

## HISTORY AND DEVELOPMENT

### Overview

The Resolute Fund, L.P., a private equity fund, indirectly controls our Company through the ownership of its five parallel funds in TJCC Holdings. Resolute Fund Partners, LLC, a Delaware limited liability company, is the general partner of The Resolute Fund, L.P. and each of the five parallel funds. The Jordan Company, L.P., a Delaware limited partnership, is the manager of The Resolute Fund, L.P. and each of the five parallel funds.

Our Company was incorporated in the Cayman Islands on 12 April 2006 in contemplation of the investments by The Resolute Fund, L.P. in the PRC, which were the acquisitions of Jiamusi Machinery and Jixi Machinery. Our Company is directly owned as to 91% by TJCC Holdings, an investment company directly controlled by the five parallel funds of The Resolute Fund, L.P. The remaining 9.0% equity interest in our Company is held as to 6.3% by Mr. Rubo Li, 1.35% by Mr. Emory Williams and 1.35% by Williams Realty. Mr. Rubo Li, our non-executive Director, and Mr. Emory Williams, who resigned as Director in December 2009, had assisted The Resolute Fund, L.P. in identifying Jiamusi Machinery and Jixi Machinery as potential attractive acquisitions and subsequently participated in the acquisition negotiations. They were given minority interests in our Company as well as “founder participation” rights in the event of repurchase or redemption of our preferred shares as an incentive provided by The Resolute Fund, L.P. to start-up entrepreneurs and management business partners. See “Reorganisation — Preferred Shares” and “Reorganisation — Historical Related Party Transactions — Loans to Messrs. Rubo Li and Emory Williams and their respective related parties”.

### History of Our Operations

We operate through three principal operating subsidiaries in China, namely Jiamusi Machinery, Jixi Machinery and Huainan Longwall. We also hold minority interests in a number of joint ventures with a view to expanding our customer base and aftermarket sales and services. The following is a brief history of these operations:

- ***Jiamusi Machinery and Jixi Machinery.*** In 2004, we began negotiations with Heilongjiang Coal Mining Machinery for the acquisitions of Jiamusi Machinery and Jixi Machinery. Heilongjiang Coal Mining Machinery was a state-owned enterprise, an independent third party and the then sole shareholder of each of Jiamusi Machinery and Jixi Machinery. On 12 April 2006, in contemplation of the acquisitions, our Company was incorporated. Pursuant to an equity transfer agreement dated 30 December 2005, we agreed to acquire the entire equity interest of Jiamusi Machinery and Jixi Machinery, and on 16 May 2006, we, through our subsidiary, IMM Mauritius, completed the acquisition of the entire equity interest of Jiamusi Machinery and Jixi Machinery for a cash consideration of RMB320 million and RMB41 million in expenses directly attributable to the acquisition. The acquisition was approved by the relevant government authorities, including, among others, Heilongjiang Provincial Investment Promotion Bureau (黑龍江省招商局). The consideration amount was determined based on the appraised net asset value of Jiamusi Machinery and Jixi Machinery in the asset valuation reports dated 25 April 2005 and prepared by the PRC certified valuer, namely, Heilongjiang Guotong Appraisal Co., Ltd. (黑龍江國通資產評估有限公司), which was confirmed and approved by the State-owned Assets Supervision and Administration Commission of Heilongjiang Provincial Government. As of 31 December 2006, a sum of approximately RMB33.8 million remained due by us to Heilongjiang Coal Mining Machinery. Since we did

not have effective control of Jiamusi Machinery and Jixi Machinery prior to their acquisitions by us on 16 May 2006, it was agreed that the earnings of Jiamusi Machinery and Jixi Machinery between 1 January 2006 to 16 May 2006 in the amount of approximately RMB24.2 million and a management fee for the same period in the sum of approximately RMB9.6 million should be due and payable by us to Heilongjiang Coal Mining Machinery. This sum was fully paid by us in 2008.

Both Jiamusi Machinery and Jixi Machinery have a long history in China's coal mining machinery industry. Jiamusi Machinery designed and manufactured roadheader products and traces its history back to 1957. Jixi Machinery designed and manufactured shearer products and traces its history back to 1936. Both Jiamusi Machinery and Jixi Machinery are pioneers and market leaders in the coal mining equipment industry in China and contributed significantly to the development and technological advancement of roadheader and shearer products in China.

- **Huainan Longwall.** On 5 June 2007, we established Huainan Longwall, which was initially established as a sino-foreign joint venture with a total investment capital of RMB220 million and a registered capital of RMB100 million, which initially was owned as to 75.0% by us through our indirect wholly-owned subsidiary, IMM AFC, and as to 25.0% by Huainan Benniu, a Chinese enterprise and, prior to the establishment of Huainan Longwall, an independent third party. We contributed RMB75 million in cash and Huainan Benniu contributed its assets (primarily consisting of machinery, equipment and inventories) valued at RMB25 million towards the registered capital of Huainan Longwall. The term of the joint venture is 50 years, extendable upon mutual agreement and approval by the relevant government authorities. Since the establishment of Huainan Longwall, Huainan Benniu continues to act as a sales agent and distributor of Huainan Longwall.

On 3 December 2009, we entered into an equity transfer agreement to acquire the 25.0% equity interest held by Huainan Benniu in Huainan Longwall for a cash consideration of RMB51.4 million (equivalent to approximately HK\$58.4 million), to be paid on or before 31 March 2010. The cash consideration was determined upon negotiations between the parties by reference to an estimated net income of Huainan Longwall for the year of 2009. Approval and registration procedures relating to the purchase were completed in 19 January 2010. Upon completion of our acquisition, Huainan Benniu will no longer be our connected person but will continue to act as a sales agent and distributor of Huainan Longwall.

Huainan Longwall designs, manufactures, sells, provides repairs, maintenance and aftermarket services for armoured-face conveyors and related products.

- **Joint venture investments.** To further consolidate the relationship with our customers, in addition to our extensive network of wholly-owned sales and service centres, we have established three joint ventures with certain end customers to provide aftermarket sales and services.
  - In September 2006, Jixi Machinery established Huainan Shunli in Huainan of Anhui Province and holds 25.0% equity interest in Huainan Shunli. The other shareholders of Huainan Shunli are independent third parties.

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- In July 2007, Jiamusi Machinery established IMM Xinjiang in Urumqi of Xinjiang Autonomous Region and holds 15.0% equity interest in IMM Xinjiang. The other shareholders of IMM Xinjiang are independent third parties.
- In July 2008, Jiamusi Machinery established Tianlong Machinery in Ordos of Inner Mongolia Autonomous Region and holds 20.0% equity interest in Tianlong Machinery. The other shareholders of Tianlong Machinery are independent third parties, and include Shendong Tianlong Group Co., Ltd. and China National Coal Mining Equipment Co. Ltd.

Among our three PRC subsidiaries, Jiamusi Machinery and Jixi Machinery were both state-owned enterprises before they were acquired by us in April 2006 which was prior to 8 September 2006 when the *Rules on the Acquisition of Domestic Enterprises by Foreign Investors in the PRC*, or Circular 10, became effective. Both acquisitions were duly approved by MOFCOM Heilongjiang branch pursuant to *Interim Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investor*, and upon completion of such acquisitions, both Jiamusi Machinery and Jixi Machinery became wholly foreign-owned enterprises under the laws of the PRC. Huainan Longwall was established as a joint venture company in 2007 by way of foreign direct investment, instead of merger and acquisition as stipulated in the Circular 10. According to our PRC legal counsel, King & Wood, Circular 10 is therefore not applicable to either the acquisitions or the establishment of Huainan Longwall.

Further, the acquisitions of both Jiamusi Machinery and Jixi Machinery and the establishment of Huainan Longwall are not considered a “round-trip investment”, which would be subject to SAFE registration under the *Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies*, or Circular 75. According to our PRC legal counsel, King & Wood, Circular 75 is therefore not applicable to either the acquisitions or the establishment of Huainan Longwall.