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## CONNECTED TRANSACTIONS

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### CONTINUING CONNECTED TRANSACTIONS

During the Track Record Period, the Company had transactions with certain parties who will become connected persons of the Company upon completion of the Listing under the Hong Kong Listing Rules. Certain of these transactions are expected to continue on a continuing or recurring basis after the Listing.

Further, as our A Shares are listed on the Shanghai Stock Exchange, we will continue to be subject to and regulated by the Shanghai Listing Rules and other applicable laws and regulations in the PRC as long as the A Shares remain listed. However, the requirements of the Hong Kong Listing Rules in relation to connected transactions differ in various respects from those of the Shanghai Stock Exchange. In particular, the definition of connected persons under the Hong Kong Listing Rules is different from the definition of related parties under the Shanghai Listing Rules. Therefore, a connected transaction pursuant to the Hong Kong Listing Rules may not constitute a related party transaction pursuant to the Shanghai Listing Rules, and vice versa. In case of inconsistency between the Hong Kong Listing Rules and the Shanghai Listing Rules, we will comply with the stricter of the two sets of rules.

Currently, for the purposes of the Hong Kong Listing Rules, the connected persons of the Company who are expected to have transactions with the Group after the Listing include Huainan Mining, Lu Xin Coal Chemical and their respective Associates.

We set out below details of certain connected transactions of our Company that are expected to continue after the Listing.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### Framework Agreement with Huainan Mining

Huainan Mining, a PRC State-owned enterprise, is currently one of the major coal mining enterprises in the PRC. Huainan Mining and its subsidiaries and Associates are principally engaged in businesses including coal production, power generation, sale and purchase of industrial and mining equipment, machineries and metal materials.

Currently, Huainan Mining holds approximately 37.4% of the equity interest in ZMJ Shun Li Machinery, which is held as to approximately 58.0% by the Company and is a member of our Group. The Group (including ZMJ Shun Li Machinery) has been supplying coal mining and excavating equipment to, and purchasing certain raw materials and accessories such as low-alloy steel, high strength steel, suspended plunger from or sourced by, Huainan Mining and its subsidiaries and Associates (excluding ZMJ Shun Li Machinery) (collectively, the “Huainan Mining Group”) from time to time, and the Company expects that such transactions will continue after the Listing.

To regulate the supply arrangements between the Group and the Huainan Mining Group after the Listing, the Company has entered into a framework agreement (the “Huainan Mining Framework Agreement”) dated September 2, 2012 with Huainan Mining. The Huainan Mining Framework Agreement will take effect from the Listing Date and has a term expiring on December 31, 2014, renewable upon mutual agreement. Pursuant to the Huainan Mining Framework Agreement, the Group will supply to the Huainan Mining Group coal mining and excavating equipment produced by the Group from time to time, and the Group will purchase certain raw materials and accessories from or sourced by the Huainan Mining Group from time to time.

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## CONNECTED TRANSACTIONS

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The terms of the Huainan Mining Framework Agreement were negotiated on an arm's length basis and in the ordinary and usual course of business of our Group. Under that agreement, the pricing or consideration of the transactions between the parties will be determined on the following basis in order of priority:

- the price prescribed by the PRC government (including any price prescribed by any relevant local authorities), if applicable;
- the price recommended under the pricing guidelines of the PRC government, when no PRC government-prescribed price is available;
- the market price of similar transactions to be determined on a fair and reasonable basis, when neither the PRC government-prescribed price nor PRC government recommended price is available;
- the price to be determined on a fair and reasonable basis in our ordinary and usual course of business which is equivalent or comparable to those offered to or obtained from (as the case may be) third parties independent of the Group for similar products, when none of the above is available or applicable.

To implement the transactions contemplated under the Huainan Mining Framework Agreement, the parties will enter into separate agreements or order forms which will specify and record the specific terms (such as the quantity and the specification of the products to be supplied or purchased under each transaction, and the payment and delivery terms) and operative provisions of those transactions determined on the basis of the Huainan Mining Framework Agreement. Under the Huainan Mining Framework Agreement, before making supply of coal mining and excavating equipment to any member of the Huainan Mining Group, the Group may have to participate in tender procedures organized by the Huainan Mining Group; and if the tender is successful, the Group shall bear the costs and expenses incurred in the tender arrangements.

### **Historical Figures and Proposed Annual Caps**

#### ***Supply of Coal Mining and Excavating Equipment***

The Group (including ZMJ Shun Li Machinery) has been supplying coal mining and excavating equipment to the Huainan Mining Group for many years. For the three years ended December 31, 2009, 2010 and 2011, as if ZMJ Shun Li Machinery had been acquired by the Company and had been a member of the Group since January 1, 2009, and based on the Company's accounting records, the aggregate sales by the Group to the Huainan Mining Group amounted to approximately RMB842 million, RMB639 million and RMB935 million, respectively, representing approximately 15.4%, 9.4% and 11.6% of the Group's revenue, computed on the basis as described below, for those three years ended December 31, 2009, 2010 and 2011, respectively. The Group's revenue figures used in arriving at these percentages are pro forma figures computed as if ZMJ Shun Li Machinery had been acquired by the Company and had been a member of the Group since January 1, 2009, and based on information from the Company's accounting records.

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## CONNECTED TRANSACTIONS

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The Directors estimate that our sales to the Huainan Mining Group may grow gradually in the coming years due to factors including the likely projected gradual growth in the operation of the Huainan Mining Group based on the anticipated demand for coal markets in the PRC, and the replacement of old or obsolete coal mining and excavating equipment of the Huainan Mining Group. Assuming that in the ordinary and usual course of our business, our sales to the Huainan Mining Group in 2012 may increase by around 10% over the historical average annual sales by the Group to the Huainan Mining Group during the three years ended December 31, 2009, 2010 and 2011 as elaborated above, and to provide for possible increment in our sales to the Huainan Mining Group thereafter in 2013 and 2014 by around 5% per year, we estimate that our projected sales to the Huainan Mining Group will not exceed RMB900 million, RMB950 million and RMB1,000 million for the three years ending December 31, 2012, 2013 and 2014, respectively, which will form the proposed annual caps in respect of such transactions.

In arriving at these proposed annual caps, we have made reference to, among other factors, the historical average annual sales of coal mining and excavating equipment by the Group to the Huainan Mining Group over the last three years from 2009 to 2011. Such equipment is capital intensive, and normally, the purchase of such equipment by any specific customer is subject to its annual capital expenditure plan or budget, which may fluctuate or vary from year to year. Therefore, we believe that future demand/supply of equipment of this sort is more reasonably and appropriately estimated by reference, as a starting point, to an average historical figure over a relevant period of time, than to an annual figure for any given year.

### *Purchase of Raw Materials and Accessories*

In producing its coal mining and excavating equipment, the Group uses certain raw materials and accessories (such as low-alloy steel, high strength steel, suspended plunger) from or sourced by the Huainan Mining Group. The Huainan Mining Group may also specify or expect that the Group uses such raw materials and accessories in producing the equipment supplied by the Group to it. The Group may use such raw materials and accessories in producing equipment supplied to its other customers as well. Therefore, the Group (including ZMJ Shun Li Machinery) has been purchasing raw materials and accessories from or sourced by the Huainan Mining Group for many years. For the three years ended December 31, 2009, 2010 and 2011, as if ZMJ Shun Li Machinery had been acquired by the Company and had been a member of the Group since January 1, 2009, and based on the Company's accounting records, the aggregate purchases by the Group from the Huainan Mining Group amounted to approximately RMB586 million, RMB552 million and RMB697 million, respectively, representing approximately 14.1%, 10.8% and 11.4% of the Group's cost of sales, computed on the basis as described below, for those three years ended December 31, 2009, 2010 and 2011, respectively. The Group's cost of sales figures used in arriving at these percentages are pro forma figures computed as if ZMJ Shun Li Machinery had been acquired by the Company and had been a member of the Group since January 1, 2009, and based on information from the Company's accounting records.

The Directors estimate that our purchases from the Huainan Mining Group may grow gradually in the coming years due to factors such as our Group's needs in developing our businesses. In addition, at the beginning of 2012, the Company decided to further enhance its cooperation and to foster and develop a long-term business relationship with Huainan Mining on an arm's length basis, which we believe will enable us to more efficiently procure raw materials such as steel products from the Huainan Mining Group through its comprehensive and established steel sourcing network. The Group has since been able to procure raw materials and accessories (mainly steel products) that it requires from or sourced by the Huainan Mining Group on terms (such as the per unit price and/or the credit period term) which are more

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## CONNECTED TRANSACTIONS

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favorable to the Group than those available from other third party market players. For the above reasons, for the first quarter of 2012, the actual aggregate purchases by the Group from the Huainan Mining Group had significantly increased and amounted to approximately RMB396 million, which amount represents more than 50% of the amount in respect of such purchases for the entire year of 2011 as elaborated above. According to the Company's internal accounting records for the first six months of 2012, the aggregate purchases by the Group from the Huainan Mining Group had exceeded RMB600 million. In light of this, and assuming that in the ordinary and usual course of our business: (i) given the above recent developments, our purchases from the Huainan Mining Group in 2012 may increase by around 55% over the historical annual purchases by the Group from the Huainan Mining Group in 2011 as elaborated above; and (ii) our purchases from the Huainan Mining Group may thereafter in 2013 and 2014 continue to increase by around 10% per year based on the current and anticipated future production capacity of the Group, we estimate that our projected purchases from the Huainan Mining Group will not exceed RMB1,100 million, RMB1,200 million and RMB1,300 million for the three years ending December 31, 2012, 2013 and 2014, respectively, which will form the proposed annual caps in respect of such transactions. Out of the proposed annual cap of RMB1,100 million for the current year, in the first six months of this year, the Group has made relevant purchases from the Huainan Mining Group in an aggregate amount that exceeds RMB600 million as described above, which represents over 50% of such proposed annual cap.

In arriving at these proposed annual caps, we have given weight to the amount or anticipated amount of aggregate purchases that took place recently in the first half of the current year. As raw materials and accessories from the Huainan Mining Group are demanded by or supplied to the Group on a recurring and a regularly frequent basis, we believe that an estimate of future demand and supply in respect of raw materials and accessories of this sort by reference to the most recently available, and therefore the latest, transaction information is reasonable and appropriate in the circumstances. Further, in light of the desired enhanced cooperation and long-term business relationship between us and Huainan Mining, we believe that it is reasonable to anticipate a stable volume of or a steady increase in our purchases from the Huainan Mining Group that will take place in the foreseeable and near future.

### ***Factors for Determining the Proposed Annual Caps***

When arriving at the above annual caps, the Company has also considered factors including: (i) the Group's actual sales to or purchases from (as the case may be) the Huainan Mining Group during the Track Record Period and the anticipated future sales or purchases amounts in the foreseeable coming years in light of any recent development; (ii) the Group's current and anticipated future production capacity and needs; (iii) the construction of mines by the Huainan Mining Group and its potential needs to replace its coal mining and excavating equipment; (iv) the projected increase in the orders that the Group will receive from the Huainan Mining Group in the next three years; (v) the potential fluctuation of the price of the products of the Group and the Huainan Mining Group (as the case may be); and (vi) the recent macroeconomic policies of the PRC government and the future development of the coal mining machinery industry.

### **Hong Kong Listing Rules Implications and Waiver Application**

As mentioned above, Huainan Mining holds approximately 37.4% of the equity interest in ZMJ Shun Li Machinery, which is held as to approximately 58.0% by the Company and is a subsidiary of the Company. For the purposes of the Hong Kong Listing Rules, Huainan Mining is therefore a substantial shareholder of ZMJ Shun Li Machinery, and each member of the Huainan Mining Group is thus a connected person of the Company.

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## CONNECTED TRANSACTIONS

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Accordingly, the transactions under the Huainan Mining Framework Agreement will constitute continuing connected transactions of the Company upon the Listing, and assuming that no exemption is available under Chapter 14A of the Hong Kong Listing Rules, such transactions will otherwise be subject to the reporting, annual review, announcement and independent shareholders' approval requirements typically required of those transactions under the connected transactions regulatory regime of the Hong Kong Listing Rules.

As the transactions described above are and will continue to be entered into in the ordinary and usual course of business of our Group on a continuing or recurring basis, the Directors are of the view that compliance with the announcement and independent shareholders' approval requirements would impose unnecessary administrative costs and burden to the Group and would at times be impracticable. The Joint Sponsors have accordingly applied on behalf of the Company to the Hong Kong Stock Exchange pursuant to Rule 14A.42(3) of the Hong Kong Listing Rules for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements as may otherwise be required of the Company under Chapter 14A of the Hong Kong Listing Rules in connection with the Huainan Mining Framework Agreement and all transactions contemplated under it. The waiver is for a period of three years, provided that the annual value of the transactions under the Huainan Mining Framework Agreement does not exceed the respective proposed annual caps for the relevant periods as set out above.

According to Rule 14A.42(3) of the Hong Kong Listing Rules, the Company will comply with the applicable requirements set out in Rules 14A.35(1), 14A.35(2) and 14A.36 to 14A.40 of the Hong Kong Listing Rules from time to time governing such transactions.

### **Directors' and Joint Sponsors' View**

The Directors (including our independent non-executive Directors) and the Joint Sponsors are of the view that: (i) the Huainan Mining Framework Agreement was entered into in the ordinary and usual course of business of our Group and is on normal commercial terms; (ii) the terms of the Huainan Mining Framework Agreement are fair and reasonable and in the interests of our Shareholders as a whole; and (iii) the proposed annual caps for the transactions under the Huainan Mining Framework Agreement as set out above are fair and reasonable and in the interests of our Shareholders as a whole.

## **EXEMPT CONTINUING CONNECTED TRANSACTIONS**

### **Transactions with Huainan Mining**

#### *Lease of Land from Huainan Mining*

On February 28, 2011, ZMJ Shun Li Machinery, a subsidiary of the Company, entered into a tenancy agreement (the "Huainan Mining Tenancy Agreement") with Huainan Mining, pursuant to which Huainan Mining leases a parcel of land to ZMJ Shun Li Machinery for a term of four years from January 1, 2011 to December 31, 2014 at an annual rental of approximately RMB743,000. The parcel of land comprises a site area of approximately 189,465 square meters, and is situated at Wangfenggang Town, Xiejiaji District, Huainan City, Anhui Province, the PRC.

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## CONNECTED TRANSACTIONS

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Jones Lang LaSalle Corporate Appraisal and Advisory Limited, our independent property valuer and consultant, has reviewed the rental payable by ZMJ Shun Li Machinery pursuant to the Huainan Mining Tenancy Agreement and has confirmed that such rental is lower than the prevailing market rates for properties situated in similar location and used for similar purposes in the PRC. On this basis, the Directors consider that such rental and the Huainan Mining Tenancy Agreement are on normal commercial terms.

Under the Huainan Mining Tenancy Agreement, Huainan Mining has also allowed and authorized ZMJ Shun Li Machinery to use certain other parcels of land for the same term of four years from January 1, 2011 to December 31, 2014 on a rental free basis. Such parcels of land comprise a total site area of approximately 221,522 square meters and are situated at Wangfenggang Town, Xiejiaji District, Huainan City, Anhui Province, the PRC. Among these parcels of land, in respect of parcels of land occupying a site area of approximately 32,739 square meters, ZMJ Shun Li Machinery has agreed under the Huainan Mining Tenancy Agreement to bear the related land-use tax for such land.

As mentioned above, Huainan Mining holds approximately 37.4% of the equity interest in ZMJ Shun Li Machinery, which is held as to approximately 58.0% by the Company and is a subsidiary of the Company. For the purposes of the Hong Kong Listing Rules, Huainan Mining is therefore a substantial shareholder of ZMJ Shun Li Machinery and thus a connected person of the Company. Accordingly, the Huainan Mining Tenancy Agreement will constitute a continuing connected transaction of the Company upon the Listing. Under the Hong Kong Listing Rules, such a transaction will be a connected transaction only because it involves Huainan Mining, being an entity which will be a connected person of the Company by virtue of its relationship with our subsidiary, ZMJ Shun Li Machinery.

The annual transaction amount payable by the Group to Huainan Mining under the Huainan Mining Tenancy Agreement is expected to be no more than RMB743,000 and for the purposes of the Hong Kong Listing Rules, each of the applicable percentage ratios (other than the profits ratio) in respect of the transaction for each financial year ending December 31, 2014 is expected to be less than 1% on an annual basis. Therefore, pursuant to Rule 14A.33(3) of the Hong Kong Listing Rules, the Huainan Mining Tenancy Agreement and the transaction contemplated under it will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the connected transactions regulatory regime of the Hong Kong Listing Rules.

### **Transactions with the Lu Xin Coal Chemical Group**

#### ***Supply of Coal Mining and Excavating Equipment to the Lu Xin Coal Chemical Group***

Lu Xin Coal Chemical and its subsidiaries and Associates (the "Lu Xin Coal Chemical Group") are principally engaged in businesses including coal production, coal-based chemical processing business and power generation business.

Currently, Lu Xin Coal Chemical holds 40% of the equity interest in ZMJ Lu An Xinjiang, which is held as to 54% by the Company and is a member of our Group. The Group (including ZMJ Lu An Xinjiang) has been supplying coal mining and excavating equipment to the Lu Xin Coal Chemical Group from time to time and the Company expects that such transactions (the "Lu Xin Transactions") will continue after the Listing.

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## CONNECTED TRANSACTIONS

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In respect of these transactions, the Directors consider that the relevant equipment was previously, and will in the future be, supplied by the Group to the Lu Xin Coal Chemical Group at a price determined on a fair and reasonable basis which was, or will be, equivalent or comparable to those offered to third parties independent of the Group for similar products, and that Lu Xin Transactions were, and will be, on normal commercial terms. Such transactions are of a revenue nature in the Group's ordinary and usual course of business.

As mentioned above, Lu Xin Coal Chemical holds 40% of the equity interest in ZMJ Lu An Xinjiang, which is held as to 54% by the Company and is a subsidiary of the Company. For the purposes of the Hong Kong Listing Rules, Lu Xin Coal Chemical is therefore a substantial shareholder of ZMJ Lu An Xinjiang, and each member of the Lu Xin Coal Chemical Group is thus a connected person of the Company. Accordingly, the Lu Xin Transactions will constitute continuing connected transactions of the Company upon the Listing.

Under the Hong Kong Listing Rules, the Lu Xin Transactions will be connected transactions only because they involve members of the Lu Xin Coal Chemical Group, being entities which will be connected persons of the Company by virtue of their relationship with our subsidiary, ZMJ Lu An Xinjiang. The value of the total assets, profits and revenue of ZMJ Lu An Xinjiang, when compared to that of the Group, represented less than 5% under the relevant percentage ratios (as defined under Rule 14.04(9) of the Hong Kong Listing Rules) for the Company's financial year ended December 31, 2011. Therefore, currently, ZMJ Lu An Xinjiang meets the conditions as provided for under Rule 14A.31(9)(b), and the Lu Xin Transactions (being transactions on normal commercial terms, and of a revenue nature in the Group's ordinary and usual course of business, as described above) meet the requirements in Rule 14A.31(9) of the Hong Kong Listing Rules. Accordingly, pursuant to Rule 14A.33(4) of the Hong Kong Listing Rules, the Lu Xin Transactions will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the connected transactions regulatory regime of the Hong Kong Listing Rules so long as such transactions continue to meet the requirements in Rule 14A.31(9) of the Hong Kong Listing Rules.

### ***Guarantee Arrangements from Lu Xin Coal Chemical***

Lu Xin Coal Chemical may from time to time provide or arrange for guarantees in favor of ZMJ Lu An Xinjiang in respect of loans to ZMJ Lu An Xinjiang from commercial banks. These arrangements are, and will be, for the benefit of the Group where no security over the assets of the Group is, or will be, granted in respect of such arrangements, and the Directors consider that they are on normal commercial terms or better to the Group. Therefore, pursuant to Rule 14A.65(4) of the Hong Kong Listing Rules, these arrangements will be exempt from the reporting, announcement and independent shareholders' approval requirements otherwise applicable to them under Rule 14A.63 of the Hong Kong Listing Rules.