# INTERNATIONAL MINING MACHINERY HOLDINGS LIMITED
# 國際煤機集團

*(incorporated in the Cayman Islands with limited liability)*
*（於開曼群島註冊成立的有限公司）*

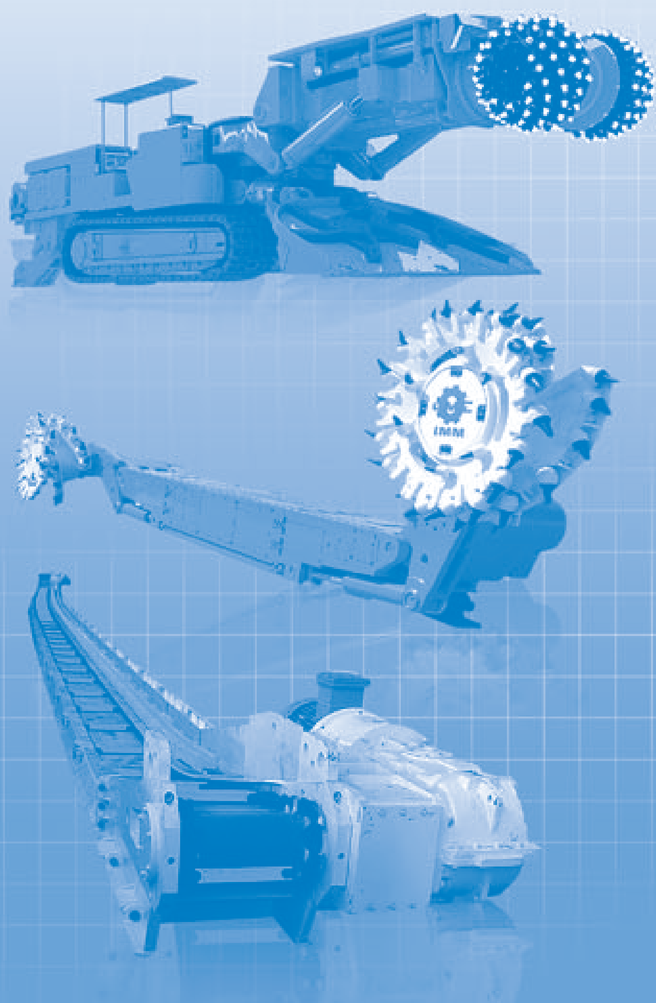
IMM 国际煤机集团
INTERNATIONAL MINING MACHINERY
Stock Code 股份代號：1683

## Annual Report 2009
## 二零零九年年報

**China's Leading Provider of Complete Longwall Mining Solutions**

# Contents





# Company Profile

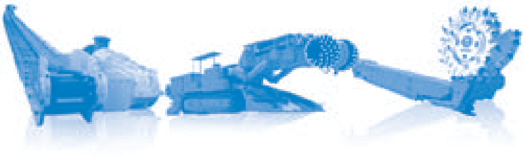
We are a leading designer and manufacturer of underground longwall coal mining equipment in China. In the Chinese market, we have a market leading position in the design and manufacture of roadheaders and shearers, the two pieces of longwall coal mining equipment which we believe to be the most technologically sophisticated, and we are quickly growing our armoured-face conveyor business by leveraging our customer relationships, brand recognition and strong customer support in the mining machinery industry. In addition to the manufacture of original equipment, we also provide aftermarket parts and services through a broad reaching and exclusive network of parts depots, service centres and customer service personnel. All of these products and services provide enhanced safety, productivity and efficiency of operations to our customers.

Currently, we operate in three product segments: roadheaders, shearers and armoured-face conveyors ("AFC") and related products. A roadheader is a piece of excavating tunneling equipment which digs tunnels to the coalface in order to access the minable area. The shearer rides atop the AFC at the coalface, systematically cutting the coal from the coal seam using two ranging arms fitted with cutting drums which mine the coal and deposit it onto the AFC. The AFC also acts as an intermediate haulage system which carries the mined coal to another location where it is crushed into smaller pieces and removed from the mine.

Jiamusi Coal Mining Machinery Co., Ltd. ("Jiamusi Machinery"), our subsidiary that designs and manufactures our roadheader products, traces its history back to 1957 and manufactured the first roadheader in China in 1976. We currently offer 24 series of roadheaders, which is the broadest product line in the industry. They are classified by installed cutting power under the categories of light-duty, medium-duty and heavy-duty. The sales and profits of our roadheader division continued to grow and reached record levels in 2009, as we developed new heavy-duty roadheaders in cooperation with, and in response to, the needs of our customers.

Jixi Coal Mining Machinery Co., Ltd. ("Jixi Machinery"), our subsidiary that designs and manufactures our shearer products, traces its history back to 1936 and it manufactured the first shearer in China in 1953. We offer a full line of shearers to operate under a wide range of coal bed conditions, from ultra-thin coal seams of 0.65 meters to thick seams of 6 meters thick. Our continuous innovations in thin seam shearers make us well positioned to participate in this growing segment of the industry. Recent government mandates now require that all thin layer coal resources be mined, which requires specialized equipment such as ours. The revenues from the sale of shearer products in 2009 also increased compared to 2008, which demonstrates our ability to provide our customers with equipment specific to their needs and our ability to maintain and grow market share, even in challenging economic times.

We established our subsidiary, Huainan Longwall Coal Mining Machinery Co., Ltd. ("Huainan Longwall"), in 2007 as a joint venture in which we initially held a 75% equity interest. We entered into an agreement to purchase the remaining 25% equity interest in Huainan Longwall in December 2009. As a result of the acquisition, we have expanded our product offering and expect to leverage our long term customer relationships to provide our mining customers with top quality armoured-face conveyors to complement our industry leading roadheaders and shearers. This product expansion allows us to be uniquely positioned to become among the first complete longwall system solution providers in China.



# Company Profile

As a complement to our superior products, we offer a wide range of aftermarket services, including onsite service and repairs, equipment overhauls and a supply of spare parts made available through our exclusive and extensive network of service centres and parts depots conveniently located close to our customers in all of the major mining districts. Our speed and reliability of service for our equipment further enhances our relationships with our valued customers.

As of 31 December 2009, we had 23 distributors and agents, 55 parts depots and 37 service centers. All of our distributors and agents are exclusive to our Company and work closely with us on all projects. Currently our end customers include all of the top 50 coal production enterprises in China, located in the 13 major mining regions throughout the country. We also have agents in Russia, India, Australia and several other countries, and we expect growth of our overseas markets commencing in 2010.

On 10 February 2010 (the "Listing Date") the Company's shares were listed (the "Global Offering") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The infusion of capital from the Global Offering allows us to accelerate our growth via (i) expansion of the breadth of our product offering through internal development as well as through acquisitions, (ii) increased production capacity to meet growing market demands in equipment and aftermarket parts, (iii) sophisticated manufacturing equipment to further enhance quality and reduce manufacturing bottlenecks, (iv) reduced outsourcing costs and increased flexibility in purchasing, (v) establishment of additional aftermarket service locations in major coal mining regions, and (vi) pursuit of international opportunities. We believe that all of these efforts will contribute to sustainable value to our shareholders.

# Corporate Information

## Board of Directors

### Executive Directors
Mr. Thomas H. QUINN
Mr. Kee-Kwan Allen CHAN
Mr. Kwong Ming Pierre TSUI
Mr. Yinghui WANG
Mr. Youming YE

### Non-executive Directors
Mr. Rubo LI
Mr. John W. JORDAN II
Ms. Lisa M. ONDRULA

### Independent Non-executive Directors
Dr. Yiming HU
Dr. Xuezheng WANG
Mr. Zhenduo YUAN
Dr. Fung Man Norman WAI

## Audit Committee

Dr. Yiming HU (Chairwoman)
Ms. Lisa M. ONDRULA
Dr. Xuezheng WANG

## Remuneration Committee

Mr. Thomas H. QUINN (Chairman)
Dr. Fung Man Norman WAI
Mr. Zhenduo YUAN

## Authorised Representatives

Mr. Thomas H. QUINN
Mr. Kee-Kwan Allen CHAN

## Joint Company Secretaries

Mr. Dong WANG
Mr. Wai Fung NGAI

## Legal Advisors

*As to Hong Kong and U.S. Law*
**Baker & McKenzie**
23rd Floor One Pacific Place
88 Queensway
Hong Kong

*As to China Law*
**King & Wood**
28-30F, Huai Hai Plaza
1045 Huai Hai Road (M)
Shanghai 200031
China

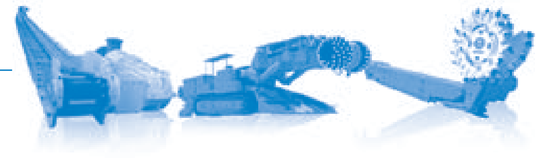
*As to Cayman Islands Law*
**Walkers**
15th Floor, Alexandra House
18 Chater Road
Central
Hong Kong

## Auditor

**Ernst & Young**
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

## Compliance Adviser

**Guotai Junan Capital Limited**
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong



# Corporate Information

## Registered Office

**Walkers Corporate Services Limited**
Walker House
87 Mary Street
George Town
Grand Cayman KY1-9005
Cayman Islands

## Principal Place of Business in China

3rd floor, Tower A, Aimer Plaza
Wangjing Development Zone
Chaoyang District
Beijing 100102
China

## Principal Place of Business in Hong Kong

8th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

## Cayman Islands Principal Share Registrar

**Walkers Corporate Services Limited**
Walker House
87 Mary Street
George Town
Grand Cayman, KY1-9005
Cayman Islands

## Hong Kong Share Registrar

**Computershare Hong Kong Investor Services Limited**
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Principal Bankers

**The Hongkong and Shanghai Banking Corporation**
1 Queen's Road Central
Hong Kong

**Industrial and Commercial Bank of China Limited**
**Jiamusi, Changan Branch**
No. 659 Xilin Road
Xiangyang District, Jiamusi
Heilongjiang 154003
China

**China Construction Bank Corporation**
**Jixi Branch**
No. 121 North Heping Street
Jiguan District, Jixi
Heilongjiang 158100
China

**China Construction Bank**
**Huainan, Luohe Branch**
Luohe Town
Datong District, Huainan
Anhui 232008
China

## Investor Relations

Mr. Dong WANG
Ms. Sze Lai Doris CHAN

## Company's Website

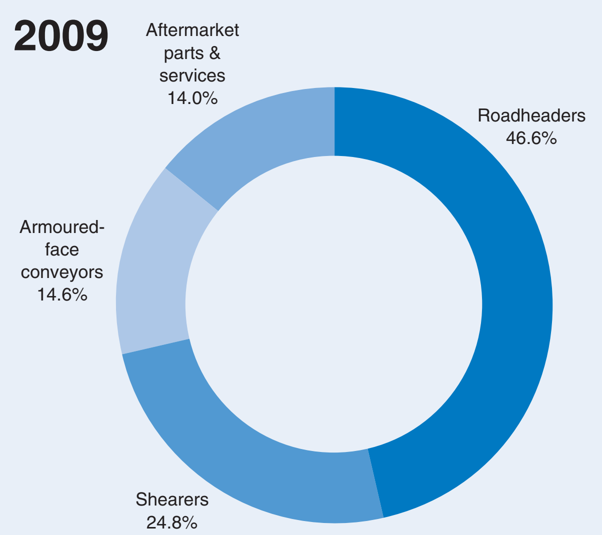
www.immchina.com

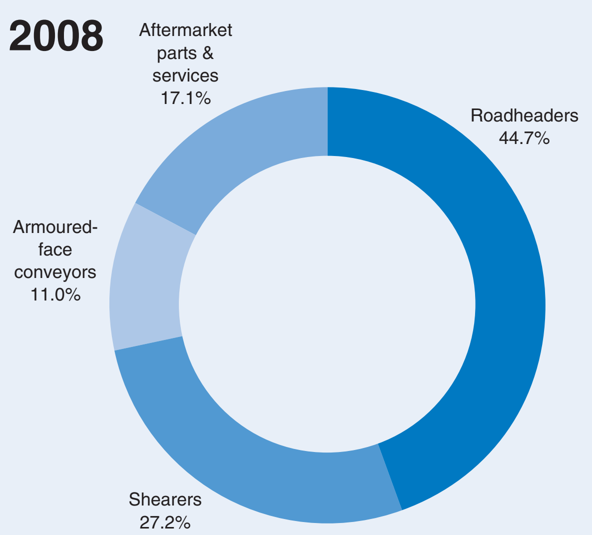
# Financial Highlights

## Comparison of results of 2009 and 2008

| | For the year ended 31 December (RMB million) | | |
|---|---|---|---|
| | **2009** | 2008 | Change % |
| Revenue | **1,519.5** | 1,279.7 | 18.7% |
| Cost of sales | **(944.4)** | (804.6) | 17.4% |
| Gross Profit | **575.1** | 475.1 | 21.0% |
| Profit before taxation | **294.2** | 185.2 | 58.9% |
| Profit for the year | **232.8** | 146.2 | 59.2% |
| Profit attributable to owners of the parent | **228.7** | 150.4 | 52.1% |
| Basic earnings per share[2] (RMB) | **0.29** | 0.19 | 52.6% |

## Revenue by segments



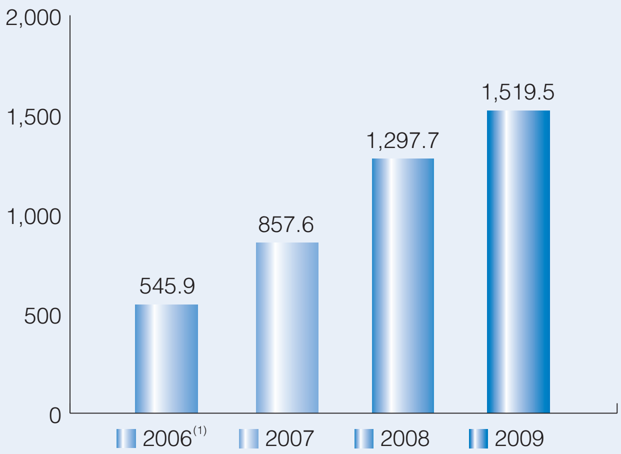



## Four-year financial summary

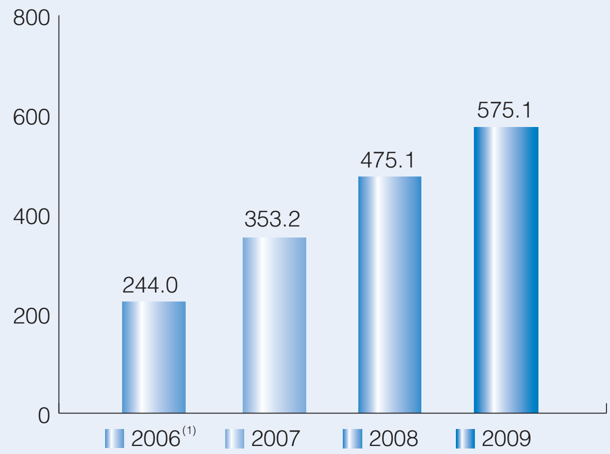
| RMB million | **2009** | 2008 | 2007 | 2006[1] |
|---|---|---|---|---|
| Revenue | **1,519.5** | 1,279.7 | 857.6 | 545.9 |
| Gross profit | **575.1** | 475.1 | 353.2 | 244.0 |
| Profit before tax | **294.2** | 185.2 | 138.9 | 59.6 |
| Profit for the year | **232.8** | 146.2 | 149.8 | 60.2 |
| Profit attributable to owners of the parent | **228.7** | 150.4 | 151.4 | 60.2 |
| Basic earnings per share[2] (RMB) | **0.29** | 0.19 | 0.19 | 0.08 |
| Non-current assets | **626.9** | 633.8 | 572.8 | 528.5 |
| Current assets | **1,578.5** | 1,525.4 | 1,217.7 | 757.2 |
| Current liabilities | **1,463.3** | 1,097.2 | 926.1 | 654.5 |
| Non-current liabilities | **50.1** | 603.6 | 583.5 | 554.7 |
| Net assets | **692.1** | 458.4 | 280.9 | 76.5 |

# Financial Highlights

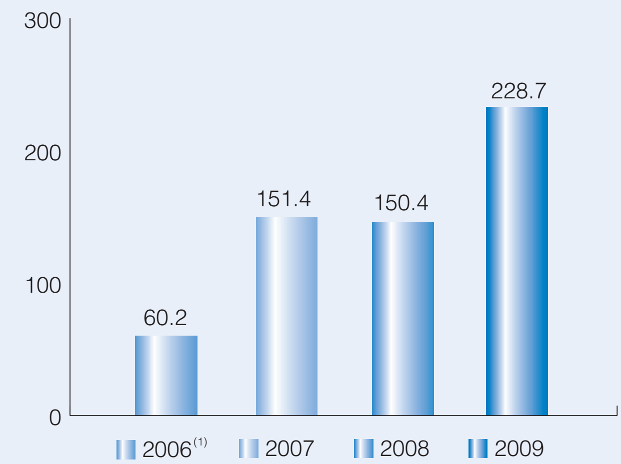
**Revenue**
RMB million



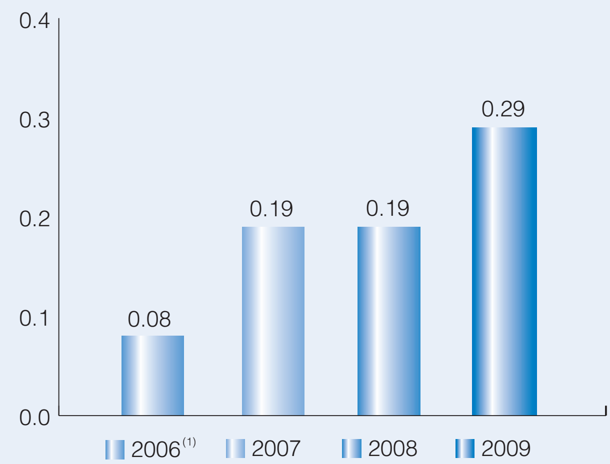

**Gross Profit**
RMB million




**Profit attributable to owners of the parent**
RMB million



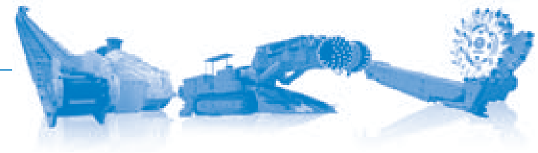

**Basic earnings per share**
RMB




Note:

1. Period from 12 April 2006 (date of incorporation) to 31 December 2006.

2. The calculation of earnings per share is based on the assumption that 780,000,000 shares, representing the number of shares of the Company immediately after the capitalisation issue as described in note 32 to the financial statements, had been in issue throughout the period from 12 April 2006 to 31 December 2006 and each of the three financial years ended 31 December 2009.



# A Letter from our Chairman and our CEO

We are pleased to report that our fiscal 2009 was a year in which the outstanding efforts of our managers and associates produced outstanding results. Revenues and net income grew 18.7% and 59.2%, respectively, over prior year, to new record levels. We were also able to make key investments in new product lines while we continued to expand our existing product offerings. We took steps to improve our capital base and corporate governance through the Global Offering, and we believe the outlook for the future is promising. We finished our fiscal 2009 with a solid platform from which to realize the opportunities of the continued growth in the coal industry in China and beyond to select international markets.

## Results

In 2009, we had very strong results. Our revenue grew by 18.7% to RMB1,519.5 million, a new record, which reflects the strength of our markets and our customer's preference for our roadheaders, shearers and armoured-face conveyors. The gross profit and net profit grew by 21.0% and 59.2% respectively. Our continuing efforts on cost control and cost reduction, and continued process improvement, allowed us to achieve record profits despite incurring one-time Global Offering related expenses. These efforts helped to reduce inventory levels while achieving higher sales. We have developed a stable long term relationship with our suppliers. We also worked hard to assist our customers in dealing with the impacts of the financial crisis, particularly with select favorable terms. We believe all of these actions will position the Company to benefit from favorable market conditions in the medium and long term. We are quick to point out that the Company's results came from the efforts and hard work of our management teams and associates of the Company. We wish to thank all of them for their outstanding contributions.

## New Product Introductions

The ability to co-develop products with key customers has been the strength of our Company, and this legacy continued in 2009. Our subsidiary, Jiamusi Machinery, developed the EBZ160A roadheader with intelligent and remote controlled capabilities, the EBZ260 roadheader for hard rock applications, and the EBH350 roadheader with the highest cutting power in the domestic market today. Jiamusi Machinery now offers 24 road headers that we believe service all of the needs of our customers and which represent the broadest product offering in the industry. Our other subsidiary, Jixi Machinery, developed the MG100/230-BWD shearer for ultra thin seam applications, and the MG420-1020-WD shearer with the best combination of lowest profile and highest installed power of its kind. We believe that this capability will be of increasing importance to our customers. Huainan Longwall developed the technologically advanced SGZ800/1050 for medium thick seam applications. We also developed other smaller ancillary equipment such as coal loaders, bolting attachments and drilling attachments to enhance the total value of our product portfolio.

# A Letter from our Chairman and our CEO

## Investment

At each of our subsidiaries we made a number of new investments during the year in sophisticated manufacturing equipment and processes in order to continue to improve our quality and reduce our costs. We also entered into an agreement to purchase the remaining 25% interest in Huainan Longwall at the end of 2009, from which we generated significant sales of armoured-face conveyors during the year. The construction of the new facilities for armoured-face conveyors in Huainan is expected to be completed in May 2010 and production is expected to commence in midsummer 2010. In addition to adding new capacity, we invested in upgrading existing capabilities through the purchase of machinery and an overhaul of the plant. Our newest facility will be state of the art and is designed to supply our customers with the highest quality products available anywhere.

## Capital Improvement/Corporate Governance

In order to improve our capital base and to be able to take advantage of various opportunities presented to us, we decided to undertake a Global Offering. On 10 February 2010, the Company's shares were listed on the Main Board of the Hong Kong Stock Exchange. The infusion of capital from the Global Offering allows us to accelerate our growth via (i) expansion of the breadth of our product offering through internal development as well as through acquisitions, (ii) increased production capacity to meet growing market demands in equipment and aftermarket parts, (iii) sophisticated manufacturing equipment to further enhance quality and reduce manufacturing bottlenecks, (iv) reduced outsourcing costs and increased flexibility in purchasing, (v) establishment of additional aftermarket service locations in major coal mining regions, and (vi) pursuit of international opportunities. All of these efforts will contribute to sustainable value to our shareholders. As part of this process we were able to expand the board of directors of the Company (the "Board") with the addition of a number of outstanding directors. The biographical details of the directors of the Company (the "Directors") are set out on pages 41 to 45 of this report. We are honored to have them as Directors and believe that they will make great contributions to the Company. In addition, we are privileged to have a new group of shareholders and we are committed to turning in performance that meets their expectations.

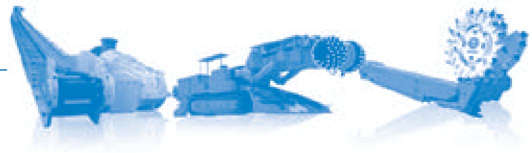
## Outlook

China's continued steady economic growth will drive higher demand for energy, of which about 76% comes from coal. The Chinese government's demand for improved safety and efficiency will necessitate more mines to be mechanized. China's Eleventh 5-Year Plan supports the development of large-scale coal mines and accelerates industry consolidation by the closure of thousands of small and non-mechanized mines, as is the case in Shanxi province. All three of these factors will further increase the demand for coal mining equipment. As a result, we continue to be confident in the long term fundamentals of the coal and mining machinery industries. We have delivered a solid financial performance in 2009. Going forward, we remain focused on enhancing near-term capabilities and delivering long term performance, amid always keen competition and potential market uncertainties, to maximize the value of the Company.

**Mr. Thomas H. Quinn**
*Chairman*

**Mr. Kee-Kwan Allen Chan**
*Chief Executive Officer*

Hong Kong
26 April 2010



# Report of Directors

The Board is pleased to present its report and the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009 along with additional commentary on trends and conditions that impacted our business during the year.

## Principal Activities

The Company is an investment holding company. The principal activities of its principal subsidiaries are the design, manufacture and sale of underground longwall coal mining equipment in China, including roadheaders, shearers and armoured-face conveyors.

## Company Reorganization and Global Offering

The Company was incorporated in the Cayman Islands on 12 April 2006 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company underwent a reorganization in 2009 in preparation for the listing of its shares on the Main Board of the Hong Kong Stock Exchange, pursuant to which the Company’s preferred shares were redeemed and certain related party transactions were settled. Details of the reorganization are set out in the section headed “Reorganization” in the Company’s prospectus dated 29 January 2010 (the “Prospectus”). The Company’s shares were listed on the Hong Kong Stock Exchange on 10 February 2010.

A summary of the results and of the assets and liabilities of the Group for the last four years are set out on page 7 of this report.

## Prospects

We expect to see growth in commodity demand in 2010 as the global economic environment begins to improve. However, we cannot accurately predict the future demand, price and when economic and liquidity conditions will improve.

China’s rapid economic growth and industrialization have driven the demand for coal. Three provinces, Inner Mongolia, Shaanxi and Xinjiang, which comprised 22%, 18% and 37% of national coal resources in 2008, respectively, remain under-explored. To promote safety, efficiency and better utilization of resources, the Chinese government has closed more than 12,000 small mines and encouraged the consolidation and mechanization of the remaining small and medium mines. China’s National Coal Association has approved the construction of 13 mega coal bases nationally, 10 large “open-style” coal mines (minimum 10 million tons annual capacity) and 10 large “safe and efficient” coal mines. In the Eleventh 5-Year Plan, China’s National Development and Reform Commission targeted to raise mechanization in coal mines from 57% in 2008 to 78% in 2010. We believe that the current industry and regulatory environment requiring that our customers increase the percentage of mechanization in their mines will drive the need for our products and services and significantly contribute to our growth.

# Report of Directors

## Use of Net Proceeds from the Company's Global Offering

The Company was listed on the Hong Kong Stock Exchange on 10 February 2010. The net proceeds from the Company's issue of new shares (after deducting underwriting commission and related expenses) amounted to approximately RMB2,098 million, which are intended to be applied in accordance with the allocation set out in the relevant sections of the Prospectus. As of the date of this report, the Company intends to use approximately 37.5% of the net proceeds to redeem its preferred shares and settle pre-IPO obligations, approximately 27.5% for potential acquisitions, approximately 25% for capital expenditures and approximately 10% for working capital and general corporate purposes.

## Companies comprising the Group and Associates

Particulars of the companies comprising the Group and associates as at 31 December 2009 are set out in note 4 to the consolidated financial statements.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands where the Company is incorporated.

## Arrangements to Acquire Share or Debentures

At no time during the year was the Company or any its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other corporate entity.

## Results and State of Financial Affairs

The Group's profit for the year ended 31 December 2009 and the state of financial affairs of the Group at that date are set out in the consolidated financial statements on pages 49 to 132 of the annual report.

## Dividends

As described in the Company's Prospectus, the use of proceeds from the Company's Global Offering includes the payment of a contingent dividend to the pre-listing shareholders. The contingent dividend was calculated based on a percentage of the net proceeds from the Global Offering and certain components of the calculation are subject to confirmation by reference to the final audited financial statements of the Group for 2009. The final amount of the contingent dividend was RMB281.0 million. The contingent dividend is solely for the benefit of the pre-listing shareholders as it represents a partial distribution of the profits earned by the Company prior to the Global Offering.

Except for the contingent dividend mentioned above, the Directors do not recommend the payment of a dividend for the year ended 31 December 2009.

## Changes in Share Capital

Details in movements in share capital of the Company are set out in notes 32 and 33 to the consolidated financial statements.

## Reserves and Distributable Reserves

The Group's reserves amounted to RMB668.7 million as of 31 December 2009. Additional details of changes in the reserves of the Group for 2009 are set out in consolidated statement of changes in equity and note 34 of the consolidated financial statements.

As at 31 December 2009, the distributable reserves of the Company amount to RMB264.4 million, which is the total of the share premium account and retained earnings of the Company calculated in accordance with the Companies Law of the Cayman Islands.

## Property, Plant and Equipment

Details of the movement in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## Directors

The Directors of the Company as at the Listing Date and up to the date of this report are as follows:

| | |
|---|---|
| *Executive Directors* | |
| Mr. Thomas H. QUINN *(Chairman)* | (appointed on 12 April 2006 and designated as an executive Director on 24 January 2010) |
| Mr. Kee-Kwan Allen CHAN (陳其坤) *(Chief Executive Officer)* | (appointed on 16 May 2006 and designated as an executive Director on 24 January 2010) |
| Mr. Kwong Ming Pierre TSUI (徐廣明) *(Chief Financial Officer)* | (appointed on 24 January 2010) |
| Mr. Yinghui WANG (王穎輝) | (appointed on 24 January 2010) |
| Mr. Youming YE (葉有明) | (appointed on 16 May 2006 and designated as an executive Director on 24 January 2010) |
| *Non-executive Directors* | |
| Mr. Rubo LI (李汝波) | (appointed on 16 May 2006 and designated as a non-executive Director on 24 January 2010) |
| Mr. John W. JORDAN II | (appointed on 16 May 2006 and designated as a non-executive Director on 24 January 2010) |
| Ms. Lisa M. ONDRULA | (appointed on 24 January 2010) |

# Report of Directors

*Independent Non-executive Directors*

| | |
|---|---|
| Dr. Yiming HU (胡奕明) | (appointed on 24 January 2010) |
| Dr. Xuezheng WANG (王學政) | (appointed on 24 January 2010) |
| Mr. Zhenduo YUAN (苑振鐸) | (appointed on 24 January 2010) |
| Dr. Fung Man Norman WAI (衛鳳文) | (appointed on 24 January 2010) |

Mr. Emory Williams and Mr. David W. Zalaznick have resigned as directors of the Company on 4 December 2009 and 14 January 2010 respectively.

In accordance with Article 106(1) of the Articles and the Listing Rules, Mr. Thomas H. Quinn, Mr. Kee-Kwan Allen Chan, Mr. Youming Ye, Mr. Rubo Li, and Mr. John W. Jordan II shall retire by rotation, and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting.

## Directors' Service Contracts or Letters of Appointment

Each of our existing executive Directors (other than Mr. Thomas H. Quinn) has entered into a service agreement with the Company for an initial term of three years commencing on 24 January 2010. Each of the non-executive Directors (except for Mr. John W. Jordan II) and independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from 24 January 2010. Except for the letter of appointment of Mr. Rubo Li which has a term commencing from 4 December 2009 and ending on 1 May 2011. All of these agreements provide for termination by either party upon proper written notice to the other party.

None of the Directors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Biographies of Directors and Senior Management

Biographies of Directors and senior management of the Group are set out on pages 41 to 48 of this annual report.

## Board Committees

The Company has established an Audit Committee and a Remuneration Committee in compliance with the Code on Corporate Governance Practices as contained in Appendix 14 of the Listing Rules (the "Code"). Terms of reference for these committees have been established. Details of the duties of these committees are set forth in the Corporate Governance Report on pages 30 to 40 of this report.

## Emolument Policy

The remuneration of the Directors and the 5 highest paid individuals are calculated based on their scope of work, experience, qualification and/or performance, the details of which are set out in note 9 to the consolidated financial statements.

## Management Contracts

As disclosed on pages 97 and 98 of the Prospectus, a management consulting agreement dated 16 May 2006 was entered into between the Company and TJCC Services Ltd. whereby TJCC Services Ltd. was retained as a consultant to provide consulting services with respect to acquisitions, divestitures and investments, financial and business affairs, relationships with lenders, stockholders and other third-party associates or affiliates, and the expansion of the businesses of the Company for a term of ten years. Services provided by TJCC Services Ltd. include those provided by Messrs. Kee-Kwan Allen Chan and Youming Ye as Directors as well as Mr. Kee-Kwan Allen Chan as Chief Executive Officer. As part of the reorganization in contemplation of the Global Offering, the management consulting agreement was terminated on 31 December 2009.

Save as disclosed above, other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

## Directors' and Chief Executives' Interests in Shares and Short Positions

As at the Listing Date, the following Directors or chief executives of the Company had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) (i) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO), (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules:

| Name of Director | Number of shares/ underlying shares held | Capacity | % of issued shares |
|---|---|---|---|
| Thomas H. Quinn | 780,000,000 (long position)[1] | Interest of controlled corporation | 60% |
| John W. Jordan II | 780,000,000 (long position)[2] | Interest of controlled corporation | 60% |
| Rubo Li | 49,140,000 (long position) | Beneficial owner | 3.78% |
| | 49,140,000 (short position) | Beneficial owner | 3.78% |

# Report of Directors

*Notes:*

1. Mr. Thomas H. Quinn is a Director and at the same time one of the members, among others, of Resolute Fund Partners, LLC. Resolute Fund Partners, LLC is the general partner of The Resolute Fund, L.P., and each of the five parallel funds of The Resolute Fund, L.P., namely, The Resolute Fund SIE L.P., The Resolute Fund Netherlands, PV I, L.P., The Resolute Fund Netherlands, PV II, L.P., The Resolute Fund Singapore PV, L.P. and The Resolute Fund NQP, L.P., The Resolute Fund, L.P., through the five parallel funds, is interested in the interests in shares held by its controlled corporation, TJCC Holdings Ltd., in the Company. Mr. Thomas H. Quinn will be deemed to be interested in the interests in shares held by The Resolute Fund, L.P. through the five parallel funds and TJCC Holdings Ltd. in the Company, which will represent 780,000,000 Shares or approximately 60% interest in the total issued share capital of the Company.

2. Mr. John W. Jordan II is a Director and at the same time one of the members, among others, of Resolute Fund Partners, LLC. Resolute Fund Partners, LLC is the general partner of The Resolute Fund, L.P., and each of the 5 parallel funds of The Resolute Fund, L.P., namely, The Resolute Fund SIE L.P., The Resolute Fund Netherlands, PV I, L.P., The Resolute Fund Netherlands, PV II, L.P., The Resolute Fund Singapore PV, L.P. and The Resolute Fund NQP, L.P. The Resolute Fund, L.P., through the five parallel funds, is interested in the interests in shares held by its controlled corporation, TJCC Holdings Ltd., in the Company. Mr. John W. Jordan II will be deemed to be interested in the interests in shares held by The Resolute Fund, L.P. through the five parallel funds and TJCC Holdings Ltd. in the Company, which will represent 780,000,000 Shares or approximately 60% interest in the total issued share capital of the Company.

## Substantial Shareholders Interests

As at the Listing Date, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests, representing 5% or more of the Company's issued share capital:

| Name of shareholders | Number of shares/underlying shares held | Capacity | % of issued shares |
|---|---|---|---|
| Resolute Fund Partners, LLC | 780,000,000 (long position)[1] | Interest of controlled corporation | 60% |
| The Resolute Fund, L.P. | 780,000,000 (long position)[2] | Interest of controlled corporation | 60% |
| The Resolute Fund SIE, L.P. | 780,000,000 (long position)[3] | Interest of controlled corporation | 60% |
| TJCC Holdings Ltd. | 709,800,000 (long position)[4] | Beneficial owner | 54.6% |
| | 70,200,000 (long position) | Person having a security interest in shares | 5.4% |

*Notes:*

1. Resolute Fund Partners, LLC is the general partner of The Resolute Fund, L.P., and each of its five parallel funds, namely, The Resolute Fund SIE L.P., The Resolute Fund Netherlands, PV I, L.P., The Resolute Fund Netherlands, PV II, L.P., The Resolute Fund Singapore PV, L.P. and The Resolute Fund NQP, L.P. Resolute Fund Partners, LLC will be deemed to be interested in these Shares through its controlled corporations, The Resolute Fund, L.P. (through its five parallel funds) and TJCC Holdings Ltd..

2. The Resolute Fund, L.P. (through the interests held by its five parallel funds, namely The Resolute Fund SIE L.P., The Resolute Fund Netherlands, PV I, L.P., The Resolute Fund Netherlands, PV II, L.P., The Resolute Fund Singapore PV, L.P. and The Resolute Fund NQP, L.P.) will be deemed to be interested in these shares through its controlled corporation, TJCC Holdings Ltd., which will hold 780,000,000 shares, representing 60% interest in the total issued share capital of the Company.

3. The Resolute Fund SIE, L.P. will be deemed to be interested in these shares through its directly controlled corporation, TJCC Holdings Ltd., which will hold 780,000,000 shares, representing 60% interest in the total issued share capital of our Company.

4. These shares will be directly held by TJCC Holdings Ltd..

## Share Option Scheme

On 24 January 2010, the shareholders of the Company had approved and adopted a share option scheme (the "**Share Option Scheme**"). Key terms of the Share Option Scheme are summarized below:

(i) The purpose of the Share Option Scheme is to provide incentives to the individual being an employee, officer, agent, consultant or representative of the Company or any subsidiary of the Company, including any executive or non-executive Director of the Company or of any subsidiary of the Company (the "**Participants**") to contribute to the Group by providing the Participants the opportunity to acquire proprietary interests in the Company and to encourage the Participants to work towards enhancing the value of the Company as well as to enable the Group to recruit high-caliber employees and/or attract human resources that are valuable to the Group.

(ii) The total number of shares in respect of which options may be granted under the Share Option Scheme is 130,000,000 shares, being 10% of the total number of shares in issue as at the Listing Date.

(iii) Unless approved by shareholders in a general meeting, no Participant shall be granted an option within the 12-month period up to and including the proposed date on which the grant of an option is made ("**Grant Date**") if such grant, would represent in aggregate over 1% of the number of shares in issue as at the proposed Grant Date.

(iv) The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of any member of the Group must not exceed 30% of the number of shares in issue from time to time.

# Report of Directors

(v) A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

(vi) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board, which must not be more than 10 years from the Grant Date.

## Staff Retirement/Pension Scheme Benefits

As stipulated by the laws, orders and regulations of China, the Group participated in various defined contribution retirement plans organized by municipal governments for its staff. Currently, the Group is required to make contributions to the retirement plans at a rate of 20% (2008: 20%) of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension, to be paid by the municipal governments, equal to a fixed proportion of the salary prevailing at his retirement date. The Company has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. When the staff leaves the position, the Company is not entitled to recover the contributions paid in respect of their pension scheme benefits.

## Connected Transaction

The only connected transaction of the Company for the period from the Listing Date and up to the date of this report is an exempted continuing connected transaction in relation to the consulting agreement with Mr. Rubo Li, a non-executive Director. Details of this continuing connected transaction is set out on pages 164 to 165 of the Prospectus. As this continuing connected transaction constitutes an exempted continuing connected transaction pursuant to Rule 14A.33 of the Listing Rules, the Company is not required to disclose such transaction in this report.

Save as disclosed above, there was no other connected transaction and/or continuing connected transaction during the reporting period.

## Non-competition Undertaking

As disclosed in the Prospectus, in January 2010, the Resolute Fund, L.P., each of the five parallels funds, (namely, The Resolute Fund SIE, L.P., The Resolute Fund Netherlands, PV I, L.P., The Resolute Fund Netherlands, PV II, L.P., The Resolute Fund Singapore PV, L.P., and The Resolute Fund NQP, L.P., collectively, the "**Five Parallel Funds**") and TJCC Holdings Ltd., have executed a Non-competition Undertaking through which they have undertaken not to compete, either directly or indirectly, whether on its own or jointly with other entities in any activities or businesses which compete with the business of designing, manufacturing and sales of underground longwall coal mining equipment as well as provision of longwall coal mining solutions and such other business related to longwall coal mining equipment as engaged or operated by the Group in China during the term of the Non-competition Undertaking. Our independent non-executive Directors will review, at least annually, the compliance with and enforcement of the terms of the Non-competition Undertaking by the controlling shareholders. We will also disclose the annual declarations by The Resolute Fund, L.P., each of the Five Parallel Funds and TJCC Holdings Ltd. in the annual report of the Company. The Non-competition Undertaking took effect as of the Listing Date and therefore the independent non-executive Directors did not conduct a review of the compliance with the Undertaking for the year ended 31 December 2009.

## Directors' and Controlling Shareholders' Interests in Contracts of Significance

Save as already disclosed, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a Director or the controlling shareholders of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year ended 31 December 2009, and there were no contracts of significance for the provision of services to the Group by the controlling shareholders of the Company.

## Purchase, Sale or Redemption of the Company's Listed Securities

The Company's shares have been listed on the Main Board of the Hong Kong Stock Exchange since 10 February 2010. Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to the date of this report. Pursuant to the written resolution passed by the shareholders on 24 January 2010, an accrual mandate was granted to the Board to exercise the powers of the Company to purchase shares up to 10% of the issued share capital of the Company.

## Other Related-party Transactions

Details of other related-party transactions entered into by the Group during the year ended 31 December 2009, which did not constitute connected transactions under Chapter 14A of the Listing Rules are set out in note 37 to the consolidated financial statements.

These related party transactions either did not constitute connected transactions under the Listing Rules or were discontinued prior to the listing of the Company's shares on the Hong Kong Stock Exchange.

## Major Customers and Suppliers

For the year ended 31 December 2009, the aggregate sales to the Group's five largest customers accounted for approximately 44% of the Group's total revenue and sales to the Group's largest customer were approximately 14% of the Group's total revenue.

For the year ended 31 December 2009, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 27% of the Group's total purchases, and the purchases attributable to the Group's largest supplier were approximately 9% of the Group's total purchases.

None of the Directors, or any of their associates or any shareholders who (to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest suppliers or customers.

# Report of Directors

## Code on Corporate Governance Practices

The Company has adopted the code provisions set out in the Code. As the Company's shares were listed on the Main Board of the Hong Kong Stock Exchange on 10 February 2010, the Company was not required to comply with the requirements under the Code or the continuing obligations requirements of a listed company pursuant to the Listing Rules for the year ended 31 December 2009. Since the date of listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange and up to the date of this report, the Company has complied with all the applicable code provisions set out in the Code.

For details of the Corporate Governance Report, please refer to pages 30 to 40 of this annual report.

## Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. The Company has made specific enquiry to all of the Directors, and all of the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the period from the date of listing of the Company's shares and up to the date of this report.

## Post Balance Sheet Events

Details of significant events occurring after the balance sheet date are set out in note 40 to the consolidated financial statements of the Group.

## Material Legal Proceedings

As at 31 December 2009, the Company was not involved in any material litigation or arbitration and no material litigation or claims were pending or threatened or made against the Company so far as the Company is aware.

## Sufficiency of Public Float

During the period from the Listing Date and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital pursuant to the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

## Banking Facilities

As of 31 December 2009, we pledged assets with a value of RMB305.0 million for secured bank loans, comprised primarily of buildings and land use rights, plant and machinery, and trade and bill receivables. We utilize bank loans for working capital purposes, and all of our bank loans were payable within one year. As of 31 December 2009, our outstanding bank loans bore interest at an annual rate ranging from 1.53% to 5.84%.

## Auditors

Ernst & Young was approved as the Company's auditor in the past two years. The consolidated financial statements included in this report were audited by Ernst & Young who will retire as auditors of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By the order of the Board
**International Mining Machinery Holdings Limited**
**Mr. Thomas H. Quinn**
*Chairman*

Hong Kong
26 April 2010

# Management Discussion and Analysis

## Market Overview

In 2009, the growth of China's overall economy was negatively impacted by the ongoing financial crisis. In addition, declining capital market activity contributed to general reductions in available funding for business expansion, and the equity and currency markets exhibited high levels of volatility. All of these factors had an impact on capital spending and payment cycles of our customers – particularly in the first half of the year. The situation improved in the second half when China's RMB4 trillion stimulus package kicked in, leading to high demand for our products, especially roadheaders. Throughout the year, we exercised great caution in balancing our customer needs and the macro environment to minimize the increase in our trade receivables.

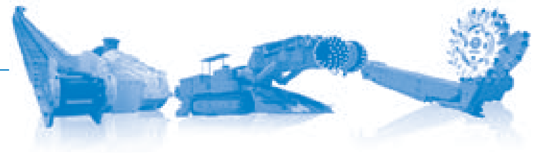
## Business Overview

### Results

In 2009, we had very strong results. Our revenue grew by 18.7% to RMB1,519.5 million, a new record, which reflects the strength of our markets and our customer's preference for our roadheaders, shearers and armoured-face conveyors. The gross profit and net profit grew by 21.0% and 59.2% respectively. Our continuing efforts on cost control and cost reduction, and continued process improvement, allowed us to achieve record profits despite incurring one-time Global Offering related expenses. These efforts helped to reduce inventory levels while achieving higher sales. We have developed a stable long term relationship with our suppliers. We also worked hard to assist our customers in dealing with the impacts of the financial crisis, particularly with select favorable terms. We believe all of these actions will position the Company to benefit from favorable market conditions in the medium and long term. We are quick to point out that the Company's results came from the efforts and hard work of our management teams and associates of the Company. We wish to thank all of them for their outstanding contributions.

### New Product Introductions

The ability to co-develop products with key customers has been the strength of our Company, and this legacy continued in 2009. Our subsidiary, Jiamusi Machinery, developed the EBZ160A roadheader with intelligent and remote controlled capabilities, the EBZ260 roadheader for hard rock applications, and the EBH350 roadheader with the highest cutting power in the domestic market today. Jiamusi Machinery now offers 24 road headers that we believe service all of the needs of our customers and which represent the broadest product offering in the industry. Our other subsidiary, Jixi Machinery, developed the MG100/230-BWD shearer for ultra thin seam applications, and the MG420-1020-WD shearer with the best combination of lowest profile and highest installed power of its kind. We believe that this capability will be of increasing importance to our customers. Huainan Longwall developed the technologically advanced SGZ800/1050 for medium thick seam applications. We also developed other smaller ancillary equipment such as coal loaders, bolting attachments and drilling attachments to enhance the total value of our product portfolio.





### Investment

At each of our subsidiaries we made a number of new investments during the year in sophisticated manufacturing equipment and processes in order to continue to improve our quality and reduce our costs. We also entered into an agreement to purchase the remaining 25% interest in Huainan Longwall at the end of 2009, from which we generated significant sales of armoured-face conveyors during the year. The construction of the new facilities for armoured-face conveyors in Huainan is expected to be completed in May 2010 and production is expected to commence in midsummer 2010. In addition to adding new capacity, we invested in upgrading existing capabilities through the purchase of machinery and an overhaul of the plant. Our newest facility will be state of the art and is designed to supply our customers with the highest quality products available anywhere.

## Global Offering

The infusion of capital from the Company's Global Offering allows us to accelerate our growth via (i) expansion of the breadth of our product offering through internal development as well as through acquisitions, (ii) increased production capacity to meet growing market demands in equipment and aftermarket parts, (iii) sophisticated manufacturing equipment to further enhance quality and reduce manufacturing bottlenecks, (iv) reduced outsourcing costs and increased flexibility in purchasing, (v) establishment of additional aftermarket service locations in major coal mining regions, and (vi) pursuit of international opportunities. We believe that all of these efforts will contribute to sustainable value to our shareholders.

## Financial Review

### Revenue

For the year ended 31 December 2009, the Group's revenue amounted to approximately RMB1,519.5 million, representing an increase of approximately RMB239.8 million or 18.7% as compared to approximately RMB1,279.7 million in 2008. The increase was primarily due to the increase in sales of roadheader products and armoured-face conveyors, partially offset by a decrease in sales of aftermarket parts and services. While sales volumes in units were flat as compared to 2008, a favorable sales mix led to a significant increase in the Group's revenue.

For the two years ended 31 December 2009, the Group's revenue analysis by product segment is as follows:

| **Product Segments** | **2009** | | 2008 | | Change | Change |
|---|---|---|---|---|---|---|
| | **RMB million** | **%** | RMB million | % | RMB million | % |
| Roadheader products | **708.8** | **46.6%** | 571.9 | 44.7% | 136.9 | 23.9% |
| Shearer products | **376.4** | **24.8%** | 348.5 | 27.2% | 27.9 | 8.0% |
| Armoured-face conveyors and related products | **221.8** | **14.6%** | 140.1 | 11.0% | 81.7 | 58.3% |
| Aftermarket parts and services | **212.5** | **14.0%** | 219.2 | 17.1% | (6.7) | (3.1)% |
| Total | **1,519.5** | **100.0%** | 1,279.7 | 100.0% | 239.8 | 18.7% |

# Management Discussion and Analysis

*Roadheader products:* The revenue from roadheader products increased by RMB136.9 million, or 23.9%, from RMB571.9 million in 2008 to RMB708.8 million in 2009, which was attributable to the increase in the sales volume of heavy-duty roadheaders driven by an increase in market demand as well as our focus on product development in this category to meet the demands of our customers. Heavy-duty roadheaders offer a more attractive profit margin than most of our light-duty and medium-duty roadheaders.

*Shearer products:* The revenue from shearer products increased by RMB27.9 million, or 8.0%, from RMB348.5 million in 2008 to RMB376.4 million in 2009, primarily reflecting higher demand and a sales increase of medium seam and thick seam shearers.

*Armoured-face conveyors and related products:* The revenue from armoured-face conveyors and related products increased by RMB81.7 million, or 58.3%, from RMB140.1 million in 2008 to RMB221.8 million in 2009. This increase was attributable to our focus on growing and expanding our armoured-face conveyor business.

*Aftermarket parts and services:* The revenue from aftermarket parts and services decreased by RMB6.7 million, or 3.1%, from RMB219.2 million in 2008 to RMB212.5 million in 2009. The decrease was the result of (i) capacity constraints caused by our need to focus manufacturing capacity on the production of complete units to meet demand and (ii) an inventory realignment program undertaken by our distributors to ensure that each location was stocked with the right mix of parts. This inventory realignment initiative produced a temporary dip in spare parts volume as we moved parts between distributors instead of manufacturing new parts to meet their stocking deficiencies. This realignment was completed by the end of the third quarter of 2009.

**Cost of Sales**

During the year, the Group's cost of sales amounted to RMB944.4 million, representing an increase of approximately RMB139.8 million or 17.4% as compared to 2008. The increase was mainly attributable to the corresponding increase of the Group's sales.

The cost of raw materials increased by RMB115.8 million, or 18.8%, from RMB615.6 million in 2008 to RMB731.4 million in 2009, primarily due to cost increases in major components of our raw materials, such as steel, imported components and electrical components. Manufacturing costs increased by RMB11.2 million, or 8.5%, from RMB132.0 million in 2008 to RMB143.2 million in 2009 which was primarily due to the increase in fuel cost and depreciation charges on our plant and equipment. Direct labor costs increased by RMB12.8 million, or 22.5%, from RMB57.0 million in 2008 to RMB69.8 million in 2009, primarily due to our increased sales.

### Gross Profit and Gross Margin

The following table sets forth, for the period indicated, gross profit (by amount and percentage of total gross profit) and gross margin information by product segment for the Group.

| Segment Gross Profit | 2009 | | 2008 | | Change | Change |
|---|---|---|---|---|---|---|
| | RMB million | % | RMB million | % | RMB million | % |
| Roadheaders | **326.5** | **56.8%** | 263.2 | 55.4% | 63.3 | 24.1% |
| Shearers | **103.1** | **17.9%** | 106.6 | 22.4% | -3.5 | -3.3% |
| Armoured-face conveyors and related products | **54.1** | **9.4%** | 17.5 | 3.7% | 36.6 | 209.1% |
| Aftermarket parts and services | **91.4** | **15.9%** | 87.8 | 18.5% | 3.6 | 4.1% |
| Total | **575.1** | **100.0%** | 475.1 | 100.0% | 100.0 | 21.0% |

| Segment Gross Margin rate | 2009 | 2008 | Change |
|---|---|---|---|
| Roadheaders | **46.1%** | 46.0% | 0.1% |
| Shearers | **27.4%** | 30.6% | -3.2% |
| Armoured-face conveyors and related products | **24.4%** | 12.5% | 11.9% |
| Aftermarket parts and services | **43.0%** | 40.1% | 2.9% |
| Total | **37.8%** | 37.1% | 0.7% |

Gross profit increased by RMB100.0 million, or 21.0%, from RMB475.1 million in 2008 to RMB575.1 million in 2009. During 2009, the gross margin was approximately 37.8%, representing a slight increase as compared to 37.1% in 2008, which primarily reflected the increase in the percentage of revenue derived from roadheader products and armoured-face conveyors and related products, offset by a slight decrease in gross margin of our shearer products.

Gross margin of our roadheader products remained stable in 2009 as compared to 2008, primarily reflecting the keen competition in the roadheader product market.

Gross margin of our shearer products decreased from 30.6% in 2008 to 27.4% in 2009, primarily reflecting decreases in the gross margins of our medium seam and thick seam shearer products, which was primarily attributable to the configuration of higher quality machines using more expensive raw materials to further increase the reliability and safety of our products and to further distinguish us from our competitors.

# Management Discussion and Analysis

Gross margin of our armoured-face conveyors and related products increased from 12.5% in 2008 to 24.4% in 2009, primarily reflecting the increase in economies of scale of our production as we ramped up our operations at Huainan Longwall in 2009.

Gross margin of our aftermarket parts and services increased from 40.1% in 2008 to 43.0% in 2009, primarily reflecting an increase in the sales of higher margin spare parts for roadheaders, shearers and armoured-face conveyors.

### Other Income and Gain

During the year, the Group's other income and gains amounted to approximately RMB15.5 million which represented an increase of approximately 100.0% as compared to 2008. The increase was primarily attributable to the waiver of pre-acquisition VAT liabilities of RMB13.3 million which were assumed from the previous owner at the time of the acquisitions of Jiamusi Machinery and Jixi Machinery.

### Selling and Distribution Costs

Selling and distribution costs decreased by RMB13.0 million, or 11.0%, from RMB118.3 million in 2008 to RMB105.3 million in 2009, primarily reflecting decreases in (i) commission expense due to a change in the commission structure, and (ii) warranty expenses as a result of our continuous improvements to the quality of our products. These decreases were partially offset by an increase in the cost of freight due to the increase in our sales volume.

### Administrative Expenses

The Group's administrative expenses increased by RMB13.1 million from approximately RMB167.8 million for the year ended 31 December 2008 to approximately RMB180.9 million for the current year, representing an increase of approximately 7.8%, which was primarily due to Global Offering related expenses incurred during 2009.

### Income Tax

Income tax expense for the group for 2009 was RMB61.3 million as compared to RMB39.0 million for 2008. The increase in income tax expense is directly attributable to the increase in our profits driven by higher revenue.

In accordance with the relevant income tax laws and regulations of China, from 1 January 2008 to 31 December 2010, the applicable enterprise income tax rate for two of our subsidiaries, Jiamusi Machinery and Jixi Machinery, is 12.5%, which is a 50% reduction from the statutory rates.

### Net Profit

The Group's net profit for the year was RMB232.8 million as compared to RMB146.2 million in 2008, representing an increase of 59.2%, which was primarily the result of increased sales and various cost containment initiatives.

### Liquidity and Capital Resources

We currently use a combination of cash generated from operations, bank loans and loans from shareholders, to meet our financial obligations. As of 31 December 2009, the total current assets amounted to approximately RMB1,578.5 million, and the total current liabilities of the Group amounted to approximately RMB1,463.3 million. The current liabilities as of 31 December 2009 included preference shares of RMB403.4 million which were fully redeemed using a portion of the proceeds from the public offering. According to the planned arrangement of the present current asset condition and future cash flow, the Group anticipates that it will have sufficient repayment ability to support the Group's operations.

Our gearing ratio, calculated as net debt divided by the sum of net debt and capital as of 31 December 2009 was 48% as compared to 61% as of 31 December 2008. Net debts are defined to include interest-bearing loans, amounts due to holding company and preferred shares, less cash and cash equivalents. Capital represents total equity. The decrease in our gearing ratio reflected the significant increase in our capital which resulted from the increase of net profit, while our net debt decreased as compared to prior year.

### Cash Flow

We had a net cash inflow from operating activities of RMB19.2 million for 2009 as compared to the net cash inflow of RMB208.8 million for 2008. The decrease in our cash provided by operating activities was primarily attributable to the increase in trade and bills receivables, which reflected the credit period extensions granted to some of our customers who were affected by the ongoing financial crisis.

Cash used by investment activities for 2009 was RMB112.5 million as compared to RMB206.2 million for 2008. The decrease is due to lower investments in associates and purchases of intangible assets in 2009 as compared to 2008.

Net cash inflow from financing activities for 2009 was RMB85.8 million as compared to RMB17.1 million of cash used in financing activities for 2008. The cash from financing activities in 2009 primarily consisted of proceeds from the pay up of preference shares and new bank loans, offset by the repurchase of preference shares and bank loans repayments.

### Capital Structure

As of 31 December 2009, the Group's total assets amounted to approximately RMB2,205.4 million, representing an increase of approximately RMB46.2 million or approximately 2.1% as compared to the balance as of 31 December 2008. The increase was mainly attributable to the increase in trade receivables, proceeds from bank loans and reserves over those of last year. Current assets amounted to approximately RMB1,578.5 million, and mainly consisted of trade receivables and inventories, accounting for approximately 71.6% of total assets; non-current assets amounted to approximately RMB626.9 million, representing a decrease of approximately RMB6.9 million as compared to the balance as at 31 December 2008.

# Management Discussion and Analysis

### Liabilities

As of 31 December 2009, the Group's total liabilities amounted to approximately RMB1,513.4 million, representing a decrease of approximately RMB187.4 million as compared to the balance as at 31 December 2008. Current liabilities amounted to approximately RMB1,463.3 million, accounting for approximately 96.7% of total liabilities and non-current liabilities amounted to approximately RMB50.1 million, accounting for approximately 3.3% of total liabilities. The decrease in liabilities was mainly attributable to loan repayments to our holding company (TJCC Holdings Ltd.) and a related party, and a partial redemption of our preference shares. As a result of the redemption of the remaining preference shares in connection with our public offering in February of 2010, the preference shares were reclassified from a long term liability at 31 December 2008 to a current liability at 31 December 2009.

### Turnover Days

During the year, the average inventory turnover days decreased from 168 days to 140 days. This was mainly attributable to our persistent efforts focusing on efficient inventory management.

During the year, the Group proactively managed its cash flow. As a result, it maintained stable financial ratios. The Group prudently monitored recoverability of its trade receivables, kept a close eye on the financial condition of its customers and intensified cash collections. The average turnover days of trade receivables had a slight increase from 159 days to 166 days, which was mainly as a result of an increase in revenue and the credit period extensions granted to some of our customers that were affected by the ongoing financial crisis.

The average turnover days of trade payables were 149 days, representing a decrease as compared to 166 days in 2008. This was mainly attributable to the sufficiency of working capital and our effort to enhance the Group's long term relationship with its suppliers.

### Contingent Liabilities

As of 31 December 2009, we had no material contingent liabilities.

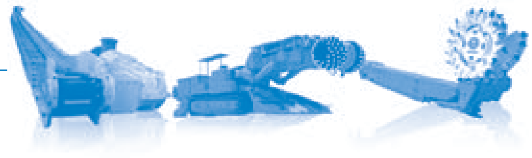
### Off-balance Sheet Transactions

As of 31 December 2009, we had no material off-balance sheet transactions.

### Capital Expenditure and Commitment

Our capital expenditures were RMB66.8 million for 2009 as compared to RMB54.3 million for 2008. Our capital expenditures in 2009 related primarily to the construction of a plant and facilities, and purchases of machinery, office equipment and motor vehicles.

As of 31 December 2009, the Group had capital commitments of approximately RMB74.8 million, which primarily related to commitments to purchase machinery.





**Foreign Exchange Exposure**

Although our financial assets are not subject to foreign currency risk, some of our borrowings are in foreign currency. As of 31 December 2009, the Group's foreign currency deposits were equivalent to approximately RMB2.5 million.

**Employee Remuneration and Benefit**

As of 31 December 2009, the Group had 3,397 employees as compared to 3,640 as at 31 December 2008. All members of our work force are employed under employment contracts which specify the employee's position, responsibilities, remuneration and grounds for termination pursuant to China Labor Law and relevant regulations. Our employees are selected through a competitive process.

The table below sets forth the number of our employees by their functions.

| | As of 31 December 2009 | |
|---|---|---|
| | Number | % of total |
| Manufacturing personnel | 2,220 | 65.4 |
| Technical personnel (including R&D) | 366 | 10.8 |
| Sales and marketing personnel | 304 | 8.9 |
| Administrative personnel | 255 | 7.5 |
| Procurement personnel | 64 | 1.9 |
| Financial personnel | 68 | 2.0 |
| Others | 120 | 3.5 |
| Total employees | 3,397 | 100.0 |

Staff costs including Directors' remuneration were approximately RMB151.4 million for 2009 as compared to approximately RMB148.9 million for 2008. The remuneration package for our employees generally includes salaries and bonuses. We conduct periodic performance reviews for all of our employees and their salaries and provide our employees with performance-based bonuses. Employees also receive welfare benefits, including medical care, housing subsidies, retirement, occupational injury insurance and other miscellaneous benefits as required by China law. In addition, we contribute to various pension funds organized by municipal and provincial governments for our employees in compliance with applicable laws and regulations.

## Social Responsibilities

We are a socially responsible company and have made significant improvements to the safety of our factories and the surrounding environment. We support the local communities where our factories and customers are located by making significant contributions to various charitable organizations. For example, we contributed generously to the Sichuan earthquake relief efforts, the children of workers in two mines in Sichuan province, the families of victims of the Hegang mining accident in Heilongjiang province and the Community Chest of Hong Kong.

# Corporate Governance Report

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. This report outlines the principles and the code provisions of the Code. As the Company's shares were listed on 10 February 2010, the Company was not required to comply with the requirements under the Code or the continuing obligations requirements of a listed issuer pursuant to the Listing Rules for the year ended 31 December 2009. Nevertheless, the Directors believe that since the Listing Date, the Company has applied the principles, and complied with all the applicable code provisions set out in the Code.

Set out below is a detailed discussion of the functions of the Board of Directors (the "Board") and corporate governance practices adopted and observed by the Company from the Listing Date and up to the date of this report.

## The Directors

### Composition

The composition of the Board ensures a balance of skills and experiences appropriate to the requirements of the businesses of the Company and to the exercise of independence. The Board, as of the date of this report, consists of twelve Directors, including five executive Directors, three non-executive Directors and four independent non-executive Directors:

| Category and name of Director | Date of first becoming Director | Date of current designation |
|---|---|---|
| *Executive Directors* | | |
| Mr. Thomas H. QUINN (Chairman of the Board) | 12 April 2006 | 24 January 2010 |
| Mr. Kee-Kwan Allen CHAN | 16 May 2006 | 24 January 2010 |
| Mr. Kwong Ming Pierre TSUI | 24 January 2010 | 24 January 2010 |
| Mr. Yinghui WANG | 24 January 2010 | 24 January 2010 |
| Mr. Youming YE | 16 May 2006 | 24 January 2010 |
| *Non-executive Directors* | | |
| Mr. Rubo LI | 16 May 2006 | 24 January 2010 |
| Mr. John W. JORDAN II | 16 May 2006 | 24 January 2010 |
| Ms. Lisa M. ONDRULA | 24 January 2010 | 24 January 2010 |
| *Independent non-executive Directors* | | |
| Dr. Yiming HU | 24 January 2010 | 24 January 2010 |
| Dr. Xuezheng WANG | 24 January 2010 | 24 January 2010 |
| Mr. Zhenduo YUAN | 24 January 2010 | 24 January 2010 |
| Dr. Fung Man Norman WAI | 24 January 2010 | 24 January 2010 |

The biographical details of the Directors are set out on pages 41 to 45 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. All Directors are aware of their collective and individual responsibilities to the shareholders of the Company and have exercised their duties with care, skill and diligence, in pursuit of the successful results of the Group. Every Director receives a comprehensive, formal and tailored introduction to ensure that he/she has a proper understanding of the business and operations of the Company and that he/she is fully aware of his/her duties and responsibilities as a Director under the applicable laws, rules and requirements.

In compliance with the Articles and the Listing Rules, at least one-third of the Directors are subject to retirement by rotation at least once every three years and are eligible for re-election. A new Director appointed by the Board is subject to election by the shareholders of the Company at the first general meeting after his or her appointment.

**Number of Board Meetings Held and Attendance**

The Company will adopt the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. The Board will also meet at other times as and when required to review financial performance, internal control procedures, risk management, company strategy and operating performance of the Group. At least 14 days prior written notice convening each Board meeting will be dispatched to the Directors setting out the matters to be discussed. At each meeting, the Directors will be provided with the relevant documents to be discussed and approved. The joint company secretaries of the Company are responsible for keeping minutes for each Board meeting. During the Review Period, there was one regular Board meeting, one audit committee meeting, and one remuneration committee meeting held. During the Board meeting, the Board reviewed and approved the annual results of the Group for the year ended 31 December 2009 and reviewed the results announcement and annual report. Minutes of these meetings are kept by the joint company secretaries and are open for inspection by the Directors.

# Corporate Governance Report

The following is the attendance record of the Board meeting during the Review Period:

| Directors | Attendance at meeting |
|---|---|
| *Executive Directors* | |
| Mr. Thomas H. QUINN | 1/1 |
| Mr. Kee-Kwan Allen CHAN | 1/1 |
| Mr. Kwong Ming Pierre TSUI | 1/1 |
| Mr. Yinghui WANG | 1/1 |
| Mr. Youming YE | 1/1 |
| *Non-executive Directors* | |
| Mr. Rubo LI | 1/1 |
| Mr. John W. JORDAN II | 1/1 |
| Ms. Lisa M. ONDRULA | 1/1 |
| *Independent non-executive Directors* | |
| Dr. Yiming HU | 1/1 |
| Dr. Xuezheng WANG | 1/1 |
| Mr. Zhenduo YUAN | 1/1 |
| Dr. Fung Man Norman WAI | 1/1 |

The individual attendance records of each Director, on a named basis, at the meetings of the Board during the year ended 31 December 2009 are set out below:

| Directors | Number of meetings attended | |
|---|---|---|
| Mr. Thomas H. QUINN | 4/4 | |
| Mr. Kee-Kwan Allen CHAN | 4/4 | |
| Mr. Kwong Ming Pierre TSUI | 4/4 | |
| Mr. Yinghui WANG | 0 | (appointed with effect from 24 January 2010) |
| Mr. Youming YE | 4/4 | |
| Mr. Rubo LI | 4/4 | |
| Mr. John W. JORDAN II | 2/4 | |
| Ms. Lisa M. ONDRULA | 4/4 | |
| Dr. Yiming HU | 0 | (appointed with effect from 24 January 2010) |
| Dr. Xuezheng WANG | 0 | (appointed with effect from 24 January 2010) |
| Mr. Zhenduo YUAN | 0 | (appointed with effect from 24 January 2010) |
| Dr. Fung Man Norman WAI | 0 | (appointed with effect from 24 January 2010) |

## Responsibilities of the Board

While delegating authority and responsibilities for implementing business strategy and managing the day-to-day operations of the Group's business to the management, the Board is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. The Board reviews the operating performance against agreed targets and budgets on a regular basis. The responsibilities of the Board include, among other things, the following:

- convening shareholders' meetings and reporting its work to shareholders at such meeting;
- implementing shareholders' resolutions;
- making decisions on business plans and investment proposals;
- reviewing and approving annual financial budgets and final accounts;
- formulating profit distribution plans;
- formulating proposals relating to the increase or reduction of the Company's authorized capital, the issuance of bonds or other securities and listing plans;
- formulating proposals for material acquisitions, share repurchases by the Company, or mergers, divisions, dissolutions or transformations;
- making decisions on internal and external investment, assets disposal and acquisition, mortgages, external guarantees, entrusted financing, and connected transactions within the scope authorized in the shareholders' general meetings of the Company;
- deciding on internal management structure;
- proposing the appointment or dismissal of the external auditors at the shareholders' general meetings of the Company; and
- exercising other powers authorized at the shareholders' general meeting of the Company or by the Articles.

# Corporate Governance Report

## Chairman and Chief Executive Officer

The Chairman provides leadership for the Board. He is responsible for approving and monitoring the overall strategies and policies of the Company, approving the annual budget and business plan, assessing the performance of the Company and overseeing the duties of management.

The Chief Executive Officer is responsible for the Company's overall business development, strategic planning and daily operation of our Company. He is also responsible for the overall corporate development and the internal management system of our Company.

To ensure a balance of power and authority, the roles of Chairman and Chief Executive Officer are separate and are not performed by the same individual. During the period from the Listing Date and up to the date of this report, Mr. Thomas H. Quinn was the Chairman and Mr. Kee-Kwan Allen Chan was the Chief Executive Officer. As described above, there is a clear distinction between the Chairman's responsibility for providing leadership for the Board and the Chief Executive Officer's responsibility for managing the day-to-day operations of the Group's business.

## Non-executive Directors

Each of the non-executive Directors (except for Mr. John W. Jordan II) and independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from 24 January 2010 except for the letter of appointment of Mr. Rubo Li which has a term commencing from 4 December 2009 and ending on 1 May 2011. All of these agreements provide for termination by either party upon proper written notice to the other party. The incumbent non-executive and independent non-executive Directors have extensive professional experience. Non-executive Directors serve actively on Board committees to provide their independent and objective views, in particular, on issues of policy, performance, accountability, key appointments and standard of conduct and to promote critical review and control. They play an important check-and-balance role to safeguard the interests of the Company and Shareholders as a whole.

The Company has appointed a sufficient number of independent non-executive Directors and the qualifications of the independent non-executive Directors are in compliance with Rule 3.10(2) of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence as required under the Rule 3.13 of the Listing Rules. Independence of each of the independent non-executive Directors has been assessed by the Board and the Board considers that all independent non-executive Directors are independent as required under the Listing Rules. The independent non-executive Directors have no business or financial interests in either the Company or its subsidiaries, nor do they hold administrative posts in the Company. They are entrusted with the duty to safeguard the interests of minority shareholders. They serve a vital role in the decision-making process of the Board and play a key role in corporate governance practices of the Company.

## Board Committees

The Board is supported by the Remuneration Committee and the Audit Committee. Each committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The committees are provided with sufficient resources to discharge their duties and report regularly to the Board, addressing major issues and findings, and making valuable recommendations to assist the Board in its decision making.

## Remuneration Committee

### Composition

The Company established the Remuneration Committee pursuant to a resolution of the Directors passed on 24 January 2010 in compliance with Appendix 14 to the Listing Rules. The Remuneration Committee has written terms of reference as suggested under the code provisions under the Code. The Remuneration Committee is comprised of the following three members:

| | |
|---|---|
| Mr. Thomas H. QUINN *(Chairman of the committee)* | Executive Director |
| Dr. Fung Man Norman WAI | Independent non-executive Director |
| Mr. Zhenduo YUAN | Independent non-executive Director |

The Remuneration Committee has adopted the terms of reference as outlined under the Code.

### Functions of Remuneration Committee

The primary functions of the Remuneration Committee are to formulate remuneration policies and practices to enable the Company to attract, retain and motivate quality personnel, make recommendations on the Company's policy and structure of all remuneration of our Directors and senior management, determine the specific remuneration packages of our executive Directors and senior management, and make recommendations on the remuneration of the non-executive Directors.

# Corporate Governance Report

### Number of Meetings Held and Attendance

The Remuneration Committee will meet at least once a year to determine the remuneration policy for the Directors and senior management and at other times when deemed necessary. During the period from the Listing Date and up to the date of this report, one meeting was held to determine the remuneration policy, bonus and/or share option for the Directors and/or senior management. Individual attendance of members of the Remuneration Committee at the committee meeting is set out below:

| Members of the Remuneration Committee | Number of committee meetings attended |
|---|---|
| Mr. Thomas H. QUINN | 1/1 |
| Dr. Fung Man Norman WAI | 1/1 |
| Mr. Zhenduo YUAN | 1/1 |

The following is a summary of the major tasks attended to by the Remuneration Committee during the period from the date of listing and up to the date of this report:

- review the overall effectiveness of the Company's existing policy and practices of the remuneration of Directors and senior management;
- review of specific remuneration packages for all Directors and senior management;
- review the bonus execution plan for 2009 according to the key performance indicators for year 2009; and
- review and approve a list of recipients for grants under the Share Option Scheme.

In discharge of its functions, the Remuneration Committee consults and seeks advice from the Chairman, the Chief Executive Officer, the Chief Financial Officer and other relevant personnel of the Company. External professional consultants are engaged to provide advice on issues when the Remuneration Committee considers necessary.

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance as measured against the Group's corporate objectives and operating results, taking into account also the comparable market conditions. The principal elements of the remuneration package of an executive Director include director's fee, discretionary bonus, participation in the Company's share schemes and other benefits and allowances. Remuneration of non-executive Directors (including independent non-executive Directors) includes mainly the director's fee which is a matter for the Board to decide by reference to the duties and responsibilities of non-executive Directors (including independent non-executive Directors) and the comparable market conditions. The Company reimburses reasonable out-of-pocket expenses incurred by the Directors in the course of performing their duties as Directors.

Directors do not participate in decisions or attend meetings approving their own remuneration. The emoluments of each Director for the year ended 31 December 2009 are set out in note 9 to the consolidated financial statements.

## Nomination of Directors

The Company has not established a nomination committee. The Board is responsible for formulating procedures for appointing Directors and nominating, for election by shareholders, appropriate persons to fill casual vacancies or as an addition to the existing Directors.

## Audit Committee

### Composition

The Company established the Audit Committee pursuant to a resolution of the Directors passed on 24 January 2010 in compliance with Appendix 14 of the Listing Rules. The Audit Committee has written terms of reference as suggested under the code provisions under the Code. The Audit Committee is comprised of the following three members, all non-executive Directors:

| | |
|---|---|
| Dr. Yiming HU *(Chairwoman of committee)* | Independent non-executive Director |
| Ms. Lisa M. ONDRULA | Non-executive Director |
| Dr. Xuezheng WANG | Independent non-executive Director |

The Audit Committee has adopted the terms of reference as outlined under the Code.

### Functions of the Audit Committee

The primary functions of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, to nominate and monitor external auditors and provide advice and comments to our Directors.

### Number of Meeting Held and Attendance

The Audit Committee will meet at least twice a year to discuss matters relating to the accounting standards and practices adopted by the Company, internal control and financial reporting matters, including reviewing the financial results. During the period from the Listing Date and up to the date of this report, one meeting was held to review the financial results of the Company for the year ended 31 December 2009. Individual attendance of members of the Audit Committee at the committee meeting is set out below:

| Members of the Audit Committee | Number of committee meetings attended |
|---|---|
| Dr. Yiming HU | 1/1 |
| Ms. Lisa M. ONDRULA | 1/1 |
| Dr. Xuezheng WANG | 1/1 |

# Corporate Governance Report

In compliance with Rule 3.21 of the Listing Rules, at least one member of the Audit Committee possesses appropriate professional qualifications or accounting or related financial management expertise in discharging the responsibilities of the Audit Committee.

The following is a summary of the major tasks attended to by the Audit Committee during the period from the Listing Date and up to the date of this report:

- review of and recommendation for the Board's approval of the 2009 annual financial statements with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;
- review the scope of the audit before commencement of audit work for 2010;
- discussion with the external auditor and the management on possible accounting risks;
- review and approval of 2010 internal audit plan;
- review of effectiveness of the internal control system;
- approval of audit fee and terms of engagement of the external auditor; and
- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor.

## Auditors' Fee

For the year ended 31 December 2009, auditing service fees payable to the Company's auditor Ernst & Young amounted to approximately RMB2.43 million. The Company also engaged Ernst & Young to perform certain services in connection with its recent Global Offering. Fees to Ernst & Young in connection with the Global Offering were RMB6.94 million. The Company confirms that there were no other professional fees paid or payable to Ernst & Young during 2009.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on page 49 of this report.

The re-appointment of Ernst & Young as the external auditor of the Company has been recommended by the Audit Committee of the Company, endorsed by the Board and is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting.

## Directors' Securities Transactions

The Company has adopted the Model Code. After making specific enquiries by the Company, all the Directors have confirmed that they had fully complied with the required standards set out in the Model Code throughout the period from the Listing Date and up to the date of this report.

## The Directors confirmed their responsibilities in preparing the Company's financial statements

The Directors acknowledge their responsibility for preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board including the disclosure requirements of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the "**Companies Ordinance**"). This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the state of affairs of the Group, its results and cash flow for the reporting period that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors are also responsible for ensuring that proper accounting records which disclose the financial position of the Group are kept at all times.

## Internal Control

The Board acknowledges that it is the responsibility of the Board to review the Company's system of internal control for effectiveness. The Board will conduct periodic reviews on the progress of the improvements to, and endeavor to enhance the, internal control measures of the Group.

Prior to the Global Offering, the sponsor of the Company appointed an independent internal control advisor to assess the Group's internal control systems covering financial, operational and compliance controls and risk management functions, and recommend actions to improve our internal controls. The Company has taken many steps to enhance its internal control system, including addressing all findings by the independent internal control advisor.

The Company established the Internal Audit function at the end of 2009, which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit function are reviewing the financial condition and internal control of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis.

The Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions of the Group.

# Corporate Governance Report

## Non-competition Undertakings

As disclosed in the Prospectus, in January 2010, the Resolute Fund, L.P., each of the five parallels funds, (namely, The Resolute Fund SIE, L.P., The Resolute Fund Netherlands, PV I, L.P., The Resolute Fund Netherlands, PV II, L.P., The Resolute Fund Singapore PV, L.P., and The Resolute Fund NQP, L.P., collectively, the "**Five Parallel Funds**") and TJCC Holdings Ltd., have executed a Non-competition Undertaking through which they have undertaken not to compete, either directly or indirectly, whether on its own or jointly with other entities in any activities or businesses which compete with the business of designing, manufacturing and sales of underground longwall coal mining equipment as well as provision of longwall coal mining solutions and such other business related to longwall coal mining equipment as engaged or operated by the Group in China during the term of the Non-competition Undertaking. Our independent non-executive Directors will review, at least annually, the compliance with and enforcement of the terms of the Non-competition Undertaking by the controlling shareholders. We will also disclose the annual declarations by The Resolute Fund, L.P., each of the Five Parallel Funds and TJCC Holdings Ltd. in the annual report of the Company. The Non-competition Undertaking took effect as of the Listing Date and therefore the independent non-executive Directors did not conduct a review of the compliance with the Undertaking for the year ended 31 December 2009.

## Going Concern

For 2009, there was no uncertainty or conditions of a material nature that would affect the Company's ability to continue as a going concern.

## Investor Relations

Beginning from the Listing Date, the Company is committed to maintaining an open and effective investor relations policy and to update investors on relevant information/developments in a timely manner, subject to relevant regulatory requirements. Briefings and meetings with institutional investors and analysts will be conducted from time to time. The Company will also reply to the inquiries from shareholders timely. The Directors will host an annual general meeting each year to meet the shareholders and answer their questions.

To promote effective communication, the Company maintains a website at http://www.immchina.com, where up-to-date information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

## Directors

### Executive Directors

**Mr. Thomas H. QUINN,** 62, is our executive Director and the Chairman of the Board of our Company. He has also been a director of Jiamusi Machinery and Jixi Machinery since May 2006 and a director of Huainan Longwall since June 2007. Mr. Quinn has served as our Director since April 2006. Mr. Quinn has also been a managing principal of The Jordan Company, L.P. (a New York based private investment firm) since September 2001. Mr. Quinn has over 30 years of experience in operations management in the machinery manufacturing industry. He established the Operations Management Group for The Jordan Company, L.P. in 1988 and continues to lead the U.S. and China Operation Management Group teams as well as leading The Jordan Company, L.P.'s investments in various companies. Mr. Quinn has served as director of several portfolio companies of The Jordan Company, L.P., including Healthcare Product Holdings Inc. since September 1998, Sensus Metering Systems, Inc. since December 2003, Jordan Specialty Plastics Inc. since February 1998, Service Logic LLC since September 2007, WCT Holdings, Ltd. since October 2007, Harrington Holdings, Inc. since January 2006 and Wound Care Solutions, LLC since October 2006. Since June 1988, he has been the president of Jordan Industries, Inc., whose diverse group of subsidiaries are engaged in numerous businesses such as the manufacture of heavy-duty transmissions for industrial equipment and the manufacture of transmissions and torque converters for the automotive aftermarket industry. Mr. Quinn was also the group vice president for Baxter International, Inc. from November 1985 to May 1987. Since December 2006, he has also been the chairman of ETX Inc., which manufactures parts for the U.S. auto and heavy-duty truck equipment businesses. Mr. Quinn obtained a Bachelor of Arts degree in Economics from the University of Notre Dame, U.S. in 1969, and attended the Graduate School of Economics of Cornell University, U.S. from 1969-1970. Mr. Quinn was appointed as our Director on 12 April 2006.

**Mr. Kee-Kwan Allen CHAN (陳其坤)**, 57, is our Chief Executive Officer and executive Director. He is responsible for the Group's overall business development, strategic planning and daily operation of our Company. He is also responsible for the overall corporate development and the internal management system of our Group. Mr. Chan joined The Jordan Company, L.P. as the President of China Operations in January 2006 and our Company in May 2006, and has been with our Company ever since. Mr. Chan has also served as a director of Jiamusi Machinery and Jixi Machinery since May 2006, and Huainan Longwall since June 2007. Mr. Chan has over 27 years of experience in the machinery manufacturing industry. Prior to joining our Company, he has held management positions in various industrial companies: he was the president at GET Manufacturing, Inc. from October 1996 to March 1998; president of Asia Pacific of Ingersoll-Rand Company and chairman of Ingersoll-Rand (China) Investment Ltd. from March 1999 to September 2004; and president for SIRVA Asia Pacific Pty Ltd. from October 2004 to December 2005. Mr. Chan obtained a Bachelor of Science degree in Mechanical Engineering from University of Lowell, U.S. in 1977, and a Master of Science degree in Mechanical Engineering from the Massachusetts Institute of Technology, U.S. in 1979. Mr. Chan was appointed as our Director on 16 May 2006.

# Directors and Senior Management

**Mr. Kwong Ming Pierre TSUI (徐廣明)**, 45, is our Chief Financial Officer and executive Director. He is responsible for financial aspects of our Company including overseeing all finance and accounting issues for our Group, overall strategic financial planning and analysis for our Group and supervising the implementation of the annual, quarterly and monthly financial plans of our Group. Mr. Tsui has been with our Company since April 2006. He has also been the chief financial officer of Jixi Machinery and Jiamusi Machinery since May 2006. He is a member of the Hong Kong Institute of Certified Public Accountants since 1995 and the American Institute of Certified Public Accountants since 1995. Mr. Tsui obtained a Bachelor's degree in Accounting and Finance from University of Lancaster, United Kingdom in 1990, a Bachelor of Laws degree from University of Wolverhampton, United Kingdom in 1999, a Master's degree in Accounting and Finance from the London School of Economics & Political Science, United Kingdom in 1999 and a Master's degree in Business Administration from University of Southern California, U.S. in 2009. Mr. Tsui was appointed as our Director on 24 January 2010.

**Mr. Yinghui WANG (王穎輝)**, 53, is our President and executive Director. He is responsible for our Group's overall business development. He is also responsible for devising the annual plan and financial budget and making recommendations on significant investments of our Group. Mr. Wang joined our Company in May 2006. He has also served as a director of Jiamusi Machinery and Jixi Machinery since May 2006. Mr. Wang was the Vice President of our Company from May 2006 to May 2008. Mr. Wang has over 30 years of experience in the mining equipment machinery manufacturing industry. Prior to joining our Company, Mr. Wang served as a senior engineer and manager of the cast steel workshop of the predecessor of Jixi Machinery from August 1980 to February 1995. He was the chief economist of the predecessor of Jixi Machinery from February 1995 to February 1998. Mr. Wang was the plant manager of the predecessor of Jiamusi Machinery from February 1998 to November 2000. Mr. Wang was the general manager of HCMMG from November 2000 to May 2006. Mr. Wang obtained a Bachelor's degree in Engineering from Heilongjiang Mining Institute, PRC in April 1989. Mr. Wang is a senior engineer. Mr. Wang was appointed as our Director on 24 January 2010.

**Mr. Youming YE (葉有明)**, 50, is our executive Director. Mr. Ye has served as our Director since May 2006. Mr. Ye has also been a director of Jiamusi Machinery and Jixi Machinery since May 2006 and a director of Huainan Longwall since June 2007. Mr. Ye began his career with one of the affiliates of The Jordan Company, L.P. in 1995. He is currently responsible for, among other things, all of The Jordan Company, L.P.'s business development and sourcing activities in China and the Far East. He also has a key role in leading negotiations, due diligence, corporate governance and post investment integration efforts for all The Jordan Company, L.P.'s investments in China and Asia. Mr. Ye has over 14 years of experience in operation management in the machinery manufacturing industry. From January 1995 to March 2004, he was the vice president and a director of international business at Jordan Industries, Inc., whose diverse group of subsidiaries are engaged in numerous businesses such as the manufacture of heavy-duty transmissions for industrial equipment and the manufacture of transmissions and torque convertors for the automotive aftermarket industry. He has also been a director of Kinetek De Sheng (Foshan) Motor Co., Ltd. since April 2002. Mr. Ye obtained a Bachelor of Arts degree from Amoy University, PRC in 1984, a master of Business Administration in Marketing from Arizona State University, U.S. in 1994, and a Master of International Management in International Finance degree from American Graduate School of International Management (Thunderbird), U.S. in 1994. Mr. Ye was appointed as our Director on 16 May 2006.

### Non-executive Directors

**Mr. Rubo LI (李汝波)**, 53, is our non-executive Director. Mr. Li is also a director of Jiamusi Machinery, Jixi Machinery and Huainan Longwall. He has been our Director since May 2006. Mr. Li is one of our founders and our former Vice Chairman. He has been engaged as a consultant to our Company pursuant to a consulting agreement (as amended) since 16 May 2006. Mr. Li has over 12 years of experience in operation management in the mining equipment machinery manufacturing industry and over seven years of experience in the coal mining industry. He was a mining engineer in the infrastructure construction department of China National Coal Ministry (中國煤炭工業部) from 1982 to 1985. From June 1996 to June 2006, he was the chairman and chief executive officer of G.F. Transnational Inc. and invested in a number of concrete plank companies, concrete enterprises and a block machine manufacturer. Mr. Li also has served as chairman and chief executive officer of GFT Group Holding Limited since 1998. Mr. Li is a director of Mining Machinery Limited, a company incorporated in Mauritius, which controlled 100% equity interest in Zhengzhou Siwei through its wholly-owned subsidiary HK Siwei. Mr. Li is also a shareholder with 59.7% equity interest of Jiaozuo Metech Mechanical Manufacturing Co., Ltd. (焦作美泰科機械製造有限公司). Mr. Li obtained a Bachelor's degree in Surface Mining from Fuxin Mining Institute, PRC (currently known as Liaoning Technical University) in 1981, and a Master's degree in Mining Engineering from South Dakota School of Mines, U.S. in 1998. Mr. Li was appointed as our Director on 16 May 2006.

**Mr. John W. JORDAN II**, 62, is our non-executive Director. He has served as our Director since May 2006. Mr. Jordan is the founder, chairman and one of the managing principals of The Jordan Company, L.P. which is the manager of The Resolute Fund, L.P. Mr. Jordan has over 20 years of experience in operations management in the machinery manufacturing industry. He has served as a director of several portfolio companies of The Jordan Company, L.P., including Sensus Metering Systems, Inc. since December 2003, TAL International Group, Inc. since November 2004, and Wound Care Solutions, LLC since October 2006. Since May 1988, he has been the chairman and chief executive Officer of Jordan Industries, Inc., whose subsidiaries have been engaged in numerous businesses such as the manufacture of heavy-duty transmissions for industrial equipment and the manufacture of transmissions and torque convertors for the automotive aftermarket industry. He has been a director of Kinetek, Industries Inc. since November 2006. He remains involved in the U.S. auto and heavy-duty truck equipment businesses through his directorship in ETX Inc. Mr. Jordan currently serves as a director of over 20 public, private and philanthropic organisations in the United States, including the Lyric Opera and the Art Institute of Chicago. Mr. Jordan is a Trustee of the University of Notre Dame serving as Chairman of the Investment Committee. Mr. Jordan obtained a Bachelor of Arts degree in Business Administration from University of Notre Dame, U.S. in 1969, and attended the Graduate School of Business of Columbia University, U.S. from 1971 to 1973. Mr. Jordan was appointed as our Director on 16 May 2006.

# Directors and Senior Management

**Ms. Lisa M. ONDRULA**, 40, is our non-executive Director. She is the chief financial officer of Jordan Industries, Inc., an affiliate of The Jordan Company, L.P. as well as a member of the Operations Management Group of The Jordan Company, L.P. Ms. Ondrula has been with Jordan Industries, Inc. for over 15 years and has extensive experience in financial reporting and analysis, debt offerings, acquisition and divestitures, treasury functions and both public and private audit and reporting requirements. Ms. Ondrula oversees the U.S. based reporting for numerous portfolio companies of Jordan Industries, primarily in the manufacturing, industrial and commercial products sectors, and for The Jordan Company including the reporting for our Group. Prior to her employment at Jordan Industries, Ms. Ondrula worked for Ernst & Young LLP in their audit practice, focusing on manufacturing clients with additional experience in corporate reporting and Securities and Exchange Commission filings. Ms. Ondrula earned a Bachelor of Science degree in Accounting from Miami University in Oxford Ohio, U.S. in 1991 and is a Certified Public Accountant. Ms. Ondrula was appointed as our Director on 24 January 2010.

### Independent Non-executive Directors

**Dr. Yiming HU (胡奕明)**, 46, is our independent non-executive Director. Dr. Hu is currently a professor of accounting and finance of Antai College of Economics & Management and the director of the Company Financial Research Centre of Antai College of Economics & Management at the Shanghai Jiao Tong University, China since January 2005. Dr. Hu has more than 20 years of experience in accounting. Dr. Hu was a research assistant in the Computer Centre at Xiamen University, China from September 1988 to April 1991, lecturer of the Accounting Department at the School of Management of Xiamen University, China from April 1991 to September 1997, associate professor of the MBA Centre of the School of Management at Xiamen University, China from September 1997 to September 1999 and supervisor of Ph.D. students of the School of Accountancy from September 2001 to January 2005 at the Shanghai University of Finance and Economics, China. Dr. Hu has been an administrative officer of China Society for Finance and Banking (中國金融學會) since May 2005, a member of the Accounting Committee of the Asia Pacific Management Association (亞太管理會計指導委員會) since April 2006, and a member of the Professional (Finance and Accounting) Committee of the Chinese Accounting Society (中國會計學會專業委員會(金融會計)) since February 2008. Dr. Hu obtained a Bachelor of Science degree in Chemistry from Xiamen University, PRC in 1985 and a Ph.D. degree in Management/Accounting from Xiamen University, PRC in 1998. Dr. Hu was appointed as our independent non-executive Director on 24 January 2010.

**Dr. Xuezheng WANG (王學政)**, 60, is our independent non-executive Director. Dr. Wang took various positions in the Bureau of Administration of Industry and Commerce (國家工商行政管理局), including director of Administration and Research Division from February 1987 to October 1988, director of Regulation Department (政策法規司) from November 1988 to April 1990, and vice-chief of Laws and Regulation Department (條法司) from May 1990 to June 1994. He was the chief of Department of Law (法制司) and Department of Market Regulation (法規司) in State Administration of Industry and Commerce (國家工商行政管理總局) respectively from July 1994 to September 2009. Dr. Wang also held positions in various academic and research institutions, including the vice president of Civil Law Department of China Law Society (中國法學會民法學會) from August 2004 to present, researcher of Public Law Centre in Beijing University, China (北京大學公法研究中心), researcher of Development Strategy and Regional Economy Department of the State Council Research Centre (國務院發展研究中心世界發展研究所), and the committee member of the Expert Consultants Committee of the State Council on the Reform of the Administrative Examination and Approval System (國家行政審批制度改革專家諮詢組). Dr. Wang retired from his government position in September 2009. Dr. Wang obtained a Bachelor of Science degree in English from Xibei Normal University, PRC in 1982, a Masters degree of Laws in Civil Law from Jilin University, PRC in 1984, a certificate of World Intellectual Property Organisation Academy in 1994, and a Ph.D. degree in Constitutional and Administrative Law from Beijing University, PRC in 2000. Dr. Wang was appointed as our independent non-executive Director on 24 January 2010.

**Mr. Zhenduo YUAN (苑振鐸)**, 67, is our independent non-executive Director. Mr. Yuan has more than 30 years of experience in the coal mining industry. He served various positions in the Liaoning Province Nanpiao Mining Affairs Bureau (遼寧省南票礦務局) during the period from September 1961 to December 1983, starting from a technician, engineer, and deputy head and concluding as the head of the Liaoning Province Nanpiao Mining Affairs Bureau from August 1980 to December 1983. Mr. Yuan was the deputy general manager of Northeast Inner Mongolia Coal Mining Industry Allied Company (東北內蒙古煤炭工業聯合公司) from March 1984 to March 1994, and the director general of the Liaoning Province Coal Industry Administrative Bureau (遼寧煤炭工業管理局) and the Liaoning Administrative Bureau of Coal Mine Safety (遼寧省煤礦安全監察局) from April 1994 to February 2002. From March 2002 to April 2008, Mr. Yuan was the standing committee member of the Liaoning Province's Political Consultative Conference (中國人民政治協商會議遼寧省委員會). Mr. Yuan is a senior engineer and enjoys special government allowance of the State Council. Mr. Yuan was appointed as our independent non-executive Director on 24 January 2010.

**Dr. Fung Man Norman WAI (衛鳳文)**, 61, is our independent non-executive Director. Since November 2007, Dr. Wai has been the managing director of New World Telecommunications Limited (NWT), a wholly-owned subsidiary of New World Development Company Limited (stock code: 17). Dr. Wai is also a director of CSL New World Mobility Limited, and a member of its remuneration committee as well as audit committee. Dr. Wai was an executive director and chief executive officer of New World Mobile Holdings Limited, a Hong Kong listed company (Stock Code: 862) from July 2004 to February 2007. He was also the president and chief executive officer of New World PCS Ltd. during July 2000 to June 2004, and the executive director of New World TMT from January 2003 to March 2006. He is also the managing director of a fast-growing biotechnology company in Asia Pacific. Dr. Wai is a veteran with over 40 years of solid experience in telecommunications. He held senior executive positions of various telecommunications companies in Europe, Canada and Hong Kong. Dr. Wai graduated and obtained a Master of Science and a Doctor of Philosophy degree from the University of Manchester, United Kingdom in December 1976 and March 1979, respectively. He is a Chartered Engineer and a Fellow of The Institution of Engineering and Technology, United Kingdom. Dr. Wai was appointed as our independent non-executive Director on 24 January 2010.

# Directors and Senior Management

## Senior Management

**Mr. Kee-Kwan Allen CHAN (陳其坤)** was our Chief Executive Officer between 16 May 2006 and 17 October 2007 and was reappointed as our Chief Executive Officer on 6 May 2008. Please refer to his biography under the sub-section headed "Directors".

**Mr. Kwong Ming Pierre TSUI (徐廣明)**, is our Chief Financial Officer appointed on 12 April 2006. Please refer to his biography under the sub-section headed "Directors".

**Mr. Yinghui WANG (王穎輝)** is our President appointed on 6 May 2008. Please refer to his biography under the sub-section headed "Directors".

**Mr. Zhongfeng LI (李中鋒)**, 43, is our Vice President (Strategic Development and Human Resources) since 12 December 2007. His primary responsibility is to assist our Chief Executive Officer and our President in formulating strategy for mid and long term development of our Company, coordinate daily management, carry out market development and public relation work, and manage the operation, in particular, human resources aspect of our Group. Mr. Li has over 20 years of experience in the coal mining industry. Prior to joining our Company in December 2007, Mr. Li served in various positions in a number of coal mining organizations and coal mining authorities, including as a principal staff member and deputy director of the general of China National Coal Corporation (中國統配煤礦總公司) from July 1989 to March 1993, director-general of the general office of China National Coal Ministry (中國煤炭工業部) from March 1993 to March 1998, director of general administration department of the supervision bureau of State Administration of Coal Mine Safety from August 1998 to August 2000, deputy director-general and member of the communist party committee of Shanxi Administration Bureau Coal Mine Safety (山西煤礦安全監察局) from August 2000 to July 2003, and deputy director-general of the general office of the State Administration of Work Safety from July 2003 to December 2007. Mr. Li was appointed as deputy director – general of China National Coal Machinery Industry Association in June 2008. Through his working experience with various coal mining authorities, Mr. Li has gained extensive knowledge in the development, plans and policies on the coal industry in China. Mr. Li graduated from the Jiaozuo Mining Institute, PRC, with a Bachelor of Engineering degree in coal mine survey in July 1989 and obtained a Master's degree in Mining Engineering Management from Liaoning Technical University, PRC in July 1997. Mr. Li attended the training class for young and middle aged cadres in the Central Communist Party School, PRC and graduated in July 2005. Mr. Li is an engineer.

**Mr. Xu GUO (郭旭)**, 52, has been our Vice President (Marketing) since 8 January 2007. He is responsible for supervising the promotional and marketing aspects of our Company. Prior to joining our Company, Mr. Guo was a deputy director general of the general office of Northeast Inner Mongolia Coal Industry Allied Company (東北內蒙古煤炭工業聯合公司) from July 1992 to March 1994, the general manager (vice bureau level) of Multi Operation Company of the Coal Industry Administrative Bureau of Liaoning Province (遼寧煤炭工業管理局多種經營公司) from April 1994 to June 2002. From August 2003 to November 2004, Mr. Guo was the assistant counsel of Liaoning Administration Bureau of Coal Mine Safety (遼寧煤礦安全監察局), his principal responsibility was to supervise the safety of coal mines. He also served as the vice president of GFT Group Holding Limited from November 2004 to December 2006 and the president of Beijing Siwei Coal Mining Machinery Technology Co., Ltd. from November 2004 to December 2006. Mr. Guo has 30 years working experiences in the coal industry; he is familiar with every stage of the front line of coal production. Mr. Guo graduated from Fuxin Mining Institute, PRC in February 1982 with a Bachelor of Engineering degree in machinery manufacturing and obtained a Master of Business Administration degree from Roosevelt University, U.S. in May 2002. Mr. Guo attended national coal safety supervision training in March 2003. Mr. Guo is a senior engineer.

**Mr. Chunzhao ZHANG (張春照)**, 61, has been the chief executive officer of Jiamusi Machinery since 5 June 2009. He is responsible for the overall business development and daily management of Jiamusi Machinery. Mr. Zhang served as the chairman and secretary of the communist party committee of the predecessor of Jiamusi Machinery from May 2002 to June 2006. Mr. Zhang joined Jiamusi Machinery in June 2006 and served as the president of Jiamusi Machinery from June 2006 to June 2009. Mr. Zhang has more than 42 years of experience in the mining equipment machinery manufacturing industry. He started his career at Jiamusi Coal Mining Machinery Factory (佳木斯煤機廠) (the predecessor of Jiamusi Machinery) since August 1967 and has worked there for almost 40 years. During his time at Jiamusi Coal Mining Machinery Factory, he served in various positions. Mr. Zhang was the assistant to factory manager, deputy factory manager and factory manager from December 1994 to May 2002. Mr. Zhang studied at Jiamusi Coal Mining Machinery Technology College, PRC from August 1965 to August 1967 and graduated from Jiamusi City Technology College, PRC completing the course in Business Management in December 1988.

**Mr. Wenbin WANG (王文斌)**, 57, has been the president of Jiamusi Machinery since 5 June 2009. He is responsible for the business development and corporate management of Jiamusi Machinery. Mr. Wang has served in various positions at Jiamusi Machinery since June 2006, including vice president of production from June 2006 to March 2007, vice president of sales from March 2007 to July 2008, and vice president of the operation from July 2008 to June 2009. Mr. Wang has more than 26 years of experience in the mining equipment machinery manufacturing industry. Mr. Wang joined the predecessor of Jiamusi Machinery in October 1983, where he served in various management positions. Mr. Wang graduated from Liaoyuan Employees University, PRC in Jilin Province, PRC with a Bachelor's degree in Mechanical Engineering in 1975, and graduated from the Fuxin Mining Institute, PRC completing the course in Mechanical Engineering in December 1993.

# Directors and Senior Management

**Mr. Hengjun QI (祁恒軍)**, 46, has been the president of Jixi Machinery since 5 June 2009. He is responsible for the business development and corporate management of Jixi Machinery. Mr. Qi joined Jixi Machinery and served as vice president of production from September 2006 to June 2007, as vice president of sales from June 2007 to August 2008 and vice president of operation from August 2008 to June 2009. Mr. Qi has more than 24 years of experience in the mining equipment machinery manufacturing industry. He had been with the predecessor of Jixi Machinery since August 1985 where he served in various positions: he started with the research department as a technician from August 1985 to August 1986, assistant to engineer from August 1986 to December 1995, senior engineer from December 1995 to January 1997, project principal engineer from January 1997 to November 2000, engineer supervisor from November 2000 to November 2003, deputy chief engineer and head of the research department from November 2003 to January 2005 and chief engineer from January 2005 to September 2006. Mr. Qi obtained a Bachelors degree in Engineering from the China Institute of Mining and Technology, PRC in July 1985.

## Joint Company Secretaries

**Mr. NGAI Wai Fung (魏偉峰)**, aged 48, is a joint company secretary of the Company. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently the vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its Membership Committee. Mr. Ngai is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Ngai holds a Master of Corporate Finance Degree from the Hong Kong Polytechnic University, Master of Business Administration Degree from Andrews University of the United States and a Bachelor of Laws (with Honours) Degree from the University of Wolverhampton, the United Kingdom. He is also undertaking a PhD course (thesis stage) in Finance at the Shanghai University of Finance and Economics. Mr. Ngai was appointed as the joint company secretary of the Company on 30 November 2009.

**Mr. Dong WANG (王東)**, 39, is our joint company secretary. Mr. Wang joined the Operations Management Group of The Jordan Company, L.P. in July 2007, and is responsible for The Jordan Company, L.P.'s business development in China and East Asia. Mr. Wang has 10 years experience in investment banking and 5 years of experience in private equity investment management. Mr. Wang worked in the investment banking department of Guotai Junan Securities between 1993 and 2002 initially as an associate and was subsequently appointed as a director. Mr. Wang worked as an investment vice-president in Haitong-Fortis Private Equity Fund Management Co., Ltd from February 2005 to December 2005 and an investment officer in International Finance Corporation from December 2005 to June 2007. Mr. Wang obtained a Bachelor's degree in Economics from Shanghai University of Finance and Economics, PRC in 1993 and a Master's degree in Business Administration from Rice University, U.S. in 2004. Mr. Wang was appointed as our joint company secretary on 24 January 2010.

ERNST & YOUNG
安 永

**To the shareholders of International Mining Machinery Holdings Limited**
(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements of International Mining Machinery Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 51 to 132, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

# Independent Auditors' Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

26 April 2010

# Consolidated Income Statement

Year ended 31 December 2009

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **REVENUE** | 6 | 1,519,503 | 1,279,693 |
| Cost of sales | | (944,375) | (804,564) |
| Gross profit | | 575,128 | 475,129 |
| Other income and gains | 6 | 15,484 | 7,743 |
| Selling and distribution costs | | (105,252) | (118,250) |
| Administrative expenses | | (180,867) | (167,802) |
| Other expenses | | (8,839) | (10,023) |
| Finance revenue | 7 | 18,743 | 14,646 |
| Finance costs | 7 | (20,144) | (17,058) |
| Share of (losses)/profits of associates | 19 | (98) | 767 |
| **PROFIT BEFORE TAX** | 8 | 294,155 | 185,152 |
| Income tax expense | 10 | (61,311) | (38,990) |
| **PROFIT FOR THE YEAR** | | 232,844 | 146,162 |
| Attributable to: | | | |
| Owners of the parent | | 228,726 | 150,354 |
| Minority interests | | 4,118 | (4,192) |
| | | 232,844 | 146,162 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic | 12 | 0.29 | 0.19 |

Details of the dividends for the year are disclosed in Note 11 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Profit for the year | **232,844** | 146,162 |
| Other comprehensive income: | | |
| Exchange differences on translation of foreign operations | **570** | 31,335 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **233,414** | 177,497 |
| Attributable to: | | |
| Owners of the parent | **229,296** | 181,689 |
| Minority interests | **4,118** | (4,192) |
| | **233,414** | 177,497 |

# Consolidated Statement of Financial Position

31 December 2009

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **292,657** | 279,340 |
| Land use rights | 15 | **141,194** | 126,649 |
| Goodwill | 16 | **101,203** | 101,203 |
| Other intangible assets | 17 | **33,640** | 48,909 |
| Investments in associates | 19 | **21,069** | 21,281 |
| Available-for-sale investments | 20 | **7,500** | 7,500 |
| Deferred tax assets | 21 | **7,654** | 10,257 |
| Prepayments, deposits and other receivables | 24 | **21,996** | 38,674 |
| | | **626,913** | 633,813 |
| **CURRENT ASSETS** | | | |
| Inventories | 22 | **310,213** | 413,645 |
| Trade and bills receivables | 23 | **1,046,156** | 719,689 |
| Prepayments, deposits and other receivables | 24 | **112,914** | 70,135 |
| Cash and cash equivalents | 25 | **73,520** | 80,933 |
| Amount due from a shareholder | 26 | **–** | 19,181 |
| Amounts due from related parties | 27 | **35,723** | 221,799 |
| | | **1,578,526** | 1,525,382 |
| **CURRENT LIABILITIES** | | | |
| Interest-bearing loans | 29 | **304,994** | 113,760 |
| Trade payables | 30 | **352,977** | 418,413 |
| Other payables and accruals | 31 | **319,692** | 321,120 |
| Tax payable | | **57,120** | 52,881 |
| Amounts due to shareholders | 26 | **143** | 156 |
| Amounts due to related parties | 27 | **25,000** | 64,108 |
| Amount due to the holding company | 28 | **–** | 126,760 |
| Preference shares | 33 | **403,397** | – |
| | | **1,463,323** | 1,097,198 |
| **NET CURRENT ASSETS** | | **115,203** | 428,184 |

# Consolidated Statement of Financial Position

31 December 2009

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **742,116** | 1,061,997 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 21 | **50,064** | 49,395 |
| Preference shares | 33 | **–** | 554,180 |
| | | **50,064** | 603,575 |
| **NET ASSETS** | | **692,052** | 458,422 |
| **EQUITY** | | | |
| Equity attributable to owners of the parent: | | | |
| Ordinary share capital | 32 | **80** | 78 |
| Reserves | 34 | **668,663** | 439,153 |
| | | **668,743** | 439,231 |
| Minority interests | | **23,309** | 19,191 |
| **TOTAL EQUITY** | | **692,052** | 458,422 |

**Mr. Kee-Kwan Allen Chan**
*Director*

**Mr. Kwong Ming Pierre Tsui**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2009

| | Equity attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Ordinary share capital RMB'000 (Note 32) | Share premium account RMB'000 (Note 34) | Statutory reserve fund RMB'000 (Note 34) | Retained earnings RMB'000 | Exchange fluctuation reserve RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
| As at 31 December 2007 and 1 January 2008 | 78 | 7,723 | 25,982 | 185,650 | 38,109 | 257,542 | 23,383 | 280,925 |
| Total comprehensive income for the year | – | – | – | 150,354 | 31,335 | 181,689 | (4,192) | 177,497 |
| As at 31 December 2008 and 1 January 2009 | 78 | 7,723 | 25,982 | 336,004 | 69,444 | 439,231 | 19,191 | 458,422 |
| Issues of shares | 2 | 214 | – | – | – | 216 | – | 216 |
| Total comprehensive income for the year | – | – | – | 228,726 | 570 | 229,296 | 4,118 | 233,414 |
| As at 31 December 2009 | 80 | 7,937* | 25,982* | 564,730* | 70,014* | 668,743 | 23,309 | 692,052 |

* These reserve accounts comprise the consolidated reserves of RMB668,663,000 (2008: RMB439,153,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2009

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 294,155 | 185,152 |
| Adjustments for: | | | |
| Depreciation of items of property, plant and equipment | 8 | 32,052 | 32,854 |
| Amortisation of land use rights | 8 | 3,428 | 3,124 |
| Amortisation of other intangible assets | 8 | 15,269 | 15,269 |
| Loss/(gain) on disposal of items of property, plant and equipment | 8 | 499 | (463) |
| Reversal of inventories to net realisable value | 8 | (18,276) | (1,948) |
| Provision for impairment of trade receivables | 8 | 2,448 | 835 |
| Finance costs | 7 | 20,144 | 17,058 |
| Finance revenue | 7 | (18,743) | (14,646) |
| Share of losses/(profits) of associates | | 98 | (767) |
| | | 331,074 | 236,468 |
| Increase in trade and bills receivables | | (328,915) | (124,918) |
| Increase in prepayments, deposits and other receivables | | (42,665) | (10,900) |
| Decrease/(increase) in inventories | | 121,708 | (86,892) |
| (Decrease)/increase in trade payables | | (65,436) | 102,950 |
| (Decrease)/increase in other payables and accruals | | (854) | 64,522 |
| Increase in amount due to the holding company | | 44,404 | 52,128 |
| Increase in amounts due to related parties and shareholders | | 13,732 | 22,763 |
| | | 73,048 | 256,121 |
| Income tax paid | | (53,800) | (47,286) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | | 19,248 | 208,835 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2009

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of items of property, plant and equipment | | (47,523) | (66,994) |
| Purchase of land use rights | | (2,553) | – |
| Purchase of intangible assets | | – | (24,062) |
| Purchase of associates | | – | (20,000) |
| Proceeds from disposal of items of property, plant and equipment | | 2,913 | 1,206 |
| Increase in amounts due from related parties | | (65,872) | (98,718) |
| Decrease in an amount due from a shareholder | | – | 379 |
| Interest received | | 551 | 2,037 |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | | (112,484) | (206,152) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from paid up preference shares | | 145,887 | – |
| Repurchase of preference shares | | (242,516) | – |
| New bank loans | | 346,021 | 81,060 |
| Repayment of bank loans | | (154,787) | (87,752) |
| Interest paid | | (8,780) | (10,449) |
| **NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES** | | 85,825 | (17,141) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | (7,411) | (14,458) |
| Cash and cash equivalents at beginning of year | | 80,933 | 95,698 |
| Effect of foreign exchange rate changes, net | | (2) | (307) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 73,520 | 80,933 |

# Statement of Financial Position of the Company

31 December 2009

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 18 | **14,900** | 323,719 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | 24 | **19,468** | – |
| Cash and cash equivalents | 25 | **2,501** | 1,617 |
| Amounts due from subsidiaries | 27 | **685,582** | 79,509 |
| Amount due from a shareholder | 26 | **–** | 19,181 |
| Amounts due from related parties | 27 | **–** | 210,960 |
| | | **707,551** | 311,267 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 31 | **45,471** | – |
| Amounts due to shareholders | 26 | **143** | 156 |
| Amount due to a related party | 27 | **–** | 35,775 |
| Amount due to the holding company | 28 | **–** | 126,760 |
| Preference shares | 33 | **403,397** | – |
| | | **449,011** | 162,691 |
| **NET CURRENT ASSETS** | | **258,540** | 148,576 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **273,440** | 472,295 |
| **NON-CURRENT LIABILITIES** | | | |
| Preference shares | 33 | **–** | 554,180 |
| **NET ASSETS/(LIABILITIES)** | | **273,440** | (81,885) |
| **EQUITY** | | | |
| Ordinary share capital | 32 | **80** | 78 |
| Reserves | 34 | **273,360** | (81,963) |
| **TOTAL EQUITY/(DEFICITS)** | | **273,440** | (81,885) |

**Mr. Kee-Kwan Allen Chan**
*Director*

**Mr. Kwong Ming Pierre Tsui**
*Director*

## 1. Corporate Information

The Company was incorporated in the Cayman Islands on 12 April 2006 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in the manufacture and sale of mining machinery in Mainland China. The registered office of the Company is located at Walker House, PO Box 908GT, Mary Street, George Town, Grand Cayman, Cayman Islands.

On 14 April 2006, the Company acquired the entire issued share capital of International Mining Machinery Limited ("IMM Mauritius"), a company incorporated in Mauritius. On 16 May 2006, IMM Mauritius acquired the entire equity interests of Jiamusi Coal Mining Machinery Co., Ltd. ("Jiamusi Machinery") and Jixi Coal Mining Machinery Co., Ltd. ("Jixi Machinery"), companies registered in the PRC, from Heilongjiang Coal Mining Machinery Group Co., Ltd. ("HCMMG"). Pursuant to the acquisition above, Jiamusi Machinery and Jixi Machinery became wholly-owned subsidiaries of the Company, as set out in Note 4 to financial statements.

In the opinion of the Directors, the Company's holding company is TJCC Holdings Ltd., which was incorporated in the Cayman Islands. TJCC Holdings Ltd.'s controlling shareholder is The Resolute Fund L.P., which is a limited partnership, established under the laws of the British Virgin Islands. The Jordan Company, which was incorporated in United States, manages The Resolute Fund, L.P.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 February 2010.

## 2. Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") that are applicable to the year and the disclosure requirements of the Hong Kong Companies Ordinance.

The financial statements have been prepared under the historical cost convention. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

# Notes to Financial Statements

Year ended 31 December 2009

## 2. Basis of Preparation (Continued)

**Basis of consolidation** (Continued)

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

## 3.1 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| IFRS 1 and IAS 27 Amendments | Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* |
| IFRS 2 Amendments | Amendments to IFRS 2 *Share-based Payment – Vesting conditions and Cancellations* |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments* |
| IFRS 8 | *Operating Segments* |
| IAS 1 (Revised) | *Presentation of Financial Statements* |
| IAS 23 (Revised) | *Borrowing Costs* |
| IAS 32 and IAS 1 Amendments | Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* |
| IFRIC-Int 9 and IAS 39 Amendments | Amendments to IFRIC-Int 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* |

## 3.1 Changes in Accounting Policy and Disclosures (Continued)

| | |
|---|---|
| IFRIC-Int 13 | *Customer Loyalty Programmes* |
| IFRIC-Int 15 | *Agreements for the Construction of Real Estate* |
| IFRIC-Int 16 | *Hedges of a Net Investment in a Foreign Operation* |
| IFRIC-Int 18 | *Transfers of Assets from Customers* (adopted from 1 July 2009) |
| Improvements to IFRSs (issued in May 2008)* | Amendments to a number of IFRSs |

* Except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009, the Group has adopted other amendments included in the Improvements to IFRSs issued in May 2008 in the current year's financial statements.

Other than as further explained below regarding the impact of IAS 1 (Revised) and IFRS 8, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

### IAS 1 (Revised) *Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

### IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These revised disclosures, including the related revised comparative information, are shown in Note 5 to the financial statements.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.2 Issued but not yet Effective IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| IFRS 1 (Revised) | *First-time Adoption of International Financial Reporting Standards*[1] |
| IFRS 1 Amendments | Amendments to IFRS 1 *Additional Exemptions for First-time Adopters*[2] |
| IFRS 1 Amendment | Amendment to IFRS 1 *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[4] |
| IFRS 2 Amendments | Amendments to IFRS 2 *Group Cash-settled Share-based Payment Transactions*[2] |
| IFRS 3 (Revised) | *Business Combinations*[1] |
| IFRS 9 | *Financial Instruments*[6] |
| IAS 24 (Revised) | *Related Party Disclosures*[5] |
| IAS 27 (Revised) | *Consolidated and Separate Financial Statements*[1] |
| IAS 32 Amendments | Amendments to IAS 32 *Classification of Rights Issues*[3] |
| IAS 39 Amendment | Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1] |
| IFRIC-Int 14 Amendments | Amendments to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement*[5] |
| IFRIC-Int 17 | *Distributions of Non-cash Assets to Owners*[1] |
| IFRIC-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments*[4] |
| Amendments to IFRS 5 included in *Improvements to IFRSs issued in May 2008* | Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*[1] |

## 3.2 Issued but not yet Effective IFRSs (Continued)

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

Apart from the above, IASB has also issued *Improvements to IFRSs 2009** which sets out amendments to a number of IFRSs resulting from its annual improvements project published in April 2009. Except for the amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 which are effective for annual periods beginning on or after 1 July 2009, the remaining amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

* The improvements to IFRSs 2009 include amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3.3 Summary of Significant Accounting Policies

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.3 Summary of Significant Accounting Policies (Continued)

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment loss. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

### Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition. Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identifiable asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

## 3.3 Summary of Significant Accounting Policies (Continued)

### Goodwill (Continued)

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, deferred tax assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

### Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

# Notes to Financial Statements

Year ended 31 December 2009

## 3.3 Summary of Significant Accounting Policies (Continued)

**Related parties** (Continued)

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset or as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings | 20 to 40 years |
| Plant and machinery | 10 years |
| Office equipment | 5 years |
| Motor vehicles | 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

## 3.3 Summary of Significant Accounting Policies (Continued)

**Property, plant and equipment and depreciation** (Continued)

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or installation and testing which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or installation and testing and capitalised borrowing costs on related borrowed funds during the period of construction or installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets including customer bases, patents and know-how are recognised according to their fair values on the acquisition date and amortised over their estimated useful lives based on management's best estimate.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.3 Summary of Significant Accounting Policies (Continued)

**Intangible assets (other than goodwill)** (Continued)

A summary of the policies applied to the Group's intangible assets is as follows:

| | Customer bases | Patents | Know-how |
|---|---|---|---|
| Useful lives | 5 years | 8 years | 5 years |
| Amortisation method used | Amortised on a straight line basis over the life of the customer bases | Amortised on a straight line basis over the life of the patents | Amortised on a straight line basis over the life of the know-how |
| Internally generated or acquired | Acquired | Acquired | Acquired |

*Research and development costs*

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

**Land use rights**

Land use rights are stated at cost less accumulated amortisation and any impairment losses. Land use rights are amortised on the straight-line basis over the lease terms of 50 years.

**Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

## 3.3 Summary of Significant Accounting Policies (Continued)

### Leases (Continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the lease terms.

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and amounts due from related parties.

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.3 Summary of Significant Accounting Policies (Continued)

**Investments and other financial assets** (Continued)

*Financial assets at fair value through profit or loss (Continued)*

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the consolidated income statement and removed from the available-for-sale investment valuation reserve.

## 3.3 Summary of Significant Accounting Policies (Continued)

**Investments and other financial assets** (Continued)

*Available-for-sale financial investments (Continued)*

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;

- the Group has transferred its the rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; or

- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.3 Summary of Significant Accounting Policies (Continued)

**Derecognition of financial assets** (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

## 3.3 Summary of Significant Accounting Policies (Continued)

**Impairment of financial assets** (Continued)

*Financial assets carried at amortised cost (Continued)*

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

*Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "'prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.3 Summary of Significant Accounting Policies (Continued)

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related parties and interest-bearing loans and borrowings.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

## 3.3 Summary of Significant Accounting Policies (Continued)

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

### Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The costs of raw materials comprise the purchasing costs of the materials and other costs incurred in bringing the materials to their present locations and conditions. The costs of work in progress and finished goods comprise direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices, less estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.3 Summary of Significant Accounting Policies (Continued)

### Cash and cash equivalents (Continued)

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks and term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 3.3 Summary of Significant Accounting Policies (Continued)

**Income tax** (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.3 Summary of Significant Accounting Policies (Continued)

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred and the title has been passed to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) *Rendering of services*

Revenue from the rendering of services is recognised when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity; and

(c) *Interest income*

Interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

### Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 3.3 Summary of Significant Accounting Policies (Continued)

### Dividends

Dividends proposed by the Directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

The financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency. Each entity within the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas entities within the Group are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas entities within the Group are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequent recurring cash flows of overseas entities within the Group which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3.4 Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

# Notes to Financial Statements

Year ended 31 December 2009

## 3.4 Significant Accounting Judgements and Estimates (Continued)

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

(i) *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The estimation of the expected future cash flows from cash-generating unit could change significantly should the cash-generating unit fail to sustain the estimated growth. The carrying amount of goodwill as at 31 December 2008 and 2009 was RMB101,203,000. Further details are given in Note 16 to the financial statements.

(ii) *Impairment of trade receivables*

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of doubtful debts requires management's judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or further expectation is different from the original estimate, such differences will impact the carrying value of the receivables, doubtful debt expenses and write-back of trade receivables in the period in which such estimate has been changed.

(iii) *Impairment of property, plant and equipment*

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 3.3 to the financial statements: Impairment of non-financial assets other than goodwill. The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

## 3.4 Significant Accounting Judgements and Estimates (Continued)

**Estimation uncertainty** (Continued)

(iv) *Useful lives of property, plant and equipment*

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, competitor actions in response to severe industry cycles or unforeseeable change in legal enforcement rights in future. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(v) *Useful lives of intangible assets*

The Group determines the estimated useful lives and related amortisation charges for its intangible assets. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at end of the reporting period.

(vi) *Net realisable value of inventories*

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at end of the reporting period.

(vii) *Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(viii) *Warranty expenses*

The Group offers a twelve-month warranty for its products, during which free warranty service for the repair and maintenance of parts or components under normal usage is provided to customers. Management estimates warranty provisions based on historical cost data for repairs and maintenance and sales.

# Notes to Financial Statements

Year ended 31 December 2009

## 4. Particulars of Companies Comprising the Group and Associates

Particulars of the companies comprising the Group and associates at 31 December 2009 are set out below:

| Name of Company | Place and date of incorporation/ registration and operations | Nominal value of registered/ paid-up capital | Attributable equity interest of the Company Direct % | Attributable equity interest of the Company Indirect % | Principal activities |
|---|---|---|---|---|---|
| *Subsidiaries* | | | | | |
| IMM Mauritius[a] | Mauritius 14 April 2006 | USD1 | 100 | – | Investment holding |
| TJCC IMM Siwei Holdings Ltd. | Cayman Islands 16 February 2007 | USD1 | 100 | – | Investment holding |
| TJCC IMM Jiamusi Holdings Ltd. | Cayman Islands 26 January 2007 | USD1 | 100 | – | Investment holding |
| TJCC IMM Jixi Holdings Ltd. | Cayman Islands 26 January 2007 | USD1 | 100 | – | Investment holding |
| TJCC IMM AFC Holdings Ltd. | Cayman Islands 16 February 2007 | USD1 | 100 | – | Investment holding |
| International Mining Machinery Jiamusi Holdings Limited ("IMM JMS Holdings") | Hong Kong 31 January 2007 | HKD10 | – | 100 | Investment holding |
| International Mining Machinery Jixi Holdings Limited ("IMM JX Holdings") | Hong Kong 31 January 2007 | HKD10 | – | 100 | Investment holding |
| International Mining Machinery AFC Holdings Limited ("IMM AFC Holdings") | Hong Kong 22 February 2007 | HKD10 | – | 100 | Investment holding |
| Jiamusi Coal Mining Machinery Co., Ltd. | PRC/Mainland China 4 September 2002 | RMB69,980,000 | – | 100 | Manufacture and sale of coal mining machinery |

## 4. Particulars of Companies Comprising the Group and Associates (Continued)

| Name of Company | Place and date of incorporation/ registration and operations | Nominal value of registered/ paid-up capital | Attributable equity interest of the Company Direct % | Attributable equity interest of the Company Indirect % | Principal activities |
|---|---|---|---|---|---|
| *Subsidiaries (Continued)* | | | | | |
| Jixi Coal Mining Machinery Co., Ltd. | PRC/Mainland China 19 September 2001 | RMB92,380,000 | – | 100 | Manufacture and sale of coal mining machinery |
| Huainan Longwall Coal Mining Machinery Co., Ltd.[(b)] | PRC/Mainland China 27 June 2007 | RMB100,000,000 | – | 75 | Manufacture and sale of coal mining machinery |
| *Associates* | | | | | |
| Huainan Shunli Coal Mining Machinery Repairing Co., Ltd. | PRC/Mainland China 29 November 2006 | RMB2,000,000 | – | 25 | Repair service for coal mining machinery |
| Neimenggu Tianlong Coal Mining Machinery Repairing Co., Ltd. | PRC/Mainland China 17 July 2008 | RMB100,000,000 | – | 20 | Repair service for coal mining machinery |

Notes:

(a) On 17 December 2009, IMM Mauritius initiated a liquidation and the remaining assets were distributed to the Company. As of 31 December 2009, all of the liquidation procedures have not been completed. IMM Mauritius will be liquidated upon completion of these liquidation procedures.

(b) On 3 December 2009, IMM AFC Holdings, a wholly-owned subsidiary of the Group entered into an equity transfer agreement with Huainan Benniu Machinery Co., Ltd. ("Benniu") in respect of the acquisition of the remaining 25% equity interest in Huainan Longwall for a purchase consideration of RMB51,400,000. Huainan Longwall will become a wholly-owned subsidiary of the Group upon successful completion of the acquisition.

* The English names of the subsidiaries registered in the PRC represent the best efforts made by management of the Company to translate their Chinese names as they do not have official English names.

# Notes to Financial Statements

Year ended 31 December 2009

## 5. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

**(a) Roadheader products and aftermarket parts and services**
Engaged in the design, manufacture and sale of roadheader products and aftermarket services which include onsite service repairs, overhaul and supply of spare parts to customers.

**(b) Shearer products and aftermarket parts and services**
Engaged in the design, manufacture and sale of shearer products and aftermarket services which include onsite service repairs, overhaul and supply of spare parts to customers.

**(c) Armoured-face conveyors and related products and aftermarket parts and services**
Engaged in the manufacture and sale of armoured-face conveyors and related spare parts and aftermarket services which include onsite service repairs, overhaul and supply of spare parts to customers.

No operating segments have been aggregated to form the above reportable operating segments.

Segment profit or loss represents the profit or loss earned by each segment without allocation of central administration costs and Directors' remuneration and income tax. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

As the chief operating decision maker of the Group considers that most of the Group's consolidated revenue and results are attributable to the market in the PRC and the Group's consolidated assets are substantially located inside the PRC, no geographical information is presented.

## 5. Operating Segment Information (Continued)

| Year ended 31 December 2009 | Roadheader products and aftermarket parts and services RMB'000 | Shearer products and aftermarket parts and services RMB'000 | Armoured-face conveyors and related products and aftermarket parts and services RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| **Segment revenue:** | | | | |
| Sales to external customers | 819,044 | 456,892 | 243,567 | 1,519,503 |
| Intersegment sales | – | – | – | – |
| | 819,044 | 456,892 | 243,567 | 1,519,503 |
| **Segment results** | 272,043 | 37,433 | 26,431 | 335,907 |
| *Reconciliation:* | | | | |
| Interest income | | | | 18,225 |
| Corporate and other unallocated expenses* | | | | (48,613) |
| Finance costs | | | | (11,364) |
| Profit before tax | | | | 294,155 |
| **Segment assets** | 1,301,291 | 687,689 | 297,742 | 2,286,722 |
| *Reconciliation:* | | | | |
| Elimination of intersegment receivables | | | | (103,251) |
| Corporate and other unallocated assets | | | | 21,968 |
| Total assets | | | | 2,205,439 |
| **Segment liabilities** | 442,600 | 553,419 | 159,064 | 1,155,083 |
| *Reconciliation:* | | | | |
| Elimination of intersegment payables | | | | (103,251) |
| Corporate and other unallocated liabilities | | | | 461,555 |
| Total liabilities | | | | 1,513,387 |

# Notes to Financial Statements

Year ended 31 December 2009

## 5. Operating Segment Information (Continued)

| Year ended 31 December 2009 | Roadheader products and aftermarket parts and services RMB'000 | Shearer products and aftermarket parts and services RMB'000 | Armoured-face conveyors and related products and aftermarket parts and services RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| **Other segment information:** | | | | |
| Share of profits/(losses) of associates | 238 | (336) | – | (98) |
| Research and development costs | 16,626 | 11,099 | 1,791 | 29,516 |
| Depreciation of items of property, plant and equipment | 12,119 | 16,463 | 3,470 | 32,052 |
| Amortisation of land use rights | 1,550 | 1,574 | 304 | 3,428 |
| Amortisation of other intangible assets | 9,904 | 1,982 | 3,383 | 15,269 |
| Impairment of trade receivables | – | 2,448 | – | 2,448 |
| Write-down of inventories to net realisable value | 2,561 | (20,837) | – | (18,276) |
| Product warranty provision | 6,662 | 7,630 | 1,152 | 15,444 |
| Loss/(gain) on disposal of items of property, plant and equipment | (449) | 1,234 | (286) | 499 |
| Investments in associates | 20,643 | 426 | – | 21,069 |
| Capital expenditure** | 24,901 | 5,291 | 36,562 | 66,754 |

## 5. Operating Segment Information (Continued)

| Year ended 31 December 2008 | Roadheader products and aftermarket parts and services RMB'000 | Shearer products and aftermarket parts and services RMB'000 | Armoured-face conveyors and related products and aftermarket parts and services RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| **Segment revenue:** | | | | |
| Sales to external customers | 684,105 | 447,557 | 148,031 | 1,279,693 |
| Intersegment sales | – | – | – | – |
| | 684,105 | 447,557 | 148,031 | 1,279,693 |
| **Segment results** | 201,717 | 34,937 | (17,818) | 218,836 |
| *Reconciliation:* | | | | |
| Interest income | | | | 13,830 |
| Corporate and other unallocated expenses* | | | | (39,684) |
| Finance costs | | | | (7,830) |
| Profit before tax | | | | 185,152 |
| **Segment assets** | 1,089,027 | 694,745 | 205,778 | 1,989,550 |
| *Reconciliation:* | | | | |
| Elimination of intersegment receivables | | | | (62,659) |
| Corporate and other unallocated assets | | | | 232,304 |
| Total assets | | | | 2,159,195 |
| **Segment liabilities** | 357,953 | 559,187 | 129,029 | 1,046,169 |
| *Reconciliation:* | | | | |
| Elimination of intersegment payables | | | | (62,659) |
| Corporate and other unallocated liabilities | | | | 717,263 |
| Total liabilities | | | | 1,700,773 |

# Notes to Financial Statements

Year ended 31 December 2009

## 5. Operating Segment Information (Continued)

| Year ended 31 December 2008 | Roadheader products and aftermarket parts and services RMB'000 | Shearer products and aftermarket parts and services RMB'000 | Armoured-face conveyors and related products and aftermarket parts and services RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| **Other segment information:** | | | | |
| Share of profits of associates | 405 | 362 | – | 767 |
| Research and development costs | 14,543 | 10,298 | 1,412 | 26,253 |
| Depreciation of items of property, plant and equipment | 13,353 | 16,616 | 2,885 | 32,854 |
| Amortisation of land use rights | 1,549 | 1,575 | – | 3,124 |
| Amortisation of other intangible assets | 9,904 | 1,982 | 3,383 | 15,269 |
| Impairment of trade receivables | 204 | 631 | – | 835 |
| Reversal of write-down of inventories to net realisable value | – | (1,948) | – | (1,948) |
| Product warranty provision | 5,690 | 7,704 | 3,701 | 17,095 |
| (Gain) /loss on disposal of items of property, plant and equipment | (677) | 214 | – | (463) |
| Investments in associates | 20,405 | 876 | – | 21,281 |
| Capital expenditure** | 8,277 | 16,507 | 29,483 | 54,267 |

* Corporate and other unallocated expenses mainly represent central administration costs, Directors' remuneration and consulting fees which are managed on a group basis and are not allocated to operating segments.

** Capital expenditure consists of additions to property, plant and equipment, land use rights and other intangible assets during the year.

## 5. Operating Segment Information (Continued)

### Information about major customers

During the year ended 31 December 2009, the Group had two customers with revenues of RMB217,579,000 and RMB160,048,000, respectively, which individually accounted for more than 10% of the Group's total revenue during the year.

During the year ended 31 December 2008, the Group had one customer with revenue of RMB170,564,000 that individually exceeded 10% of the Group's revenue during the year.

Details of concentration of credit risk arising from the customers are set out in Note 39 to the financial statements.

# Notes to Financial Statements

Year ended 31 December 2009

## 6. Revenue, Other Income and Gains

Revenue represents the net invoiced value of goods sold after allowances for returns, trade discounts and various types of government surcharges, where applicable.

An analysis of revenue, other income and gains is as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Sale of goods | 1,507,281 | 1,274,963 |
| Rendering of services | 12,222 | 4,730 |
| | 1,519,503 | 1,279,693 |
| **Other income and gains** | | |
| Waiver of unpaid VAT | 13,273 | – |
| Sale of scrap materials | 910 | 5,819 |
| Waiver of unpaid trade debt by a creditor | – | 303 |
| Gain on disposal of items of property, plant and equipment | – | 463 |
| Others | 1,301 | 1,158 |
| | 15,484 | 7,743 |

## 7. Finance Revenue and Finance Costs

An analysis of finance revenue and finance costs is as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Finance revenue** | | |
| Interest income | 18,743 | 14,646 |
| **Finance costs** | | |
| Loan interest | 18,113 | 14,495 |
| Interest arising from discounted bills | 2,031 | 2,563 |
| Total finance costs | 20,144 | 17,058 |

## 8. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Cost of inventories sold | 936,682 | 802,596 |
| Cost of services provided | 7,693 | 1,968 |
| Employee benefits expense<br>(including Directors' remuneration as set out in Note 9) | | |
| Wages and salaries | 133,134 | 131,725 |
| Pension scheme contributions | 18,217 | 17,215 |
| | 151,351 | 148,940 |
| Research and development costs | 29,516 | 26,253 |
| Auditors' remuneration | 2,430 | 2,360 |
| Depreciation of items of property,<br>plant and equipment (Note 14) | 32,052 | 32,854 |
| Amortisation of land use rights (Note 15) | 3,428 | 3,124 |
| Amortisation of other intangible assets (Note 17) | 15,269 | 15,269 |
| Impairment of trade receivables (Note 23) | 2,448 | 835 |
| Minimum lease payments under operating leases | 4,367 | 3,575 |
| Reversal of inventories to net realisable value | (18,276) | (1,948) |
| Product warranty provision | 15,444 | 17,095 |
| Loss/(gain) on disposal of items of<br>property, plant and equipment | 499 | (463) |

# Notes to Financial Statements

Year ended 31 December 2009

## 9. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 9,113 | 8,748 |
| Performance-related bonuses* | 3,620 | 554 |
| | 12,733 | 9,302 |

* Certain executive Directors of the Company are entitled to a bonus payment which is determined as a percentage of the profit after tax of the Group.

### (a) Executive Directors

The remuneration of each of the executive Directors during the year is as follows:

| | Salaries, allowances and benefits in kind<br>RMB'000 | Performance-related bonuses<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| 2009 | | | |
| Thomas H. Quinn | – | – | – |
| Youming Ye | 2,900 | 888 | 3,788 |
| Kee-Kwan Allen Chan | 5,124 | 1,708 | 6,832 |
| Emory Williams (i) | 6 | – | 6 |
| David W. Zalaznick (i) | – | – | – |
| | 8,030 | 2,596 | 10,626 |

## 9. Directors' Remuneration (Continued)

### (a) Executive directors (Continued)

| | Salaries, allowances and benefits in kind RMB'000 | Performance-related bonuses RMB'000 | Total RMB'000 |
|---|---|---|---|
| 2008 | | | |
| Thomas H. Quinn | – | – | – |
| Youming Ye | 2,385 | 554 | 2,939 |
| Kee-Kwan Allen Chan | 5,194 | – | 5,194 |
| Emory Williams | 130 | – | 130 |
| David W. Zalaznick | – | – | – |
| | 7,709 | 554 | 8,263 |

(i) Mr. Emory Williams and Mr. David Zalaznick resigned as Directors of the Company on 4 December 2009 and 14 January 2010, respectively.

Subsequent to the end of the reporting period, on 24 January 2010, Mr. Kwong Ming Pierre Tsui and Mr. Yinghui Wang were appointed as executive Directors of the Company.

### (b) Non-executive Directors

The remuneration of each of the non-executive Directors for the year is as follows:

| | Salaries, allowances and benefits in kind RMB'000 | Performance-related bonuses RMB'000 | Total RMB'000 |
|---|---|---|---|
| **2009** | | | |
| John W. Jordan II | – | – | – |
| Rubo Li a/k/a John Lee | 1,083 | 1,024 | 2,107 |
| | 1,083 | 1,024 | 2,107 |
| **2008** | | | |
| John W. Jordan II | – | – | – |
| Rubo Li a/k/a John Lee | 1,039 | – | 1,039 |
| | 1,039 | – | 1,039 |

Subsequent to the end of the reporting period, on 24 January 2010, Ms. Lisa M. Ondrula was appointed as a non-executive Director of the Company.

# Notes to Financial Statements

Year ended 31 December 2009

## 9. Directors' Remuneration (Continued)

### (c) Independent non-exceutive Directors

Subsequent to the end of the reporting period, on 24 January 2010, Dr. Yiming Hu, Dr. Xuezheng Wang, Mr. Zhengduo Yuan and Dr. Fung Man Norman Wai were appointed as independent non-executive Directors of the Company. No remuneration was paid to these Directors prior to their appointment.

Except for Mr. Emory Williams and Mr. Rubo Li a/k/a John Lee, none of the Directors of the Company received emoluments directly from the Group for the years ended 31 December 2008 and 2009. The emoluments of Mr. Youming Ye and Mr. Kee-Kwan Allen Chan are compensated by way of a management fee payable by the Company to TJCC Services Ltd. ("TJCC Services"), part of which is related to their services arising from their individual capacity as senior management of the Company. Mr. Youming Ye and Mr. Kee-Kwan Allen Chan are also acting as the directors and shareholders of TJCC Services. The portion of the remuneration directly attributable to their services to the Company has been included in Directors' remuneration.

Mr. Thomas H. Quinn, Mr. John W. Jordan II and Mr. David W. Zalaznick did not receive any remuneration from the Company but were remunerated by The Jordan Company arising from their individual capacity as senior management of The Resolute Fund, L.P.

There was no arrangement under which Directors waived or agreed to waive any remuneration during the year.

### (d) Five highest paid employees

The five highest paid employees during the year included three (2008: three) Directors, details of whose remuneration are set out in Note 9(a) above. Details of the remuneration of the remaining two (2008: two) non-director, highest paid employees for the year are as follows:

| | **2009**<br>**RMB'000** | 2008<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **3,098** | 3,449 |
| Performance-related bonuses | **670** | – |
| Retirement benefit scheme contributions | **27** | 2 |
| | **3,795** | 3,451 |

## 9. Directors' Remuneration (Continued)

### (d) Five highest paid employees (Continued)

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2009** | 2008 |
| Nil to HK$1,000,000 | **–** | – |
| HK$1,000,001to HK$1,500,000 | **–** | 1 |
| HK$1,500,001to HK$2,000,000 | **1** | – |
| Over HK$2,000,000 | **1** | 1 |
| | **2** | 2 |

During the year, no emoluments were paid by the Group to the Directors, or the non-directors and highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 10. Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and Mauritius, the Group is not subject to any income tax in the Cayman Islands and Mauritius.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the Group as determined in accordance with PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are exempted from tax at preferential rates.

In accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises, Jiamusi Machinery and Jixi Machinery were exempted from corporate income tax ("CIT") for two years commencing from their first profit-making year which was 2006 and were entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years from 1 January 2008 to 31 December 2010. According to the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law"), Foreign Investment Enterprise (the "FIE") that was set up prior to 16 March 2007 may continue to enjoy preferential tax treatments for up to five years starting from 1 January 2008. Therefore, the applicable income tax rate of Jiamusi Machinery and Jixi Machinery is 12.5% starting from 1 January 2008 to 31 December 2010.

# Notes to Financial Statements

Year ended 31 December 2009

## 10. Income Tax (Continued)

The share of tax attributable to associates for the year ended 31 December 2008 and 2009, respectively, are included in "Share of profits/(losses) of associates" on the face of the consolidated income statements.

The major components of income tax charge for the year are as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Current tax | | |
| – Income tax in the PRC for the year | **58,039** | 33,193 |
| – Deferred tax (Note 21) | **3,272** | 5,797 |
| Total tax charge for the year | **61,311** | 38,990 |

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled (i.e., the PRC) to the tax expense at the effective tax rate for the year is as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Profit before tax | **294,155** | 185,152 |
| Tax at an applicable tax rate | **73,539** | 46,288 |
| Income tax deduction for use of manufacturing equipment made in the PRC | **–** | (2,503) |
| Lower tax rate for certain loss making entities in different jurisdictions | **11,522** | 6,307 |
| Tax concession for certain subsidiaries* | **(46,425)** | (32,412) |
| Losses/(profits) attributable to associates | **25** | (192) |
| Expenses not deductible for tax | **9,934** | 11,907 |
| Withholding tax on undistributed earnings | **12,716** | 9,595 |
| Tax charge at the Group's effective rate | **61,311** | 38,990 |

* Jiamusi Machinery and Jixi Machinery were converted to FIEs on 11 April 2006 and 10 April 2006 respectively. Their income generated starting from May 2006 to December 2007 was fully exempted from tax, and that for the years ended 31 December 2008 and 2009 was subjected to a 50% deduction to the standard rate of tax.

## 11. Dividends

Except for the contingent dividend described in note 40 to the financial statements, the Directors do not recommend the payment of a dividend for the year ended 31 December 2009 (2008: nil).

## 12. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent for the year and on the assumption that 780,000,000 shares, representing the number of shares of the Company immediately after the capitalisation issue as described in Note 32 to the financial statements, had been in issue throughout each of the years ended 31 December 2008 and 2009, respectively.

The Company did not have any potential diluted shares during the year. Accordingly, diluted earnings per share amounts are the same as basic earnings per share amounts.

## 13. Retirement Benefits and Accommodation Benefits

### Retirement benefits

As stipulated by PRC regulations, Jiamusi Machinery, Jixi Machinery and Huainan Longwall participate in a defined contribution retirement scheme. All formal employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of their last employment at their retirement date. Jiamusi Machinery, Jixi Machinery and Huainan Longwall are required to make contributions to the local social security bureau at a rate of 20% of the average basic salaries of the employees under the employment of Jiamusi Machinery, Jixi Machinery and Huainan Longwall to whom the defined contribution retirement plan is applicable. Jiamusi Machinery, Jixi Machinery and Huainan Longwall have no obligations for the payment of pension benefits beyond the annual contributions to the local social security bureau as set out above.

### Accommodation benefits

According to the relevant PRC rules and regulations, Jiamusi Machinery, Jixi Machinery and Huainan Longwall are each required to make contributions, which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on the part of Jiamusi Machinery, Jixi Machinery and Huainan Longwall, except for contributions to the accommodation fund.

# Notes to Financial Statements

Year ended 31 December 2009

## 14. Property, Plant and Equipment

### Group

| | Buildings RMB'000 | Plant and machinery RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2008 | 119,589 | 129,028 | 20,297 | 9,342 | 32,899 | 311,155 |
| Additions | 481 | 3,392 | 4,461 | 1,609 | 20,262 | 30,205 |
| Transfers | 41,967 | 8,130 | – | – | (50,097) | – |
| Disposals | (293) | (3,241) | (359) | (90) | – | (3,983) |
| At 31 December 2008 and 1 January 2009 | 161,744 | 137,309 | 24,399 | 10,861 | 3,064 | 337,377 |
| Additions | 789 | 2,783 | 1,626 | 865 | 42,718 | 48,781 |
| Transfers | 3,079 | 13,072 | 457 | – | (16,608) | – |
| Disposals | (2,805) | (8,848) | (940) | (587) | – | (13,180) |
| **At 31 December 2009** | **162,807** | **144,316** | **25,542** | **11,139** | **29,174** | **372,978** |

## 14. Property, Plant and Equipment (Continued)

**Group** (Continued)

| | Buildings RMB'000 | Plant and machinery RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2008 | 8,897 | 13,666 | 2,964 | 2,896 | – | 28,423 |
| Charge for the year | 7,020 | 17,741 | 5,745 | 2,348 | – | 32,854 |
| Disposals | (54) | (2,779) | (347) | (60) | – | (3,240) |
| At 31 December 2008 and 1 January 2009 | 15,863 | 28,628 | 8,362 | 5,184 | – | 58,037 |
| Charge for the year | 7,921 | 16,205 | 6,067 | 1,859 | – | 32,052 |
| Disposals | (1,074) | (7,401) | (805) | (488) | – | (9,768) |
| **At 31 December 2009** | **22,710** | **37,432** | **13,624** | **6,555** | **–** | **80,321** |
| **Net book value:** | | | | | | |
| **At 31 December 2009** | **140,097** | **106,884** | **11,918** | **4,584** | **29,174** | **292,657** |
| At 31 December 2008 | 145,881 | 108,681 | 16,037 | 5,677 | 3,064 | 279,340 |

The net book value of property, plant and equipment pledged as security for interest-bearing bank loans granted to the Group is as follows (Note 29):

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Buildings | 71,628 | 54,957 |
| Plant and machinery | 28,311 | 18,325 |
| Total | 99,939 | 73,282 |

As at 31 December 2009, the Group has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a carrying amount of RMB1,541,000.

# Notes to Financial Statements

Year ended 31 December 2009

## 15. Land Use Rights

### Group

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At beginning of year | 134,850 | 134,850 |
| Additions | 17,973 | – |
| At end of year | 152,823 | 134,850 |
| **Accumulated amortisation:** | | |
| At beginning of year | 8,201 | 5,077 |
| Charge for the year | 3,428 | 3,124 |
| At end of year | 11,629 | 8,201 |
| **Net book value:** | | |
| At end of year | 141,194 | 126,649 |
| Net book value pledged (Note 29) | 121,108 | 126,649 |

The leasehold land is held under a long-term lease and is situated in the Mainland China.

## 16. Goodwill

### Group

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At beginning of year | 101,203 | 101,203 |
| Addition | – | – |
| At end of year | 101,203 | 101,203 |

Goodwill acquired through business combination has been allocated to the Group's cash-generating units ("CGUs"), which are reportable segments, for impairment testing:

- Roadheader products and aftermarket parts and services; and
- Shearer products and aftermarket parts and services.

## 16. Goodwill (Continued)

**Group** (Continued)

The carrying amount of goodwill allocated to each of the CGU is as follows:

| | Roadheader products and aftermarket parts and services RMB'000 | Shearer products and aftermarket parts and services RMB'000 | Total RMB'000 |
|---|---|---|---|
| **31 December 2009** | **99,669** | **1,534** | **101,203** |
| 31 December 2008 | 99,669 | 1,534 | 101,203 |

The recoverable amount of the CGUs is determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period with cash flows beyond the five-year period assumed to be stable. The discount rate applied to the cash flow projections for roadheader products and aftermarket parts and services is 15.2% (2008: 15.0%). The discount rate applied to the cash flow projections for shearer products and aftermarket parts and services is 14.6% (2008: 15.0%). The growth rate does not exceed the projected long-term average growth rate for the mining industry in Mainland China.

Key assumptions were used in the value in use calculation of the CGUs for 31 December 2008 and 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted gross margins* – Management determined budgeted gross margin based on past performance and its expectations for market development.

*Discount rate* – The discount rate used is before tax and reflects specific risks relating to the industry.

The values assigned to key assumptions are consistent with external information sources.

# Notes to Financial Statements

Year ended 31 December 2009

## 17. Other Intangible Assets

**Group**

| | Customer bases RMB'000 | Patents RMB'000 | Know-how RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2008 | 59,431 | – | – | 59,431 |
| Additions | – | 19,052 | 5,010 | 24,062 |
| At 31 December 2008 and 1 January 2009 | 59,431 | 19,052 | 5,010 | 83,493 |
| Additions | – | – | – | – |
| **At 31 December 2009** | **59,431** | **19,052** | **5,010** | **83,493** |
| **Accumulated amortisation:** | | | | |
| At 1 January 2008 | 19,315 | – | – | 19,315 |
| Charge for the year | 11,886 | 2,382 | 1,001 | 15,269 |
| At 31 December 2008 and 1 January 2009 | 31,201 | 2,382 | 1,001 | 34,584 |
| Charge for the year | 11,886 | 2,382 | 1,001 | 15,269 |
| **At 31 December 2009** | **43,087** | **4,764** | **2,002** | **49,853** |
| **Net book value:** | | | | |
| **At 31 December 2009** | **16,344** | **14,288** | **3,008** | **33,640** |
| At 31 December 2008 | 28,230 | 16,670 | 4,009 | 48,909 |

Customer bases of the Group were acquired through a business combination. Patents and know-how were acquired by the Group from Benniu.

## 18. Investments in Subsidiaries

**Company**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Unlisted investments, at cost | 14,900 | 323,719 |

Investments in subsidiaries as at 31 December 2009 represent the cost of the entire interests in TJCC IMM Siwei Holdings Ltd., TJCC IMM Jiamusi Holdings Ltd. ("TJCC Jiamusi"), TJCC IMM Jixi Holdings Ltd. ("TJCC IMM Jixi"), and TJCC IMM AFC Holdings Ltd. ("TJCC IMM AFC").

Investments in subsidiaries as at 31 December 2008 represent the cost of the entire interests in IMM Mauritius, TJCC IMM Siwei Holdings Ltd., TJCC IMM Jiamusi, TJCC IMM Jixi, and TJCC IMM AFC.

Details of investments in subsidiaries are set out in Note 4 to the financial statements.

## 19. Investments in Associates

**Group**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Share of net assets | 21,069 | 21,281 |

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Current assets | 98,486 | 106,872 |
| Non-current assets | 62,237 | 51,686 |
| Current liabilities | (55,803) | (53,030) |
| Net assets | 104,920 | 105,528 |
| Revenue | 23,973 | 16,687 |
| Total expense | (23,537) | (12,021) |
| Tax | (589) | (1,194) |
| (Loss) /profit after tax | (153) | 3,472 |

Details of investments in associates are set out in Note 4 to the financial statements.

# Notes to Financial Statements

Year ended 31 December 2009

## 20. Available-for-sale Investments

**Group**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Unlisted equity investment, at cost | 7,500 | 7,500 |

The Group had a 15% interest in a private entity which is engaged in the provision of integrated equipment supply and services to coal producers in the Xinjiang region of the PRC. The unlisted equity investment is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values could not be measured reliably. The Group does not intend to dispose of this investment in the near future.

## 21. Deferred Tax

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

**Group**

| | Decelerated tax amortisation of intangible asset RMB'000 | Decelerated tax depreciation of property, plant and equipment RMB'000 | Provision for inventories RMB'000 | Losses available for offsetting against future taxable profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Gross deferred tax assets as at 1 January 2008 | – | 3,196 | 5,763 | – | 8,959 |
| Deferred tax credited/(charged) to the income statement during the year (Note 10) | 301 | 494 | (244) | 747 | 1,298 |
| Gross deferred tax assets at 31 December 2008 and 1 January 2009 | 301 | 3,690 | 5,519 | 747 | 10,257 |
| Deferred tax credited/(charged) to the income statement during the year (Note 10) | 67 | 362 | (2,285) | (747) | (2,603) |
| **Gross deferred tax assets as at 31 December 2009** | **368** | **4,052** | **3,234** | **–** | **7,654** |

## 21. Deferred Tax (Continued)

### Deferred tax liabilities

**Group**

| | Fair value adjustments arising from acquisition of subsidiaries RMB'000 | Undistributed profits of PRC subsidiaries RMB'000 | Total RMB'000 |
|---|---|---|---|
| Gross deferred tax liabilities 1 January 2008 | 42,300 | – | 42,300 |
| Deferred tax (credited)/charged to the income statement during the year (Note 10) | (2,500) | 9,595 | 7,095 |
| Gross deferred tax liabilities at 31 December 2008 and 1 January 2009 | 39,800 | 9,595 | 49,395 |
| Deferred tax (credited)/charged to the income statement during the year (Note 10) | (2,313) | 2,982 | 669 |
| **Gross deferred tax liabilities at 31 December 2009** | **37,487** | **12,577** | **50,064** |

Pursuant to the New CIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the FIE established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and jurisdiction of the foreign investors. Pursuant to the "Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" effective on 1 January 2007 and "Guoshuihan [2009] No. 81" promulgated on 20 February 2009, the payment of dividend by Jiamusi Machinery to International Mining Machinery Jiamusi Holdings Limited, a company registered in Hong Kong, which holds 100% equity interest in Jiamusi Machinery would be subject to the applicable withholding tax rate of 5%.

# Notes to Financial Statements

Year ended 31 December 2009

## 22. Inventories

**Group**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Raw materials | **76,700** | 102,786 |
| Work in progress | **152,877** | 200,383 |
| Finished goods | **106,520** | 154,636 |
| | **336,097** | 457,805 |
| Less: Provision for inventories | **(25,884)** | (44,160) |
| | **310,213** | 413,645 |

## 23. Trade and Bills Receivables

**Group**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Trade receivables | **798,880** | 612,341 |
| Bills receivable | **262,171** | 119,795 |
| Less: Impairment provision | **(14,895)** | (12,447) |
| | **1,046,156** | 719,689 |

The Group grants different credit periods to customers. The Group generally requires its customers to make payments at various stages of a sale transaction. The credit period of individual customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate. Certain customers are required to make partial payment before or upon delivery. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables and bills receivable approximate to their fair values.

## 23. Trade and Bills Receivables (Continued)

An aged analysis of trade receivables as at the end of the reporting period based on the invoice date and net of provisions, is as follows:

**Group**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Outstanding balances with ages: | | |
| Within 90 days | 368,158 | 284,268 |
| 91 to 180 days | 215,511 | 200,618 |
| 181 to 365 days | 129,885 | 87,686 |
| 1 to 2 years | 60,420 | 27,322 |
| Over 2 years | 10,011 | – |
| | 783,985 | 599,894 |

The movements in the provision for impairment of trade receivables are as follows:

**Group**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| At beginning of the year | 12,447 | 11,612 |
| Impairment of trade receivables (Note 8) | 2,448 | 835 |
| At end of year | 14,895 | 12,447 |

The impaired trade receivables relate to individual customers that were in financial difficulties and the receivables that are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. The bills receivable are all mature within 180 days from the end of the reporting period.

The carrying amounts of trade and bills receivables pledged as security for interest-bearing bank loans granted to the Group are as follows (Note 29):

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Trade receivables | 45,663 | 20,156 |
| Bills receivable | 118,006 | 22,135 |
| Total | 163,669 | 42,291 |

# Notes to Financial Statements

Year ended 31 December 2009

## 23. Trade and Bills Receivables (Continued)

The analysis of trade receivables that are not considered to be impaired is as follows:

**Group**

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Neither past due nor impaired | **455,993** | 260,449 |
| Past due but not impaired | | |
| Less than 90 days | **188,052** | 210,869 |
| 91 to 180 days | **81,874** | 93,285 |
| 181 to 365 days | **39,215** | 22,685 |
| 1 to 2 years | **18,851** | 12,606 |
| | **783,985** | 599,894 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 24. Prepayments, Deposits and Other Receivables

### Group

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Non-current portion** | | |
| Prepayments for purchases of property, plant and equipment | 21,996 | 23,254 |
| Prepayments for land use rights | – | 15,420 |
| | 21,996 | 38,674 |
| **Current portion** | | |
| Prepayments | 80,784 | 57,712 |
| Deposits and other receivables | 32,130 | 12,423 |
| | 112,914 | 70,135 |
| Total | 134,910 | 108,809 |

### Company

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Current portion** | | |
| Deposits and other receivables | 19,468 | – |

The carrying amounts of other receivables approximate to their fair values.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

# Notes to Financial Statements

Year ended 31 December 2009

## 25. Cash and Cash Equivalents

### Group

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Cash and bank balances | 73,520 | 80,933 |
| Denominated in RMB | 70,993 | 78,770 |
| Denominated in USD | 2,527 | 2,163 |
| | 73,520 | 80,933 |

### Company

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Cash and bank balances | 2,501 | 1,617 |
| Denominated in USD | 2,501 | 1,617 |

Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 26. Amount due from/to Shareholders

### Group and Company

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| Amount due from a shareholder cum Directors of the Company | (i) | – | 19,181 |
| Amount due to shareholders cum Directors of the Company | (ii) | 143 | 156 |

(i) The loan to Mr. Rubo Li a/k/a John Lee of USD2,806,000 (equivalent to approximately RMB19,181,000) as at 31 December 2008, bears interest at a rate of 5% per annum and was repayable on demand. As at 31 December 2009, this loan together with the outstanding interest has been assigned to TJCC Holdings Ltd. to offset against an equivalent amount of loans from TJCC Holdings Ltd..

The loan to the Director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, is as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Maximum amount outstanding during the year | 20,034 | 19,181 |

The loan granted to Mr. Rubo Li a/k/a John Lee was secured by the pledge of 63 ordinary shares of the Company held by Mr. Rubo Li a/k/a John Lee.

(ii) According to the consulting agreements signed on 16 May 2006, the Company is liable to pay Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams USD150,000 per annum and USD75,000 per annum, respectively, for consulting services rendered to the Company. These agreements expired on 31 March 2008. However, the agreement with Mr. Rubo Li a/k/a John Lee was extended to 31 March 2009 and renewed by an amended consulting agreement dated 1 May 2009. On 4 December 2009, the agreement was revised and the consulting period was extended to 1 May 2011 and the Company is liable to pay a consulting fee amounting to USD21,000 per month to Mr. Rubo Li a/k/a John Lee. Consulting fees to Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams have been included as part of the Directors' remuneration disclosed in note 9 to the financial statements.

# Notes to Financial Statements

Year ended 31 December 2009

## 27. Balances with Related Parties and Subsidiaries

### Group

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **Amounts due from related parties** | | | |
| TJCC Services | (i) | – | 84,182 |
| International Mining Machinery Siwei Holdings Ltd. ("HK Siwei") | (ii) | – | 126,778 |
| Benniu | (iii) | 35,723 | 10,839 |
| | | 35,723 | 221,799 |

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **Amounts due to related parties** | | | |
| TJCC Services | (iv) | – | 35,775 |
| Benniu | (v) | 25,000 | 28,333 |
| | | 25,000 | 64,108 |

### Company

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **Amounts due from subsidiaries** | | | |
| IMM Mauritius | (vi) | – | 4,159 |
| TJCC IMM AFC | (vii) | 126,747 | 75,350 |
| IMM JX Holdings | (viii) | 155,792 | – |
| IMM JMS Holdings | (viii) | 117,527 | – |
| TJCC IMM Jiamusi | (ix) | 285,516 | – |
| | | 685,582 | 79,509 |

## 27. Balances with Related Parties and Subsidiaries (Continued)

### Company (Continued)

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **Amount due to a related party** | | | |
| TJCC Services | (iv) | – | 35,775 |
| **Amounts due from related parties** | | | |
| TJCC Services | (i) | – | 84,182 |
| HK Siwei | (ii) | – | 126,778 |
| | | – | 210,960 |

Notes:

(i) The balances due from TJCC Services were non-trade in nature. The balances were unsecured, bear interest at a rate of 8% per annum. As at 31 December 2009, the balances were fully offset against management fees owed to TJCC Services.

(ii) The balance due from HK Siwei is non-trade in nature. The balance was secured by the pledge of the shares of the Company held by Williams Realty Co., LLC, Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams, respectively. Both Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams are the shareholders and also the Directors of the Company while Williams Realty Co., LLC is a company controlled by Mr. Emory Williams. The balances due from HK Siwei bear interest at a rate of 8% per annum. As at 31 December 2009, the loans together with interest accrued have been assigned to TJCC Holdings Ltd. to offset against the same amount of loans due to TJCC Holdings Ltd..

(iii) The balance due from Benniu is trade in nature. The balance is unsecured, interest-free and has no fixed term of repayment.

(iv) The balances due to TJCC Services are non-trade in nature. As at 31 December 2009, the balances were fully offset against amounts due from TJCC Services.

(v) The balance due to Benniu is non-trade in nature, unsecured, interest-free and have no fixed term of repayment.

# Notes to Financial Statements

Year ended 31 December 2009

## 27. Balances with Related Parties and Subsidiaries (Continued)

Notes: (Continued)

(vi) The amount due from the subsidiary is in relation to the consulting fees paid on behalf of IMM Mauritius, to Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams. Both Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams are the shareholders and Directors of the Company. The balance was settled upon the liquidation of IMM Mauritius.

(vii) The amount due from the subsidiary is non-trade in nature. The balance is unsecured, bears interest at a rate of 8% per annum and is repayable on demand.

(viii) The amounts due from the subsidiaries are non-trade in nature, unsecured, interest free and repayable on demand.

(ix) Pursuant to the resolution of the Board of Directors of TJCC IMM Jiamusi passed on 31 December 2009, TJCC IMM Jiamusi declared special dividends of USD41,814,000 (equivalent to approximately RMB285,516,000) to the Company.

The nature of the transactions with related parties and subsidiaries is disclosed in Note 37 to the financial statements.

The carrying amounts of the balances due from/to related parties and subsidiaries approximate to their fair values.

## 28. Balances with the Holding Company

### Group and Company

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Amount due to the holding company** | | |
| TJCC Holdings Ltd. | – | 126,760 |

Loans due to the holding company denominated in USD were USD18,548,000 (equivalent to approximately RMB126,760,000) and USD26,711,000 (equivalent to approximately RMB182,388,000) as at 31 December 2008 and 2009, respectively. These loans were unsecured, bear interest at a rate of 8% per annum. As at 31 December 2009, the balances were offset against the same amount due from Mr. Rubo Li a/k/a John Lee, HK Siwei and TJCC Services as set out in Notes 26 and 27 to the financial statements.

## 29. Interest-Bearing Loans

### Group

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Bank loans: | | |
| Secured | **304,994** | 113,760 |
| The bank loans bear interest at rates per annum in the range of | **1.53% to 5.84%** | 2.76% to 11.66% |

The above bank loans were all repayable within one year. The carrying amounts of the Group's current bank loans approximate to their fair values.

Notes:

The Group's bank loans balances that are secured by the pledge of assets are as follows:

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| Building and land use rights | (i) | **129,297** | 71,500 |
| Plant and machinery | (ii) | **20,203** | 4,000 |
| Trade and bills receivables | (iii) | **155,494** | 38,260 |
| | | **304,994** | 113,760 |

(i) The loans were secured by the Group's building and land use rights, which had an aggregate carrying value of RMB71,628,000 and RMB121,108,000, respectively, as at 31 December 2009 (2008: RMB54,957,000 and RMB126,649,000, respectively), as set out in Notes 14 and 15 to the financial statements.

(ii) The loans were secured by the Group's plant and machinery, which had an aggregate carrying value of RMB28,311,000 (2008: RMB18,325,000) as at 31 December and 2009, as set out in Note 14 to the financial statements.

(iii) The loans were secured by the Group's trade and bills receivables with an aggregate carrying value of RMB45,663,000 and RMB118,006,000, respectively, (2008: RMB20,156,000 and RMB22,135,000, respectively) as at 31 December 2009, as set out in Note 23 to the financial statements.

# Notes to Financial Statements

Year ended 31 December 2009

## 30. Trade Payables

**Group**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Trade payables | 352,977 | 418,413 |

An aged analysis of outstanding trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Within 90 days | 191,931 | 247,433 |
| 91 to 180 days | 74,858 | 82,237 |
| 181 to 365 days | 33,898 | 33,451 |
| 1 to 2 years | 14,459 | 19,711 |
| 2 to 3 years | 5,942 | 6,744 |
| Over 3 years | 31,889 | 28,837 |
| | 352,977 | 418,413 |

The trade payables are non-interest-bearing and are normally settled within 180 days. The carrying amounts of the trade payables approximate to their fair values.

## 31. Other Payables and Accruals

**Group**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Advances from customers | 61,438 | 84,670 |
| Payroll payable | 15,948 | 15,755 |
| Value added tax payable | 77,863 | 92,938 |
| Accrued expenses | 101,904 | 38,305 |
| Welfare payable | 9,496 | 10,520 |
| Other payables | 53,043 | 78,932 |
| | 319,692 | 321,120 |

**Company**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Other payables | 45,471 | – |

The carrying amounts of other payables and accruals approximate to their fair values.

## 32. Ordinary Share Capital

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Authorised: | | |
| 2,500 ordinary share of USD10 each | | |
| Issued and fully paid: | | |
| As at the beginning of year | 78 | 78 |
| Paid up during the year | 2 | – |
| | 80 | 78 |

# Notes to Financial Statements

Year ended 31 December 2009

## 32. Ordinary Share Capital (Continued)

During the year, the movements in the number of issued share capital are analysed as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Issued and fully paid: | | |
| As at the beginning of year | 973 | 973 |
| Paid up during the year | 27 | – |
| Ordinary share capital of USD10 each | 1,000 | 973 |

As at date of incorporation, the authorised ordinary share capital of the Company is USD25,000 divided into 2,500 ordinary shares with a nominal value of USD10 each.

On 16 May 2006, 1,000 ordinary shares comprised of 910, 63, 13.5 and 13.5 shares with a nominal value of USD10 each were issued to TJCC Holdings Ltd., Mr. Rubo Li a/k/a John Lee, Mr. Emory Williams and Williams Realty Co., LLC, respectively, at the purchase price of USD1,000 per share. Only 910 shares issued to TJCC Holdings Ltd. were fully paid up as at 31 December 2006. The share premium arising from the issuance of ordinary shares in 2006 amounted to USD900,900 (equivalent to approximately RMB7,222,000).

On 31 December 2007, 63 ordinary shares issued to Mr. Rubo Li a/k/a John Lee were fully paid up in cash at USD1,000 per share. The share premium arising from the 63 ordinary shares in 2007 amounted to USD62,370 (equivalent to approximately RMB501,000).

As at 31 December 2008, a total amount of 27 shares issued to Mr. Emory Williams and Williams Realty Co., LLC remained unpaid. In year 2008, the receivables from Mr. Emory Williams and Williams Realty Co., LLC in relation to their unpaid share capital are presented as a set-off to their share capital.

As at 31 December 2009, 27 ordinary shares issued to Mr. Emory Williams and Williams Realty Co., LLC were fully paid at USD1,000 per share. The share premium arising from the 27 ordinary shares in 2009 amounted to USD26,730 (equivalent to approximately RMB214,000).

Pursuant to the written resolutions of the shareholders passed on 24 January 2010, the Company increased its authorised share capital to HKD500,000,000 divided into 5,000,000,000 ordinary shares of HKD0.10 each and 10,000 shares were allotted and issued to the existing shareholders in proportion to their existing shareholdings in exchange for the 1,000 issued ordinary shares with a nominal value of US10 each held by them and the authorised and unissued 1,500 ordinary shares with a nominal value of USD10 each were cancelled.

Pursuant to the same resolution and conditional on the share premium account of the Company being credited pursuant to the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing"), the Company capitalised HKD77,999,000 standing to the credit of the share premium account of the Company to pay up in full 779,990,000 new ordinary shares of HKD0.1 each for allotment and issue to the existing shareholders of the Company, whose names appeared in the register of the Company as at 24 January 2010, in proportion to their respective shareholdings.

## 33. Preference Shares

**Group and Company**

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Preference shares | **403,397** | 554,180 |

On 16 May 2006, a total of 1,000 preference shares with a nominal value of USD10 each were issued for cash at USD64,000 per share, at a total amount of USD64,000,000.

On 12 December 2007, an additional 601.5625 preference shares with a nominal value of USD10 each were issued for cash at USD64,000 per share, at a total amount of USD38,500,000.

Among the issued preference shares, the number of preference shares not fully paid up as at 31 December 2008 totalled 334.6172 (amounting to USD21,416,000). For the purpose of presentation, the unpaid preference shares were presented as a set-off to the amount due from the holding company.

On 17 December 2009, the Company repurchased USD10,000,000 of the preference shares from TJCC Holdings Ltd. with cash.

On 23 December 2009, the Company repurchased USD33,421,874 of the preference shares from TJCC Holdings Ltd. The consideration for the repurchase consisted of cash amounted to USD25,500,000 and the remaining balance of USD7,921,874 was offset by the assignment of loans and related interest due from TJCC Services to TJCC Holdings Ltd.

Holders of the preference shares shall be entitled to receive dividends, declared at the discretion of the Company, at the rate of 10% per annum at the issue price of the preference shares. No dividend has been declared by the Company on preference shares during the years ended 31 December 2008 and 31 December 2009, respectively. The holders of each preference shares shall not have any voting rights.

The preference shares are redeemable upon the occurrence of an event as defined in the Articles of Associations of the Company. An event (hereinafter referred as this "Event") includes substantial liquidity event, fundamental changes or default. The preference shares have been treated as liabilities in the statements of financial position as an Event is not within the control of the Company.

The preference shares of RMB403,397,000 as at 31 December 2009 have been fully repurchased by the Company subsequent to the end of the reporting period, on 10 February 2010, as further detailed in Note 40 to the financial statements.

# Notes to Financial Statements

Year ended 31 December 2009

## 34. Reserves

### (a) Group

*Share premium*

A share premium of USD900,900 (equivalent to approximately RMB7,222,000) arose from the issuance of ordinary shares as at the date of incorporation.

In 2007, an additional share premium of USD62,370 (equivalent to approximately RMB501,000) was recorded arising from the increase in paid-up share capital during the year.

In 2009, an additional share premium of USD26,730 (equivalent to approximately RMB214,000) was recorded arising from the increase in paid-up share capital during the year.

*Statutory surplus reserve and statutory reserve fund*

In accordance with the Company Law of the PRC and the respective articles of association of the companies registered in the PRC (the "PRC Companies"), each of the PRC Companies was required to allocate 10% of its profits after tax, as determined in accordance with People's Republic of China accounting rules and regulations ("PRC GAAP"), to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR can be capitalised as issued capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Subsequent to the re-registration of the two PRC subsidiaries, Jiamusi Machinery and Jixi Machinery as wholly-foreign-owned companies on 11 April 2006, allocation to the SSR was no longer required. According to the relevant PRC regulations applicable to wholly-foreign-owned companies, the Company is required to allocate a certain portion (not less than 10%), as determined by the Board of Directors, of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of the registered capital. Pursuant to the board resolution dated 1 December 2008, Jiamusi Machinery did not appropriate any of its current year profit into surplus reserve fund as the balance of the surplus reserve fund had reached 50% of its registered capital.

The SSR and the SRF are non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as issued capital.

## 34. Reserves (Continued)

### (a) Group (Continued)

*Statutory public welfare fund (the "PWF")*

According to the revised Company Law of the PRC effective on 1 January 2007, the PRC Companies are not required to make appropriation to the PWF for the year ended 31 December 2007. The balance of PWF as at 31 December 2006 was transferred to the SSR.

*Distributable reserves*

For dividend purposes, the amount which the PRC Companies can legally distribute by way of a dividend is determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

In accordance with the Company Law of the PRC, profits after tax of the PRC Companies can be distributed as dividends after the appropriation to the SRF as set out above.

### (b) Company

*Statements of changes in equity of the Company*

| | Ordinary share capital RMB'000 | Share premium account RMB'000 | Accumulated loss/ retained earnings RMB'000 | Exchange fluctuation reserve RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| As at 1 January 2008 | 78 | 7,723 | (74,199) | 4,794 | (61,604) |
| Total comprehensive income for the year | – | – | (24,574) | 4,293 | (20,281) |
| As at 31 December 2008 and 1 January 2009 | 78 | 7,723 | (98,773) | 9,087 | (81,885) |
| Issue of shares | 2 | 214 | – | – | 216 |
| Total comprehensive income for the year | – | – | 355,236 | (127) | 355,109 |
| **As at 31 December 2009** | **80** | **7,937*** | **256,463*** | **8,960*** | **273,440** |

* These reserve accounts comprise the reserves of RMB273,360,000 (2008: (RMB81,963,000)) in the statement of financial position of the Company.

# Notes to Financial Statements

Year ended 31 December 2009

## 35. Operating Lease Arrangements

### As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to four years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

**Group**

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Within a year | 2,072 | 3,512 |
| In the second to fifth years, inclusive | – | 117 |
| | 2,072 | 3,629 |

## 36. Commitments

In addition to the operating lease commitments detailed in Note 35 above, the Group had the following capital commitments at the end of the reporting period:

**Group**

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Contracted, but not provided for: | | |
| Plant and machinery | 74,847 | 56,190 |
| Land use rights | – | 16,032 |
| | 74,847 | 72,222 |

## 37. Related Party Transactions

**(a)** In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Nature of transactions** | | |
| *Purchases of other intangible assets* | | |
| Benniu (Note i) | – | 24,062 |
| *Consulting fee* | | |
| Rubo Li a/k/a John Lee (Note ii) | 2,107 | 1,039 |
| Emory Williams (Note ii) | 6 | 130 |
| | 2,113 | 1,169 |
| *Sales of products* | | |
| Benniu (Note iii) | 33,419 | 51,841 |
| *Sales commission paid* | | |
| Benniu (Note iii) | 4,661 | 1,499 |
| *Operating lease of office buildings* | | |
| Benniu (Note iii) | 3,000 | 3,000 |
| *Purchases of goods* | | |
| Benniu (Note iii) | 101 | 780 |
| *Interest income* | | |
| TJCC Services (Notes iv & vi) | 7,811 | 5,044 |
| HK Siwei (Notes v & vi) | 9,505 | 7,841 |
| Rubo Li a/k/a John Lee (Note vii) | 876 | 891 |
| | 18,192 | 13,776 |
| *Interest expense* | | |
| TJCC Holdings Ltd. (Note viii) | 11,364 | 7,830 |

# Notes to Financial Statements

Year ended 31 December 2009

## 37. Related Party Transactions (Continued)

**(a)** (Continued)

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| **Nature of transactions** (Continued) | | |
| *Management fee* | | |
| TJCC Services (Note ix) | **17,078** | 17,314 |
| *Loans received from the holding company* | | |
| TJCC Holdings Ltd. (Note viii) | **44,404** | 49,864 |
| *Loans provided to related parties* | | |
| TJCC Services (Notes iv & vi) | **40,988** | 34,628 |
| HK Siwei (Notes v & vi) | **–** | 49,864 |
| | **40,988** | 84,492 |
| *Guarantee of loan provided by shareholders* | | |
| Williams Realty Co., LLC, Rubo Li a/k/a John Lee and Emory Williams (Note x) | **–** | 127,225 |

Notes:

(i) The Group acquired the patents and know-how from Benniu in the amount of RMB24,062,000 as set out in Note 17 to the financial statements. On 3 December 2009, IMM AFC, a wholly-owned subsidiary of the Group, entered into an equity transfer agreement with Benniu in respect of the acquisition of the remaining 25% equity interest in Huainan Longwall for a purchase consideration of RMB51,400,000. Benniu will cease to become the related party of the Group upon successful completion of the acquisition of Huainan Longwall.

(ii) According to the consulting agreement entered between Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams respectively and the Company, the Company agreed to pay a consulting service fee to Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams who are acting as the shareholders and Directors of the Company, for rendering consulting services to the Company. Mr. Emory Williams resigned as a Director of the Company on 4 December 2009.

(iii) The price and terms of the above transactions were mutually agreed by both parties.

## 37. Related Party Transactions (Continued)

### (a) (Continued)

Notes: (Continued)

(iv) TJCC Services share common Directors with the Company, being Mr. Youming Ye and Mr. Kee-Kwan Allen Chan.

(v) HK Siwei is wholly-owned by Mining Machinery Limited. Mining Machinery Limited is beneficially owned as to 21.38% by Mr. Emory Williams, his spouse and relatives, 52.95% by Mr. Rubo Li a/k/a John Lee, his spouse and relatives, 19.67% by management of Zhengzhou Siwei Mechanical and Electrical Equipment Investment Co., Ltd. and 6.00% by three individuals who are independent from other shareholders of Mining Machinery Limited. Both Mr Emory Williams and Mr. Rubo Li a/k/a John Lee are the common Directors and shareholders of Mining Machinery Limited and the Company. On 4 December 2009, Mr Emory Williams resigned as a Director of the Company.

(vi) The loans provided to the related parties are unsecured, bear interest at a rate of 8% per annum and are repayable on demand. On 31 December 2009, these loans were assigned to TJCC Holdings Ltd. according to an agreement signed between TJCC Holdings Ltd. and the Company.

(vii) The loan provided in year 2007 is secured by the pledge of the shares of the Company held by Mr. Rubo Li a/k/a John Lee. The loan bears interest at a rate of 5% per annum and is repayable on demand. On 31 December 2009, the loan and pledge were assigned to TJCC Holdings Ltd. according to an agreement signed between TJCC Holdings Ltd. and the Company.

(viii) The loans provided by the holding company, TJCC Holdings Ltd., are unsecured, bear interest at a rate of 8% per annum and are repayable on demand. On 31 December 2009, the loans provided by the holding company were offset by the assignment of loans and related interest from Mr. Rubo Li a/k/a John Lee, HK Siwei, Mr. Emory Williams, Williams Realty Co., Ltd. and TJCC Services.

(ix) According to the management consulting agreement entered between TJCC Services and the Group, the Group agreed to pay a consulting service fee to TJCC Services for rendering consulting services on corporate affairs. On 31 December 2009, the management fee payable was used to offset a portion of the loan due from TJCC Services. The management fee agreement was terminated as of 31 December 2009.

(x) Loans provided to HK Siwei are guaranteed by the pledge of the shares of the Company held by Mr. Rubo Li a/k/a John Lee, Mr. Emory Williams and Williams Realty Co., LLC, who hold 63 shares, 13.5 shares and 13.5 shares respectively in the Company. On 31 December 2009, the loan and pledge were assigned to TJCC Holdings Ltd. according to an agreement signed between TJCC Holdings Ltd. and the Company.

### (b) Outstanding balances with related parties:

Details of the Group's balances with its related parties at the end of the reporting period together with maximum outstanding balances due from related parties during the year are disclosed in Notes 26, 27 and 28 to the financial statements.

# Notes to Financial Statements

Year ended 31 December 2009

## 37. Related Party Transactions (Continued)

### (c) Compensation of key management personnel of the Group:

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Basic salaries and other benefits | **20,635** | 15,313 |
| Retirement benefit scheme contributions | **148** | 46 |
| | **20,783** | 15,359 |

## 38. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### Group

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Available-for-sale investments | **7,500** | 7,500 |
| Trade and bills receivables | **1,046,156** | 719,689 |
| Financial assets included in prepayments, deposits and other receivables | **32,130** | 12,423 |
| Amount due from a shareholder | **–** | 19,181 |
| Amounts due from related parties | **35,723** | 221,799 |
| Cash and bank balances | **73,520** | 80,933 |
| | **1,195,029** | 1,061,525 |
| **Financial liabilities** | | |
| Trade payables | **352,977** | 418,413 |
| Financial liabilities included in other payables | **180,391** | 236,450 |
| Interest-bearing bank loans | **304,994** | 113,760 |
| Amount due to the holding company | **–** | 126,760 |
| Amounts due to shareholders | **143** | 156 |
| Amounts due to related parties | **25,000** | 64,108 |
| | **863,505** | 959,647 |

## 38. Financial Instruments by Category (Continued)

**Company**

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets included in prepayments, deposits and other receivables | 19,468 | – |
| Cash and bank balances | 2,501 | 1,617 |
| Amount due from a shareholder | – | 19,181 |
| Amounts due from subsidiaries | 685,582 | 79,509 |
| Amounts due from related parties | – | 210,960 |
| | 707,551 | 311,267 |
| **Financial liabilities** | | |
| Financial liabilities included in other payables | 45,471 | – |
| Amount due to the holding company | – | 126,760 |
| Amounts due to shareholders | 143 | 156 |
| Amount due to a related party | – | 35,775 |
| | 45,614 | 162,691 |

## 39. Financial Risk Management Objective and Policies

The Group's principal financial instruments comprise interest-bearing loans, loans from the holding company, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade and bills receivables as well as other receivables, which arise directly from its operations. The particular recognition methods adopted are disclosed in the accounting policy associated with each item.

It is, and has been during the year, the Group's policy that no trading in financial instruments should be undertaken.

# Notes to Financial Statements

Year ended 31 December 2009

## 39. Financial Risk Management Objective and Policies (Continued)

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, significant concentration of credit risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board reviews and agrees policies for managing each of the risks which are summarised below:

### Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its interest-bearing loans. The Group does not use derivative financial instruments to hedge its interest rate risk. Since the Group's bank loans all bear fixed interest rates and are due within one year, its exposure to risk of changes in market interest rates is low.

### Foreign currency risk

The Group operates in Hong Kong, Mauritius, the Cayman Islands and Mainland China. For companies in Mainland China, their principal activities are transacted in RMB. For other companies outside of Mainland China, their principal activities are transacted in USD. The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the Directors consider that the Group has no significant foreign currency risk exposure.

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, therefore, the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

### Significant concentration of credit risk

Concentration of credit risk exists when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has a significant concentration of credit risk with customers in the mining sector who operate in Mainland China, with the top five customers accounting for 39% and 28% of the Group's total trade receivables balances as at 31 December 2008 and 2009, respectively. Sales to these customers accounted for 43% and 44% of the Group's total sales for the years ended 31 December 2008 and 2009, respectively.

## 39. Financial Risk Management Objective and Policies (Continued)

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of the reporting period was as follows:

**Group**

| 31 December 2009 | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Interest-bearing loans | – | 103,551 | 201,443 | – | – | 304,994 |
| Trade payables | 161,046 | 191,931 | – | – | – | 352,977 |
| Other payables and accruals | 180,391 | – | – | – | – | 180,391 |
| Amounts due to the related parties | 25,000 | – | – | – | – | 25,000 |
| Amounts due to shareholders | 143 | – | – | – | – | 143 |
| | 366,580 | 295,482 | 201,443 | – | – | 863,505 |

| 31 December 2008 | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Interest-bearing loans | – | 58,135 | 55,625 | – | – | 113,760 |
| Trade payables | 222,005 | 183,720 | 12,688 | – | – | 418,413 |
| Other payables and accruals | 236,450 | – | – | – | – | 236,450 |
| Amount due to the holding company | 126,760 | – | – | – | – | 126,760 |
| Amounts due to the related parties | 64,108 | – | – | – | – | 64,108 |
| Amounts due to shareholders | 156 | – | – | – | – | 156 |
| | 649,479 | 241,855 | 68,313 | – | – | 959,647 |

# Notes to Financial Statements

Year ended 31 December 2009

## 39. Financial Risk Management Objective and Policies (Continued)

### Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period was as follows: (Continued)

**Company**

| **31 December 2009** | **On demand** RMB'000 | **Less than 3 months** RMB'000 | **3 to 12 months** RMB'000 | **1 to 5 years** RMB'000 | **More than 5 years** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|---|---|
| Other payables and accruals | **45,471** | **–** | **–** | **–** | **–** | **45,471** |
| Amounts due to shareholders | **143** | **–** | **–** | **–** | **–** | **143** |
| | **45,614** | **–** | **–** | **–** | **–** | **45,614** |

| 31 December 2008 | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Amount due to the holding company | 126,760 | – | – | – | – | 126,760 |
| Amounts due to shareholders | 156 | – | – | – | – | 156 |
| Amount due to a related party | 35,775 | – | – | – | – | 35,775 |
| | 162,691 | – | – | – | – | 162,691 |

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

## 39. Financial Risk Management Objective and Policies (Continued)

**Capital management** (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's net debts include interest-bearing loans, amount due to the holding company and preference shares less cash and cash equivalent. Capital includes total equity.

At the end of the reporting periods, the Group's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The net borrowings to equity ratios as at the ends of the reporting periods were as follows:

**Group**

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Interest-bearing loans | 304,994 | 113,760 |
| Amount due to the holding company | – | 126,760 |
| Preference shares | 403,397 | 554,180 |
| Less: Cash and cash equivalents | (73,520) | (80,933) |
| Net debt | 634,871 | 713,767 |
| Total equity | 692,052 | 458,422 |
| Capital and net debt | 1,326,923 | 1,172,189 |
| Gearing ratio | 48% | 61% |

# Notes to Financial Statements

Year ended 31 December 2009

## 40. Events after the Reporting Period

The following significant events took place after the reporting period and up to the date of the financial statements:

(1) Pursuant to the written resolution of the shareholders of the Company on 24 January 2010, it was resolved that, conditional upon the Company having received the proceeds of the Listing, the remaining preference shares of the Company as at 31 December 2009 will be repurchased at a consideration of USD63,938,000 (equivalent to approximately RMB436,582,000), consisting of the initial purchase price of USD59,078,000 (equivalent to approximately RMB403,397,000) and founder participation rights amount of USD4,860,000 (equivalent to approximately RMB33,185,000). The preferences were fully repurchased on 10 February 2010.

(2) Pursuant to the written resolution of the shareholders of the Company on 24 January 2010 and conditional on the share premium account of the Company being credited pursuant to the Listing, the Company capitalised HKD77,999,000 standing to the credit of the share premium account of the Company to pay up in full 779,990,000 new ordinary shares of HKD0.1 each for allotment and issue to the existing shareholders of the Company, whose names appeared in the register of the Company as at 24 January 2010, as set out in Note 32 to the financial statements.

(3) Pursuant to the written resolution of the shareholders of the Company passed on 24 January 2010, the Company declared a contingent dividend of no more than USD63,200,000 (equivalent to approximately RMB431,542,000) and no less than USD40,100,000 (equivalent to approximately RMB273,811,000) to the holders of the Company's ordinary shares. The dividend is contingent upon the completion of the Listing subject to determination according to the initial public offering price. The contingent dividend amounted to approximately RMB281.0 million based on the Company's initial public offering price of HKD4.88 per share.

(4) On 24 January 2010, a written resolution of the Directors of the Company was passed to approve the payment of USD10,000,000 (equivalent to approximately RMB68,282,000) as a transaction and termination fee in relation to the termination of TJCC Services Management Consulting Agreement which will be paid out from the proceeds of the Listing.

(5) On 10 February 2010, the Company completed its global offering of 520,000,000 shares, which were listed on the Stock Exchange on the same date. The net proceeds from the Company's global offering amounted to approximately RMB2,098 million.

## 41. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 26 April 2010.

国际煤机集团

INTERNATIONAL MINING MACHINERY