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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### OVERVIEW

We are a leading international engineering contractor by revenue with particular expertise in the power sector. We consider power, transportation and telecommunications sectors to be the Core Sectors of our International Engineering Contracting Business, while all other sectors which we may also engage in for our International Engineering Contracting Business but do not fall within the Core Sectors are considered to be the non-Core Sectors. Apart from the International Engineering Contracting Business, our Group is also principally engaged in the Trading Business. Our Company was established as a part of our Reorganization by converting China National Machinery & Equipment Import & Export Corporation, our predecessor, into a joint stock company with limited liability under the PRC law on January 18, 2011 with SINOMACH and one of its wholly-owned subsidiaries, China United, as our Promoters. Prior to the Global Offering, SINOMACH and China United respectively held 99.00% and 1.00% of our issued share capital. Immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), SINOMACH will ultimately control approximately 80.34% of our issued capital and will continue to be our Controlling Shareholder.

The principal business of SINOMACH Group is manufacturing and R&D of machinery and equipment, engineering contracting, as well as trading and services. Its business covers a broad range of industries such as agriculture, transportation, energy, construction, light industries, automobile, mining, metallurgy, aviation, etc.

### DELINEATION OF BUSINESS AND COMPETITION WITH SINOMACH GROUP

SINOMACH is a PRC state-owned company under the administration of SASAC and was established with the approval of the State Economic and Trade Commission of the State Council (國務院國家經濟貿易委員會) to assume ownership and management of a part of the state-owned enterprises portfolio, including our Company, previously managed by the MMBI in December 1996. Our Company was transferred in its entirety at nil consideration to SINOMACH at the time of the establishment of SINOMACH. Subsequent to the said assumption of ownership by SINOMACH, the MMBI was dissolved in 1998.

SINOMACH is a holding company, the business of which is carried out by its subsidiaries. Some of the SINOMACH Subsidiaries are engaged in business which competes or is likely to compete, either directly or indirectly, with the business carried out by our Group. Please see “Delineation of Business and Competition with SINOMACH Group – Excluded International Engineering Contracting Business in Potential Competition with Business Carried Out by Our Group” and “Delineation of Business and Competition with SINOMACH Group – Excluded Trading Business in Potential Competition with Business Carried Out by Our Group” for details. The subsidiaries of SINOMACH have independent operations and management in excess of 20 years, and have established their unique business focuses, expertises and strengths in their respective fields and industries.

In order to safeguard the interests of our Company and Shareholders in light of certain business carried out by some of the SINOMACH Subsidiaries, which compete or are likely to compete, either directly or indirectly, with our business, we have entered into the Non-competition Agreement with SINOMACH. Please see “Non-competition Agreement” for details.

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### Excluded International Engineering Contracting Business in Potential Competition with Business Carried out by Our Group

The audited/unaudited revenues of the Excluded International Engineering Contracting Business and the audited revenue of our International Engineering Contracting Business, respectively, and each expressed as a percentage of the total revenue of the Excluded International Engineering Contracting Business and our International Engineering Contracting Business during the Track Record Period are set out below:

Revenue	Year ended December 31,						Six months ended June 30,	
	2009		2010		2011		2012	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million)	%
Excluded International Engineering Contracting Business .....	6,586.9	32.6	8,558.4	41.6	10,628.1	46.9	5,601.0	46.6
International Engineering Contracting Business .....	13,646.7	67.4	12,019.6	58.4	12,055.2	53.1	6,426.1	53.4
<b>Total .....</b>	<b>20,233.6</b>	<b>100.0</b>	<b>20,578.0</b>	<b>100.0</b>	<b>22,683.3</b>	<b>100.0</b>	<b>12,027.1</b>	<b>100.0</b>

*Source:* Audited (for our Company and CAMC Engineering) or unaudited (for SINOMACH Subsidiaries engaged in the Excluded International Engineering Contracting Business other than CAMC Engineering) financial statements and management accounts of respective companies

Upon Listing, equity interests in the following SINOMACH Subsidiaries which conduct the Excluded International Engineering Contracting Business, namely CAMC Engineering, CNEEC, CHMC, CGME, CMCEC and CACS, will continue to be retained by SINOMACH.

For reasons of non-inclusion specific to each of the SINOMACH Subsidiaries, please refer to the following overview.

#### Listed SINOMACH Subsidiary

##### **CAMC Engineering**

##### *Scope and size of business*

CAMC Engineering, an A-share company being listed on the SZSE in the PRC since June 19, 2006, was owned as to approximately 68.09% by SINOMACH according to CAMC Engineering's third quarterly report for 2012 as published on the SZSE. Since CAMC Engineering is a listed company, all the information pertaining to CAMC Engineering is derived from publicly available information published by CAMC Engineering on the website of the SZSE. The business of CAMC Engineering includes undertaking engineering contracting projects in relation to water supply and sewage, agricultural engineering, civil engineering, plant building, power and transportation. According to the annual reports and interim report of CAMC Engineering during the Track Record Period, its revenue of engineering contracting business was approximately RMB3,128.4 million, RMB4,666.8 million, RMB5,271.3 million and RMB2,888.0 million, respectively. To a smaller extent, CAMC Engineering conducted some trading business. According to the annual reports of

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CAMC Engineering in 2010 and 2011, its revenue of trading business was approximately RMB377.4 million and RMB1,892.5 million, respectively. According to the interim report of CAMC Engineering in 2012, its revenue of trading business was approximately RMB1,479.9 million for the six months ended June 30, 2012. There was no publicly available information regarding CAMC Engineering's revenue of trading business in 2009. As at December 31, 2011 and June 30, 2012, the audited net assets of CAMC Engineering were approximately RMB2,518.0 million and RMB2,600.9 million, respectively. For the year ended December 31, 2011 and the six months ended June 30, 2012, the audited revenue of CAMC Engineering was approximately RMB7,175.2 million and RMB4,372.1 million, respectively.

### *Management*

None of the members of the board of directors, board of supervisors and senior management of CAMC Engineering holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

### *Reasons for Non-inclusion of CAMC Engineering in Our Group*

Our Directors are of the view that CAMC Engineering should not be included into our Group for the following reasons:

#### *1. Listing Status of CAMC Engineering*

It is not practically feasible to include the business of CAMC Engineering into our Group as CAMC Engineering is a listed company and its operational and investment decisions are decided by its board of directors and management team, which are independent of its controlling shareholder, SINOMACH, as well as different from ours. As a listed company, CAMC Engineering not only needs to comply with the listing requirements and rules of the SZSE, but also must act in the best interest of its own shareholders concerning the affairs of the company at all times and shall seek independent shareholders' approval, if required. SINOMACH is not able to control all business decisions of CAMC Engineering simply by virtue of its shareholding in the same, including on whether or not to compete with us or include it in our Group. Furthermore, the inclusion of CAMC Engineering will be subject to the PRC regulatory approvals, shareholders' approval, as well as independent opinion from a qualified financial advisor, the processes of which are difficult to predict as to when and whether the approvals and the opinion will be obtained.

#### *2. Different business focus*

Our International Engineering Contracting Business focuses on the Core Sectors and we mainly conduct our engineering contracting projects overseas, in particular Africa and Asia. Although CAMC Engineering is also engaged in the power and transportation sectors, according to SINOMACH, these two sectors are not CAMC Engineering's business focuses. As advised by SINOMACH, the focus of CAMC Engineering is on the agriculture and irrigation sectors which fall outside of our Core Sectors. Also, CAMC Engineering undertakes engineering contracting projects in other sectors other than the power and transportation sector, such as factory construction and water supply.

Although there is no public information available relating to CAMC Engineering which discloses a complete list of the projects undertaken by it, nor is there any segment reporting (including those of the power and transportation segments) of CAMC Engineering's engineering contracting business, based on the available annual reports and interim report of CAMC Engineering during the Track Record Period, the differences in business focus between CAMC

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Engineering and our Company can be demonstrated by the comparisons below on the new projects with a contract value over US\$100 million each during the Track Record Period between CAMC Engineering and our Company.

The following table sets forth the 18 newly signed projects, each of which with a contract value over US\$100 million, entered into by CAMC Engineering during the Track Record Period according to the annual reports and interim report of CAMC Engineering.

<u>General description of project<sup>(1)</sup></u>	<u>Contract value</u>	<u>Location</u>
	<i>(US\$ million)</i>	
<b>Six months ended June 30, 2012</b>		
Sugar refinery project .....	168.0	Bolivia
<b>Year ended December 31, 2011</b>		
International airport project <sup>(1)</sup> .....	1,057.0	Chad
Ore dressing plant project.....	270.0	Iran
School projects .....	240.0	Angola
Highway construction project <sup>(1)</sup> .....	180.0	Zambia
Irrigation project .....	176.0	Sri Lanka
Irrigation area rehabilitation project.....	140.0	Sudan
<b>Year ended December 31, 2010</b>		
Thermal power station project <sup>(1)</sup> .....	1,045.0	Venezuela
Pulp mill project.....	769.0	Belarus
Industrial park project (Agricultural by-products processing equipment manufacturing plant).....	484.0	Venezuela
Water pipelines project .....	294.0	Iran
Sugar refinery project .....	185.0	Tanzania
Integrated agricultural development project.....	196.0	Venezuela
Integrated agricultural development project.....	179.0	Venezuela
Integrated agricultural project .....	167.0	Venezuela
Airport terminal project <sup>(1)</sup> .....	105.0	Sierra Leone
Irrigation system repair and expansion project .....	101.0	Venezuela
<b>Year ended December 31, 2009</b>		
Irrigation system repair and expansion project .....	464.3	Venezuela

Note:

- (1) Except for the international airport project in Chad, the highway construction project in Zambia, the thermal power station project in Venezuela and the airport terminal project in Sierra Leone which fell into our Core Sectors, the rest of the above listed projects fell into our non-Core Sectors.

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The following table sets forth the 19 newly effective projects, each of which with a contract value over US\$100 million, entered into by us during the Track Record Period.

General description of project <sup>(1)</sup>	Contract value <i>(US\$ million)</i>	Location
<b>Six months ended June 30, 2012</b>		
Power project .....	455.5	Venezuela
Power project .....	1,463.8	Venezuela
Telecommunications project on 2.5G network expansion and 3G network in Bangladesh .....	211.0	Bangladesh
<b>Year ended December 31, 2011</b>		
Thermal power station project .....	378.0	Belarus
Thermal power station project .....	368.0	Belarus
Thermal power station project .....	244.8	Turkey
Thermal power station project .....	222.9	Turkey
Transportation project on highway construction .....	135.0	The Republic of Cote d'Ivoire
Power transmission and transformation project .....	130.4	Chad
Hydropower station project .....	123.8	Ecuador
<b>Year ended December 31, 2010</b>		
Power stations project .....	891.0	Sri Lanka
Power project .....	695.0	Turkey
Power station project .....	471.7	Nigeria
Water plant project <sup>(1)</sup> .....	205.5	The Republic of Congo
Electricity grid renovation project .....	177.1	Angola
Power station expansion project .....	124.4	Equatorial Guinea
Ship building projects .....	122.8	Singapore
<b>Year ended December 31, 2009</b>		
Power station project .....	680.3	Sudan
Cement plant project <sup>(1)</sup> .....	133.9	Yemen

*Note:*

- (1) Except for the water plant project in the Republic of Congo and the cement plant project in Yemen which fell into our non-Core Sectors, the rest of the above listed projects fell into our Core Sectors.

As shown from the comparisons above on the new projects with a contract value over US\$100 million each during the Track Record Period between CAMC Engineering and our Company, our focus remains in the Core Sectors while CAMC Engineering's focus is mainly in sectors that can be categorized into our Company's non-Core Sectors. During the Track Record Period, we undertook and completed only one water supply project in Africa in 2010, which fell into the core sector of CAMC Engineering. This water supply project had a contract value of US\$9.6 million, which only accounted for approximately 0.5% of our Company's revenue of the International Engineering Contracting Business in 2010.

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During the Track Record Period, in terms of projects in our Core Sectors, CAMC Engineering undertook one highway construction project in Zambia in 2011, two airport projects in Africa in 2010 and 2011, one in Chad and the other one in Sierra Leone, and a power project in Venezuela in 2010, respectively. Whilst these projects fell into the Core Sectors of our Company, during the Track Record Period, our Company did not undertake any project in the transportation sector in Zambia. In respect of the two airport projects, we did not undertake any airport projects in Chad or Sierra Leone during the Track Record Period. As such, the business of CAMC Engineering and that of our Company were delineated by these two companies operating in different geographical locations during the Track Record Period.

The different business focuses of CAMC Engineering and our Company can be further demonstrated by the revenue of CAMC Engineering generated from its top five customers.

A large portion of the revenue of CAMC Engineering's principal business (i.e., engineering contracting and trading businesses) was derived from its top five customers alone for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012. In 2009, the revenue of CAMC Engineering's principal business derived from its top five customers constituted 75.1% of its total revenue from its principal business, of which 36.4% was derived from a single customer located in South America. In 2010 and 2011, the revenue of its principal business from its top five customers constituted 79.3% and 82.8% of its total revenue from its principal business, respectively (of which 46.4% and 66.6% were derived from the customer(s) located in South America, respectively). For the six months ended June 30, 2012, the revenue of its principal business from its top five customers constituted 56.9% of its total revenue from its principal business (of which 38.3% was derived from the customers located in South America). Conversely, revenue from our top five customers constituted a much lower percentage of our total revenue (being 42.3%, 34.0%, 36.1% and 25.5%, respectively, during the Track Record Period), and only one of our top five customers during the Track Record Period was located in South America, which accounted for 9.3% of our total revenue for the six months ended June 30, 2012. It is apparent that while CAMC Engineering is more reliant on a smaller group of customers, our Company has a broader and different base of customers since none of the top five customers of CAMC Engineering (which generated a substantial portion of CAMC Engineering's revenue) for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 are customers of our Company. Based on the annual reports and interim report of CAMC Engineering during the Track Record Period, there was no overlapping between our top five customers and the top five customers of CAMC Engineering.

Given (i) the different focus in sectors as shown by the new contracts of CAMC Engineering and our Company during the Track Record Period, (ii) the different geographical location and different level of reliance of the top five customers and the different base of customers derived from the revenue percentages of the top five customers, (iii) the fact that our Company and CAMC Engineering have been independently operating for years and our Company has been operating at a significant level of profit even after the listing of CAMC Engineering in 2006, and (iv) the listing status of CAMC Engineering and that of our Company upon Listing, the competition between CAMC Engineering and our Company is not an extreme case.

### 3. *Different geographical focus*

In addition to the different focuses of business, the respective geographical focus of CAMC Engineering and our Company is significantly different.

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The table below sets out the revenue from both the engineering contracting business and the trading business of CAMC Engineering for the year ended December 31, 2011 and the six months ended June 30, 2012 by regions, based on the 2011 annual report and 2012 interim report of CAMC Engineering:

	Year ended December 31, 2011		Six months ended June 30, 2012	
	(RMB million)	(%)	(RMB million)	(%)
Africa .....	437.6	6.1	232.9	5.4
South America .....	3,460.3	48.3	2,027.9	46.4
Asia (excluding the PRC) .....	1,249.5	17.4	546.2	12.5
The PRC .....	1,990.2	27.8	1,327.0	30.4
Europe .....	26.2	0.4	58.0	1.3
North America .....	–	–	175.9	4.0
<b>Total</b> .....	<b>7,163.8</b>	<b>100.0</b>	<b>4,367.9</b>	<b>100.0</b>

The table below sets out the revenue from our International Engineering Contracting Business and Trading Business for the year ended December 31, 2011 and the six months ended June 30, 2012 by regions:

	Year ended December 31, 2011		Six months ended June 30, 2012	
	(RMB million)	(%)	(RMB million)	(%)
Africa .....	7,058.9	35.8	2,993.0	30.1
South America .....	313.9	1.6	994.6	10.0
Asia (excluding the PRC) .....	5,317.3	26.9	2,342.5	23.5
The PRC .....	3,328.4	16.9	871.9	8.8
Europe .....	2,233.5	11.3	2,060.6	20.7
North America .....	1,310.2	6.6	645.7	6.5
Others <sup>(1)</sup> .....	181.6	0.9	40.0	0.4
<b>Total</b> .....	<b>19,743.8</b>	<b>100.0</b>	<b>9,948.3</b>	<b>100.0</b>

Note:

(1) Mainly includes Cuba, Australia, New Zealand and Trinidad and Tobago

As illustrated in the tables above, CAMC Engineering's revenue generated from the engineering contracting business from our Company's key regions (i.e., Africa, Asia (excluding the PRC) and Europe) was significantly low. While a majority of CAMC Engineering's revenue was generated in South America (in particular, Venezuela has historically been its principal market according to CAMC Engineering's 2011 annual report), our revenue generated from South America for the year ended December 31, 2011 and the six months ended June 30, 2012 was significantly low, which was only approximately RMB313.9 million and RMB994.6 million, respectively, and which accounted for 1.6% and 10.0%, respectively, of the aggregate revenue of our International

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Engineering Contracting Business and Trading Business for the same periods. In addition, our revenue from Africa for the year ended December 31, 2011 and the six months ended June 30, 2012 was approximately RMB7,058.9 million and RMB2,993.0 million, respectively, which accounted for 35.8% and 30.1%, respectively, of the aggregate revenue of our International Engineering Contracting Business and Trading Business for the same periods, where CAMC Engineering's revenue from Africa was approximately RMB437.6 million and RMB232.9 million, respectively, which accounted for 6.1% and 5.3%, respectively, of its revenue for the same periods. As such, the geographical focus of CAMC Engineering and our Company is significantly different.

#### 4. Different scale and profit margin

The revenue of our International Engineering Contracting Business was approximately RMB13,646.7 million, RMB12,019.6 million, RMB12,055.2 million and RMB6,426.1 million for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. In comparison, the revenue of CAMC Engineering derived from its engineering contracting business was approximately RMB3,128.4 million, RMB4,666.8 million, RMB5,271.3 million and RMB2,888.0 million, respectively, for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012.

Set out below are the revenue and gross profit margins of CAMC Engineering and our Company by business segments for the year ended December 31, 2011 and the six months ended June 30, 2012:

Company	Business segment	Year ended December 31, 2011		Six months ended June 30, 2012	
		Revenue (RMB million)	Gross profit margin (%)	Revenue (RMB million)	Gross profit margin (%)
CAMC Engineering	Engineering contracting and complete sets of plant and equipment business	5,271.3	14.2	2,888.0	16.2
	Trading	1,892.6	8.4	1,479.9	3.1
Our Company	International Engineering Contracting Business	12,055.2	24.2	6,426.1	22.4
	Trading Business	7,688.6	5.7	3,522.2	7.6

As shown in the above table, no matter by separate business segment or in aggregate amount, the scale of the engineering contracting business of CAMC Engineering is significantly smaller than that of our Group.

In addition, our Company had a much higher gross profit margin from the International Engineering Contracting Business than CAMC Engineering from its engineering contracting and complete sets of plant and equipment business in 2011, which were 24.2% and 14.2%, respectively, as well as for the six months ended June 30, 2012, which were 22.4% and 16.2%, respectively.



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### 5. *Differences in trading business*

CAMC Engineering's principal trading business was trading of commodities such as coal, steel and ore in 2011. Trading of commodities was the focus of CAMC Engineering's development in trading business in 2010. There was no relevant disclosure in the 2009 annual report of CAMC Engineering nor publicly available information regarding CAMC Engineering's principal trading business for the six months ended June 30, 2012. On the other hand, our Company's Trading Business mainly consists of the international export trading of sets of power generators, complete set of plants and equipment, construction materials, medical instruments and devices and manufacturing equipment. In view of the above, there is a substantial difference between the types of principal trading products of CAMC Engineering and our Company.

In addition, the scale of the trading business of CAMC Engineering is significantly smaller than that of our Group. The revenue from the trading business of CAMC Engineering in 2011 was approximately RMB1,892.5 million whereas the revenue from our Trading Business in 2011 was approximately RMB7,688.6 million. The revenue from the trading business of CAMC Engineering for the six months ended June 30, 2012 was approximately RMB1,479.9 million whereas the revenue from our Trading Business for the six months ended June 30, 2012 was approximately RMB3,522.2 million.

In view of the different types of principal trading products and different scale of the trading business, the trading business of CAMC Engineering and the Trading Business of our Company are significantly different.

Furthermore, the international trading market is a sizeable market with a large number of participants. In the case of our Group, we have over 29,000 customers and suppliers in aggregate. As such, any competition between our Group and CAMC Engineering in the international trading market will be of no difference to other competitions encountered by our Group with other independent third parties.

Since our Company will continue to focus on the Core Sectors while the non-Core Sectors accounted for a significantly smaller portion of our business in terms of revenue and profit during the Track Record Period, the business scope, business focus, geographical focus, scale and profit margin of business between CAMC Engineering and our Company are also different. For these reasons, the business of CAMC Engineering was not injected into our Group.

### **Non-listed SINOMACH Subsidiaries under SINOMACH's Intention of Injection**

#### **CNEEC**

##### *Scope and size of business*

CNEEC is a PRC state-owned enterprise, as well as a wholly-owned subsidiary of SINOMACH. The business of CNEEC focuses on the engineering contracting of domestic and international power projects. As at June 30, 2012, the unaudited net assets of CNEEC were approximately RMB955.9 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CNEEC was approximately RMB3,754.3 million and RMB2,433.6 million, respectively.

##### *Different geographical focus*

During the Track Record Period, CNEEC primarily operated in Malaysia, Indonesia, Thailand, Myanmar, the Philippines, Vietnam and Uzbekistan, which in aggregate accounted for 52.0%, 34.9%, 45.0% and 43.7%, respectively, of its total revenue of the Excluded Business. The following table sets forth the amount and percentage of the total revenue of the Excluded Business operated by CNEEC by countries for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012:

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	Years ended December 31,						Six months ended June 30,	
	2009		2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)	<i>(RMB million)</i>	(%)
<b>South-east Asia</b>								
Indonesia .....	1,173.7	41.7	690.7	23.0	956.4	25.5	552.4	26.1
Thailand .....	196.0	7.0	–	–	33.6	0.9	–	–
Malaysia .....	23.9	0.8	227.3	7.6	157.1	4.2	63.5	3.0
Vietnam .....	36.7	1.3	16.5	0.5	–	–	1.3	0.1
The Philippines .....	–	–	61.8	2.1	495.8	13.2	452.2	21.4
Laos .....	14.6	0.5	–	–	–	–	124.1	5.9
Myanmar .....	14.3	0.5	21.0	0.7	9.5	0.3	–	–
Sub-total .....	<u>1,459.2</u>	<u>51.8</u>	<u>1,017.3</u>	<u>33.8</u>	<u>1,652.4</u>	<u>44.0</u>	<u>1,193.5</u>	<u>56.5</u>
<b>Asia</b>								
Pakistan .....	–	–	32.6	1.1	–	–	6.1	0.3
Azerbaijan .....	382.7	13.6	357.7	11.9	208.3	5.5	165.0	7.8
Bangladesh .....	12.3	0.4	8.5	0.3	–	–	–	–
Iran .....	79.6	2.8	16.1	0.5	41.2	1.1	–	–
PRC .....	607.4	21.6	802.9	26.7	851.3	22.7	82.5	3.9
Uzbekistan .....	19.4	0.7	29.7	1.0	32.4	0.9	–	–
Sub-total .....	<u>1,101.4</u>	<u>39.2</u>	<u>1,247.5</u>	<u>41.5</u>	<u>1,133.2</u>	<u>30.2</u>	<u>253.6</u>	<u>12.0</u>
<b>Africa</b>								
Botswana .....	169.8	6.0	568.8	18.9	867.5	23.1	473.2	22.4
The Republic of Congo .....	18.7	0.7	–	–	–	–	–	–
Sudan .....	63.4	2.3	57.1	1.9	67.7	1.8	–	–
Zambia .....	–	–	–	–	–	–	15.3	0.7
Sub-total .....	<u>251.9</u>	<u>9.0</u>	<u>625.9</u>	<u>20.8</u>	<u>935.2</u>	<u>24.9</u>	<u>488.5</u>	<u>23.1</u>
<b>Others</b>								
Papua New Guinea...	–	–	45.4	1.5	–	–	–	–
Cuba .....	–	–	70.6	2.3	33.5	0.9	–	–
Russia .....	–	–	–	–	–	–	178.0	8.4
Sub-total .....	<u>–</u>	<u>–</u>	<u>116.0</u>	<u>3.9</u>	<u>33.5</u>	<u>0.9</u>	<u>178.0</u>	<u>8.4</u>
<b>Total .....</b>	<b><u>2,812.4</u></b>	<b><u>100.0</u></b>	<b><u>3,006.7</u></b>	<b><u>100.0</u></b>	<b><u>3,754.3</u></b>	<b><u>100.0</u></b>	<b><u>2,113.6</u></b>	<b><u>100.0</u></b>

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Conversely, during the Track Record Period, although our Company undertook power projects in South-east Asia including Vietnam, Malaysia, Indonesia, Thailand and Myanmar, our Company did not undertake any projects in Central Asia. During the Track Record Period, our revenue from the power projects in the respective countries in Asia (including the PRC) and Central Asia only accounted for 23.1%, 11.9%, 21.7% and 12.0%, respectively, of the total revenue of our International Engineering Contracting Business. The following table sets forth our Company's revenue of the International Engineering Contracting Business generated from the respective countries and the percentage of our total revenue during the Track Record Period:

	Years ended December 31,						Six months ended June 30,	
	2009		2010		2011		2012	
	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue	Revenue	Percentage of total revenue
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
<b>South-east Asia</b>								
Indonesia .....	63.4	0.3	32.2	0.2	12.3	0.1	2.0	0.0
Thailand .....	-	-	-	-	-	-	41.4	0.4
Malaysia .....	599.4	3.2	100.5	0.5	24.8	0.1	2.7	0.0
Vietnam .....	146.4	0.8	34.2	0.2	22.7	0.1	-	-
The Philippines .....	-	-	-	-	-	-	-	-
Laos .....	141.1	0.7	105.2	0.6	114.7	0.6	-	-
Myanmar .....	-	-	-	-	629.5	3.1	145.8	1.5
Sub-total .....	950.3	5.0	272.1	1.5	804.0	4.0	191.9	1.9
<b>Asia</b>								
Pakistan .....	296.4	1.5	99.3	0.5	68.7	0.3	26.4	0.3
Bangladesh .....	-	-	35.4	0.2	24.1	0.1	342.4	3.3
Azerbaijan .....	-	-	-	-	-	-	-	-
Iran .....	-	-	0.2	0.0	93.0	0.5	52.9	0.5
PRC .....	39.2	0.2	47.9	0.3	62.9	0.3	13.1	0.1
Uzbekistan .....	-	-	-	-	-	-	-	-
Sub-total .....	335.6	1.7	182.8	1.0	248.7	1.2	434.8	4.2
<b>Africa</b>								
Botswana .....	-	-	-	-	-	-	-	-
The Republic of Congo .....	2,030.8	10.5	1,931.1	10.1	1,566.6	7.6	379.9	3.7
Sudan .....	478.9	2.5	1,189.2	6.2	1,110.3	5.4	98.5	0.9
Zambia .....	-	-	-	-	27.1	0.1	13.0	0.1
Sub-total .....	2,509.7	13.0	3,120.3	16.3	2,704.0	13.1	491.4	4.7
<b>Others<sup>(1)</sup></b> .....	15,492.1	80.3	15,501.8	81.2	16,761.1	81.7	9,236.0	89.2
<b>Total</b> .....	19,287.7	100.0	19,077.0	100.0	20,517.8	100.0	10,354.1	100.0

Note:

- (1) Includes Afghanistan, Maldives, Sri Lanka, Singapore, Yemen, Iraq, India, Angola, Equatorial Guinea, Gabon, Cameroon, Nigeria, Senegal, Belarus, Germany, Turkey, Italy, Trinidad and Tobago, Ecuador, Côte d'Ivoire, Venezuela and Chad from which CNEEC did not generate any revenue of the Excluded Business during the Track Record Period.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### *Management*

None of the members of the board of directors, board of supervisors and senior management of CNEEC holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

### **CMCEC**

#### *Scope and size of business*

CMCEC is a company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. According to SINOMACH, CMCEC's business focuses on civil engineering projects and property development. As at June 30, 2012, the unaudited net assets of CMCEC were approximately RMB110.0 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CMCEC was approximately RMB1,457.0 million and RMB828.0 million, respectively.

### *Management*

None of the members of the board of directors, board of supervisors and senior management of CMCEC holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

### **CACS**

#### *Scope and size of business*

CACS is a PRC state-owned enterprise in the PRC, as well as a wholly-owned subsidiary of SINOMACH. According to SINOMACH's yearbook of 2010 and publicly available information, although the engineering contracting business of CACS also covers the power and transportation sectors, the business of CACS principally focuses on traditional automation technologies and supply of electrical cables and wires and other related equipment. As at June 30, 2012, the unaudited net assets of CACS were approximately RMB220.0 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CACS was approximately RMB1,526.0 million and RMB582.0 million, respectively.

### *Management*

CACS does not have a board of directors or a board of supervisors and none of the senior management of CACS holds any concurrent position in our senior management, and vice versa.

### ***Reasons for Non-inclusion of CNEEC, CMCEC and CACS in Our Group prior to Listing***

CNEEC, CMCEC and CACS are currently undergoing a reform relating to resolving the benefit plan of retired employees that require approvals from relevant PRC governmental authorities. As such, it is impracticable to include CNEEC, CMCEC and CACS in our Group until the reform is completed and approvals are obtained from the relevant PRC governmental authorities. Hence, the reform and the transfer of the relevant equity to our Company cannot be completed in line with the timetable of the Listing. For these reasons, the business of CNEEC, CMCEC and CACS were not injected into our Group prior to Listing.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### ***SINOMACH's Intention of Injection***

SINOMACH intends to transfer all its equity interest in CNEEC, CMCEC and CACS to us within three years after Listing. SINOMACH will commence the relevant work for the proposed transfer after Listing, including, without limitation, the procedure to obtain relevant governmental approvals. According to the Listing Rules, SINOMACH as our Controlling Shareholder is a connected person of our Company. If the transaction were to proceed, it would constitute a connected transaction after the Listing and according to the applicable ratios of the Listing Rules, it would also constitute a notifiable transaction of our Company. Our Company will make announcements pursuant to the Listing Rules in relation to the injection after Listing. Therefore, it would only proceed after compliance with the relevant requirements under the Listing Rules, including the announcement and independent shareholders' approval requirements. See “– Non-competition Agreement” for more details regarding SINOMACH's future intention to transfer its equity interest in CNEEC, CMCEC and CACS to us.

As regards the potential competition between CNEEC, CMCEC and CACS and our Company in the Core Sectors during the transition period before the intended injection and after Listing, it will be managed through the mechanism as stipulated in the Non-competition Agreement.

In the event that SINOMACH is not able to transfer its respective equity interest in CNEEC, CMCEC and CACS to our Company within three years after Listing because the requisite approvals have not been granted by the relevant PRC governmental authorities, the potential competition between CNEEC, CMCEC and CACS and our Company will be managed through the mechanisms as stipulated in the Non-competition Agreement, which include, among others, the right of first refusal in respect of International Engineering Contracting Business. Please see “– Non-competition Agreement” for more details.

### **Other Non-listed SINOMACH Subsidiaries**

#### ***CHMC***

##### *Scope and size of business*

CHMC is a company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. According to SINOMACH's yearbook of 2010 and the publicly available information, although the engineering contracting business of CHMC also covers power and transportation sectors, the business of CHMC principally focuses on metallurgy, contracting of mining projects, manufacturing of complete sets of plants and equipment, manufacturing and sale of large-scale casting and forging products. In addition, a majority of CHMC's projects are located in the PRC and as advised by SINOMACH, it mainly acts as a subcontractor rather than a general contractor. As at June 30, 2012, the unaudited net assets of CHMC were approximately RMB616.9 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CHMC was approximately RMB1,414.5 million and RMB353.4 million, respectively.

##### *Management*

None of the members of the board of directors, board of supervisors and senior management of CHMC holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### **CGME**

#### *Scope and size of business*

CGME is a company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. According to SINOMACH's yearbook of 2010, the business of CGME focuses on waste water treatment and infrastructure projects in the PRC. CGME operates extensively in the PRC. As at June 30, 2012, the unaudited net assets of CGME were approximately RMB66.0 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of CGME was approximately RMB620.6 million and RMB326.0 million, respectively. As advised by SINOMACH, CGME acts as a subcontractor in most cases and has a focus within the PRC instead of the international markets. For the year ended December 31, 2011, and the six months ended June 30, 2012, the revenue generated by CGME in the PRC was approximately RMB558.5 million and RMB326.0 million, respectively, which represented approximately 90.0% and 100%, respectively, of its total revenue.

#### *Management*

None of the members of the board of directors, board of supervisors and senior management of CGME holds any concurrent position in any of our Board of Directors, Supervisory Board or senior management, and vice versa.

#### ***Reasons for Non-inclusion of CHMC and CGME in Our Group***

CHMC conducts business in areas such as metallurgy and contracting of mining projects which fall into the non-Core Sectors of our Group. These sectors are not the major target sectors of our Group. Furthermore, CHMC conducts its engineering contracting business primarily in the PRC. In addition, the size of the business conducted by CHMC is in significantly smaller scale given its unaudited revenue for the year ended December 31, 2011 and for the six months ended June 30, 2012 was only 11.7% and 5.5%, respectively, of the revenue of our International Engineering Contracting Business and it mainly acts as a subcontractor. Owing to the strategic planning of SINOMACH, which includes retaining CHMC's brand name for other business development which does not relate to the Core Sectors of our Group, SINOMACH currently has no intention of transferring CHMC to us.

CGME principally acts as a subcontractor in the PRC, whereas our Company principally acts as a general contractor in overseas countries (with revenue from our International Engineering Contracting Business outside the PRC accounting for 99.7%, 99.6%, 99.5% and 99.8%, respectively, of the aggregate revenue of our International Engineering Contracting Business during the Track Record Period). The size of the business conducted by CGME is in significantly smaller scale given its unaudited revenue for the six months ended June 30, 2012 was only 5.1% of our Company's revenue from the International Engineering Contracting Business for the same period. Since the business focus of CGME falls outside of our Core Sectors, CGME was not injected into our Group. In light of the clear delineation of business model and geographical focus, SINOMACH currently has no intention of transferring CGME to us.

In light of the above, our Directors are of the view that the Excluded International Engineering Contracting Business conducted by CHMC and CGME does not fit squarely into our International Engineering Contracting Business due to their significantly smaller scale and their business model of principally acting as subcontractors. Our Group aims to become the largest international engineering contractor in the Core Sectors in the PRC. If we include the Excluded International Engineering Contracting Business conducted by CHMC and CGME, it may diverge our Group's focus from achieving such aim and lead to inefficient allocation of our valuable resources.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

Due to the reasons for non-inclusion of the non-listed SINOMACH Subsidiaries under SINOMACH's intention of injection (i.e. CNEEC, CMCEC and CACS), and the reasons for non-inclusion of the other non-listed SINOMACH Subsidiaries (i.e. CHMC and CGME), our Directors are of the view that the inclusion of the Excluded International Engineering Contracting Business prior to the completion of the Global Offering is not in the best interest of our Company and the Shareholders.

### **Excluded International Engineering Contracting Business in Future Potential Competition with Business in the non-Core Sectors Carried Out by Our Group**

Our revenue generated from the International Engineering Contracting Business in the non-Core Sectors during the Track Record Period only accounted for 7.0%, 10.3%, 11.4% and 8.3% respectively of the aggregate revenue of our International Engineering Contracting Business. During the Track Record Period, international engineering contracting projects that our Company undertook in the non-Core Sectors include, among others, water supply and treatment, building and construction, manufacturing and processing plants and mining and resources exploitation. The following table sets forth the international engineering contracting projects completed by us in the non-Core Sectors during the Track Record Period:

<u>For the year/ period ended</u>	<u>Number of projects completed</u>	<u>Sector</u>	<u>Aggregate contract value</u>  <i>(US\$ million)</i>
December 31, 2009	3	General construction, industrial and manufacturing	123.2
December 31, 2010	3	Water supply, mining, industrial and manufacturing (metallurgy)	83.1
December 31, 2011	2	Petrochemical, industrial and manufacturing	53.3
June 30, 2012	Nil	–	Nil

In terms of the significance of the business generated from our non-Core Sectors, since the Core Sectors are the primary focus of our International Engineering Contracting Business, where business opportunities arise in the non-Core Sectors, our management would decide whether to take on such business opportunities based on commercial, strategic and operational considerations. However, as shown by the historical figures during the Track Record Period, business from the non-Core Sectors is relatively insignificant as compared to the business generated from our Core Sectors. As such, any overlapping of the engineering contracting business in the non-Core Sectors between us and the SINOMACH Subsidiaries that conduct the Excluded International Engineering Contracting Business would not be regarded as competition that would affect our capability of carrying on our International Engineering Contracting Business independently of, and at arms length from, the Excluded International Engineering Contracting Business. Based on our Company's historical financial data and the mechanism in place regarding any future competition in the non-Core Sectors (see "– Non-competition Agreement – Undertakings in relation to the non-Core Sectors of the International Engineering Contracting Business" for more details), any potential competition in the non-Core Sectors between our Company and the SINOMACH Subsidiaries would be insignificant and manageable.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

### Excluded Trading Business in Potential Competition with Business Carried Out by Our Group

The Excluded Trading Business involves trading of a broad range of products domestically and internationally, including various industrial products and consumer goods (such as antennas, cookers, motorcycle, etc). SINOMACH itself does not conduct or actively pursue any trading business activities nor does it have any trading operational capabilities. The Excluded Trading Business is primarily carried out by SUMEC, a subsidiary of SINOMACH, which is located in Nanjing, Jiangsu province. SUMEC's contribution to the total revenue from Excluded Trading Business for the year ended December 31, 2011 and the six months ended June 30, 2012 were approximately RMB38,788.5 million and RMB22,360.4 million, respectively, which represented approximately 86.7% and 88.9%, respectively, of the Excluded Trading Business.

The unaudited revenue of the Excluded Trading Business and the audited revenue of our Trading Business, respectively, and each expressed as a percentage of the total revenue of the Excluded Trading Business (excluding that of CAMC Engineering due to the lack of publicly available information) and our Trading Business during the Track Record Period are set out below:

Revenue	Year ended December 31,						Six months ended June 30,	
	2009		2010		2011		2012	
	(RMB million)	%	(RMB million)	%	(RMB million)	%	(RMB million)	%
Excluded Trading Business .....	19,282.0	79.5	33,179.1	84.1	44,740.7	85.3	25,164.0	87.7
Trading Business .....	4,979.1	20.5	6,295.5	15.9	7,688.6	14.7	3,522.2	12.3
<b>Total .....</b>	<b>24,261.1</b>	<b>100.0</b>	<b>39,474.6</b>	<b>100.0</b>	<b>52,429.3</b>	<b>100.0</b>	<b>28,686.2</b>	<b>100.0</b>

Source: Audited (for our Company) or unaudited (for SINOMACH Subsidiaries engages in the Excluded Trading Business) financial statements and management accounts of respective companies

### SUMEC

#### Scope and size of business

SUMEC is a PRC state-owned enterprise held by SINOMACH as to 80% of the equity interest. According to SINOMACH's yearbook of 2010, one of the principal business of SUMEC is manufacturing and international export trading of machinery and electrical products, including electric power tools and gardening tools, as well as textiles and clothing products. SUMEC is also engaged in the international import trading of commodities, including minerals and wool, and other materials such as steel products and chemicals pursuant to its customers' orders and specifications and the subsequent domestic trading of such products in the PRC. As at June 30, 2012, the unaudited net assets of SUMEC were approximately RMB2,216.4 million. For the year ended December 31, 2011 and the six months ended June 30, 2012, the unaudited revenue of SUMEC was approximately RMB38,788.5 million and RMB22,360.4 million, respectively.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### *Reasons for non-inclusion of Excluded Trading Business in Our Group*

Our Trading Business is different from the Excluded Trading Business in the following aspects:

1. Different business nature

Our Company is not engaged in any manufacturing; an integral and important aspect of the Trading Business is sourcing. Our Company sources suitable PRC/overseas suppliers which can provide the requisite product with such quality and quantity demanded by our overseas/PRC customers. A supplier may obtain the sourcing services of our Company for locating potential customers who may need the product produced by such supplier. Alternatively, a customer may obtain the sourcing services of our Company for locating potential suppliers who may produce the product that such customer is in need of. Hence, the business model and nature of our Company's Trading Business is to bridge the gap between the demand and supply of virtually all suppliers and customers over the world whenever and wherever there is such sourcing need. In contrast, the Excluded Trading Business of the SINOMACH Subsidiaries (especially SUMEC) has manufacturing capability, which is different in nature compared to the Trading Business and to a large extent more capital-intensive than the Trading Business. In particular, SUMEC possesses manufacturing capabilities and many products traded by SUMEC are designed, processed and/or manufactured by its own production lines and facilities. On the other hand, in line with our asset-light operating model, we do not own any manufacturing enterprises, nor do we manufacture any products.

2. Different product types

Our Company's Trading Business mainly consists of the international export trading of sets of power generators, complete set of plants and equipment, construction materials, medical instruments and devices and manufacturing equipment. On the other hand, SUMEC focuses on ship-building, R&D in respect of electric tools, gardening tools, solar photovoltaic modules, textiles and clothing, power machinery, etc.

Regarding business sectors, our Group principally engages in the trading of electronic products, power equipment, steel products, telecommunications equipment, and construction materials in its Trading Business while SUMEC principally engages in the trading of machinery, various types of ships, electric tools, gardening tools, textiles and clothing.

3. Different supply and sales channels

We have our own supply channels and offices for our Trading Business, which is separated from and independent of those controlled or occupied by the SINOMACH Group for the Excluded Trading Business.

In addition, there was no overlapping between our top ten customers in our Trading Business and the top ten customers of SUMEC during the Track Record Period.

Save for commodities, steel products, etc., which were imported by SUMEC from overseas and then traded domestically, textiles, power tools, ships, etc., were either manufactured or built by SUMEC and then international export trading overseas during the Track Record Period. However, all of the products traded by our Company were sourced from other companies, as our Company does not have any manufacturing capabilities.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### 4. Different mode of trading and business focus

During the Track Record Period, SUMEC focused on domestic trade while our Company focused on international export trading. For the six months ended June 30, 2012, our Group's revenue from international import trading, international export trading and domestic trade accounted for 6.9%, 74.0% and 19.1%, respectively, of the revenue of our Trading Business, while SUMEC's revenue from international import trading, international export trading and domestic trade accounted for 22.9%, 14.4% and 62.8%, respectively, of its revenue of its trading business. In 2011, our Group's revenue from international import trading, international export trading and domestic trade accounted for 6.2%, 61.6% and 32.2%, respectively, of the revenue of our Trading Business, while SUMEC's revenue from international import trading, international export trading and domestic trade accounted for 18.9%, 22.3% and 58.8%, respectively, of its revenue of its trading business. In 2010, our Group's revenue from international import trading, international export trading and domestic trade accounted for 8.9%, 69.2% and 21.9%, respectively, of the revenue of its Trading Business, while SUMEC's revenue from international import trading, international export trading and domestic trade accounted for 14.4%, 30.2% and 55.4%, respectively, of its total revenue of its trading business. In 2009, our Group's revenue from international import trading, international export trading and domestic trade accounted for 14.2%, 75.5% and 10.3%, respectively, of the revenue of its Trading Business, while SUMEC's revenue from international import trading, international export trading and domestic trade accounted for 19.0%, 48.3% and 32.7%, respectively, of its revenue of its trading business.

### 5. Different management team and operational staff

We have our own independent board of Directors, management team and operational staff for our Trading Business, which is completely separated from those of SINOMACH Group for the Excluded Trading Business.

SUMEC does not have a board of directors or a board of supervisors and none of the senior management of SUMEC holds any concurrent position in our senior management, and vice versa.

Finally, our Directors are of the view that the international trading market is a sizeable market with a large number of participants. In the case of our Group, we have over 29,000 customers and suppliers in aggregate. As such, any competition between our Group and SINOMACH Group in the international trading market will be of no difference to other competitions encountered by our Group with other independent third parties. Apart from the regulatory hurdles to be overcome, our Directors are of the view that it is not in our interest to include the Excluded Trading Business into our Group.

As discussed above, our Trading Business is different from the trading business of SUMEC in various aspects. In addition, any competition between our Company and SUMEC in the trading business will be of no difference to other competitions encountered by us with other independent third parties. However, in order to minimize any potential competition between the trading business of SUMEC and our Company, we have entered into the Non-competition Agreement with SINOMACH. See “– Non-competition Agreement – Undertakings in relation to the Trading Business” for details.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### NON-COMPETITION AGREEMENT

#### Undertakings in relation to the Core Sectors of the International Engineering Contracting Business

For the purpose of the listing of the Shares on the Stock Exchange, SINOMACH has entered into the Non-competition Agreement with our Company, pursuant to which SINOMACH has undertaken that, during the period for which the Non-competition Agreement is in force, it shall not, and shall procure its subsidiaries which are engaged in the Excluded International Engineering Contracting Business (excluding CAMC Engineering) not to, compete with our Group in respect of the Core Sectors conducted by our Group. Please see “– Listed SINOMACH Subsidiary – CAMC Engineering – Reasons for Non-inclusion of CAMC Engineering in Our Group” for the reasons of non-inclusion of CAMC Engineering in the Non-competition Agreement. As such, for the purpose of this section headed “Non-competition Agreement”, the definition of SINOMACH Subsidiaries should exclude CAMC Engineering unless otherwise specified.

The principal terms of the Non-competition Agreement are as follows:

- (a) SINOMACH intends to transfer its equity interest in CNEEC, CMCEC and CACS, which will be evaluated by independent valuers, to our Company in the following three years after the Listing (“the **Transfer**”). The Transfer will be completed within three years after the Listing. Upon completion of the Listing, SINOMACH will take steps to commence the work in respect of the Transfer, which includes but not limited to completing the corporate reform (where applicable), evaluating the assets and obtaining the relevant approvals from the relevant PRC authorities. During the transition period, which is the period between the completion of Listing and before the completion of the Transfer, any potential competition between CNEEC, CMCEC and CACS and our Company in the Core Sectors will be resolved by the Committee (as defined below) in accordance with the right of first refusal mechanism. Please see “Non-competition Agreement – Right of First Refusal in respect of any International Engineering Contracting Business Opportunity” for details;
- (b) SINOMACH undertakes that, so long as SINOMACH remains as our Controlling Shareholder, CHMC will not compete directly or indirectly with the business of our Company in the Core Sectors. CHMC can only track or undertake such a business opportunity when we give up the right of first refusal in writing.

If CHMC breaches the above SINOMACH’s undertaking by participating in projects in the Core Sectors and its annual revenue or gross profit generated from the Core Sectors, based on the latest audited financial accounts of CHMC provided by SINOMACH to us on a yearly basis, exceeds, 10% of its annual revenue or gross profit, or 10% of our Company’s annual revenue or gross profit in the Core Sectors, based on the latest audited financial accounts of our Company, our Company will have an option to acquire CHMC’s business and assets which overlap with our Company’s International Engineering Contracting Business in the Core Sectors, provided that it is made in compliance with the relevant PRC laws and the Listing Rules and/or other regulatory requirements applicable to our Company, as well as a right of claiming reasonable damages against SINOMACH. SINOMACH also grants the right of first refusal to our Company in respect of the business of CHMC which overlapped with our Company’s International Engineering Contracting Business in the Core Sectors in the event that SINOMACH wishes to assign (including but not limited to transfer, reorganize or dispose of) its interest in CHMC.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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Our Company will make announcements pursuant to the Listing Rules should we decide to exercise the above-mentioned option or right after Listing;

- (c) Save for the circumstances below, SINOMACH Group will not be involved in the international engineering contracting projects in our Core Sectors:
- (i) SINOMACH will not be involved in the international engineering contracting projects in the Core Sectors in which our Company participates by any means, including by way of tender negotiation (議標), tender invitation (邀標) and bid invitation (招標). SINOMACH can only participate in the tendering for an international engineering contracting project in the Core Sectors in its own name when we cannot meet the tendering qualifications or voluntarily give up our right. In the event that SINOMACH bids for the project and wins the tendering, then SINOMACH will consider in priority our Company as the lead general contractor of the project and will allow CNEEC, CACS, CHMC and CMCEC to undertake the project only if we give up such rights in writing. For the avoidance of doubt, our Company has no obligation or responsibility under any circumstances to notify or report to SINOMACH or any SINOMACH Subsidiaries (including CAMC Engineering) on our bidding processes; and
  - (ii) In the case of the SINOMACH Subsidiaries engaged in the Excluded International Engineering Contracting Business other than CNEEC, CACS, CHMC and CMCEC (including CGME), so long as SINOMACH remains as our Controlling Shareholder, SINOMACH will procure that each of these SINOMACH Subsidiaries will not be involved in international engineering contracting projects in the Core Sectors in which our Company participates. For competition between CNEEC, CACS, CHMC and CMCEC and us in respect of the International Engineering Contracting Business in the Core Sectors, please see “Right of First Refusal in respect of any International Engineering Contracting Business Opportunity” for details.

SINOMACH further undertakes to use its best endeavor to provide us with, on a half yearly basis, details of all newly signed contracts and business transactions entered into, and other related information on the newly obtained businesses, by the SINOMACH Subsidiaries engaged in the Excluded International Engineering Contracting Business, which will then be reviewed by the Committee (as defined below) in accordance with the Non-competition Agreement.

Furthermore, our Company will establish a special committee (the “**Committee**”) which shall consist of all our independent non-executive Directors, one representative of our Company and one representative of SINOMACH. The Committee will coordinate and establish supervision measures to monitor competition which may occur between our Group and SINOMACH Group, to implement the arrangements under the Non-competition Agreement when any competitions occur in respect of our International Engineering Contracting Business and to ensure that any competition is conducted fairly, openly and transparently; and

- (d) During tendering or bidding processes, if the Committee is of the view that undertaking of certain projects will create an intra-sector competition between our Group and SINOMACH Group, SINOMACH will offer to our Company a right of first refusal in respect of such international engineering contracting projects.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### Right of First Refusal in respect of any International Engineering Contracting Business Opportunity

To eliminate competition between SINOMACH, CNEEC, CACS, CHMC and CMCEC and us in respect of International Engineering Contracting Business, the Non-competition Agreement also stipulates that:

- (i) during the bidding (投標) and tendering (招標) process for international engineering contracting projects, where our Company is invited for a bidding or has participated in a bidding and where any of SINOMACH, CNEEC, CHMC, CACS and CMCEC is qualified and wishes to participate in the bidding or is invited for bidding, such a company must submit relevant documents to the Committee for consideration, and our Company will conduct a qualification review by our independent external international engineering contracting expert(s). If our Company is qualified, the Committee will then decide whether to exercise its rights of first refusal to bid for the project. In such circumstances, any SINOMACH's representative who has interests in the relevant projects will abstain from voting. Once the majority of the Committee members decides that there is in existence an intra-sector competition between our Group and SINOMACH Group, our Company shall have the right of first refusal to bid for the international engineering contracting projects in question. SINOMACH or CNEEC, CHMC, CACS or CMCEC (as the case may be) will use its best endeavor to assist our Company in obtaining such business opportunity. If (i) the majority of the Committee members decides that any of SINOMACH, CNEEC, CHMC, CACS and CMCEC may participate in the bidding and (ii) there is no objection from any of our independent non-executive Directors, then such a company may participate in the bidding for that project;
- (ii) in addition, during the period for which the Non-competition Agreement is in force, in the event that our Company is not aware of, and any of SINOMACH, CNEEC, CHMC, CACS and CMCEC is aware of, any opportunities in an international engineering contracting project in the Core Sectors or the bidding has commenced or it is invited for the bidding, such a company must notify our Company in writing immediately. Our Company will then conduct a qualification review within a reasonable period of time by our independent external international engineering contracting expert(s). If our Company is qualified and the majority of the Committee members decide that it is in the overall interests of our Company and the Shareholders to participate in the bidding for the project, then our Company shall have the right of first refusal to be involved in the business opportunity or participate in the bidding for the project. Any SINOMACH's representative who has interests in the relevant projects will abstain from voting. Simultaneously, any of SINOMACH, CNEEC, CHMC, CACS and CMCEC which is tracking, or has participated in, or is invited for, the bidding must immediately give up its participation in or tracking of the bidding; and
- (iii) during the period for which the Non-competition Agreement is in force, should the Committee resolve there be an intra-sector competition between our Group and SINOMACH Group, our Company shall have the right of first refusal to participate in the international engineering contracting projects in the Core Sectors. Any SINOMACH's representative who has interests in the relevant projects will abstain from voting. If (i) the majority of the Committee members takes the view that any of SINOMACH, CNEEC, CHMC, CACS and CMCEC may participate in the bidding and (ii) there is no objection from any of our independent non-executive Directors, then such a company may participate in the bidding for that project.

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### *Reasons for non-inclusion of CGME under the right of first refusal mechanism*

As discussed in the “– Other Non-listed SINOMACH Subsidiaries – Reasons for Non-inclusion of CHMC and CGME in Our Group”, according to SINOMACH’s yearbook of 2010, the business of CGME focuses on waste water treatment and infrastructure projects in the PRC. In addition, CGME principally acts as a subcontractor in the PRC, whereas our Company principally acts as a general contractor in overseas countries. As such, the core business of CGME falls outside of our Core Sectors, and there exists clear delineation of business by geographical focus (i.e., the PRC for CGME and overseas countries for our Company). Furthermore, the unaudited revenue of CGME for the six months ended June 30, 2012 was only 5.1% of our Company revenue from the International Engineering Contracting Business for the same period. In view of the above, any potential competition between CGME and our Company will not constitute a material effect on our business. Therefore, the right of first refusal mechanism under the Non-competition Agreement (which applies to SINOMACH, CNEEC, CHMC, CACS and CMCEC) is not applicable to CGME.

However, pursuant to the Non-competition Agreement, so long as SINOMACH remains as our Controlling Shareholder, CGME will not be involved in international engineering contracting projects in the Core Sectors in which our Company participates. Please see “– Undertakings in relation to the Core Sectors of the International Engineering Contracting Business” for details.

In relation to the Committee, the quorum for every meeting of the Committee shall be five, of which at least one member shall be the representative from our Company, one member shall be the representative from SINOMACH and three members shall be independent non-executive Directors. Our Company will be represented by Ms. LI Taifang at the Committee. Please see “Directors, Supervisors, Senior Management and Employees – Directors” for her biography. SINOMACH will be represented by Mr. WANG Bo (王博) at the Committee, who currently serves as general manager of the investment department of SINOMACH. Mr Wang graduated from Northern Jiaotong University, the predecessor of Beijing Jiaotong University majoring in technical economics in July 1990 and completed his postgraduate studies at the Peking University majoring in business administration in June 2004. Mr. WANG served at the representative office of China Civil Engineering Construction Corporation (中國土木工程集團有限公司) (“CCECC”) in Israel, as vice director of the corporate planning department, vice general manager and general manager of the corporate management department of CCECC from November 1998 to February 2005. Mr. WANG also served as vice general manager of CAMC Engineering from February 2005 to August 2011. The chairman of the Committee will be Mr. Fang Yongzhong. The representative from SINOMACH shall abstain from voting in the event of conflict of interest.

The Committee will meet quarterly and on an ad hoc basis where necessary.

All resolutions considered by the Committee shall only be approved by the affirmative vote of a majority of the Committee members attending the meeting of the Committee in person. If the meeting of the Committee fails to be convened for the reason that a quorum cannot be met, resolutions may be adopted in the form of a written resolution signed by a majority of the Committee members, provided that a copy of such written resolution shall have been circulated to each of the Committee members prior to signing. If a deadlock arises when a resolution is under consideration by the Committee, the chairman of the Committee shall have a casting vote in respect of the deadlock.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### **Undertakings in relation to the non-Core Sectors of the International Engineering Contracting Business**

SINOMACH further undertakes that if the following circumstances arise in respect of the International Engineering Contracting Business for three consecutive years:

- (i) The total revenue of our International Engineering Contracting Business from the non-Core Sectors exceeds 25% of the total revenue of its International Engineering Contracting Business; and
- (ii) The revenue generated from a business sector that falls within the non-Core Sectors exceeds 10% of the total revenue from our International Engineering Contracting Business,

our Company and SINOMACH will both have the right to request our Company, SINOMACH and the Committee (which has been established to deal with any competition which may arise in the Core Sectors) to negotiate in good faith with a view to formulating a new mechanism to control any competition that may occur in the non-Core Sectors, which may include but not limited to the following measures:

- (i) our Company has a right of first refusal in respect of business arising from a singular business sector in the non-Core Sectors;
- (ii) SINOMACH Group and SINOMACH Subsidiaries relinquish the right of pursuing all prospective project opportunities in a singular business sector in the non-Core Sectors;
- (iii) our Company relinquishes its right of pursuing all prospective project opportunities in a singular business sector in the non-Core Sectors; and/or
- (iv) other measures to resolve any competition issue between our Company and SINOMACH in the non-Core Sectors.

Furthermore, in such circumstances, any representative from SINOMACH in the Committee shall abstain from voting in relation to the matter.

### **Undertakings in relation to the Trading Business**

In order to minimize any potential competition between the trading business of SUMEC and our Company, pursuant to the Non-competition Agreement:

- (i) SINOMACH undertakes that, upon the Listing, it shall procure SUMEC not to enter into transactions with any of our top ten customers in our Trading Business;
- (ii) our Company undertakes that, upon the Listing, it shall not enter into transactions with any of the top ten customers of SUMEC in its trading business; and
- (iii) in order to implement the above undertakings, both SINOMACH and our Company undertake that, upon the Listing, they will provide the respective list of their top ten customers to each other on a half yearly basis; and the parties will convene a meeting, attended by the representatives from the relevant business division of SUMEC and our Company, the representatives from the relevant corporate management department of

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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SINOMACH and the respective senior management of SINOMACH, SUMEC and our Company, within one month upon receipt of the list of the top ten customers from the other party to resolve any existing competition issues in accordance with (i) and (ii) above.

### Other undertakings

Under the Non-competition Agreement, SINOMACH has further undertaken to and covenanted with our Company that:

- it shall allow, and shall procure that the relevant associates (excluding us) to allow our independent non-executive Directors to review and examine whether SINOMACH is in compliance with the Non-competition Agreement;
- it shall provide all information necessary for the review and examination by our independent non-executive Directors pertaining to the enforcement of the Non-competition Agreement; and
- it shall provide our Company with a confirmation annually in respect of its compliance with the terms of the Non-competition Agreement for disclosure in our annual report.

Our Company has agreed under the Non-competition Agreement to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Non-competition Agreement either through its annual report or by way of public announcement.

The Non-competition Agreement shall take effect from the Listing Date and shall continue to be effective and be terminated upon the earliest of:

- on the day when SINOMACH and its associates, taken together, holding less than 30% of the issued share capital of our Company;
- on the day when our Shares no longer being listed on the Stock Exchange or another recognized stock exchange (other than any trade suspension of our Company for any reasons); or
- on the day when SINOMACH beneficially holding or being interested in the entire issued share capital of our Company.

Finally, our Directors are of the view that the above-mentioned mechanisms are adequate to prevent competition, considering:

- our Company's Core Sectors contribute to 93.0%, 89.7%, 88.6% and 91.7% of our revenue from the International Engineering Contracting Business during the Track Record Period; and
- our Company will continue to focus our business on the Core Sectors and from our Company's perspective, the competition from the non-Core Sectors is not expected to be significant in the future.



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### NON-COMPETITION UNDERTAKING LETTER TO THE CSRC

In order to completely resolve the competition issue and to safeguard investors' interests and to consolidate international engineering contracting business carried out by SINOMACH Group, SINOMACH has given the following undertakings to the CSRC:

SINOMACH undertakes that it will ensure to prevent competitions from occurring between CMEC and other subsidiaries of SINOMACH including CAMC Engineering by way of delineation of their respective business segments and devising a pertinent decision-making mechanism.

This undertaking shall continue to be effective until SINOMACH ceases to be our Controlling Shareholder, or the dissolution, of our Company.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on our business independently of SINOMACH Group after the Global Offering.

#### Management Independence

There is no overlapping of our Board of Directors and that of the SINOMACH Group, nor is there any overlapping of our senior management and that of SINOMACH. Our Board currently consists of three executive Directors, two non-executive Directors, and four independent non-executive Directors. Our Directors were all elected at the Shareholders' meetings for a term of three years, which is renewable upon re-election and re-appointment.

Our Directors have confirmed that they do not have any interests in any business which directly or indirectly competes or is likely to compete with our business as of the Latest Practicable Date.

We believe that our Directors and our senior management are able to perform their roles in our Company independently and our Group is capable of managing our business independently of SINOMACH Group after the Global Offering for the following reasons:

- the decision-making mechanism of our Board set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflict of interest, such as consideration of resolution in relation to transactions with SINOMACH Group, our relevant Director(s) who are connected with SINOMACH Group will abstain from attending in regard to such resolution, abstain from voting and not be counted in the quorum. Further, when considering connected transactions and competition matters, the independent non-executive Directors will review the relevant transactions and matters;
- the day-to-day operation of our Group is managed by our senior management who do not hold any position in SINOMACH Group and are all full time employees of our Group;
- none of our Directors or senior management has any shareholding interest in SINOMACH Group; and
- we have appointed four independent non-executive Directors, comprising over 40% of our Board, to provide a balance between the number of interested and independent Directors with a view to promoting the interests of our Company and the Shareholders as a whole.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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Based on the above, our Directors are of the view that our Company operates independently of SINOMACH Group from management perspective.

### **Operational Independence**

Our Company does not rely on SINOMACH in bidding and tendering of engineering contracting projects. We have our own “CMEC” trademark and we have independent access to sources of suppliers for the operation of our business, as well as independent access to our customers. We have also established a set of internal control procedures to facilitate the effective operation of our business. Currently, we engage in our business independently, with the independent right to make operational decision and implement such decisions.

The amount of transactions between our Company and SINOMACH Group is not excessive and SINOMACH Group has been a reliable and stable supplier of subcontracting services and a supplier of goods at reasonable price. Although it was possible to seek either independent providers of subcontracting services, or suppliers of goods, our Directors considered that it would not be commercially sensible to discontinue using such services and goods provided by SINOMACH Group. In addition, our Directors are of the view that these transactions have been entered into in the ordinary and usual course of business of our Group, that such transactions have been negotiated on arms' length basis on normal commercial terms and are fair and reasonable and in the interests of the Shareholders as a whole. Please see “Connected transactions – Non-exempt continuing connected transactions” for more details.

Our Group has our own registered trademarks for which we are able to utilize in marketing our products and services. There is no shared intellectual property between our Group and SINOMACH Group. Our Group owns our tangible assets and intangible assets, as well as registered trademarks, licenses, good-will, brands, know-how and other intangible assets independently of SINOMACH Group, which enable our Group to operate in our business independently of SINOMACH Group.

We have our own organizational structure with independent departments, each with specific areas of responsibilities. In addition to a set of comprehensive internal control procedures to facilitate the effective operation of our business, we have protective measures to avoid conflicts or potential conflicts of interest and to safeguard the interests of the Shareholders as a whole. We have also adopted protective measures to ensure the enforceability of the Non-competition Agreement between our Company and SINOMACH. Please see “– Non-competition Agreement” for details of enforceability.

Based on the above, the Directors are of the view that our Company operates independently of SINOMACH Group from the business operation perspective.

### **Financial Independence**

Our Group has an independent financial system and makes financial decisions independently according to our Group's own business needs and our own finance department is responsible for discharging the treasury, accounting, reporting, group credit and internal control functions of our Group independent of SINOMACH Group. During the Track Record Period and as at the Latest Practicable Date, no loans were advanced to us by SINOMACH Group.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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Our Directors confirm that during the Track Record Period, our Controlling Shareholder or its associates had not provided any guarantees to our Group except for the guarantee provided by our Controlling Shareholder for a bank loan amounting to approximately RMB252.1 million as at June 30, 2012, which was released and the loan amount was guaranteed by our Company's own assets as collateral as at the Latest Practicable Date. In addition, our Directors confirm that as at the Latest Practicable Date, there was no outstanding loan owed by our Group to our Controlling Shareholder. As such, our Directors believe that our Group is capable of obtaining sufficient financing from external sources for our business operations, if necessary, upon market terms and conditions without reliance on SINOMACH and its associates after the Listing.

In relation to accounts receivables, apart from the amount due from CMIC, our Group has received all the receivables from SINOMACH before Listing. For details, please refer to the section headed "History and Reorganization – Our History and Development".

In conclusion, our Directors are of the view that we are capable of obtaining financing from third parties without relying on any guarantee or security provided by SINOMACH Group or other connected persons and the PRC lenders are independent third parties. Hence, our Directors are of the view that our Company operates independently of SINOMACH Group from the financial perspective.