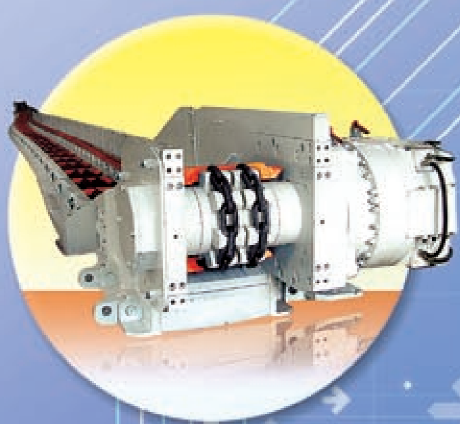
INTERNATIONAL MINING MACHINERY HOLDINGS LIMITED
國際煤機集團

(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



China's Leading Provider
of Complete Longwall
Mining Solutions

ANNUAL REPORT 2010
二零一零年年報

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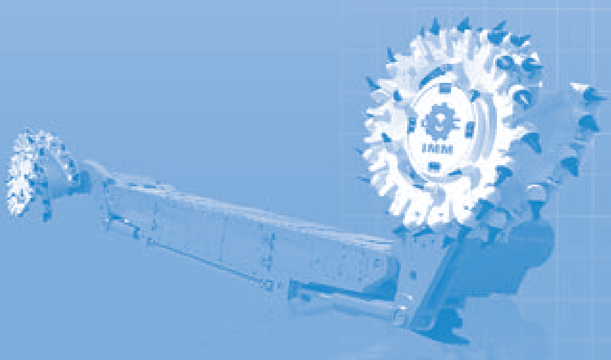
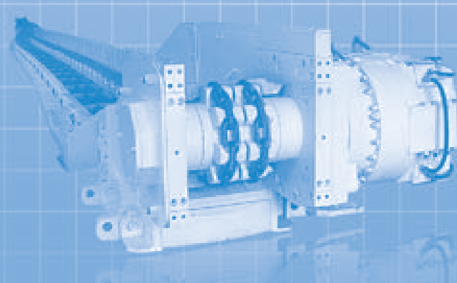




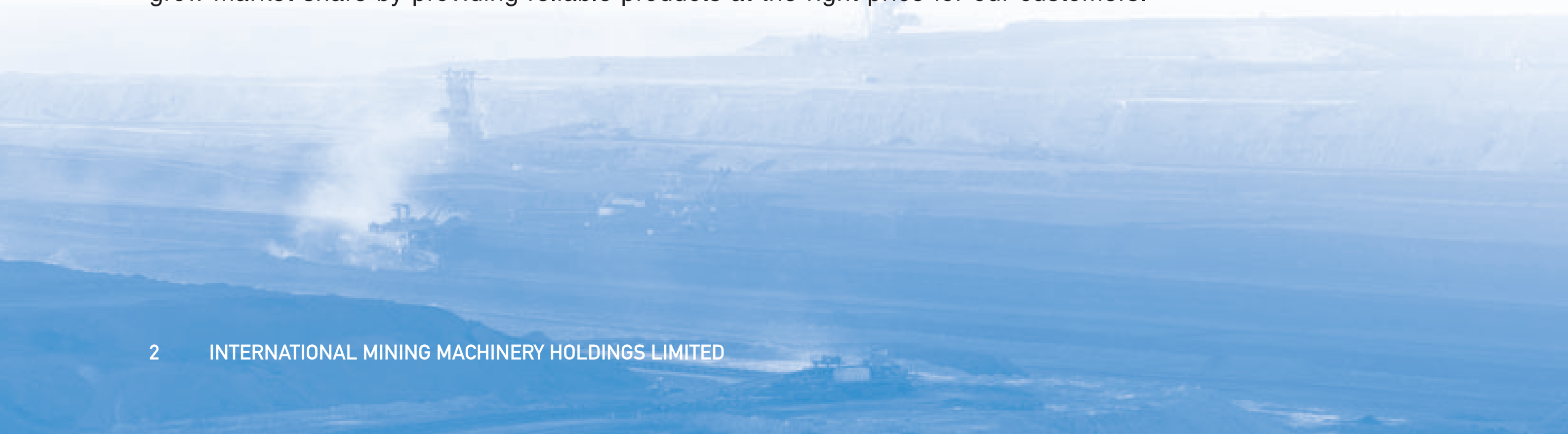
Company Profile

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 and electric control systems businesses 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 four product segments: roadheaders, shearers, armoured-face conveyors ("AFC") and related products, and electric control systems. 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. The electric control system is the "brain" of our other products and ensures the safe and efficient operation of the roadheaders, the shearers, and armoured-face conveyors in the mining area.

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 27 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 2010, 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 2010 also increased compared to 2009, which demonstrates our ability to provide our customers with equipment specific to their needs and our ability to maintain and grow market share by providing reliable products at the right price for our customers.



Company Profile

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 purchased the remaining 25% equity interest in Huainan Longwall on 19 January 2010. 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.

On 27 August 2010, we completed the acquisition of 100% of the equity of Qingdao Tianxun Electric Co., Ltd. ("Qingdao Tianxun"), a manufacturer and supplier of electric control systems and related components for roadheaders, shearers, armoured-face conveyors, and other mining equipment. Qingdao Tianxun's reputation for high quality products will further enhance the safety and reliability of our roadheaders, shearers and armoured-face conveyors. Their excellent engineering and product development knowledge will further strengthen our capabilities in providing integrated systems to domestic and international markets. We believe that the acquisition allows us to expand our product offerings, as well as increase our share of aftermarket business.

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 2010, we had 32 distributors and agents, 46 parts depots and 69 service centres. 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 took our first step into the overseas markets in 2010 by shipping our first roadheader into Russia. We believe this is just the beginning of a long and profitable growth pattern in our international sales.

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 allowed us to accelerate our growth and achieve (i) expansion of the breadth of our product offering through internal development as well as through acquisitions such as Qingdao Tianxun, (ii) increased production capacity to meet growing market demands in equipment and aftermarket parts, (iii) acquisition of 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 continuously 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 (resigned on 31 January 2011)
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. Kwong Ming Pierre TSUI[1]
Ms. Sau Kuen Gloria MA[1]

Legal Advisors

As to Hong Kong and U.S. Law
Skadden, Arps, Slate, Meagher & Flom
42nd Floor, Edinburgh Tower, The Landmark
15 Queen's Road Central
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 Advisor

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

2nd 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

Industrial and Commercial Bank of China Limited
Jixi, Heping Branch
No.19 Hongqi Street
Jiguan District, Jixi
Heilongjiang 158100
China

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

China Construction Bank
Jiaonan Branch
No.203 East Zhuhai Street
Jiaonan,
Shandong 266401
China

Investor Relations

Ms. Sze Lai Doris CHAN

Company's Website

www.immchina.com

(1) Mr. Kwong Ming Pierre TSUI and Ms. Sau Kuen Gloria MA were appointed as joint company secretaries of the Company with an effective date of 6 August 2010 and 19 November 2010 respectively.

Financial Highlights

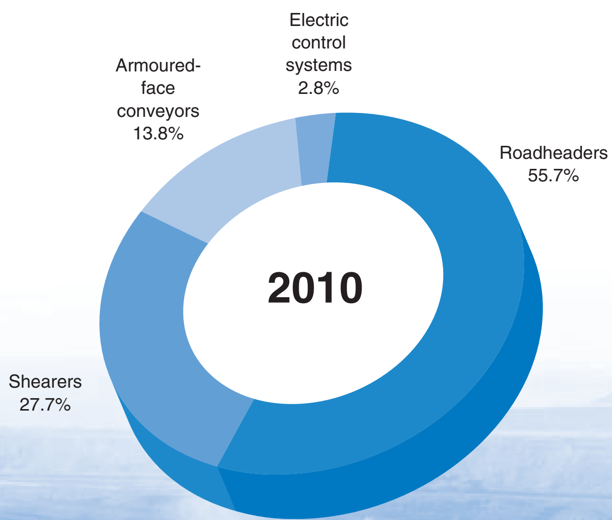
Comparison of results of 2010 and 2009

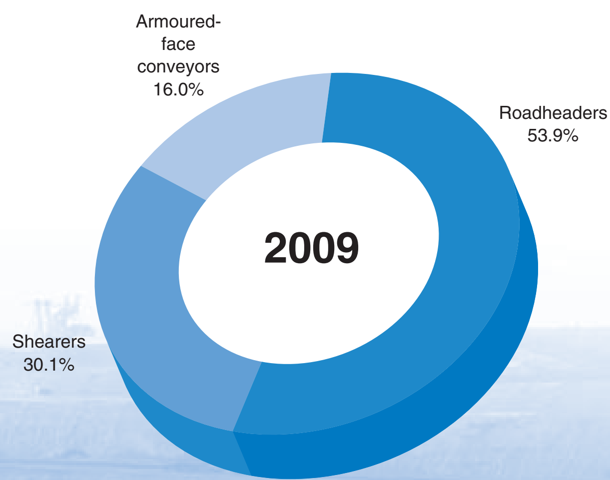
	For the year ended 31 December (RMB million)		
	2010	2009	Change %
Revenue	**1,942.6**	1,519.5	27.8%
Cost of sales	**(1,100.5)**	(944.4)	16.5%
Gross Profit	**842.1**	575.1	46.4%
EBITDA, as adjusted(1)	**585.4**	363.0	61.3%
EBITDA, as reported	**498.8**	346.3	44.0%
Profit before tax, as adjusted(1)	**503.5**	310.8	62.0%
Profit before tax, as reported	**416.9**	294.2	41.7%
Profit attributable to owners of the parent, as adjusted(1)	**436.7**	245.4	78.0%
Profit attributable to owners of the parent, as reported	**350.1**	228.7	53.1%
Basic earnings per share, as adjusted(1) (2)	**35.15 cents**	31.46 cents	11.7%
Basic earnings per share, as reported(2)	**28.18 cents**	29.32 cents	(3.9)%

(1) Amounts exclude non-recurring items associated with the Company's recent Global Offering and the granting of a waiver of taxes for periods prior to the formation of the Company.

(2) The basic earnings per share are calculated by dividing the net profit attributable to the equity holders of the Company by the weighted average number of shares outstanding during the period (2010: 1,242,222,222 and 2009: 780,000,000).

Revenue by segments





Financial Highlights

Five-year financial summary

RMB million	**2010**	2009	2008	2007	2006(3)
Revenue	**1,942.6**	1,519.5	1,279.7	857.6	545.9
Gross profit	**842.1**	575.1	475.1	353.2	244.0
EBITDA, as adjusted(1)	**585.4**	363.0	255.8	184.4	137.7
EBITDA, as reported	**498.8**	346.3	238.8	184.4	88.2
Profit before tax, as adjusted(1)	**503.5**	310.8	202.1	138.9	109.1
Profit before tax, as reported	**416.9**	294.2	185.2	138.9	59.6
Profit attributable to the equity holders of the Company, as adjusted(1)	**436.7**	245.4	167.3	151.4	109.7
Profit attributable to the equity holders of the Company, as reported	**350.1**	228.7	150.4	151.4	60.2
Basic earnings per share, as adjusted(1)(2)	**35.15 cents**	31.46 cents	21.45 cents	19.41 cents	14.06 cents
Basic earnings per share, as reported(2)	**28.18 cents**	29.32 cents	19.28 cents	19.41 cents	7.72 cents

(1) Amounts exclude non-recurring items associated with the Company's recent Global Offering and the granting of a waiver of taxes for periods prior to the formation of the Company. Amounts in 2006 only exclude non-recurring items related to the acquisition of Jiamusi Machinery and Jixi Machinery.

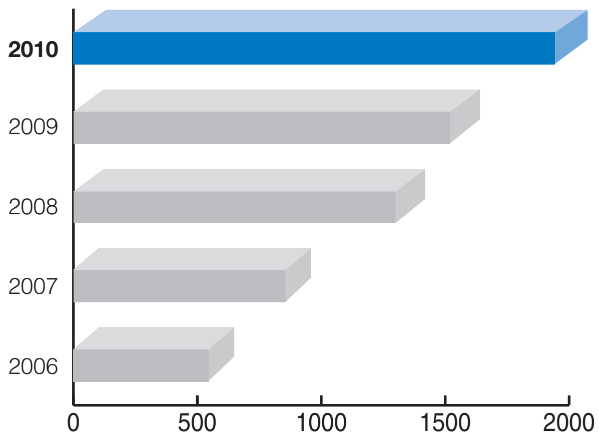
(2) The basic earnings per share are calculated by dividing the net profit attributable to the equity holders of the Company by the weighted average number of shares outstanding during the period (2010: 1,242,222,222 and all other periods: 780,000,000).

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

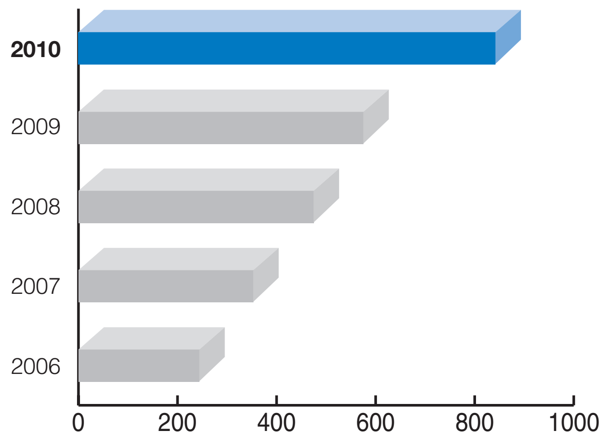
RMB million	**As of 31 December 2010**	As of 31 December 2009	As of 31 December 2008	As of 31 December 2007	As of 31 December 2006
Non-current assets	**1,210.1**	626.9	633.8	572.8	528.5
Current assets	**2,564.7**	1,578.5	1,525.4	1,217.7	757.2
Current liabilities	**837.9**	1,463.3	1,097.2	926.1	654.5
Non-current liabilities	**112.0**	50.1	603.6	583.5	554.7
Net assets	**2,824.9**	692.1	458.4	280.9	76.5

Financial Highlights

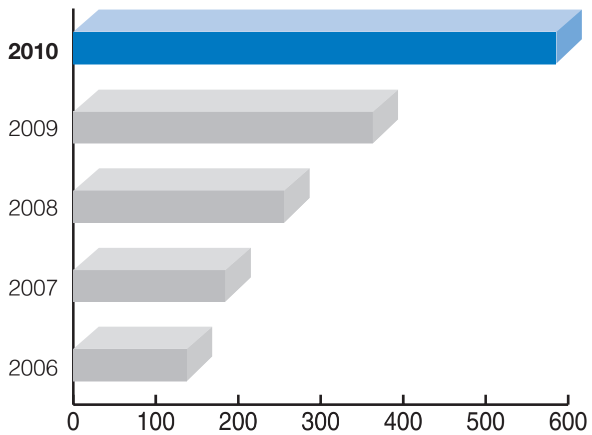
Revenue
RMB million



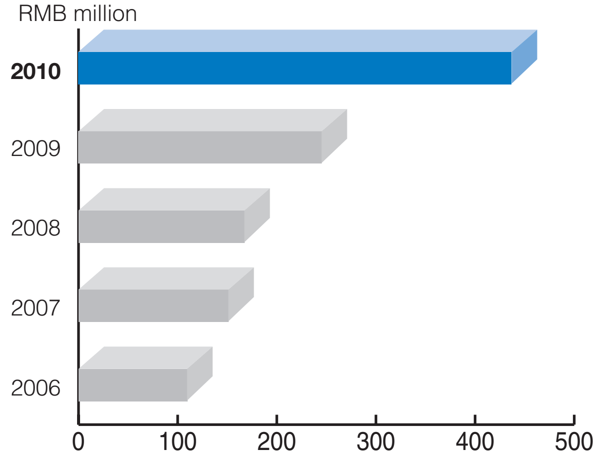
Gross Profit
RMB million



EBITDA, as adjusted
RMB million

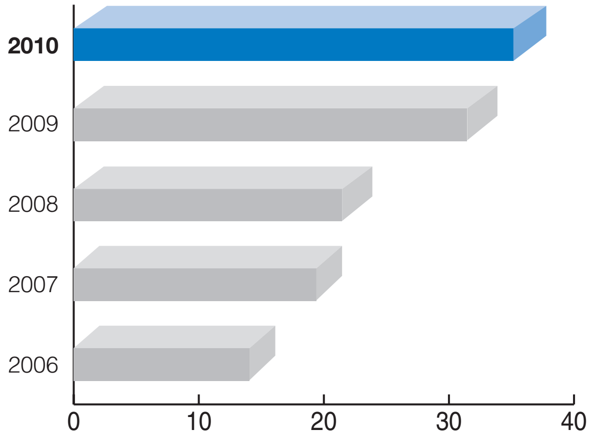


Profit attributable to the equity holders of the Company, as adjusted
RMB million



Financial Highlights

Earnings per share, as adjusted
RMB cent



Note: The basic earnings per share amount for the year ended 31 December 2010 is computed by dividing the profit attributable to equity holders of the Company by the weighted average of 1,242,222,222 ordinary shares (all other periods: 780,000,000 ordinary shares) in issue during the period.

A Letter from our Chairman and our CEO

We achieved many significant milestones in 2010. The Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 10 February 2010, which strengthened our capital base and paved the way for many new developments for the Company. As we forecasted during the Global Offering, we completed an acquisition, established a joint venture with a key customer, commenced our foothold into international markets, and continued to expand our product offerings to suit a wide spectrum of customer needs. These significant developments all contributed to achievement of record high results, and further strengthened our already solid foundation for future growth in the years ahead.

Results

We are very pleased to report that, through the consistent and outstanding efforts of our managers and associates, we once again achieved remarkable results for year ended 31 December 2010. Our revenue increased by 27.8% to another record high of RMB1,942.6 million as a result of the strong market demand for our roadheaders, shearers, armoured-faced conveyors and related products and electric control systems. Our gross profit grew significantly by 46.4% to RMB842.1 million, and more importantly, our gross margin continued to improve, exceeding last year by 5.5 points to 43.3%. Our adjusted net profit attributable to the equity holders of the Company surged to RMB436.7 million, representing an impressive 78.0% improvement, excluding non-recurring charges related to our Global Offering and excluding non-recurring income from the waiver of taxes related to periods prior to the formation of the Company. These strong performances once again confirm our dedication to creating shareholder value via profitable growth, strict cost control measures, and proactively expanding our customer base.

Acquisition

On 27 August 2010, we completed the acquisition of 100% of the equity of Qingdao Tianxun Electric Co., Ltd., a manufacturer and supplier of electric control systems and related components for roadheaders, shearers and armoured-face conveyors. This strategic acquisition enables us to (i) increase shareholder value, (ii) improve gross margin, (iii) enhance operational efficiency, and (iv) leverage complementary strengths among our companies. It will further enhance our ability to provide integrated longwall systems, develop new products such as continuous miners, increase aftermarket sales, gain access to new customers, and increase international sales.

Establishment of Joint Venture

On 8 December 2010, we (through our wholly owned subsidiary, Jiamusi Machinery) entered into an agreement with Shanxi Coal Transportation and Sales Group Co., Ltd. ("Shanxi Coal Transportation") (through its wholly owned subsidiary 山西煤炭運銷集團裝備產業有限公司) to establish a joint venture company, Shanxi Meijia Mining Machinery Company Limited (山西美佳礦業設備製造有限公司) ("Shanxi Meijia"), of which we own 49% of the equity of the joint venture company. Shanxi Meijia is located in the city of Taiyuan, Shanxi Province, and will be principally engaged in the production, sale and marketing of roadheaders and other mining machinery. Shanxi Coal Transportation ranked number five in China's coal industry in 2010 according to China National Coal Association and is one of the major beneficiaries of the coal mine consolidation in Shanxi. Our Jiamusi management team will be responsible for Shanxi Meijia's daily operations, and we believe the partnership with Shanxi Coal Transportation will be another cornerstone on which to plan for our future growth in China's largest market and beyond. The factory construction of Shanxi Meijia began in December 2010 and is anticipated to be completed in the fourth quarter of 2011.

Entrance into International Markets

Our management team successfully secured a number of new international orders during the review year. On 8 November 2010, we shipped our first roadheader to Russia, representing the first significant step into the international markets. Other orders will be shipped to India and Australia in 2011.

A Letter from our Chairman and our CEO

New Product Introductions

We continued to pursue advanced technological development by engineering new products and enhancing our current technology to suit the large variety of our domestic customers' needs. We offer the broadest range of roadheaders and shearers in the industry. A few of the notable developments in 2010 were Jiamusi Machinery's development of the EBZ135C roadheader for thin seam applications which is capable of handling separate coal and rock mining and the EBZ260B roadheader designed for applications with rock hardness of up to f10. Jixi Machinery developed the MG180/420-BWD shearer that provides maximum under-body clearance for passage in a thin seam application for a wide range of slopes, and the MG2×40/120-TBW shearer which adapts to either a single or double cutting drum suiting the user's needs. Huainan Longwall developed the technologically advanced SGZ1000/1400 for one of our strategic customers which is a breakthrough for improving mining efficiency. Qingdao Tianxun developed a 1140V high voltage inverter, which improves the efficiency and reliability of thin seam shearers by enhancing the electrical haulage on them. Our strengths in engineering and product development have been enhanced through the acquisition of Qingdao Tianxun which has a distinguished R&D team with a long history of developing and manufacturing control systems to the highest standards in the industry. These strengths, and many others, allow us to maintain and grow our market leading position in the industry.

Capital Expenditure

We invested RMB119.0 million in operational capital expenditures in 2010 which enabled us to increase overall production capacity by 25% over the prior year. These expenditures included the construction and completion of a new armoured-face conveyor factory in Huainan, as well as the acquisition of a number of other pieces of sophisticated manufacturing equipment and processes to further improve our quality and operational productivity at our other businesses. In addition to adding new capacity, we invested in a number of factory improvements further enhancing the environment, health, and safety of our workplace for our valued employees.

Outlook

The current Twelfth Five-Year Plan recently published by the government outlined the framework for the long term development of the coal mining industry in China. It calls for continued coal mine consolidation and improved mechanization in the next five years. China's coal mines will become larger, safer and more efficient, which assures the continuous demand for coal mining equipment and bodes well for our customers, the beneficiaries of the consolidation. As detailed in this report, 2010 was a remarkable and exciting year for our Company as it achieved many milestones and delivered record financial performance. Going forward we will adhere to our mission to "provide integrated longwall systems", focus on continuous improvement in all that we do and remain committed to providing outstanding results to our shareholders.

Mr. Thomas H. Quinn
Chairman

Mr. Kee-Kwan Allen Chan
Chief Executive Officer

Hong Kong
15 March 2011

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 2010 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, armoured-face conveyors and related products and electric control systems.

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 five years are set out on page 7 of this report.

Prospects

China's coal mining equipment sector revenue has grown approximately 15% each year for the past five years. In the next five years, the growth will likely be driven by more coal enterprise consolidation in 2011. In the draft Twelfth Five-Year Plan, China's aims to form 10 large mining companies, each with an annual capacity of more than 100 million tons. As a result, we expect to benefit from the increased demand for equipment from our current customer base, the large State-owned mining companies and continue to grow at an accelerated pace.

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. These net proceeds were partially applied during the period from the Listing Date up to 31 December 2010 and such application is consistent with the proposed usage of the net proceeds set forth in the Prospectus. The unused balance of the net proceeds is deposited in the Group's interest-bearing bank accounts.

Companies comprising the Group and Associates

Particulars of the companies comprising the Group and associates as at 31 December 2010 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

Save as disclosed under the section headed "Share Option Scheme", at no time during the year was the Company or any of 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 2010 and the state of financial affairs of the Group at that date are set out in the consolidated financial statements on pages 57 to 148 of the annual report.

Dividends

The Board has resolved to recommend the payment of a final dividend of RMB5.4 cents (to be paid in HK$ at the closing spot exchange rate on the day of the Annual General Meeting) per share for the year ended 31 December 2010.

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 RMB2,710.6 million as of 31 December 2010. Additional details of changes in the reserves of the Group for 2010 are set out in consolidated statement of changes in equity and note 35 of the consolidated financial statements.

As at 31 December 2010, the distributable reserves of the Company amount to RMB2,080.6 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 15 to the consolidated financial statements.

Report of Directors

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, and re-elected as an executive Director on 15 June 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, and re-elected as an executive Director on 15 June 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, and re-elected as an executive Director on 15 June 2010)
Non-executive Directors	
Mr. Rubo LI (李汝波) (resigned on 31 January 2011)	(appointed on 16 May 2006 and designated as a non-executive Director on 24 January 2010, and re-elected as a non-executive Director on 15 June 2010. Mr. Li resigned as a non-executive Director on 31 January 2011)
Mr. John W. JORDAN II	(appointed on 16 May 2006 and designated as a non-executive Director on 24 January 2010, and re-elected as a non-executive Director on 15 June 2010)
Ms. Lisa M. ONDRULA	(appointed on 24 January 2010)
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 (衞鳳文)	(appointed on 24 January 2010)

Mr. David W. Zalaznick resigned as the director of the Company on 14 January 2010.

In accordance with Article 106 of the Articles, Mr. Kwong Ming Pierre TSUI, Mr. Yinghui WANG, Dr. Xuezheng WANG and Dr. Fung Man, Norman WAI 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. On 31 January 2011, the Company and Mr. Rubo Li agreed to terminate his directorship prior to the end of its stated term.

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 45 to 54 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). 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 38 to 42 of this report.

Emolument Policy

The remuneration of the Directors and the five 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

Other than the service contracts of the Directors disclosed above, 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.

Report of Directors

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

As at 31 December 2010, 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 ordinary shares/underlying ordinary shares held	Capacity	% of Issued shares
Thomas H. Quinn	534,800,000 (long position)[1]	Interest of controlled corporation	41.14%
John W. Jordan II	534,800,000 (long position)[2]	Interest of controlled corporation	41.14%
Yiming Hu	30,000 (share options and long position)	Beneficial owner	0.002%
Kwong Ming Pierre Tsui	1,210,000 (share options and long position)	Beneficial owner	0.093%
Fung Man, Norman Wai	30,000 (share options and long position)	Beneficial owner	0.002%
Xuezheng Wang	30,000 (share options and long position)	Beneficial owner	0.002%
Yinghui Wang	1,316,000 (share options and long position)	Beneficial owner	0.101%
Zhenduo Yuan	30,000 (share options and long position)	Beneficial owner	0.002%

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 was 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 represented 534,800,000 Shares or approximately 41.14% 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 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. 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 534,800,000 Shares or approximately 41.14% interest in the total issued share capital of the Company.

Substantial Shareholders Interests

To the best knowledge of the Directors and chief executives of the Company, as at 31 December 2010, the register of substantial shareholders' interests in shares and short positions 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	534,800,000 (long position)[1]	Interest of controlled corporation	41.14%
The Resolute Fund, L.P.	534,800,000 (long position)[2]	Interest of controlled corporation	41.14%
The Resolute Fund SIE, L.P.	534,800,000 (long position)[3]	Interest of controlled corporation	41.14%
TJCC Holdings Ltd.	534,800,000 (long position)[4]	Beneficial owner	41.14%
JPMorgan Chase & Co.	2,440,500 (long position)	Beneficial owner	0.19%
	1,826,000 (short position)	Beneficial owner	0.14%
	43,678,500 (long position)	Investment manager	3.36%
	48,154,500 (long position and leading pool)	Custodian	3.70%
Cheah Cheng Hye	66,947,000 (long position)	Founder of a discretionary trust	5.14%
Hang Seng Bank Trustee International Limited	66,947,000 (long position)	Trustee (other than a bare trustee)	5.14%
Cheah Company Limited	66,947,000 (long position)[5]	Interest of controlled corporation	5.14%
Cheah Capital Management Limited	66,947,000 (long position)[5]	Interest of controlled corporation	5.14%
To Hau Yin	66,947,000 (long position)[5]	Interest of spouse	5.14%
Value Partners Group Limited	66,947,000 (long position)[5]	Interest of controlled corporation	5.14%
Value Partners Limited	66,947,000 (long position)[5]	Investment manager	5.14%

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 was 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.. Mr. Thomas H. Quinn and Mr. John W. Jordan II are members, among others, of Resolute Fund Partners, LLC. Mr. Thomas H. Quinn and Mr. John W. Jordan II are Directors.

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.) was deemed to be interested in these Shares through its controlled corporation, TJCC Holdings Ltd., which was interested in 534,800,000 Shares, representing 41.14% interest in the total issued share capital of the Company.

3. The Resolute Fund SIE, L.P. was deemed to be interested in these Shares through its directly controlled corporation, TJCC Holdings Ltd., which was interested in 534,800,000 Shares, representing 41.14% interest in the total issued share capital of our Company.

4. These Shares are directly held by TJCC Holdings Ltd.

5. The 66,947,000 shares represent the same block of shares.

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.

(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.

The Company granted a total of 3,120,000 share options on 28 April 2010, which was disclosed in the 2010 interim report of the Company. On 29 October 2010 (the "**Date of Grant**"), the Company granted to certain eligible participants, a total of 18,818,800 share options to subscribe for ordinary shares of nominal value of HK$0.10 each in the share capital of the Company under the Share Option Scheme. As at 31 December 2010, a total of 21,938,800 share options were granted to directors and other employees of the Company pursuant to the Share Option Scheme.

Movement of the options granted under the Share Option Scheme during the year ended 31 December 2010 is as follows:

Name of grantee	Date of grant	Date of expiry	Exercise Price (HK$)	Number of underlying shares comprised in the outstanding options as at 1 January 2010	Number of underlying shares comprised in the outstanding options as at the date of grant	Number of underlying shares comprised in the options lapsed or cancelled during the year ended 31 December 2010	Number of underlying shares comprised in the options exercised during the year ended 31 December 2010	Number of underlying shares comprised in the outstanding options as at 31 December 2010
Mr. Kwong Ming Pierre Tsui	28 April 2010	23 January 2020	4.07	–	175,000	–	–	175,000
Mr. Yinghui Wang	28 April 2010	23 January 2020	4.07	–	150,000	–	–	150,000
Dr. Yiming Hu	28 April 2010	23 January 2020	4.07	–	30,000	–	–	30,000
Dr. Xuezheng Wang	28 April 2010	23 January 2020	4.07	–	30,000	–	–	30,000
Mr. Zhenduo Yuan	28 April 2010	23 January 2020	4.07	–	30,000	–	–	30,000
Dr. Fung Man, Norman Wai	28 April 2010	23 January 2020	4.07	–	30,000	–	–	30,000
Other employees	28 April 2010	23 January 2020	4.07	–	2,675,000	–	–	2,675,000
Subtotal					**3,120,000**	**–**	**–**	**3,120,000**
Mr. Kwong Ming Pierre Tsui	29 October 2010	23 January 2020	6.75	–	1,035,000	–	–	1,035,000
Mr. Yinghui Wang	29 October 2010	23 January 2020	6.75	–	1,166,000	–	–	1,166,000
Other employees	29 October 2010	23 January 2020	6.75	–	16,617,800	–	–	16,617,800
Subtotal					**18,818,800**	**–**	**–**	**18,818,800**
Total					**21,938,800**	**–**	**–**	**21,938,800**

For the share options granted on 28 April 2010, the exercise price of HK$4.07 per share is the highest of (i) the closing price of HK$3.97 per Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the Date of Grant; (ii) the average closing price of HK$4.07 per Share as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Shares. The closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date prior to the Date of Grant was HK$4.04 per Share.

For the share options granted on 29 October 2010, the exercise price of HK$6.75 per share is the highest of (i) the closing price of HK$6.75 per Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the Date of Grant; (ii) the average closing price of HK$6.65 per Share as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of the Shares. The closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date prior to the Date of Grant was HK$6.60 per Share.

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% (2009: 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 any of the staff leaves the position, the Company is not entitled to recover the contributions paid in respect of such staff's pension scheme benefits.

Connected Transaction

The only connected transaction of the Company for the period from the Listing Date and up to 31 December 2010 is an exempted continuing connected transaction in relation to the consulting agreement with Mr. Rubo Li, a non-executive Director who resigned on 31 January 2011. Details of this continuing connected transaction are 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. Concurrent with his resignation, Mr. Li signed an amendment to his consulting agreement to extend the term of the consulting agreement for a 12-month period to 1 May 2012 the ("Amended Agreement") and provide for an automatic one year extension to the agreement unless either party provides written notice that it does not wish to renew. The Amended Agreement also allows the Board to periodically review the amounts paid to Mr. Li under this agreement and adjust them as they see fit. All other terms and conditions of the consulting agreement as described in our Prospectus remain unchanged. As the Amended Agreement constitutes a non-exempt continuing connected transaction pursuant to Rule 14A.34 of the Listing Rules, the independent non-executive Directors of the Company have reviewed this continuing connected transaction of the Company and confirmed that the transaction was entered into:

(i) in the ordinary and usual course of business of the Company;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board confirms that our auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules.

The auditors of the Company have provided a letter to the Board and confirmed that the continuing connected transactions referred to above:

(i) had received the approval of the Board;

(ii) were in accordance with the pricing policies stated in the Group's financial statements;

(iii) had been entered into in accordance with the terms of the agreements governing the transactions; and

(iv) the amounts of the transactions referred to above had not exceeded the relevant annual caps.

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

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.) and TJCC Holdings Ltd. (the "Controlling Shareholders"), 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 such undertaking (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 Controlling Shareholders in the annual report of the Company.

The Company has received the annual declaration from the Controlling Shareholders in respect of their respective compliance with the terms of the Non-competition Undertaking. The independent non-executive Directors of the Company have reviewed the undertaking and are of the view that the Controlling Shareholders have complied with the Non-competition Undertaking during the period between the Listing Date and 31 December 2010.

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 (as defined in the Listing Rules) 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 2010, and there were no contracts of significance for the provision of services to the Group by the Controlling Shareholders (as defined in the Listing Rules) 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 and up to the date of this report.

Other Related-party Transactions

Details of other related-party transactions entered into by the Group during the year ended 31 December 2010, which did not constitute connected transactions under Chapter 14A of the Listing Rules are set out in note 39 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 2010, the aggregate sales to the Group's five largest customers accounted for approximately 45% 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 2010, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 18% of the Group's total purchases, and the purchases attributable to the Group's largest supplier were approximately 5% 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.

Code on Corporate Governance Practices (the "Code")

The Company has adopted the code provisions set out in the Code. 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 34 to 44 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.

Report of Directors

Post Balance Sheet Events

There were no significant events that took place after the balance sheet date as set out in note 42 of the consolidated financial statements of the Group.

Material Legal Proceedings

As at 31 December 2010, 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

The Company utilizes bank loans for working capital purposes, and all of its bank loans were payable within one year. As of 31 December 2010, the Company's outstanding bank loans bore interest at an annual rate ranging from 4.10% to 5.84%.

Auditors

Ernst & Young was approved as the Company's auditor for the past three 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
15 March 2011

Management Discussion and Analysis

Market Overview

In 2010, the global economy experienced modest recovery. Meanwhile, China's economy grew 10.3%, outpacing the rest of the world, and surpassed Japan to become the world's second largest economic body. In the first half of 2010, the demand for coal grew rapidly driven by China's increased energy needs. In the second half of the year, the economy slowed modestly, which led to a slight reduction in coal demand. However, coal mine consolidation continues, which led to the shut down of 1,355 small coal mines, reducing production capacity by about 125 million tons in the first nine months of 2010. This correlates to China's Twelfth Five-Year plan to increase the mechanization rate for improved safety and efficiency, and to create more large-scale coal mines for efficiency, environmental protection, and conservation of resources. All of these factors lead to continuing demand for more coal mining machineries.

Business Overview

Results

For the year ended 31 December 2010, we delivered impressive results. Our revenue exceeded 2009 by 27.8% to RMB1,942.6 million as a result of the strong market demand for our roadheaders, shearers, armoured-faced conveyors and related products and electric control systems. The gross profit grew by 46.4% over prior year to RMB842.1, and our gross margin improved by 5.5 points over 2009 due to the better sales mix in customer, product and pricing, better overhead leverage from a higher volume of sales and reduced outsourcing by enhancing capacity utilization. Compared to 2009, our net profit attributable to the equity holders of the Company as adjusted increased by RMB191.3 million to RMB436.7 million, excluding the impact of RMB86.6 million of non-recurring charges related to our Global Offering in February 2010 and non-recurring income from the waiver of taxes related to periods prior to the formation of the Company. There were approximately RMB119.5 million in one-time charges associated with the Global Offering restructuring and completion. These items were non-operating in nature and will not repeat in future periods. In addition, during the period, the Company was granted a waiver of taxes due for periods prior to the formation of the Company. This waiver resulted in non-recurring income for the Company of RMB32.9 million in 2010. To present our readers with comparable results for all periods, we have excluded all non-recurring charges related to the Global Offering, and all non-recurring income from the tax waivers in our presentation of adjusted EBITDA, adjusted profit before tax and adjusted net profit attributable to the equity holders of the Company. Management believes that these adjusted numbers more accurately reflect the financial results of the ongoing operations of the Company and demonstrate the earning potential of the Company. Management has also disclosed numbers referred to as "as reported". These numbers include the impact of the non-recurring charges and income discussed above and are derived from the attached Consolidated Financial Statements as audited by the Company's auditors, Ernst & Young.

Management Discussion and Analysis

New Product Introductions

We continued to pursue advanced technological development by engineering new products and enhancing our current technology to suit the large variety of our domestic customers' needs. We offer the broadest range of roadheaders and shearers in the industry. A few of the notable developments in 2010 were Jiamusi Machinery's development of the EBZ135C roadheader for thin seam applications which is capable of handling separate coal and rock mining, and the EBZ260B roadheader designed for applications with rock hardness of up to f10. Jixi Machinery developed the MG180/420-BWD shearer that provides maximum under-body clearance for passage in a thin seam application for a wide range of slopes, and the MG2×40/120-TBW shearer which adapts to either a single or double cutting drum suiting the user's needs. Huainan Longwall developed the technologically advanced SGZ1000/1400 for one of our strategic customers which is a breakthrough for improving mining efficiency. Qingdao Tianxun developed a 1140V high voltage inverter, which improves the efficiency and reliability of thin seam shearers by enhancing the electrical haulage on them. Our strengths in engineering and product development have been enhanced through the acquisition of Qingdao Tianxun which has a distinguished R&D team with a long history of developing and manufacturing control systems to the highest standards in the industry. These strengths, and many others, allow us to maintain and grow our market leading position in the industry.

Acquisition

On 27 August 2010, the Company completed the acquisition of 100% of the equity of Qingdao Tianxun Electric Co., Ltd., a manufacturer and supplier of electric control systems and related components for roadheaders, shearers and armoured-face conveyors and related products. This strategic acquisition enables us to (i) increase shareholder value, (ii) improve gross margin, (iii) enhance operational efficiency, and (iv) leverage complementary strengths between our companies. It will further enhance the Company's ability to provide integrated longwall systems, develop new products such as continuous miners, increase aftermarket sales, gain access to new customers, and increase international sales.

Establishment of Joint Venture

On 8 December 2010, the Company (through its wholly owned subsidiary, Jiamusi Machinery) entered into an agreement with Shanxi Coal Transportation and Sales Group Co., Ltd. ("Shanxi Coal Transportation") (through its wholly owned subsidiary 山西煤炭運銷集團裝備產業有限公司) to establish a joint venture company, Shanxi Meijia Mining Machinery Company Limited (山西美佳礦業設備製造有限公司) ("Shanxi Meijia"), The Company owns 49% of the equity of the joint venture company. Shanxi Meijia is located in the city of Taiyuan, Shanxi Province, and will be principally engaged in the production, sale and marketing of roadheaders and other mining machinery. Shanxi Coal Transportation ranked number five in China's coal industry in 2010 and is one of the major beneficiaries of the coal mine consolidation in Shanxi. Our Jiamusi management team will be responsible for Shanxi Meijia's daily operations, and we believe the partnership with Shanxi Coal Transportation will be another cornerstone on which to plan for our future growth in China's largest market and beyond. The factory construction of Shanxi Meijia began in December 2010 and is anticipated to be completed in the fourth quarter of 2011.

Capital Expenditure

We invested RMB119.0 million in operational capital expenditures in 2010, which enabled us to increase overall production capacity by about 25% over the prior year. These expenditures included the construction and completion of a new armoured-face conveyor factory in Huainan, as well as the acquisition of a number of other pieces of sophisticated manufacturing equipment and processes to further improve our quality and operational productivity at our other businesses. In addition to adding new capacity, we invested in a number of factory improvements further enhancing the environment, health, and safety of our workplace for our valued employees.

Financial Review

Revenue

For the year ended 31 December 2010, the Group's revenue amounted to approximately RMB1,942.6 million, representing an increase of approximately RMB423.1 million or 27.8% as compared to approximately RMB1,519.5 million in 2009. The increase of the revenue was primarily due to the increase in sales of roadheader products, shearer products, armoured-face conveyors and related products and electric control systems. The sales volumes in units increased as compared to 2009, and a favourable sales mix also contributed to the significant growth in the Group's revenue. After the acquisition completed on 27 August 2010, Qingdao Tianxun's sales of electric control systems contributed to the Group's sales for the four months ended 31 December 2010.

The total sales including intersegment sales amounted to approximately RMB1,970.6 million. The intersegment sales were related to the sales between Jiamusi Machinery, Jixi Machinery and Qingdao Tianxun, as Qingdao Tianxun became a subsidiary of the Company after the acquisition. These numbers are derived from the attached Consolidated Financial Statements as audited by the Company's auditors, Ernst & Young.

For the two years ended 31 December 2010 and 2009, the Group's revenue analysis by product segment is as follows:

Product Segments	**2010**		2009		Change	Change
	RMB million	**%**	RMB million	%	RMB million	%
Roadheaders	**1,081.8**	**55.7%**	819.0	53.9%	262.8	32.1%
Shearers	**538.6**	**27.7%**	456.9	30.1%	81.7	17.9%
Armoured-face conveyors and related products	**267.5**	**13.8%**	243.6	16.0%	23.9	9.8%
Electric control systems	**54.7**	**2.8%**	–	–	54.7	N/A
Total	**1,942.6**	**100.0%**	1,519.5	100.0%	423.1	27.8%

Management Discussion and Analysis

Roadheaders: The revenue from roadheader products increased by RMB262.8 million, or 32.1%, from RMB819.0 million in 2009 to RMB1,081.8 million in 2010, which was attributable to the increase in the sales volume of medium and 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. Medium and heavy-duty roadheaders offer a more attractive profit margin than most of our light-duty roadheaders.

Shearers: The revenue from shearer products increased by RMB81.7 million, or 17.9%, from RMB456.9 million in 2009 to RMB538.6 million in 2010, primarily reflecting higher demand and a sales increase of medium seam shearers, partially offset by a decrease in sales of extra-thin seam shearers.

Armoured-face conveyors and related products: The revenue from armoured-face conveyors and related products increased by RMB23.9 million, or 9.8%, from RMB243.6 million in 2009 to RMB267.5 million in 2010. This increase was attributable to the favourable sales mix, and partially offset by the impact of the capacity constraints during the plant relocation, which was completed at the end of October 2010.

Electric control systems: The revenue from electric control systems for the four months ended 31 December 2010 amounted to approximately RMB54.7 million. This revenue was generated from our new product segment, as the acquisition was completed on 27 August 2010.

Cost of Sales

During the year, the Group's cost of sales amounted to RMB1,100.5 million, representing an increase of approximately RMB156.1 million or 16.5% as compared to 2009. The increase was mainly attributable to the corresponding increase in the Group's sales.

The cost of raw materials increased by RMB118.0 million, or 16.1%, from RMB731.4 million in 2009 to RMB849.4 million in 2010, primarily due to cost increases in major components of our raw materials, such as steel and hydraulic parts. Manufacturing costs increased by RMB31.0 million, or 21.6%, from RMB143.2 million in 2009 to RMB174.2 million in 2010 which was primarily due to the increase in fuel cost and depreciation charges on our plant and equipment. Direct labour costs increased by RMB7.1 million, or 10.2%, from RMB69.8 million in 2009 to RMB76.9 million in 2010, primarily due to our increased sales.

Gross Profit and Gross Margin

Gross profit increased by RMB267.0 million, or 46.4%, from RMB575.1 million in 2009 to RMB842.1 million in 2010. During 2010, the gross margin was approximately 43.3%, representing an increase of 5.5pts as compared to 37.8% in 2009, which primarily reflects the increase in the percentage of revenue derived from higher margin sales of roadheaders, shearers, armoured-face conveyors and related products and electric control systems.

Other Income and Gains

The Group's other income and gains amounted to approximately RMB56.2 million in 2010 which represented an increase of approximately RMB40.7 million as compared to 2009. The increase was primarily attributable to the write-down of trade payables amounting to RMB17.9 million and the waiver of prior years' tax liabilities of Jiamusi Coal Mining Machinery Co., Ltd ("Jiamusi Machinery") and Jixi Coal Mining Machinery Co., Ltd. ("Jixi Machinery") amounting to RMB32.9 million.

Selling and Distribution Costs

Selling and distribution costs increased by RMB47.6 million, or 45.2%, from RMB105.3 million in 2009 to RMB152.9 million in 2010, primarily due to higher sales resulting in increased (i) commission expense and compensation to agents and distributors, (ii) warranty expenses accrued and (iii) cost of freight due to the use of more truck than train transportation.

Administrative Expenses

The Group's administrative expenses increased by RMB93.8 million from approximately RMB180.9 million for the year ended 31 December 2009 to approximately RMB274.7 million for the current year, representing an increase of approximately 51.9%, which was primarily due to (i) non-recurring Global Offering related expenses incurred during 2010, (ii) the compensation for new talents in our management team, (iii) increased investment in research and development, and (iv) deal fees and related depreciation expenses from the Qingdao Tianxun acquisition.

Other Expenses

The Group's other expenses increased by RMB34.3 million to RMB43.1 million in 2010 as compared to RMB8.8 million in 2009. The increase is attributable to non-recurring Global Offering related charges of RMB33.2 million. Excluding these non-recurring charges, other expenses would have increased RMB1.1 million as compared to 2009, which was due to the loss on disposal of certain land and equipment.

Income Tax

Income tax expense for the group for 2010 was RMB66.9 million as compared to RMB61.3 million for 2009. 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, was 12.5%, which is a 50% reduction from the statutory rates. Huainan Longwall and Qingdao Tianxun obtained the Certificate of National High-Tech Enterprise in May 2010 and November 2009, respectively, and accordingly, were entitled to a lower PRC corporate income tax rate of 15% for the year ended 31 December 2010.

Net Profit attributable to the Equity Holders of the Company

The Group's adjusted net profit attributable to the equity holders of the Company for the year ended 31 December 2010 was RMB436.7 million as compared to RMB245.4 million in 2009, representing an increase of 78.0%. As discussed above, the adjusted net profit attributable to the equity holders of the Company excludes the non-recurring expenses and income associated with the Global Offering and tax waivers related to periods prior to the formation of the Company. This increase is a direct result of increased sales, expansion of markets and customer bases, supply chain management and other cost containment initiatives. Management focuses on adjusted net profit because it considers the non-recurring Global Offering related expenses and the income from the waiver of taxes for periods prior to the formation of the Company to be unrelated to the day to day operating performance of the Company. The reported net profit attributable to the equity holders of the Company was RMB350.1 million, which was an increase of RMB121.4 million or 53.1% over the reported net profit attributable to the equity holders of the Company in 2009.

Management Discussion and Analysis

EBITDA

Management has chosen to disclose EBITDA, which is not recognized as a financial measurement under IFRS accounting rules. Management uses EBITDA and other operating metrics as tools to evaluate the profitability of its operations and the effectiveness of its various initiatives. EBITDA is calculated as net profit before taxes, plus depreciation, amortization and finance costs and is reduced by finance revenue.

In 2010, adjusted EBITDA was approximately RMB585.4 million, representing an increase of approximately RMB222.4 million or 61.3% as compared to RMB363.0 million in 2009. As discussed above, the adjusted EBITDA excludes the non-recurring charges and income associated with the Company's Global Offering and tax waivers related to periods prior to the formation of the Company, which in the view of management, accurately reflects the operating results of the Company. The increase was due to a higher increase in gross profit than selling, distribution and administrative expenses. EBITDA calculated based on results as reported in the Company's financial statements was RMB498.8 million for 2010, an increase of RMB152.5 million or 44.0% over the same period in the prior year.

	2010	2009
	RMB millions	RMB millions
Profit before tax, as reported	**416.9**	294.2
Depreciation	**34.3**	32.0
Amortization	**36.5**	18.7
Finance revenue	**(0.6)**	(18.7)
Finance cost	**11.7**	20.1
EBITDA, as reported	**498.8**	346.3
Non-recurring charges related to Global Offering	**119.5**	30.0
Non-recurring income from tax waiver	**(32.9)**	(13.3)
EBITDA, as adjusted	**585.4**	363.0

Liquidity and Capital Resources

We currently use a combination of the proceeds from the Global Offering, cash generated from operations and bank loans to meet our financial obligations. As of 31 December 2010, the total current assets amounted to approximately RMB2,564.7 million, and the total current liabilities of the Group amounted to approximately RMB837.9 million. As of 31 December 2010, we had an aggregate of RMB123.4 million in outstanding bank loans, bearing interest at an annual rate ranging from 4.10% to 5.84% and repayable within one year, as compared to RMB305.0 million as of 31 December 2009. We use bills payable to purchase raw materials for our manufacturing operations to enhance the return on assets, which leads to better control over the level of the Group's bank loans.

As of 31 December 2010, the company was in a net cash position and hence, the gearing ratio was not applicable. As of 31 December 2009, our gearing ratio was 48%.

Cash Flow

We had a net cash outflow from operating activities of RMB132.8 million for 2010 which decreased by RMB152.0 million as compared to the net cash inflow of RMB19.2 million in 2009. The outflow in our cash used by operating activities was primarily attributable to the increase in inventories as our sales and production grew significantly and a decrease in payables and accruals due to the payment of previously accrued IPO related expenses.

Cash used by investing activities in 2010 was RMB918.1 million which increased by RMB805.6 million as compared to RMB112.5 million in 2009. The increase in cash used is due to (i) the acquisition of Qingdao Tianxun, (ii) time deposits with maturity of more than three months for currency exchange, and (iii) the purchase of plant and equipment to increase production capacity.

Net cash inflow from financing activities in 2010 was RMB1,243.8 million which increased by RMB1,158.0 million as compared to RMB85.8 million of cash generated from financing activities in 2009. The increase is mainly due to the proceeds from the Global Offering and offset by the decrease in bank loans, the repurchase of preference shares and the dividend paid to the pre-IPO shareholders as outlined in the Company's prospectus dated 29 January 2010.

Asset Structure

As of 31 December 2010, the Group's total assets amounted to approximately RMB3,774.8 million, representing an increase of approximately RMB1,569.4 million or approximately 71.2% as compared to the balance as of 31 December 2009. The increase was mainly attributable to the increase in (i) goodwill and other intangible assets acquired through business combination with Qingdao Tianxun, (ii) the increased trade receivables over those of the prior period due to increased sales levels, and (iii) cash and cash equivalents as a result of the proceeds from the Global Offering. Current assets amounted to approximately RMB2,564.7 million, and mainly consisted of cash, trade receivables and inventories, accounting for approximately 67.9% of total assets; non-current assets amounted to approximately RMB1,210.1 million, representing an increase of approximately RMB583.2 million as compared to the balance as at 31 December 2009.

Liabilities

As of 31 December 2010, the Group's total liabilities amounted to approximately RMB949.9 million, representing a decrease of approximately RMB563.5 million as compared to the balance as at 31 December 2009. Current liabilities amounted to approximately RMB837.9 million, accounting for approximately 88.2% of total liabilities and non-current liabilities amounted to approximately RMB112.0 million, accounting for approximately 11.8% of total liabilities. The decrease in liabilities was mainly attributable to the redemption of our preference shares in connection with our Global Offering, and repayment of short-term bank loans.

Management Discussion and Analysis

Turnover Days

During the year, the average inventory turnover days decreased from 140 days to 122 days. This was attributable to our constant efforts focused on efficient inventory management.

The Group prudently monitored recoverability of its trade receivables. The average turnover days of trade receivables increased from 166 days to 173 days which was due to a combination of our increased sales and strategic customer development.

The average turnover days of trade payables was 121 days, representing a decrease of 28 days as compared to 149 days in 2009. This was mainly attributable to our continuing effort to strengthen our supplier relationships to obtain more favourable pricing and the exclusion of accounts payables to Qingdao Tianxun after the acquisition.

Contingent Liabilities

As of 31 December 2010, we had no material contingent liabilities.

Events After the Reporting Period

There were no significant events occurring after the balance sheet date as set out in note 42 to the consolidated financial statements of the Group.

Pledge of Assets

As of 31 December 2010, we pledged assets with a value of RMB73.4 million for secured bank loans, comprised primarily of buildings, land use rights, and bill receivables.

Capital Expenditure and Commitment

Our capital expenditures were RMB461.7 million for 2010 as compared to RMB66.8 million for 2009, among which RMB342.7 million was related to our acquisition of Qingdao Tianxun. Besides the acquisition, our capital expenditures in 2010 related primarily to the construction of a plant and facilities, and purchases of machinery, office equipment and motor vehicles.

As of 31 December 2010, the Group had capital commitments of approximately RMB62.0 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 2010, the Group's foreign currency deposits were equivalent to approximately RMB471.3 million.

Employee Remuneration and Benefit

As of 31 December 2010, the Group had 3,675 employees as compared to 3,397 as of 31 December 2009. All of our employees have employment contracts which specify the individual's position, responsibilities, remuneration and grounds for termination pursuant to Chinese Labour 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 2010	
	Number	**% of total**
Manufacturing personnel	**2,387**	**65.0%**
Technical personnel (including R&D)	**372**	**10.1%**
Sales and marketing personnel	**310**	**8.4%**
Administrative personnel	**230**	**6.3%**
Procurement personnel	**137**	**3.7%**
Financial personnel	**75**	**2.0%**
Others	**164**	**4.5%**
Total employees	**3,675**	**100.0%**

Staff costs including Directors' remuneration were approximately RMB225.7 million for 2010 as compared to approximately RMB151.4 million for 2009. 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 committed to our customers, in terms of providing quality products and services, and to the staff, by making available opportunities to them for career development. We pledge to contribute to the community while pursuing profitable growth, by managing the business within relevant laws and environmental regulations, improving the standard of corporate governance, actively participating in social charities and contributing to local social development. In 2010, we made donations to The Community Chest of Hong Kong in February 2010, and to the Chinese Red Cross Foundation for the Yushu earthquake relief. Our subsidiary, Jiamusi Machinery which is one of the biggest companies in the city of Jiamusi, sponsored the Twelfth Sports Game of Heilongjiang Province. Jixi Machinery, contributed generously to the local charity foundation for children's education funding.

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. The Directors believe that since the Listing Date and up to the date of this report, 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 eleven Directors, including five executive Directors, two 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	15 June 2010
Mr. Kee-Kwan Allen CHAN	16 May 2006	15 June 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	15 June 2010
Non-executive Directors		
Mr. John W. JORDAN II	16 May 2006	15 June 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

Note: Mr. Rubo LI, who first became a Director on 16 May 2006, resigned as a Director on 31 January 2011.

The biographical details of the Directors are set out on pages 45 to 49 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. Minutes of these meetings are kept by the joint company secretaries and are open for inspection by the Directors.

The individual attendance records of each Director, on a named basis, at the meetings of the Board during the year ended 31 December 2010 are set out below:

Directors	Number of meetings attended/held
Executive Directors	
Mr. Thomas H. QUINN	6/6
Mr. Kee-Kwan Allen CHAN	6/6
Mr. Kwong Ming Pierre TSUI	6/6
Mr. Yinghui WANG	6/6
Mr. Youming YE	6/6
Non-executive Directors	
Mr. Rubo LI (resigned on 31 January 2011)	6/6
Mr. John W. JORDAN II	6/6
Ms. Lisa M. ONDRULA	6/6
Independent non-executive Directors	
Dr. Yiming HU	6/6
Dr. Xuezheng WANG	6/6
Mr. Zhenduo YUAN	6/6
Dr. Fung Man, Norman WAI	6/6

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.

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.

Corporate Governance Report

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. On 31 January 2011, the Company and Mr. Rubo Li agreed to terminate his directorship prior to the end of its stated term. 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 the Code. 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.

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 31 December 2010, 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/held
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 2010:

- review the bonus execution plan for 2010 according to the key performance indicators for year 2010;
- determine the policy for the remuneration of executive Directors, assess the performance of executive Directors and approve the terms of executive Directors' service contracts; and
- review and approve a list of recipients for grants under the Share Option Scheme.

In the 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 it 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 salary, performance related bonus, participation in the Company's share option 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 2010 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 the Code. 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 31 December 2010, two meetings were held to review the interim results and annual results of the Company. 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/held
Dr. Yiming HU	2/2
Ms. Lisa M. ONDRULA	2/2
Dr. Xuezheng WANG	2/2

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.

Corporate Governance Report

The following is a summary of the major tasks attended to by the Audit Committee in 2010:

- review of and recommendation for the Board's approval of the 2009 annual and 2010 interim 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;
- hold discussions with the external auditor and the management on possible accounting risks;
- review and approve the 2010 internal audit plan;
- review of effectiveness of the internal control system;
- approve the audit fee and terms of engagement of the external auditor; and
- review the independence of the external auditor and make recommendations to the Board on the re-appointment of the external auditor.

Auditors' Fee

For the year ended 31 December 2010, auditing service fees payable to the Company's auditor Ernst & Young amounted to approximately RMB3.6 million. The Company also paid fees in the amount of RMB0.3 million to Ernst & Young for non-audit related services including due diligence and acquisition consulting. The Company confirms that there were no other professional fees paid or payable to Ernst & Young during 2010.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 55 and 56 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 and its code of conduct 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.

The Board has delegated to the Audit Committee responsibility for reviewing the effectiveness of the Group's internal control system. 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 Audit Committee works with the Company's Internal Audit Function to carry out internal audit work based on an internal audit plan which is reviewed and approved by the Audit Committee. The Company's Internal Audit Function reports its findings and recommendations for any remediation action required to the Audit Committee. The Audit Committee reviews the reports submitted by the Internal Audit Function, and the issues on the internal control system of the Group are then discussed and evaluated by the Board every year.

The Internal Audit Function conducted reviews on various control aspects during the year, including financial, operational and compliance controls with the aim of mitigating the overall business and operational risk of the Group. Internal control reports were submitted to the Audit Committee for review, and the findings and recommendations were discussed by the Directors of the Audit Committee. The significant findings have been remediated by the management of the Group.

Corporate Governance Report

Non-competition Undertakings

As disclosed in the Prospectus, in January 2010, the Controlling Shareholders 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.

The Company has received the annual declaration from the Controlling Shareholders in respect of their respective compliance with the terms of the Non-competition Undertaking. The independent non-executive Directors of the Company have reviewed the undertaking and are of the view that the Controlling Shareholders have complied with the Non-competition Undertaking during the period between the Listing Date and 31 December 2010.

Going Concern

For 2010, 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 and Senior Management

Directors

Executive Directors

Mr. Thomas H. QUINN, 63, 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 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. Since June 1988, he has been the president of Jordan Industries, Inc., a diversified holding company with a wide range of manufacturing subsidiaries. Mr. Quinn was also the group vice president for Baxter International, Inc. from November 1985 to May 1987.. 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 to 1970. Mr. Quinn was appointed as our Director on 12 April 2006.

Mr. Kee-Kwan Allen CHAN (陳其坤), 58, 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), 46, 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. He is also the joint company secretary of the Company since 6 August 2010. Mr. Tsui has been with our Company since April 2006. Mr. Tsui has over 13 years of financial management experience in the machinery manufacturing industry. Mr. Tsui served in important financial management positions for various companies: the financial controller of CarnaudMetalbox Huapeng (Wuxi) Closures Co., Ltd. (a metal closure manufacturer) from December 1996 to September 1998, director for financial service of Lucent Technologies (China) Ltd. (a telecommunication equipment manufacturer) from October 1999 to April 2003 and the China controller of Ingersoll-Rand (China) Investment Ltd. (a diversified equipment manufacturer) from May 2003 to November 2005. 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), 54, 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), 51, 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), 54, was our non-executive Director during the year under review until he resigned from this position on 31 January 2011. Mr. Li was also a director of Jiamusi Machinery, Jixi Machinery and Huainan Longwall. He was 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 became an executive director of ERA Holdings Global Limited on 13 October 2010. 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, 63, 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, 41, 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 17 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), 47, 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), 61, 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), 68, 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), 62, 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), 44, 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), 53, 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. Xiaoyan CHEN (陳曉彥), 44, has been our Vice President (Operation) since 5 June 2009. He is responsible for supervising the production and operation of our Group. Mr. Chen has been with our Company since May 2008 and was Operation Director until June 2009. Mr. Chen has over 22 years of operation management experience in the manufacturing industry. Prior to joining our Company, Mr. Chen served on managerial positions in Luoyang Hussmann Refrigeration Equipment Co., Ltd. and Shanghai Carrier Transicold Co., Ltd.. Mr. Chen graduated from Beijing Institute of Fashion Technology with a Bachelor degree in automatic control in July 1989.

Mr. Fei Tony WANG (王飛), 51, has assumed the role of IMM Group Vice President in charge of Mergers & Acquisition and Costing Management since October 2010. Prior to this assignment, he was Vice President and CFO of Huainan Longwall from January 2009 to September 2010. He was the North Asia CFO of NCR Company from 2004 to 2008. Prior to that role, he has assumed various financial management and analysis roles in IBM both in China and in the U.S. Mr. Wang has accumulated 22 years of experience in financial management and analysis in consulting, IT, and manufacturing companies. He earned an MBA degree from University of Illinois in the U.S. and bachelor degree of Industrial Management from Jilin University of Technology.

Directors and Senior Management

Mr. Chunzhao ZHANG (張春照), 62, 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), 58, 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.

Mr. Hengjun QI (祁恒軍), 47, 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.

Directors and Senior Management

Mr. Yi Eric XU (徐奕), 41, has been the Chief Executive Officer of Huainan Mining Machinery since 19 February, 2009. He is responsible for the overall business development and daily management of Huainan Machinery. Mr. Xu graduated from Wuhan University of Technology, PRC completing the course in Mechanism Engineering in July 1993. He served manufacturing for nearly 20 years such as Shanghai Heavy Port Mechanism Plant, Namtai Electronic (Shenzhen) Co.,Ltd. and Tyco Elec. Co.,Ltd., etc. with various positions such as Manufacturing Engineer, R&D Engineer and Purchasing Manager. He joined in The Jordan Company L.P. as a Sourcing Manager in September 2004. He is responsible for the Global Sourcing and Supply Chain Management for oversea companies of Jordan. Mr. Xu graduated from Washington University Olin School, U.S. completing the Executive MBA Program in December 2007.

Mr. Liming BIAN (邊立明), 49, has been the General Manager of Huainan Longwall since 15th October 2010. He is responsible for the daily management of Huainan Longwall. Mr. Bian joined our Company in January 2007 and served as the Vice President of Huainan Longwall from January 2007 to June 2008. Mr. Bian served as the General Manager of Xinjiang Coal Mining Machinery Co., Ltd. Mr. Bian has nearly 30 years of experience in the mining equipment machinery manufacturing industry. He started his career at Zhangjiakou Coal Mining Machinery Factory (the predecessor of China Coal Zhangjiakou Coal Mining Machinery Co., Ltd.) in 1982 and had worked there for almost 25 years. During his time at Zhangjiakou Coal Mining Machinery Factory, he served on managerial positions, such as Vice Section Chief, Section Chief, Deputy Division chief and Division Chief of Sales Department. Mr. Bian studied at Zhangjiakou Coal Mining Machinery Technology College, PRC from 1980 to 1982 and graduated from Broadcasting and Television University of China completing the course in Mechanical Manufacturing from 1986 to 1989. Mr. Bian had completed studying in post-graduates class of Engineering Management in Liaoning Technical University from January 2004 to December 2005.

Mr. Jianqing WEI (衛建清), 46, has been the general manager of Qingdao Tianxun since September 2008 and the general manager of IMM Qingdao Tianxun since September 2010. He is Responsible for the company's overall business development and daily management. Mr. Wei has over 20 years of experience in coal mining technology, production management, equipment supporting industries. His career began in July 1987 in Yancon Group and engaged in coal mine production, technology and equipment management. Mr. Wei studied in Shandong University of Science and Technology from July 1983 to July 1987 and obtained an engineering bachelor degree. He also completed the MBA curriculum from September 1997 to February 1999. From September 2000 to December 2003, he studied at China University Of Mining & Technology (Beijing), and graduated with a Doctoral Degree and entered the postdoctoral research station. Mr Wei is one of the first experts of national coal production management consulting hired by National Development and Reform Commission, secretary-general of ShanDong Standardization Commission Coal Branch Deputy, part-time supervisor of Shandong University of Science and Technology, and researcher of engineering technology application.

Directors and Senior Management

Joint Company Secretaries

Ms. Sau Kuen Gloria MA (馬秀絹), 52, is a joint company secretary of the Company. Ms. Ma is a director and Head of Registration and Compliance Services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Ms. Ma has almost 30 years of experience in corporate secretarial work that includes acting as company secretary for companies listed on the Stock Exchange of Hong Kong Limited, setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. Ms. Ma holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a Fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Ma was appointed as the joint company secretary of the Company on 19 November 2010.

Mr. Kwong Ming Pierre TSUI (徐廣明), please refer to his biography under the sub-section headed "Directors".

ERNST & YOUNG
安永

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

We have audited the consolidated financial statements of International Mining Machinery Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 57 to 148, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated 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 consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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
Hong Kong

15 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	6	**1,942,615**	1,519,503
Cost of sales		**(1,100,505)**	(944,375)
Gross profit		**842,110**	575,128
Other income and gains	6	**56,225**	15,484
Selling and distribution costs		**(152,879)**	(105,252)
Administrative expenses		**(274,747)**	(180,867)
Other expenses		**(43,147)**	(8,839)
Finance revenue	7	**633**	18,743
Finance costs	7	**(11,688)**	(20,144)
Share of profits/(losses) of associates		**386**	(98)
PROFIT BEFORE TAX	8	**416,893**	294,155
Income tax expense	11	**(66,852)**	(61,311)
PROFIT FOR THE YEAR		**350,041**	232,844
Attributable to:			
Owners of the parent		**350,115**	228,726
Non-controlling interests		**(74)**	4,118
		350,041	232,844
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (RMB)	13	**28.18 cents**	29.32 cents
Diluted (RMB)	13	**28.17 cents**	29.32 cents

Details of the dividends for the year are disclosed in Note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR	**350,041**	232,844
Other comprehensive income:		
Exchange differences on translation of foreign operations	**(20,120)**	570
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**329,921**	233,414
Attributable to:		
Owners of the parent	**329,995**	229,296
Non-controlling interests	**(74)**	4,118
	329,921	233,414

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	378,675	292,657
Land use rights	16	121,652	141,194
Goodwill	17	314,969	101,203
Other intangible assets	18	330,245	33,640
Investments in associates	20	21,455	21,069
Available-for-sale investments	21	–	7,500
Deferred tax assets	22	8,840	7,654
Prepayments, deposits and other receivables	25	34,271	21,996
		1,210,107	626,913
CURRENT ASSETS			
Inventories	23	424,624	310,213
Trade and bills receivables	24	1,440,737	1,046,156
Prepayments, deposits and other receivables	25	133,173	112,914
Time deposits with original maturity of more than three months	26	307,142	–
Cash and cash equivalents	26	258,990	73,520
Amount due from a related party	28	–	35,723
		2,564,666	1,578,526
CURRENT LIABILITIES			
Interest-bearing loans	29	123,420	304,994
Trade and bills payables	30	401,304	352,977
Other payables and accruals	31	263,149	319,692
Tax payable		50,058	57,120
Amount due to a shareholder	27	–	143
Amount due to a related party	28	–	25,000
Preference shares	33	–	403,397
		837,931	1,463,323
NET CURRENT ASSETS		1,726,735	115,203

Consolidated Statement of Financial Position
31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,936,842**	742,116
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	**111,966**	50,064
NET ASSETS		**2,824,876**	692,052
EQUITY			
Equity attributable to owners of the parent:			
Issued capital	32	**114,270**	80
Reserves	35	**2,710,606**	668,663
		2,824,876	668,743
Non-controlling interests		**–**	23,309
TOTAL EQUITY		**2,824,876**	692,052

Mr. Kee-Kwan Allen Chan
Director

Mr. Kwong Ming Pierre Tsui
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the parent									
	Issued capital RMB'000 (Note 32)	Share premium account RMB'000 (Note 35)	Statutory reserve fund RMB'000 (Note 35)	Share option reserve RMB'000 (Note 34)	Difference arising from acquisition of non-controlling interests RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	78	7,723	25,982	–	–	336,004	69,444	439,231	19,191	458,422
Profit for the year	–	–	–	–	–	228,726	–	228,726	4,118	232,844
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	–	570	570	–	570
Total comprehensive income for the year	–	–	–	–	–	228,726	570	229,296	4,118	233,414
Issue of shares	2	214	–	–	–	–	–	216	–	216
At 31 December 2009	80	7,937*	25,982*	–*	–*	564,730*	70,014*	668,743	23,309	692,052

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the parent										
	Issued capital RMB'000 (Note 32)	Share premium account RMB'000 (Note 35)	Statutory reserve fund RMB'000 (Note 35)	Share option reserve RMB'000 (Note 34)	Difference arising from acquisition of non-controlling interests RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	80	7,937	25,982	–	–	564,730	–	70,014	668,743	23,309	692,052
Profit for the year	–	–	–	–	–	350,115	–	–	350,115	(74)	350,041
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(20,120)	(20,120)	–	(20,120)
Total comprehensive income for the year	–	–	–	–	–	350,115	–	(20,120)	329,995	(74)	329,921
Repurchase of old shares	(80)	80	–	–	–	–	–	–	–	–	–
Issue of shares	45,708	2,184,835	–	–	–	–	–	–	2,230,543	–	2,230,543
Share issue expenses	–	(101,161)	–	–	–	–	–	–	(101,161)	–	(101,161)
Capitalisation of share premium account	68,562	(68,562)	–	–	–	–	–	–	–	–	–
Equity-settled share option arrangements	–	–	–	5,184	–	–	–	–	5,184	–	5,184
Acquisition of non-controlling interests	–	–	–	–	(28,165)	–	–	–	(28,165)	(23,235)	(51,400)
Special dividend	–	–	–	–	–	(280,263)	–	–	(280,263)	–	(280,263)
Proposed final 2010 dividend	–	–	–	–	–	(70,200)	70,200	–	–	–	–
Transfer from retained profits	–	–	19,547	–	–	(19,547)	–	–	–	–	–
At 31 December 2010	114,270	2,023,129*	45,529*	5,184*	(28,165)*	544,835*	70,200*	49,894*	2,824,876	–	2,824,876

* These reserve accounts comprise the consolidated reserves of RMB2,710,606,000 (2009: RMB668,663,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		416,893	294,155
Adjustments for:			
Depreciation of items of property, plant and equipment	8	34,298	32,052
Amortisation of land use rights	8	3,350	3,428
Amortisation of other intangible assets	8	33,181	15,269
Loss on disposal of items of property, plant and equipment	8	3,575	499
Gain on disposal of land use rights	8	(1,937)	–
Gain on disposal of an available-for-sale investments	8	(2,250)	–
Reversal of inventories to net realisable value	8	(5,980)	(18,276)
Provision for impairment of trade receivables	8	3,311	2,448
Reversal of impairment of trade receivables	8	(3,925)	–
Equity-settled share option expenses	8	5,184	–
Finance costs	7	11,688	20,144
Finance revenue	7	(633)	(18,743)
Share of (profits)/losses of associates		(386)	98
		496,369	331,074
Increase in trade and bills receivables		(321,464)	(328,915)
Increase in prepayments, deposits and other receivables		(15,286)	(42,665)
(Increase)/decrease in inventories		(100,277)	121,708
Increase/(decrease) in trade an bills payables		33,747	(65,436)
Decrease in other payables and accruals		(124,918)	(854)
Increase in an amount due to the holding company		–	44,404
(Decrease)/increase in amounts due to a related party and a shareholder		(11,643)	13,732
		(43,472)	73,048
Interest paid		(2,402)	–
Income tax paid		(86,958)	(53,800)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES		(132,832)	19,248

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(131,209)	(47,523)
Purchase of land use rights		–	(2,553)
Acquisition of a subsidiary	36	(487,077)	–
Proceeds from disposal of items of property, plant and equipment		5,132	2,913
Proceeds from disposal of land use rights		20,989	–
Acquisition of non-controlling interests		(51,400)	–
Capital contribution of available-for-sale investments		(7,500)	–
Disposal of available-for-sale investments		17,250	
Decrease/(increase) in amounts due from a related party		22,223	(65,872)
Increase in time deposits with original maturity of more than three months		(307,142)	–
Interest received		633	551
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(918,101)	(112,484)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		2,129,382	–
Proceeds from paid-up preference shares		–	145,887
Repurchase of preference shares		(403,397)	(242,516)
New bank loans		87,000	346,021
Repayment of bank loans		(281,574)	(154,787)
Dividend paid		(280,263)	–
Interest paid		(7,333)	(8,780)
NET CASH FLOWS FROM FINANCING ACTIVITIES		1,243,815	85,825
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		192,882	(7,411)
Cash and cash equivalents at beginning of year		73,520	80,933
Effect of foreign exchange rate changes, net		(7,412)	(2)
CASH AND CASH EQUIVALENTS AT END OF YEAR		258,990	73,520

Statement of Financial Position of the Company

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	527	–
Investments in subsidiaries	19	537,475	14,900
		538,002	14,900
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	775	19,468
Time deposits with original maturity of more than three months	26	307,142	–
Cash and cash equivalents	26	156,500	2,501
Amounts due from subsidiaries	28	1,175,338	685,582
		1,639,755	707,551
CURRENT LIABILITIES			
Other payables and accruals	31	36,631	45,471
Tax payable		1,574	–
Amount due to a shareholder	27	–	143
Preference shares	33	–	403,397
		38,205	449,011
NET CURRENT ASSETS		1,601,550	258,540
TOTAL ASSETS LESS CURRENT LIABILITIES		2,139,552	273,440
NET ASSETS		2,139,552	273,440
EQUITY			
Issued capital	32	114,270	80
Reserves	35	2,025,282	273,360
TOTAL EQUITY		2,139,552	273,440

Notes to Financial Statements

31 December 2010

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, 87 Mary Street, George Town, Grand Cayman, Cayman Islands.

In the opinion of the Directors, the Company's controlling shareholder is TJCC Holdings Ltd., which was incorporated in the Cayman Islands. The controlling shareholder of TJCC Holdings Ltd. 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.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 Basis of Preparation (Continued)

Basis of consolidation (Continued)

Basis of consolidation from 1 January 2010 (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 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 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 First-time Adoption of *International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment – Group *Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*

2.2 Changes in Accounting Policy and Disclosures (Continued)

IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments 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*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised) and amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidated and Separate Financial Statements

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows,* IAS 12 *Income Taxes,* IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

2.2 Changes in Accounting Policy and Disclosures (Continued)

(b) Improvements to IFRSs 2009 issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

2.3 Issued but not yet Effective IFRSs

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2] Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adpoters*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
IFRS 9	*Financial Instruments*[6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[5]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

2.3 Issued but not yet Effective IFRSs (Continued)

Apart from the above, IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

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.

2.4 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.

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 investments 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 investments 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 investments in associates and is not individually tested for impairment.

2.4 Summary of Significant Accounting Policies (Continued)

Associates (Continued)

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.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as of the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

Business combinations from 1 January 2010 (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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 of 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.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that 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.

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 in those expense categories consistent with the function of the impaired asset.

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;

(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);

(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.

2.4 Summary of Significant Accounting Policies (Continued)

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
Leasehold improvements	The shorter of the lease terms or their useful lives
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. Residual values, useful lives and depreciation method 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 and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 Summary of Significant Accounting Policies (Continued)

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 of 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 the 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.

Patents and software copyrights

Purchased patents and software copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 6 to 8 years.

Customer bases and know-how

Customer bases and know-how are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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 a 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 income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 investments, 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 cash equivalents, time deposits with original maturity of more than three months, trade and other receivables, loans receivable, quoted and unquoted financial instruments, and amounts due from related parties.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

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 other income and gains or finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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 by 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 expenses.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt 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 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 income statement in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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.

2.4 Summary of Significant Accounting Policies (Continued)

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; or

- the Group has transferred its 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; 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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

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 the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not yet 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.

The carrying amount of the asset is reduced 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 other expenses in 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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

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 also are 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.

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 between 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.

2.4 Summary of Significant Accounting Policies (Continued)

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any 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, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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.

2.4 Summary of Significant Accounting Policies (Continued)

Provisions (Continued)

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

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 goodwill or 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, associates and joint ventures, 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.

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

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, 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. When 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 installments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

2.4 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 measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred 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) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(c) 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 or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 Summary of Significant Accounting Policies (Continued)

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 34 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% to 22% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.4 Summary of Significant Accounting Policies (Continued)

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.

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained profits 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.

Interim dividends are simultaneously proposed and declared because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Group's presentation currency. The functional currency of the Company is Hong Kong dollar ("HKD"). Each entity in 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 ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional 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 a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company 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.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies (Continued)

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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Deferred tax liabilities are recognised for withholding corporate income taxes relating to the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes. Significant management judgement is required to determine the amount of deferred tax liabilities, based upon the likely distribution level of such earnings from these subsidiaries in the foreseeable future. The carrying value of deferred tax liabilities arising from the withholding tax associated with the undistributed profits of PRC subsidiaries for the year ended 31 December 2010 was RMB13,015,000 (2009: RMB12,577,000). Further details are contained in Note 22 to the financial statements.

3. Significant Accounting Judgements and Estimates

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 2010 was RMB314,969,000 (2009: RMB101,203,000). Further details are given in Note 17 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 and other intangible assets*

The carrying value of property, plant and equipment and other intangible assets are 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 2.4 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. 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 carryforward 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.

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

(ix) Valuation of share options

As described in Note 34 to the financial statements, the Company has engaged an independent professionally qualified valuer to assist in the valuation of the share options granted during the year. The fair value of options granted under the share option scheme is determined using the Binomial Model. The significant inputs into the model were the underlying share price at the grant date, exercise price, risk-free interest rate, expected volatility of the underlying shares, expected dividend yield, expected employee exit rate, exercise multiple and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company. As at 31 December 2010, the fair value of the share options granted by the Company was RMB54,870,000, of which share option expense of RMB5,184,000 was recognised during the year.

4. Particulars of Companies Comprising the Group and Associates

Particulars of the companies comprising the Group and its associates at 31 December 2010 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 %	Indirect %	Principal activities
Subsidiaries					
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

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)					
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. ("Jiamusi Machinery")	PRC/Mainland China 4 September 2002	RMB94,895,630	–	100	Manufacture and sale of coal mining machinery
Jixi Coal Mining Machinery Co., Ltd. ("Jixi Machinery")	PRC/Mainland China 19 September 2001	RMB100,000,000	–	100	Manufacture and sale of coal mining machinery
Huainan Longwall Coal Mining Machinery Co., Ltd. [(a)]	PRC/Mainland China 27 June 2007	RMB132,000,000	–	100	Manufacture and sale of coal mining machinery
Qingdao Tian Xun Electric Co., Ltd. [(b)]	PRC/Mainland China 7 September 2001	RMB5,000,000	100	–	Manufacture and sale of electric control systems

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

Particulars of the companies comprising the Group and its associates at 31 December 2010 are set out below: (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 %	Indirect %	Principal activities
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 19 January 2010, IMM AFC Holdings, a wholly-owned subsidiary of the Group, acquired the remaining 25% equity interest in Huainan Longwall Coal Mining Machinery Co., Ltd. ("Huainan Longwall") from Huainan Benniu Machinery Co., Ltd. ("Benniu") at a purchase consideration of RMB51,400,000. Pursuant to the acquisition above, Huainan Longwall became a wholly-owned subsidiary of the Group.

(b) On 27 August 2010, the Company acquired the entire equity interest in Qingdao Tian Xun Electric Co., Ltd. ("Qingdao Tianxun"), a company established in the PRC, from Mr. Deng Kefei, Mr. Deng Kelong, Mr. Ma Fuqian and Mr. Wang Dongxing. Pursuant to the acquisition above, Qingdao Tianxun became a wholly-owned subsidiary of the Company.

* 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.

5. Operating Segment Information

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

(a) Roadheader products and aftermarket parts and services

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

(d) Electric control systems and related products and aftermarket parts and services

Engaged in the manufacture and sale of electric control systems and related spare parts and the provision of 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 2010	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	Electric control systems and related products and aftermarket parts and services RMB'000	Group RMB'000
Segment revenue:					
Sales to external customers	1,081,758	538,571	267,526	54,760	1,942,615
Intersegment sales	3,946	94	–	23,969	28,009
	1,085,704	538,665	267,526	78,729	1,970,624
Reconciliation:					
Elimination of intersegment sales					(28,009)
Total revenue					1,942,615
Segment results	408,907	98,832	20,137	30,079	557,955
Reconciliation:					
Elimination of intersegment results					(5,861)
Interest income					389
Corporate and other unallocated expenses*					(133,637)
Finance costs					(1,953)
Profit before tax					416,893
Segment assets	1,590,729	780,733	424,298	658,303	3,454,063
Reconciliation:					
Elimination of intersegment receivables					(145,311)
Corporate and other unallocated assets					466,021
Total assets					3,774,773

5. Operating Segment Information (Continued)

Year ended 31 December 2010	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	Electric control systems and related products and aftermarket parts and services RMB'000	Group RMB'000
Segment liabilities	304,478	440,524	197,807	100,181	1,042,990
Reconciliation:					
Elimination of intersegment payables					(145,311)
Corporate and other unallocated liabilities					52,218
Total liabilities					949,897
Other segment information:					
Share of profits/(losses) of associates	626	(240)	–	–	386
Research and development costs	19,099	13,515	2,061	5,906	40,581
Depreciation of items of property, plant and equipment	14,177	16,328	3,110	523	34,138
Reconciliation:					
Corporate and other unallocated depreciation					160
Total depreciation					34,298

5. Operating Segment Information (Continued)

Year ended 31 December 2010	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	Electric control systems and related products and aftermarket parts and services RMB'000	Group RMB'000
Other segment information: (Continued)					
Amortisation of land use rights	1,550	1,409	369	22	3,350
Amortisation of other intangible assets	9,905	1,982	3,384	17,910	33,181
Reversal of impairment of trade receivables	(3,925)	–	–	–	(3,925)
Provision for impairment of trade receivables	–	1,498	1,567	246	3,311
(Reversal)/write-down of inventories to net realisable value	(3,303)	(4,087)	1,410	–	(5,980)
Product warranty provision	9,672	8,619	3,695	254	22,240
Loss/(gain) on disposal of items property, plant and equipment	74	3,504	12	(15)	3,575
Gain on disposal of land use rights	–	(1,937)	–	–	(1,937)
Investments in associates	21,269	186	–	–	21,455
Capital expenditure**	15,326	24,292	78,327	307	118,252
Reconciliation:					
Corporate and other unallocated expenditure					343,417
Total capital expenditure					461,669

* 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 including assets from the acquisition of a subsidiary during the year.

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	–	–	–	–
Total revenue	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

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/(reversal) of inventories to net realisable value	2,561	(20,837)	–	(18,276)
Product warranty provision	6,662	7,630	1,152	15,444
(Gain)/loss 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

Information about major customers

During the year ended 31 December 2010, the Group had two customers from whom the revenues raised of RMB269,585,000 and RMB243,414,000, respectively, individually accounted for more than 10% of the Group's total revenue during the year.

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

Details of the concentration of credit risk arising from the customers are set out in Note 41 to the financial statements.

6. Revenue, Other Income and Gains

Revenue represents the net invoiced value of goods sold and the value of services rendered 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:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of goods	1,935,181	1,507,281
Rendering of services	9,223	12,222
	1,944,404	1,519,503
Less: Government surcharges	(1,789)	–
	1,942,615	1,519,503
Other income and gains		
Waiver of unpaid tax	32,888	13,273
Reversal of long-aged trade debts	17,895	–
Gain on disposal of an available-for-sale investment	2,250	–
Gain on disposal of land use rights	1,937	–
Sale of scrap materials	409	910
Others	846	1,301
	56,225	15,484

7. Finance Revenue and Finance Costs

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

	2010 RMB'000	2009 RMB'000
Finance revenue		
Interest income	633	18,743
Finance costs		
Loan interests	7,333	18,113
Interest arising from discounted bills	2,402	2,031
Notional interest	1,953	–
Total finance costs	11,688	20,144

8. Profit Before Tax

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

	2010 RMB'000	2009 RMB'000
Cost of inventories sold	1,095,746	936,682
Cost of services provided	4,759	7,693
Employee benefit expense (including Directors' remuneration as set out in Note 9)		
– Wages and salaries	168,390	133,134
– Pension scheme contributions	18,880	18,217
– Founder participation rights payment	33,198	–
– Equity-settled share option expenses	5,184	–
	225,652	151,351

8. Profit Before Tax (Continued)

	2010 RMB'000	2009 RMB'000
Research and development costs	**40,581**	29,516
Auditors' remuneration	**3,560**	2,430
Depreciation of items of property, plant and equipment (Note 15)	**34,298**	32,052
Amortisation of land use rights (Note 16)	**3,350**	3,428
Amortisation of other intangible assets (Note 18)	**33,181**	15,269
Reversal of impairment of trade receivables (Note 24)	**(3,925)**	–
Provision for impairment of trade receivables (Note 24)	**3,311**	2,448
Minimum lease payments under operating leases	**4,053**	4,367
Reversal of inventories to net realisable value	**(5,980)**	(18,276)
Product warranty provision	**22,240**	15,444
Loss on disposal of items of property, plant and equipment	**3,575**	499
Gain on disposal of land use rights	**(1,937)**	–
Gain on disposal of an available-for-sale investments	**(2,250)**	–
Fee for early termination of management consulting agreement with TJCC Services Ltd. ("TJCC Services")	**68,344**	–

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:

	2010 RMB'000	2009 RMB'000
Fees	2,270	2,107
Other emoluments:		
Salaries, allowances and benefits in kind	11,814	8,030
Performance-related bonuses*	917	2,596
Founder participation rights payment	23,239	–
Equity-settled share option expenses	644	–
	36,614	10,626
	38,884	12,733

* 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.

During the year, certain Directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in Note 34 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above Directors' remuneration disclosures.

(a) Independent non-executive Directors

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

	Fees RMB'000	Equity-settled share option expenses RMB'000	Total remuneration RMB'000
2010			
Yiming Hu	141	14	155
Xuezheng Wang	141	14	155
Zhengduo Yuan	141	14	155
Fung Man, Norman Wai	141	14	155
	564	56	620

9. Directors' Remuneration (Continued)

(a) Independent non-executive Directors (Continued)

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.

There were no other emoluments payable to the independent non-executive Directors during the year (2009: Nil).

(b) Executive Directors

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

	Salaries, allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity settled share option expenses RMB'000	Total RMB'000
2010				
Thomas H. Quinn	–	–	–	–
Kee-Kwan Allen Chan	4,521	–	–	4,521
Youming Ye	3,635	–	–	3,635
Kwong Ming Pierre Tsui (ii)	2,004	529	287	2,820
Yinghui Wang (ii)	714	388	301	1,403
David W. Zalaznick (i)	–	–	–	–
	10,874	917	588	12,379
2009				
Thomas H. Quinn	–	–	–	–
Kee-Kwan Allen Chan	5,124	1,708	–	6,832
Youming Ye	2,900	888	–	3,788
Emory Williams (i)	6	–	–	6
David W. Zalaznick (i)	–	–	–	–
	8,030	2,596	–	10,626

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

(ii) On 24 January 2010, Mr. Kwong Ming Pierre Tsui and Mr. Yinghui Wang were appointed as executive Directors of the Company.

9. Directors' Remuneration (Continued)

(c) Non-executive Directors

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Founder participant rights payment RMB'000	Total RMB'000
2010				
John W. Jordan II	–	–	–	–
Rubo Li a/k/a John Lee (iii)	1,706	–	23,239	24,945
Lisa M. Ondrula (iv)	–	940	–	940
	1,706	940	23,239	25,885
2009				
John W. Jordan II	–	–	–	–
Rubo Li a/k/a John Lee	2,107	–	–	2,107
	2,107	–	–	2,107

(iii) Subsequent to the end of the reporting period on 31 January 2011, Mr. Rubo Li a/k/a John Lee resigned as a non-executive Director of the Company.

(iv) On 24 January 2010, Ms. Lisa M. Ondrula was appointed as a non-executive Director of the Company.

Mr. Thomas H. Quinn, Mr. John W. Jordan II and Mr. David W. Zalaznick did not receive any remuneration from the Company for the years ended 31 December 2010 and 2009, but were remunerated by The Jordan Company arising from their individual capacity as members of 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.

10. Five Highest Paid Employees

The five highest paid employees during the year included four (2009: three) Directors, details of whose remuneration are set out in Note 9 above. Details of the remuneration of the remaining one (2009: two) non-director, highest paid employee for the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	1,082	3,098
Performance-related bonuses	571	670
Equity-settled share option expenses	287	–
Pension scheme contributions	28	27
	1,968	3,795

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

	Number of employees	
	2010	2009
Nil to HK$1,000,000	–	–
HK$1,000,001to HK$1,500,000	–	–
HK$1,500,001to HK$2,000,000	–	1
Over HK$2,000,000	1	1
	1	2

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in Note 34 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

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

11. 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, the Group is not subject to any income tax in the Cayman Islands.

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 was 12.5% from 1 January 2008 to 31 December 2010.

Huainan Longwall and Qingdao Tianxun obtained the Certificate of National High-Tech Enterprise in May 2010 and November 2009, respectively, and accordingly, were entitled to a lower PRC corporate income tax rate of 15% for the year ended 31 December 2010.

The share of tax attributable to associates for the years ended 31 December 2009 and 2010, respectively, is 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:

	2010 **RMB'000**	2009 RMB'000
Current tax		
– Income tax in the PRC for the year	**77,133**	58,039
– Deferred tax (Note 22)	**(10,281)**	3,272
Total tax charge for the year	**66,852**	61,311

11. Income Tax (Continued)

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:

	2010 RMB'000	2009 RMB'000
Profit before tax	416,893	294,155
Tax at an applicable tax rate	104,223	73,539
Lower tax rate for certain loss making entities in different jurisdictions	37,397	11,522
Tax concession for certain subsidiaries*	(76,890)	(46,425)
Losses/(profits) attributable to associates	(97)	25
Adjustments in respect of current tax of previous periods	(16,194)	–
Income not subject to tax	(8,222)	–
Expenses not deductible for tax	15,779	9,934
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	10,856	12,716
Tax charge at the Group's effective rate	66,852	61,311

* 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 2009 and 2010 was subjected to a 50% deduction to the standard rate of tax. Huainan Longwall and Qingdao Tianxun were recognised as High-Tech companies and enjoyed a tax rate of 15% (2009: 25%) starting from 1 January 2010.

12. Dividends

(a) Dividends attributable to the current year

	2010 RMB'000	2009 RMB'000
Proposed final – RMB5.4 cents per ordinary share	70,200	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Dividends (Continued)

(b) Special dividend declared in connection with the initial public offering

	2010 RMB'000	2009 RMB'000
Declared during the year	280,263	–
Paid during the year	280,263	–

13. Earnings per Share

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,242,222,222 (2009: 780,000,000) in issue during the year, as adjusted to reflect the rights issued during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year includes the 520,000,000 ordinary shares issued in connection with the listing of the Company's ordinary shares on the Stock Exchange on 10 February 2010.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

13. Earnings per Share (Continued)

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,242,222,222**	780,000,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	**639,986**	–
	1,242,862,208*	780,000,000

* The diluted earnings per share amount is increased when taking the share option granted on 29 October 2010 into account, because the exercise price of these outstanding share options was higher than the average market price for the Company's shares during the current year, which had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit for the year of RMB350,115,000, and the weighted average number of ordinary shares of 1,242,862,208 in issue during the year.

14. Retirement Benefits and Accommodation Benefits

Retirement benefits

As stipulated by PRC regulations, Jiamusi Machinery, Jixi Machinery, Huainan Longwall and Qingdao Tianxun 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, Huainan Longwall and Qingdao Tianxun 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, Huainan Longwall and Qingdao Tianxun to whom the defined contribution retirement plan is applicable. Jiamusi Machinery, Jixi Machinery, Huainan Longwall and Qingdao Tianxun 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, Huainan Longwall and Qingdao Tianxun 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, Huainan Longwall and Qingdao Tianxun, except for contributions to the accommodation fund.

15. Property, Plant and Equipment

Group

	Buildings RMB'000	Leasehold improvements 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 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 and 1 January 2010	162,807	–	144,316	25,542	11,139	29,174	372,978
Additions	717	2,035	4,541	6,414	12,906	92,321	118,934
Transfers	52,685	–	67,227	765	–	(120,677)	–
Acquisition of a subsidiary (Note 36)	4,680	–	2,540	594	2,275	–	10,089
Disposals	(14,556)	–	(5,639)	(405)	(4,601)	–	(25,201)
At 31 December 2010	**206,333**	**2,035**	**212,985**	**32,910**	**21,719**	**818**	**476,800**

15. Property, Plant and Equipment (Continued)

Group (Continued)

	Buildings RMB'000	Leasehold improvements 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 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 and 1 January 2010	22,710	–	37,432	13,624	6,555	–	80,321
Charge for the year	7,758	262	18,749	5,606	1,923	–	34,298
Disposals	(8,928)	–	(4,046)	(396)	(3,124)	–	(16,494)
At 31 December 2010	**21,540**	**262**	**52,135**	**18,834**	**5,354**	**–**	**98,125**
Net book value:							
At 31 December 2010	**184,793**	**1,773**	**160,850**	**14,076**	**16,365**	**818**	**378,675**
At 31 December 2009	140,097	–	106,884	11,918	4,584	29,174	292,657

15. Property, Plant and Equipment (Continued)

Company

	Buildings RMB'000	Leasehold improvements 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 31 December 2009 and 1 January 2010	–	–	–	–	–	–	–
Additions	–	258	–	425	–	–	683
At 31 December 2010	**–**	**258**	**–**	**425**	**–**	**–**	**683**
Accumulated depreciation:							
At 31 December 2009 and 1 January 2010	–	–	–	–	–	–	–
Charge for the year	–	59	–	97	–	–	156
At 31 December 2010	**–**	**59**	**–**	**97**	**–**	**–**	**156**
Net book value:							
At 31 December 2010	**–**	**199**	**–**	**328**	**–**	**–**	**527**
At 31 December 2009	–	–	–	–	–	–	–

Group

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

	2010 RMB'000	2009 RMB'000
Buildings	**51,013**	71,628
Plant and machinery	**–**	28,311
Total	**51,013**	99,939

As at 31 December 2010, the Group has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a carrying amount of RMB1,452,000.

16. Land Use Rights

Group

	2010 RMB'000	2009 RMB'000
Cost:		
At 1 January	152,823	134,850
Acquisition of a subsidiary (Note 36)	2,860	–
Additions	–	17,973
Disposals	(23,256)	–
At 31 December	132,427	152,823
Accumulated amortisation:		
At 1 January	11,629	8,201
Charge for the year	3,350	3,428
Disposals	(4,204)	–
At 31 December	10,775	11,629
Net book value:		
At 31 December	121,652	141,194
Net book value pledged (Note 29)	84,831	121,108

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

17. Goodwill

Group

	2010 RMB'000	2009 RMB'000
Cost:		
At 1 January	101,203	101,203
Addition (Note 36)	213,766	–
At 31 December	314,969	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
- Shearer products and aftermarket parts and services
- Electric control systems and related products and aftermarket parts and services

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	Electric control systems and related products and aftermarket parts and services RMB'000	Total RMB'000
31 December 2010	99,669	1,534	213,766	314,969
31 December 2009	99,669	1,534	–	101,203

17. Goodwill (Continued)

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 the segment of roadheader products and aftermarket parts and services is 18.3% (2009: 15.2%). The discount rate applied to the cash flow projections for the segment of shearer products and aftermarket parts and services is 18.0% (2009: 14.6%). The discount rate applied to the cash flow projections for the segment of electric control systems and related products and aftermarket parts and services is 18.2%. 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 2009 and 2010. 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 rates – The discounts rate used are before tax and reflect specific risks relating to the relevant units.

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

18. Other Intangible Assets

Group

	Customer bases RMB'000	Patents and software copyrights RMB'000	Know-how RMB'000	Total RMB'000
Cost:				
At 1 January 2009	59,431	19,052	5,010	83,493
Additions	–	–	–	–
At 31 December 2009 and 1 January 2010	59,431	19,052	5,010	83,493
Acquisition of a subsidiary (Note 36)	85,666	244,120	–	329,786
At 31 December 2010	**145,097**	**263,172**	**5,010**	**413,279**
Accumulated amortisation:				
At 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 and 1 January 2010	43,087	4,764	2,002	49,853
Charge for the year	17,597	14,583	1,001	33,181
At 31 December 2010	**60,684**	**19,347**	**3,003**	**83,034**
Net book value:				
At 31 December 2010	**84,413**	**243,825**	**2,007**	**330,245**
At 31 December 2009	16,344	14,288	3,008	33,640

The additions of customer bases, patents and software copyrights of the Group were acquired through a business combination as set out in Note 36.

19. Investments in Subsidiaries

Company

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	537,475	14,900

Investments in subsidiaries as at 31 December 2010 represent the cost of the entire interests in TJCC IMM Siwei Holdings Ltd., TJCC IMM Jiamusi Holdings Ltd. ("TJCC IMM Jiamusi"), TJCC IMM Jixi Holdings Ltd. ("TJCC IMM Jixi"), TJCC IMM AFC Holdings Ltd. ("TJCC IMM AFC") and Qingdao Tianxun.

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

20. Investments in Associates

Group

	2010 RMB'000	2009 RMB'000
Share of net assets	21,455	21,069

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

	2010 RMB'000	2009 RMB'000
Current assets	76,880	98,486
Non-current assets	92,510	62,237
Current liabilities	(44,698)	(55,803)
Non-current liabilities	(17,600)	–
Net assets	107,092	104,920
Revenue	48,116	23,973
Total expense	(44,877)	(23,537)
Tax	(1,067)	(589)
Profit/(loss) after tax	2,172	(153)

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

21. Available-for-sale Investments

Group

	2010 RMB'000	2009 RMB'000
Unlisted equity investment, at cost	–	7,500

On 10 September 2010, the Group entered into an equity transfer agreement with an independent third party to dispose its 15% equity interest in a private entity for a consideration of RMB17,250,000. The gain on disposal of such available-for-sale investment of RMB2,250,000 was recognised in other income and gains as set out in Note 6 to the financial statements.

22. 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 assets 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	Accrued expenses RMB'000	Total RMB'000
Gross deferred tax assets as at 1 January 2009	301	3,690	5,519	747	–	10,257
Deferred tax credited/(charged) to the income statement during the year (Note 11)	67	362	(2,285)	(747)	–	(2,603)
Gross deferred tax assets at 31 December 2009 and 1 January 2010	368	4,052	3,234	–	–	7,654
Acquisition of subsidiaries (Note 36)	–	–	–	–	15	15
Deferred tax credited/(charged) to the income statement during the year (Note 11)	(107)	335	(250)	–	1,193	1,171
Gross deferred tax assets as at 31 December 2010	**261**	**4,387**	**2,984**	**–**	**1,208**	**8,840**

22. 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 at 1 January 2009	39,800	9,595	49,395
Deferred tax (credited)/charged to the income statement during the year (Note 11)	(2,313)	2,982	669
Gross deferred tax liabilities at 31 December 2009 and 1 January 2010	37,487	12,577	50,064
Acquisition of a subsidiary (Note 36)	71,012	–	71,012
Deferred tax (credited)/charged to the income statement during the year (Note 11)	(9,548)	438	(9,110)
Gross deferred tax liabilities at 31 December 2010	**98,951**	**13,015**	**111,966**

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding corporate income tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement became effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding corporate income tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable withholding rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

23. Inventories

Group

	2010 RMB'000	2009 RMB'000
Raw materials	95,412	76,700
Work in progress	233,213	152,877
Finished goods	115,903	106,520
	444,528	336,097
Less: Provision for inventories	(19,904)	(25,884)
	424,624	310,213

24. Trade and Bills Receivables

Group

	2010 RMB'000	2009 RMB'000
Trade receivables	1,073,888	798,880
Bills receivable	381,130	262,171
Less: Impairment provision	(14,281)	(14,895)
	1,440,737	1,046,156

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.

24. 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

	2010 RMB'000	2009 RMB'000
Outstanding balances with ages:		
Within 90 days	502,967	368,158
91 to 180 days	295,240	215,511
181 to 365 days	176,112	129,885
1 to 2 years	75,638	60,420
Over 2 years	9,650	10,011
	1,059,607	783,985

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

Group

	2010 RMB'000	2009 RMB'000
At 1 January	14,895	12,447
Reversal of impairment losses (Note 8)	(3,925)	–
Impairment of trade receivables (Note 8)	3,311	2,448
At 31 December	14,281	14,895

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 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):

	2010 RMB'000	2009 RMB'000
Trade receivables	–	45,663
Bills receivable	30,420	118,006
Total	30,420	163,669

24. Trade and Bills Receivables (Continued)

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

Group

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	599,202	455,993
Past due but not impaired		
Less than 90 days	268,759	188,052
91 to 180 days	107,465	81,874
181 to 365 days	66,432	39,215
1 to 2 years	17,749	18,851
	1,059,607	783,985

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.

25. Prepayments, Deposits and Other Receivables

Group

	2010 RMB'000	2009 RMB'000
Non-current portion		
Prepayments for purchases of property, plant and equipment	**34,271**	21,996
Current portion		
Prepayments	**110,690**	80,784
Deposits and other receivables	**22,483**	32,130
	133,173	112,914
Total	**167,444**	134,910

Company

	2010 RMB'000	2009 RMB'000
Current portion		
Deposits and other receivables	**775**	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.

26. Cash and Cash Equivalents and Time Deposits with Original Maturity of more than Three Months

Group

	2010 RMB'000	2009 RMB'000
Cash and bank balances	566,132	73,520
Less: Time deposits with original maturity of more than three months	(307,142)	–
Cash and cash equivalents	258,990	73,520
Denominated in RMB	94,789	70,993
Denominated in USD	449,028	2,527
Denominated in HKD	21,796	–
Denominated in EUR	519	–
	566,132	73,520

Company

	2010 RMB'000	2009 RMB'000
Cash and bank balances	463,642	2,501
Less: Time deposits with original maturity of more than three months	(307,142)	–
Cash and cash equivalents	156,500	2,501
Denominated in USD	441,851	2,501
Denominated in HKD	21,791	–
	463,642	2,501

26. Cash and Cash Equivalents and Time Deposits with Original Maturity of more than Three Months (Continued)

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.

27. Amount due to a Shareholder

Group and Company

	2010 RMB'000	2009 RMB'000
Amount due to a shareholder cum Director of the Company	–	143

According to the consulting agreement signed on 4 December 2009, the Company is liable to pay Mr. Rubo Li a/k/a John Lee USD21,000 per month for consulting services rendered to the Company. The agreement was renewed on 31 January 2010 with an extended consulting period to 1 May 2012. Consulting fees to Mr. Rubo Li a/k/a John Lee have been included as part of the Directors' remuneration disclosed in Note 9 to the financial statements.

28. Balances with Related Parties and Subsidiaries

Group

	Note	2010 RMB'000	2009 RMB'000
Amount due from a related party			
Benniu	(i)	–	35,723

	Note	2010 RMB'000	2009 RMB'000
Amount due to a related party			
Benniu	(i)	–	25,000

Company

	Notes	2010 RMB'000	2009 RMB'000
Amounts due from subsidiaries			
TJCC IMM AFC	(ii)	255,739	126,747
TJCC IMM Jixi	(ii)	107,105	–
TJCC IMM Jiamusi	(ii)	83,158	–
IMM JX Holdings	(iii)	151,089	155,792
IMM JMS Holdings	(iii)	113,997	117,527
TJCC IMM Jiamusi	(iv)	464,250	285,516
		1,175,338	685,582

Notes:

(i) The balance due from Benniu was trade in nature while the balance due to Benniu was non-trade in nature.

On 19 January 2010, the Group acquired the remaining 25% equity interest in Huainan Longwall from Benniu at a purchase consideration of RMB51,400,000. Since then, Huainan Longwall became a wholly-owned subsidiary of the Group and Benniu ceased to be a related party of the Group.

(ii) The amounts due from the subsidiaries are non-trade in nature. The balance is unsecured, bears interest at a rate of 3.5% to 6.66% per annum and is repayable on demand.

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

(iv) Pursuant to the resolutions of the Board of Directors of TJCC IMM Jiamusi passed on 31 December 2009 and 24 January 2010, TJCC IMM Jiamusi declared special dividends of USD41,814,000 (equivalent to approximately RMB285,516,000) and USD29,292,000 (equivalent to approximately RMB200,000,000), respectively, to the Company. On 6 December 2010, USD1,000,000 (equivalent to approximately RMB6,676,000) was paid to the Company related to the previously declared dividends.

The nature of the transactions with related parties and subsidiaries is disclosed in Note 39 to the financial statements.

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

29. Interest-bearing Loans

Group

	2010 RMB'000	2009 RMB'000
Bank loans:		
Secured	73,420	304,994
Unsecured	50,000	–
	123,420	304,994
The bank loans bear interest at rates per annum in the range of	4.10% to 5.84%	1.53% to 5.84%

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	2010 RMB'000	2009 RMB'000
Building and land use rights	(i)	43,000	129,297
Plant and machinery	(ii)	–	20,203
Trade and bills receivables	(iii)	30,420	155,494
		73,420	304,994

(i) The loans were secured by the Group's building and land use rights, which had an aggregate carrying values of RMB51,013,000 and RMB84,831,000, respectively, as at 31 December 2010 (2009: RMB71,628,000 and RMB121,108,000, respectively), as set out in Notes 15 and 16 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 as at 31 December 2009, as set out in Note 15 to the financial statements.

(iii) The loans were secured by the Group's trade and bills receivables with an aggregate carrying values of nil and RMB30,420,000, respectively, (2009: RMB45,663,000 and RMB118,006,000, respectively) as at 31 December 2010, as set out in Note 24 to the financial statements.

30. Trade and Bills Payables

Group

	2010 RMB'000	2009 RMB'000
Trade payables	377,524	352,977
Bills payable	23,780	–
	401,304	352,977

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

	2010 RMB'000	2009 RMB'000
Within 90 days	236,807	191,931
91 to 180 days	95,723	74,858
181 to 365 days	34,036	33,898
1 to 2 years	4,922	14,459
2 to 3 years	1,777	5,942
Over 3 years	28,039	31,889
	401,304	352,977

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

	2010 RMB'000	2009 RMB'000
Advances from customers	**57,325**	61,438
Payroll payable	**20,292**	15,948
Value added tax payable	**30,638**	77,863
Accrued expenses	**72,801**	101,904
Welfare payable	**12,663**	9,496
Other payables	**69,430**	53,043
	263,149	319,692

Company

	2010 RMB'000	2009 RMB'000
Accrued expenses	**1,964**	–
Other payables	**34,667**	45,471
	36,631	45,471

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

32. Ordinary Share Capital

Group and Company

	Note	2010 RMB'000	2009 RMB'000
Authorised:	(i)	**5,000,000,000 shares of HKD0.1 each**	2,500 shares of USD10 each
Issued and fully paid		**114,270**	80

32. Ordinary Share Capital (Continued)

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

	Notes	Number of ordinary shares	Nominal value RMB'000
Issued and fully paid:			
As at 1 January 2010		1,000	80
Repurchase of old shares	(i)	(1,000)	(80)
Issue of 10,000 shares at HKD0.1 to old shareholders	(i)	10,000	–
Capitalisation of share premium account	(ii)	779,990,000	68,562
Issue of new shares	(iii)	520,000,000	45,708
As at 31 December 2010		**1,300,000,000**	**114,270**

Notes:

(i) Pursuant to the written resolutions of the shareholders passed on 24 January 2010, the Company (a) increased its authorised share capital to HKD500,000,000 divided into 5,000,000,000 ordinary shares of HKD0.10 each and (b) allotted and issued 10,000 shares to the existing shareholders whose names appear on the register of members of the Company at the close of business on 24 January 2010 (the "Existing Shareholders") in proportion to their existing shareholdings in exchange for the 1,000 issued ordinary shares with a nominal value of USD10 each held by them and cancelled the authorised but unissued 1,500 ordinary shares with a nominal value of USD10 each.

(ii) Pursuant to the written resolution of shareholders of the Company passed on 24 January 2010, conditional on the share premium account of the Company being credited pursuant to the listing of the Company's shares, 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.

(iii) In connection with the Company's initial public offering, 520,000,000 new shares of HKD0.1 each were issued at a price of HKD4.88 per share for a total cash consideration, before expenses, of approximately HKD2,537,600,000 (equivalent to approximately RMB2,230,543,000) on 10 February 2010.

33. Preference Shares

Group and Company

	2010 RMB'000	2009 RMB'000
Preference shares	–	403,397

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 would be repurchased at a consideration of the initial purchase price of USD59,078,000 (equivalent to approximately RMB403,397,000). The preference shares were fully repurchased on 10 February 2010.

34. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's Directors, including independent non-executive Directors and other employees of the Group. The Scheme became effective on 24 January 2010 and, unless otherwise cancelled or amended, will expire on 23 January 2020.

The maximum number of share options currently permitted to be granted under the Scheme is 130,000,000 shares, being 10% of total number of shares in issue as at 10 February 2010. 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, if such grant, would represent in aggregate over 1% of the number of shares in issue as at the proposed grant date. 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 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.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences after a vesting period of one to five years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the Directors, but may not be less than the higher of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the grant date, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date; and (c) the nominal value of the shares.

34. Share Option Scheme (Continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2010	
	Weighted average exercise price HKD per share	Number of options '000
At 1 January	–	–
Granted during the year	6.37	21,939
At 31 December	6.37	21,939

There's no share options granted in 2009.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

	2010	
Number of options '000	Exercise price HK$ per share	Exercise period
3,120*	4.07	up to 23 January 2020
18,819**	6.75	up to 23 January 2020
21,939		

* Each share option has a total life of option of 10 years with 20% vesting on 28 April 2011, 20% vesting on 28 April 2012, 20% vesting on 28 April 2013, 20% vesting on 28 April 2014 and the remaining 20% vesting on 28 April 2015.

** Each share option has a total life of option of 9 years with 20% vesting on 29 October 2011, 20% vesting on 29 October 2012, 20% vesting on 29 October 2013, 20% vesting on 29 October 2014 and the remaining 20% vesting on 29 October 2015.

34. Share Option Scheme (Continued)

The fair value of the share options granted during the year was HKD63,069,000 (equivalent to approximately RMB54,870,000) (2009: Nil) of which the Group recognised a share option expenses of HKD5,958,000 (equivalent to approximately RMB5,184,000) (2009: Nil) during the year ended 31 December 2010.

The fair value of equity-settled share options granted during the year was estimated at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Date of grant	28 April 2010	29 October 2010
Stock price (HKD)	3.97	6.75
Exercise price (HKD)	4.07	6.75
Risk-free interest rate (%)	2.89	2.10
Expected volatility (%)	53	52
Dividend yield (%)	1.5	1.0
Post-vesting exit rate (%)	19	12
Exercise multiple	3	2
Expected life of options (year)	9.75	9.24

No other feature of the options granted was incorporated into the measurement of fair value.

35. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 61 to 62 of the consolidated financial statements.

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, their 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.

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.

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.

35. Reserves (Continued)

(b) Company

	Share premium account RMB'000	Share option reserve RMB'000	Accumulated loss/ retained earnings RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
As at 1 January 2009	7,723	–	(98,773)	9,087	(81,963)
Issue of shares	214	–	–	–	214
Total comprehensive income for the year*	–	–	355,236	(127)	355,109
As at 31 December 2009 and 1 January 2010	7,937	–	256,463	8,960	273,360
Repurchase of old shares	80	–	–	–	80
Issue of shares	2,184,835	–	–	–	2,184,835
Share issue expenses	(101,161)	–	–	–	(101,161)
Capitalisation of share premium account	(68,562)	–	–	–	(68,562)
Equity-settled share option arrangements	–	5,184	–	–	5,184
Special dividend	–	–	(280,263)	–	(280,263)
Total comprehensive income for the year*	–	–	81,274	(69,465)	11,809
As at 31 December 2010	**2,023,129**	**5,184**	**57,474**	**(60,505)**	**2,025,282**

* The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a loss of RMB136,775,000 (2009: RMB46,341,000) which has been dealt with in the financial statements of the Company.

36. Business Combination

On 27 August 2010, the Group acquired a 100% interest in Qingdao Tianxun from Mr. Deng Kefei, Mr. Deng Kelong, Mr. Ma Fuqian and Mr. Wang Dongxing. Qingdao Tianxun is engaged in the manufacture of electric control systems and related products. The acquisition was made as part of the Group's strategy to expand its market share of new equipment and aftermarket sales and to further enhance the quality, safety and reliability of the Company's roadheaders, shearers and armoured-face conveyors. The purchase consideration for the acquisition was in the form of cash, with RMB500,000,000 paid at the acquisition date (the "first payment") and remaining RMB38,929,239 to be paid on the business day immediately preceding the first anniversary of the date of issuance of the amended business licences (the "second payment"), which represents an amount equal to the unaudited net profit of Qingdao Tianxun for the six months ended 30 June 2010, subject to adjustment (if any).

The fair values of the identifiable assets and liabilities of Qingdao Tianxun as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment (Note 15)	10,089
Land use rights (Note 16)	2,860
Other intangible assets (Note 18)	329,786
Deferred tax assets (Note 22)	15
Inventories	8,154
Trade and bills receivables	72,503
Prepayments, deposits and other receivables	4,973
Cash and cash equivalents	12,923
Interest-bearing loans	(13,000)
Trade payables	(14,580)
Other payables and accruals	(21,000)
Tax payable	(2,763)
Deferred tax liabilities (Note 22)	(71,012)
Total identifiable net assets at fair value	318,948
Goodwill on acquisition (Note 17)	213,766
Total consideration	532,714*
Satisfied by cash	500,000

* Total consideration consists of the first payment of RMB500,000,000 and the acquisition-date fair value of second payment amounted to RMB32,714,000.

36. Business Combination (Continued)

The fair value of the trade and bills receivables as at the date of acquisition amounted to RMB72,503,000. The gross contractual amount of trade and bills receivables was RMB73,058,000, of which trade receivables of RMB555,000 is expected to be uncollectible.

The Group incurred transaction costs of RMB3,188,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated income statement.

Included in the goodwill of RMB213,766,000 recognised above are the future economic benefits arising from assets that are not capable of being individually identified and separately recognised and therefore they do not meet the criteria for recognition as intangible assets under IAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

As part of the purchase agreement, contingent consideration is payable, which is dependent on the amount of profit before tax of Qingdao Tianxun for the six months ended 30 June 2010, subject to adjustment. The initial amount recognised was RMB32,714,000. The consideration is due for final measurement and payment to the former shareholders on the business day immediately preceding the first anniversary of the date of issuance of the amended business licence. At the date of approval of these financial statements, no further significant changes to the consideration are expected. At 31 December 2010, corresponding notional interest arising from the consideration amounted to RMB1,953,000 as stated in Note 7 to the financial statements.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(500,000)
Cash and cash equivalents acquired	12,923
Net outflow of cash and cash equivalents included in cash flows from investing activities	(487,077)
Transaction costs of the acquisition included in cash flows from operating activities	(3,188)
	(490,265)

Since its acquisition, Qingdao Tianxun contributed RMB54,760,000 to the Group's turnover and RMB19,547,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been RMB2,010,603,000 and RMB412,896,000, respectively.

37. 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

	2010 RMB'000	2009 RMB'000
Within a year	1,513	2,072
In the second to fifth years, inclusive	1,399	–
	2,912	2,072

38. Commitments

In addition to the operating lease commitments detailed in Note 37 above, the Group had the following capital commitments at the end of the reporting period:

Group

	Note	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:			
Plant and machinery		28,214	74,847
Investments	(i)	33,810	–
		62,024	74,847

Note:

(i) On 8 December 2010, Jiamusi Machinery, a wholly-owned subsidiary of the Group, entered into a joint venture agreement with a wholly-owned subsidiary of Shanxi Coal Transportation (the "JV Partner"), to set up a joint venture company, Shanxi Meijia Mining Machinery Company Limited ("Shanxi Meijia") to tap on the huge potential market of coal mining machinery in Shanxi province. The parties agreed that Shanxi Meijia will be established for a 50-year term, and will be owned as to 51% by the JV Partner and as to 49% by Jiamusi Machinery. As at 31 December 2010, Shanxi Meijia is in the midst of starting up and the Group expects to obtain the business licence from local authority in 2011.

39. 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:

	Notes	2010 RMB'000	2009 RMB'000
Nature of transactions			
Consulting fee			
Rubo Li a/k/a John Lee	(i)	1,706	2,107
Emory Williams	(i)	–	6
		1,706	2,113
Sales of products			
Benniu	(ii)	–	33,419
Sales commission paid			
Benniu	(ii)	–	4,661
Operating lease of office buildings			
Benniu	(ii)	153	3,000
Purchases of goods			
Benniu	(ii)	–	101
Interest income			
TJCC Services	(iii) & (v)	–	7,811
International Mining Machinery Siwei Holdings Ltd. ("HK Siwei")	(iv) & (v)	–	9,505
Rubo Li a/k/a John Lee	(vi)	–	876
		–	18,192

39. Related Party Transactions (Continued)

(a) (Continued)

	Notes	2010 RMB'000	2009 RMB'000
Nature of transactions (Continued)			
Interest expense			
TJCC Holdings Ltd.	(vii)	–	11,364
Management fee			
TJCC Services	(iii)&(viii)	68,344	17,078
Loans received from the holding company			
TJCC Holdings Ltd.	(vii)	–	44,404
Loans provided to related parties			
TJCC Services	(iii)&(v)	–	40,988
Founder participation rights payment			
Rubo Li a/k/a John Lee	(ix)	23,239	–
Emory Williams	(ix)	9,959	–
		33,198	–

Notes:

(i) According to the consulting agreements 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 were 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 and Mr. Rubo Li a/k/a John Lee resigned as a Director of the Company on 31 January 2010.

(ii) The prices and terms of the referenced transactions were mutually agreed by both parties. On 19 January 2010, the Group acquired the remaining 25% equity interest in Huainan Longwall from Benniu at a purchase consideration of RMB51,400,000. Since then, Huainan Longwall became a wholly-owned subsidiary of the Group and Benniu ceased to be a related party of the Group.

39. Related Party Transactions (Continued)

(a) (Continued)

Notes: (Continued)

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

(iv) HK Siwei is wholly-owned by Mining Machinery Limited. Mining Machinery Limited is beneficially owned as to 78.63% by Mr. Rubo Li a/k/a John Lee and his relatives and 21.37% by Mr. Emory Williams, his spouse and relatives. Both Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams are shareholders and former Directors of the Company.

(v) 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.

(vi) The loan provided in year 2007 was secured by the pledge of the shares of the Company held by Mr. Rubo Li a/k/a John Lee. The loan bore 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.

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

(viii) 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 consulting agreement was terminated on 31 December 2009.

In connection with the application for listing, TJCC Services has provided services outside its ordinary course of business to the Company, such as advising on the structure of the Hong Kong public offering and the international offering (the "Global Offering") and the reorganisation. As a one-off compensation for (a) these extraordinary services and (b) terminating the management consulting arrangement seven years early, the Group paid TJCC Services a transaction and termination fee of USD10 million (equivalent to approximately RMB68.3 million) upon completion of the Global Offering.

(ix) According to a founder participation agreement entered between the Company, Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams (who are shareholders and former Directors of the Company) on 16 May 2006, both Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams are entitled to participate in certain agreed respects in the proceeds available for distribution by the Company to the holders of preference shares based on a prescribed formula as stipulated in the founder participation agreement. The prescribed formula required a payment of USD4.86 million (equivalent to approximately RMB33.2 million) which is a payment directly associated with the full repurchase of preference shares by the Company upon the completion of the Global Offering.

39. Related Party Transactions (Continued)

(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 27 and 28 to the financial statements.

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

	2010 RMB'000	2009 RMB'000
Basic salaries and other benefits	24,000	20,635
Retirement benefit scheme contributions	120	148
Founder participation rights payment	23,239	–
Equity-settled share option expense	2,750	–
	50,109	20,783

40. 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

	2010 RMB'000	2009 RMB'000
Financial assets		
Available-for-sale investments	–	7,500
Trade and bills receivables	1,440,737	1,046,156
Financial assets included in prepayments, deposits and other receivables	22,483	32,130
Amounts due from related parties	–	35,723
Time deposits with original maturity of more than three months	307,142	–
Cash and cash equivalents	258,990	73,520
	2,029,352	1,195,029
Financial liabilities		
Trade and bills payables	401,304	352,977
Financial liabilities included in other payables	175,186	180,391
Interest-bearing bank loans	123,420	304,994
Amount due to a shareholder	–	143
Amounts due to related parties	–	25,000
	699,910	863,505

40. Financial Instruments by Category (Continued)

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

Company

	2010 RMB'000	2009 RMB'000
Financial assets		
Financial assets included in prepayments, deposits and other receivables	775	19,468
Time deposits with original maturity of more than three months	307,142	–
Cash and cash equivalents	156,500	2,501
Amounts due from subsidiaries	1,175,338	685,582
	1,639,755	707,551
Financial liabilities		
Financial liabilities included in other payables	36,631	45,471
Amount due to a shareholder	–	143
	36,631	45,614

41. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise interest-bearing loans, time deposits with original maturity of more than three months, and cash and cash equivalents. 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.

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:

41. Financial Risk Management Objectives and Policies (Continued)

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, 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 and HKD. 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 30% and 28% of the Group's total trade receivables balances as at 31 December 2010 and 2009, respectively. Sales to these customers accounted for 45% and 44% of the Group's total sales for the years ended 31 December 2010 and 2009, respectively.

41. Financial Risk Management Objectives 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 2010	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	–	28,420	95,000	–	–	123,420
Trade and bills payables	139,933	248,871	12,500	–	–	401,304
Other payables and accruals	140,519	–	34,667	–	–	175,186
	280,452	277,291	142,167	–	–	699,910

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
Amount due to a shareholder	143	–	–	–	–	143
	366,580	295,482	201,443	–	–	863,505

41. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

Company

31 December 2010	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	1,964	–	34,667	–	–	36,631

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
Amount due to a shareholder	143	–	–	–	–	143
	45,614	–	–	–	–	45,614

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 shareholders' 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.

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 and preference shares less cash and cash equivalent. Capital represents 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.

As at 31 December 2010, the Group's cash and cash equivalents exceeded the total interest-bearing bank loans. As such, no gearing ratio as at 31 December 2010 is presented. As at 31 December 2009, the gearing ratio was 48%.

42. Events after the Reporting Period

There were no significant events that took place after the reporting period and up to the date of the financial statements.

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 15 March 2011.

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