparties subject to export control), we keep abreast with and follow them closely through publicly accessible information administered and updated by the relevant authorities or organizations to ensure that our internal export control efforts and criteria are on par with the international ones when conducting our export control reviews and project approval process. The management system and audit system have also been formed and are in operation.

(5) *Employee training of export control*

To enhance our employees' understanding of our internal compliance effort and to strengthen their understanding of the application of the export control system, our Company provides annual export control training to our employees.

(6) *Record keeping and maintenance of information*

Business-related information generated from the operation of our ICP, including but not limited to the "Review Form of Control on Export Orders" (《訂單出口管制審核表》), professional advice kept by the export control office and conclusions drawn by the export control committee shall be kept and maintained.

(7) *Emergency procedures*

For a project (including projects for our International Engineering Contracting Business and Trading Business) which has been approved and is ongoing, if the products, counterparties or other related factors of the project are included in the export control restriction list or sanction list or subject to the risk of other export control, or any event relating to a specific country or region occurs which would cause political or foreign affairs tension, subject to our Company's internal risk estimation and assessment, the export control committee has the right to request the business divisions and subsidiaries to terminate the project immediately so as to ensure that the risk will be eliminated in the initial stage. The export control committee can decipher emergency measures to be executed by the business divisions and subsidiaries in accordance with any change in the international landscape and emergencies in relation to export control, to strengthen management and to address any emergencies.

In setting up and operating the ICP, our Company adheres to strict control principles and incorporates the principles in the employee trainings, heightening the employees' awareness of export control and self-discipline in avoiding sensitive projects of any nature in the daily operation. We considered related factors of international organizations and key countries relating to export control while complying with the PRC laws and regulations in our operation in order to ensure a smooth, lawful, and safe operation. Based on the foregoing, our Directors believe that sufficient export control policies and system are in place to monitor compliance with applicable laws and regulations on export control.

On-going Monitoring of Sanctions Risk

With a view to continuously monitoring and evaluating our Company's exposure to sanctions risk, protecting our Shareholders' interests and maintaining our listing status on the Main Board of the Stock Exchange, we will implement or continue to implement measures, safeguards and undertakings which can be categorized into four main groups, namely (1) existing internal control platform and training, (2) undertakings with respect to sanctions, (3) risk management on exposure to sanctions risk, and (4) continuing disclosure.

BUSINESS

I. Existing internal control platform and training

By virtue of the existing ICP, we already have an established and comprehensive platform for overseeing and regulating our business involving exporting products and services to overseas countries with a view to reducing sanctions risk. The export control committee will continue to conduct a compliance audit of our Company's export operations including our ICP.

The export control office consists of three members who have all received education in laws and legal trainings. On a day-to-day basis, it will continue to be involved in reviewing potential projects or business opportunities at the project origination stage before any substantive work commences, and approving all projects in ensuring that no exporting services or products to the Sanctioned Countries or involving individuals and entities targeted by the sanctions regimes will take place. Where appropriate or required, members of the export control office can seek external legal advice from their existing external legal advisers.

Should the export control office identify any actual or potential sanctions risk in the future (which may not lead to immediate actionable sanctions but may raise concern or cause scrutiny from risk management perspective), it will report such risk to our export control committee which will then report to our Operation and Risk Management Committee. See “– III. Risk management on exposure to sanctions risk” below.

The export control office will organize regular trainings for our senior management and the relevant personnel of the export control office on the sanctions and export control laws of the PRC and on US sanctions and export control laws, including those administered by OFAC, with the help of external legal advisors, relevant experts or non-governmental organizations who have expertise on the relevant topics.

Our ICP platform is integral to our monitoring system with respect of our business in the Sanctioned Countries as shown below.

II. Undertakings with respect to sanctions

Our Company and our Directors have covenanted to the Stock Exchange and the Underwriters that we will not, directly or indirectly, (1) use any of our proceeds from the Global Offering, or make such proceeds available to any individual or entity, to fund any activities in or business of or with (i) any individual or entity or (ii) in any country or territory, that at the time of such funding, is the target of any sanctions administered by OFAC, or (2) engage in any activity that is sanctionable under the ISA (as amended by CISADA) or the Executive Order for so long as the ISA and Executive Order remain in effect (the “**Sanctions Undertakings**”). We also restructured our business to terminate existing and future activities in the Sanctioned Countries. See “Business – Restructuring of Business in the Sanctioned Countries” for details.

We are aware that if we breach any undertaking we gave to the Stock Exchange and the Underwriters in relation to the Global Offering, our H Shares may be delisted from the Stock Exchange.

Upon Listing, we will deploy further measures to ensure our compliance with the Sanctions Undertakings, which include:

- (i) **Proceeds Accounts** – We will open and maintain separate designated banks accounts for the proceeds from the Listing in the PRC and Hong Kong as appropriate (the “**Proceeds Accounts**”). The Proceeds Accounts will be segregated from other normal bank accounts of our Company and designated for the sole use of deposit and deployment of the proceeds from Listing. With such segregation and designation, the Proceeds Accounts will record all transactions and activities within these bank accounts and trace the flow of funds in and out of the Proceeds Accounts.

BUSINESS

- (ii) **Accounting measures** – We will ensure that separate books and records will be adopted to monitor the activities, including deposits and disbursements, of the Proceeds Accounts.
- (iii) **Internal control policies** – We will formulate a new set of internal control policies particularly in respect of the Proceeds Accounts to regulate various aspects of operating the Proceeds Accounts, such as the designated use, record keeping (e.g. the underlying documents for projects or transactions towards which the proceeds will be applied), regular review (monthly, quarterly, half yearly and annually), responsible personnel to be appointed (being the senior officer of each of the finance department and the export control office), accountability and reporting line (responsible personnel reporting to the Operation and Risk Management Committee which in turn report to the Board of Directors) and other necessary operational procedures.
- (iv) **ICP** – With our Company’s existing ICP platform, the export control office will continue to be responsible for project approval from an export control perspective to ensure the nature and location of the activities or business, as well as the identity of the counterparties involved, would not violate the Sanctions Undertakings.
- (v) **External advice** – Our Company will ensure that both the export control office and the Operation and Risk Management Committee will have access to independent professional advice, including legal advice, necessary for the compliance with the Sanctions Undertakings.

III. Risk management on exposure to sanctions risk

Our Operation and Risk Management Committee will monitor on an ongoing basis our Company’s exposure to sanctions risk. One of its functions is to monitor the use of the net proceeds of the Global Offering under the Sanctions Undertakings. After Listing, if the export control office identifies any actual or potential sanctions risk in our existing or potential business, our Operation and Risk Management Committee will seek advice from appropriate legal counsel and gauge and formulate the risk management measures to be taken. If our Operation and Risk Management Committee as advised by the external legal counsel considers that the existing or potential business will expose our Company, our Shareholders as a whole, the Stock Exchange, HKSCC or HKSCC Nominees to any sanctions risk, our Operation and Risk Management Committee will either mandate the relevant business department to terminate the existing business forthwith, or veto the potential business or business opportunity.

IV. Continuing Disclosure

After Listing, we will make continuing disclosure in the website of both the Stock Exchange and our Company pursuant to the Listing Rules regarding our business as well as our monitoring system from sanctions risk perspective which will include:

- (i) Publishing an announcement should we come to a view that any of our business, or any violation or potential violation of any applicable sanctions law by our Group, could reasonably be expected to have a material adverse effect on our Group’s business as a whole, operations, financial positions, earnings or future prospects; and
- (ii) Disclosing in our interim and annual reports our efforts on monitoring our exposure to sanctions risk, including our compliance with the Sanctions Undertakings.