



ZMJ

鄭州煤礦機械集團股份有限公司

ZHENGZHOU COAL MINING MACHINERY GROUP COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 0564

GLOBAL OFFERING



Joint Sponsors



J.P.Morgan

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



J.P.Morgan



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	221,122,000 H Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	22,112,400 H Shares (subject to adjustment)
Number of International Offer Shares	:	199,009,600 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$12.28 per H Share (payable in full on application in Hong Kong dollars, and subject to refund on final pricing), plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%
Nominal value	:	RMB1.00 per H Share
Stock code	:	0564

Joint Sponsors



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Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



UBS



中信證券國際
CITIC Securities International

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Deutsche Bank



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to the accuracy or completeness of this prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix IX — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

See "Risk Factors" beginning on page 32 for a discussion of certain risks that you should consider before investing in the H Shares.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date, which is expected to be on or about November 28, 2012 or such later date as may be agreed by the Joint Global Coordinators and us and, in any event, not later than December 3, 2012 (Hong Kong time). The Offer Price will be not more than HK\$12.28 per Offer Share and is currently expected to be not less than HK\$10.38 per Offer Share unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$12.28 for each Hong Kong Offer Share together with a brokerage of 1%, a SFC transaction levy of 0.003% and a Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined should be lower than HK\$12.28.

The Joint Global Coordinators (on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$10.38 to HK\$12.28 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, a notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Hong Kong Stock Exchange and our website not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus. If, for any reason, we and the Joint Global Coordinators (on behalf of the Underwriters) are not able to agree on the Offer Price on or before December 3, 2012 (Hong Kong time), the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in "Risk Factors" and in "Appendix VI — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix VII — Summary of the Articles of Association of the Company" to this prospectus. Potential investors should consider carefully all the information set out in this prospectus and, in particular, the matters discussed in the abovementioned sections.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for the subscription for, Hong Kong Offer Shares are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws of the United States and may not be offered or sold, pledged or transferred within the United States, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. The Offer Shares are being offered and sold inside the United States to qualified institutional buyers ("QIBs") in reliance on Rule 144A (or another exemption from registration) under the Securities Act and outside the United States in offshore transactions in accordance with Regulation S under the Securities Act.

November 22, 2012

EXPECTED TIMETABLE

Date⁽¹⁾

Latest time to complete electronic applications under
the **White Form eIPO** service through the designated
website at www.eipo.com.hk⁽²⁾ 11:30 a.m. on November 27, 2012

Application lists of the Hong Kong Public Offering open⁽³⁾ 11:45 a.m. on November 27, 2012

Latest time to lodge **WHITE** and **YELLOW** Application Forms 12:00 noon on November 27, 2012

Latest time to give **electronic application instructions**
to HKSCC⁽⁴⁾ 12:00 noon on November 27, 2012

Latest time to complete payment of **White Form eIPO** applications
by effecting internet banking transfer(s) or
PPS payment transfer(s) 12:00 noon on November 27, 2012

Application lists of the Hong Kong Public Offering close 12:00 noon on November 27, 2012

Expected Price Determination Date⁽⁵⁾ November 28, 2012

Announcement of:

- the Offer Price;
- the level of indications of interest in the International Offering;
- the level of applications in the Hong Kong Public Offering; and
- the basis of allocation of Hong Kong Offer Shares

to be published (a) in the South China Morning Post (in English)

and the Hong Kong Economic Times (in Chinese);

(b) on our website at www.zzmj.com; and

(c) on the website of Hong Kong Exchanges and Clearing Limited

at www.hkexnews.hk on or before December 4, 2012

Results of allocations in the Hong Kong Public Offering

(with the successful applicants' identification document numbers,

where appropriate) to be available through a variety of channels,

including our website at www.zzmj.com and the website of

Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk

(see the section headed "How to Apply for the Hong Kong Offer Shares"

in this prospectus) from December 4, 2012

EXPECTED TIMETABLE

Results of allocations in the Hong Kong Public Offering

(with the successful applicants' identification document numbers, where appropriate) to be available at www.iporesults.com.hk with a "search by ID" function from December 4, 2012

Dispatch of H Share certificates in respect of wholly or partially

successful applications and/or refund cheques (if applicable) and/or

White Form e-Refund payment instructions

(if applicable) on or before⁽⁶⁾⁽⁷⁾ December 4, 2012

Dealings in H Shares on the Hong Kong Stock Exchange

expected to commence at 9:00 a.m. on December 5, 2012

-
- (1) All dates and time refer to Hong Kong local dates and time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus. If there is any change in this expected timetable, an announcement will be published in the South China Morning Post (in English), in the Hong Kong Economic Times (in Chinese), on the website of the Hong Kong Stock Exchange and on our website.
 - (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, at which time the application lists will close.
 - (3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on November 27, 2012, the application lists will not open and close on that day. Further information is set out in the section headed "How to Apply for the Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists" in this prospectus. A press announcement will be made by us in such an event.
 - (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Hong Kong Offer Shares — Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS" in this prospectus.
 - (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about November 28, 2012, and in any event no later than December 3, 2012. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the Company on or before December 3, 2012, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
 - (6) Applicants who apply for 1,000,000 H Shares or more (under the Hong Kong Public Offering) and have indicated in their Application Forms that they wish to collect H Share certificate(s) (for applicants applying on **WHITE** Application Forms) and refund cheques (where applicable) in person may do so from our H Share Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on December 4, 2012 or any other date notified by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the date of dispatch of H Share certificates/refund cheques. Any applicant being an individual who opts for personal collection must not authorize any other person to make collection on his/her behalf. Any applicant being a corporation who opts for personal collection must attend by its authorized representative(s) each bearing a letter of authorization from such corporation stamped with such corporation's chop. Both individuals and authorized representatives (as applicable) must produce, at the time of collection, evidence of identity and authority (as applicable) acceptable to our H Share Registrar. Uncollected H Share certificates and refund cheques will be dispatched by ordinary post to the addressees specified in the relevant Application Forms at the applicants' own risk. Further information is set out in "How to Apply for the Hong Kong Offer Shares" in this prospectus.

EXPECTED TIMETABLE

- (7) Refund cheques or e-Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque(s). Such data may also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before cashing of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque.

H Share certificates will only become valid certificates of title if the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of their H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk. We will publish an announcement as soon as possible if there is any change in the expected timetable of the Hong Kong Public Offering as described above or if the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms.

CONTENTS

This prospectus is issued by Zhengzhou Coal Mining Machinery Group Company Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdictions or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, any of their respective directors, officers, employees, agents, representatives, advisers or any other person or party involved in the Global Offering. Information contained in our website at www.zzmj.com does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain nor does it purport to contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading comprehensive coal mining and excavating equipment manufacturer in the PRC in terms of total sales of coal mining and excavating equipment in 2011, according to the China National Coal Mining Machinery Industry Association (the “CMIA”). We focus on the manufacturing and sale of hydraulic roof supports, and were the largest hydraulic roof support manufacturer in the PRC, with approximately 22.6% of the PRC market share for hydraulic roof supports based on production volume in 2011, according to the CMIA. We are also engaged in the trading of steel and other raw materials primarily through our wholly-owned subsidiary, ZMJ Material Trading, which we established in March 2008. We have commenced manufacturing and selling armored-face conveyors in recent years and intend to commence selling roadheaders by the end of 2012. We are one of the few coal mining and excavating equipment manufacturers in the PRC able to manufacture three of the four components that comprise a complete integrated coal mining and excavating system for underground coal mining, namely, hydraulic roof supports, armored-face conveyors and roadheaders. We currently do not manufacture the fourth component, shearers, but are in the process of developing the related manufacturing technology and capability. Our established operating history, high quality products, strong in-house research and development capabilities, advanced manufacturing processes and extensive sales and service network are the keys to our success and allow us to maintain our leading position in the PRC coal mining and excavating equipment market.

The following is a brief overview of our products and businesses:

- **Hydraulic roof supports.** Hydraulic roof supports control the height of, and provide support to, the mine roof of the working face during the coal mining process to form a moveable underground mining area, allowing the armored-face conveyor and shearer to operate underneath. Hydraulic roof supports generally account for over 50% of the total value of a coal mining and excavating system. In addition, we are one of the few manufacturers in the PRC able to design and manufacture high-end hydraulic roof supports. In 2004, we developed the PRC’s first set of high-end hydraulic roof supports with electronic hydraulic control systems, which have emerged as a significant domestic alternative to imported high-end hydraulic roof supports. Such hydraulic roof supports have been widely used by domestic coal mining enterprises since their introduction. Moreover, we are one of the few hydraulic roof support manufacturers in the PRC able to independently manufacture such electronic hydraulic control systems, a critical component of high-end hydraulic roof supports. As of June 30, 2012, we had an annual production capacity of 23,400 units of hydraulic roof supports.

SUMMARY

- ***Steel and other raw materials trading.*** We trade steel and other raw materials primarily through our wholly-owned subsidiary, ZMJ Material Trading, which we established in March 2008. Due to our large steel procurement volumes, we are able to leverage on our bargaining power and sourcing network with steel producers to purchase high quality steel in bulk from approximately 20 suppliers at competitive prices for sales to third party customers. Our steel and other raw materials trading business allows us to efficiently manage our overall procurement costs for key raw materials, in particular, steel, used in our manufacturing operations while mitigating the impact of steel price fluctuations.
- ***Spare parts.*** We sell spare parts, such as jacks, hydraulic valves and structural parts for hydraulic roof supports, to third-party coal mining companies, most of which have previously purchased our hydraulic roof supports. Since 2009, we have also sold spare parts to our associate, ZMJ Suda, which focuses on the provision of aftermarket services for the hydraulic roof supports sold by our Company in the PRC. We sell spare parts through bidding or direct ordering processes, and we generally do not enter into long-term sales agreements with our customers for spare parts. Our spare parts are primarily manufactured and sold by our Company, as well as our subsidiaries, ZMJ Comprehensive Equipment and ZMJ Hydraulic Control.
- ***Other coal mining equipment.*** Since 2008, we have manufactured high-powered armored-face conveyors, which are used in mining operations to support shearers and transport coal cut from the working face by shearers. In 2011, we completed production and delivery of one of the largest armored-face conveyors in the PRC, with an operating capacity of 2,000kW and line pans of 1.2 meters. In 2010, we commenced design and testing of prototype roadheaders which are mobile mining units used to dig tunnels and crush rocks with drill units. We are currently testing five prototype models of roadheaders that are generally classified into light-duty, medium-duty and heavy-duty categories according to their cutting power. We intend to commence selling roadheaders by the end of 2012. We also provide various related mining and excavating equipment that supports coal mining operations, including belt conveyors, crushers and loaders.

We have a strong in-house research and development team and have substantially invested in research and development. In 2004, we realized 30 years of research and development by manufacturing the PRC's first set of high-end hydraulic roof supports with electronic hydraulic systems characterized by high support capacity and high reliability. Certain large mining height hydraulic roof supports that we manufactured in 2009 and 2010 had the world's largest support height of 7.0 meters at that time. In recent years, we have developed the technology and capability to produce armored-face conveyors and roadheaders. We have been able to maintain our position as an industry leader in innovation and have continuously improved the function and quality of our products and our manufacturing processes. As a result of our industry-leading products, we have won several awards and received widespread recognition in the PRC, including being designated a National Innovative Enterprise by the MOST, SASAC and the All-China Federation of Trade Unions. In 2007, our technology center was jointly recognized as a nationally-accredited technical center by five separate PRC government departments and authorities, namely the NDRC, MOST, MOF, GAC and SAT.

SUMMARY

We have advanced and efficient production processes. Supported by our large, advanced and comprehensive manufacturing facilities located in Zhengzhou, Henan Province, we are able to provide our customers with customized coal mining and excavating equipment with short lead times. In addition, we utilize standardized production processes that incorporate state-of-the-art technologies and equipment such as our large-scale, multi-stage robotic welding systems and advanced hydraulic cylinder production technology and equipment. From time to time, we also selectively outsource the production of certain non-critical parts and components, such as structural parts and rams to third-party manufacturers and assemble such outsourced parts at our manufacturing facilities. We believe that outsourced manufacturing enhances our manufacturing efficiency and enables us to meet the increasing demand for our products.

Our sales and service network allows us to provide our customers with a broad range of services. Our Company's sales and service network primarily comprises eight domestic sales offices and four overseas sales agents in Russia, India, Turkey and the United States. In addition, we provide aftermarket services through a three-tier system which comprises: (i) joint ventures with our selected strategic customers which focus on manufacturing coal mining and excavating equipment and providing aftermarket services; (ii) certain of our subsidiaries; and (iii) our associate, ZMJ Suda. See "Business — Sales and Marketing — Aftermarket Services." Our domestic sales and service network together with those of our joint ventures and ZMJ Suda cover substantially all of the major coal mining provinces and regions in the PRC, and are in close proximity to most of our domestic customers located in Shanxi, Shaanxi, Anhui, Henan, Shandong, Guizhou, Hebei, Heilongjiang, Jilin, Liaoning and Gansu Provinces, as well as Inner Mongolia, Ningxia and Xinjiang Autonomous Regions. Through our overseas sales agents, we have the ability to provide related aftermarket services to international customers. Leveraging on our sales and service network, research and development strengths and high quality products, we have been able to continue to expand our customer base and establish long-term relationships with leading coal mining and energy enterprises in the PRC such as Shenhua Group, Huainan Mining, Henan Coal and Chemical Industry Group ("Henan Coal and Chemical Industry"), Inner Mongolia Yitai Coal ("Yitai Coal") and Datong Coal Mine Group ("Datong Coal"). We have also established long-term relationships with overseas mining companies such as Russia Stark Corporation ("Russia Stark"), Russia Belon JSC ("Russia Belon"), Russia United Coal Company Yuzhkuzbassugol ("Yuzhkuzbassugol") and Turkish Coal Enterprise ("Turkish Coal").

We believe the favorable industry and regulatory environment in the PRC has contributed, and will continue to contribute, significantly to our growth. A majority of the coal reserves in the PRC can be economically extracted only through underground mining. Compared with room-and-pillar mining, longwall mining is fully mechanized and, as a result, is a more efficient and safer method of underground mining. As part of its measures to improve the mechanization rate, operating efficiency and safety of the PRC coal mining industry, the PRC government implements policies, such as the *Twelfth Five-Year Plan* published in 2011, to encourage the consolidation of the PRC coal mining industry. As hydraulic roof supports generally account for over 50% of the total value of an integrated coal mining and excavating system, and are typically considered to be the most important component of an integrated coal mining and excavating system, we believe these industry measures will enable us to increase the sales of our hydraulic roof supports in the future.

SUMMARY

We have experienced significant growth in revenue and profit in recent years. For the years ended December 31, 2009, 2010 and 2011, our revenue was RMB4,994.4 million, RMB6,358.3 million and RMB8,060.1 million, respectively, representing a CAGR of 27.0% from 2009 to 2011. Our profit for the same periods was RMB646.8 million, RMB892.8 million and RMB1,213.3 million, respectively, representing a CAGR of 37.0% from 2009 to 2011. For the six months ended June 30, 2011 and June 30, 2012, our revenue was RMB3,586.3 million and RMB4,723.6 million, respectively, representing an increase of 31.7%. Our profit for the same periods was RMB598.2 million and RMB832.3 million, respectively, representing an increase of 39.1%. For the six months ended June 30, 2012, revenue generated from our sales of hydraulic roof supports and steel and other raw materials trading accounted for 69.3% and 23.7%, respectively, of our total revenue.

The following table sets forth our revenue, gross profit and gross profit margins, by product and business, for the periods indicated.

	Year Ended December 31,									Six Months Ended June 30,					
	2009			2010			2011			2011			2012		
	(RMB in millions, except for %)														
		Gross	Gross		Gross	Gross		Gross	Gross		Gross	Gross		Gross	Gross
Revenue	Profit	Margin	Revenue	Profit	Margin	Revenue	Profit	Margin	Revenue	Profit	Margin	Revenue	Profit	Margin	
	(unaudited)														
Hydraulic roof supports.	4,062.7	1,088.2	26.8%	4,593.4	1,390.2	30.3%	5,642.0	1,675.1	29.7%	2,675.2	902.6	33.7%	3,272.2	1,217.3	37.2%
Steel and other raw materials trading	583.0	98.3	16.9%	1,247.9	150.6	12.1%	1,854.7	182.9	9.9%	613.8	52.9	8.6%	1,120.6	73.8	6.6%
Spare parts ⁽¹⁾	308.6	81.6	26.4%	450.1	110.4	24.5%	393.8	104.3	26.5%	213.7	53.2	24.9%	154.8	40.0	25.8%
Other coal mining equipment ⁽²⁾	29.9	2.3	7.7%	52.5	10.0	19.0%	122.4	13.8	11.3%	55.8	7.5	13.4%	145.4	16.8	11.6%
Others ⁽³⁾	10.2	4.3	42.2%	14.4	6.0	41.7%	47.2	14.6	30.9%	27.7	9.1	32.7%	30.6	10.1	33.0%
Sales tax	—	(25.9)	—	—	(32.7)	—	—	(38.6)	—	—	(20.7)	—	—	(23.1)	—
Total.	4,994.4	1,248.8	25.0%	6,358.3	1,634.5	25.7%	8,060.1	1,952.1	24.2%	3,586.3	1,004.5	28.0%	4,723.6	1,334.9	28.3%

Notes:

- (1) Primarily include jacks, hydraulic valves and structural parts of hydraulic roof supports.
- (2) Primarily include armored-face conveyors and belt conveyors.
- (3) Primarily include provision of machining services for spare parts and overhaul services for hydraulic roof supports and leasing of equipment and rental properties.

For a breakdown of our revenue by geographic location during the Track Record Period, see “Business — Customers” and “Financial Information — Description of Selected Items of Our Statements of Comprehensive Income — Revenue.”

Our profit and loss are primarily affected by the sales volumes of our products and gross profit margins.

SUMMARY

Sales Volume

The sales volumes of our products are primarily determined by our production capacity and demand for our products.

- *Our production capacity.* Our annual production capacity for hydraulic roof supports increased from 10,200 units as of December 31, 2009 to 10,500 units as of December 31, 2010, and further to 20,800 units as of December 31, 2011. Our annual production capacity for hydraulic roof supports reached 23,400 units as of June 30, 2012. Our increased production capacity enables us to meet the increasing market demand for our products, resulting in our increased sales volume. See “Financial Information — Factors Affecting Our Results of Operations — Change in Our Production Capacity.”
- *Demand for coal mining and excavating equipment.* The demand for our coal mining and excavating equipment is primarily driven by the demand in the global coal mining industry, in particular, the coal mining industry in the PRC, as substantially all of our sales are derived from the PRC. Any changes in demand for coal and coal mining and excavating equipment in the PRC and the global market could affect demand for our products and, consequently, the sales volumes and prices of our products.

Gross Profit Margin

Our gross profit margin is primarily determined by the following factors.

- *Our competitiveness.* Our ability to sell our products at prices acceptable to us depends primarily on our ability to compete in the market, which is affected by a number of factors, including our ability to provide high-quality and customized products and comprehensive solutions that meet customer demand, our operational efficiency, control of production costs and the efficiency and coverage of our sales and service network. In particular, our ability to develop new products to meet the evolving market demand, improve existing products and enhance our production processes has a material effect on our competitiveness.
- *Product mix.* Our products generally have different prices and gross profit margins. Our high-end hydraulic roof supports generally have higher gross profit margins than our medium-end hydraulic roof supports and other coal mining equipment. An increase in our sales from high-end hydraulic roof supports may result in increased gross profit margin. See “Financial Information — Description of Selected Items of Our Statements of Comprehensive Income — Gross Profit and Gross Profit Margin.”

In particular, our gross profit margin slightly decreased to 26.8% for the nine months ended September 30, 2012 from 28.3% for the six months ended June 30, 2012. For more information on our gross profit margins for these periods, see “Financial Information — Results of Operations — Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2012 — Gross Profit and Gross Profit Margin” and “Recent Developments — Results of Operations for the Nine Months Ended September 30, 2011 Compared to the Nine Months Ended September 30, 2012 — Gross Profit and Gross Profit Margin.”

SUMMARY

In addition, our operating cash flows have been and will continue to be affected by a variety of competitive, macroeconomic and other related factors that are beyond our control, which may have a material adverse effect on our business, results of operations, financial condition and prospects. For the six months ended June 30, 2012, our net cash used in operating activities was RMB107.9 million. See “Risk Factors — Risks Relating to Our Business and Operations — Our negative operating cash flows may expose us to liquidity risk” and “Financial Information — Liquidity and Capital Resources — Cash Flows — Net Cash From/(Used in) Operating Activities.” However, our net cash from operating activities was RMB106.0 million for the nine months ended September 30, 2012. See “Appendix II — Unaudited Condensed Consolidated Financial Statements” to this prospectus.

Furthermore, we are subject to commodity price risk that arises from price fluctuations of raw materials. In particular, steel constitutes a substantial majority of the raw material used in the manufacture of coal mining and excavating equipment, especially the products that we currently manufacture or expect to manufacture in the future, including hydraulic roof supports, armored-face conveyors, roadheaders, coal washing equipment and other coal mining equipment. Steel prices in the PRC have fluctuated and remained volatile during the past three years. The first half of 2012 saw a slight recovery in steel prices followed by a sharp decline due to the continued pressure on the global economy, the slowdown of the Chinese fixed assets investment growth, as well as oversupply in the PRC steel industry. For a summary sensitivity analysis of steel prices on our operations, in terms of product manufacturing, during the Track Record Period if steel prices increased or decreased by 5% and all other variables remained constant, the average gross profit margin for our hydraulic roof supports would have decreased by approximately 80 basis points or increased by approximately 80 basis points. In terms of steel and other raw materials trading business, during the Track Record Period if steel prices increased or decreased by 5% and all other variables remained constant, the average gross profit margin for our steel and other raw materials trading business would have decreased by approximately 20 basis points or increased by approximately 20 basis points. See “Industry Overview — Coal Mining and Excavating Equipment Industry Overview — Recent Steel Price Trends” and “Financial Information — Quantitative and Qualitative Disclosures about Market Risk — Commodity Price Risk.”

Recently, some companies in the steel industry have experienced liquidity constraints, which may have a material impact on the general coal mining and excavating equipment industry, as steel is the primary raw material for production. However, we have not been and do not expect to be materially affected as we: (i) procure steel from major domestic suppliers that are creditworthy and in good financial condition; and (ii) have long-term relationships with our key steel suppliers which supply steel to us on a priority basis. As a result, the payment terms of our supply agreements generally remain unchanged and we have not experienced any delivery delays or steel supply shortages.

For more information on these and other factors and developments that may affect our results of operations and financial condition, see “Risk Factors” and “Financial Information — Factors Affecting Our Results of Operations.”

SUMMARY

Our Competitive Strengths

According to the CMIA, we are a leading comprehensive coal mining and excavating equipment manufacturer in the PRC in terms of total sales of coal mining and excavating equipment in 2011, with strong research and development, manufacturing, sales and aftermarket services capabilities. We believe that the following competitive strengths contribute to our historical success and potential for future growth:

- We are a leader in manufacturing hydraulic roof supports in the PRC.
- We have advanced technology and strong research and development capabilities.
- Our advanced and efficient production facilities and manufacturing process allow us to efficiently produce high quality coal mining and excavating equipment.
- We are able to efficiently control our production costs throughout our manufacturing process.
- We have a professional, efficient and extensive sales and service network and have successfully entered the international markets.
- We are able to provide our customers with customized and comprehensive solutions in their coal mining operations.
- We have experienced senior management and operations teams and have established a modern and scientific management system.

Our Business Strategies

Our long-term objective is to become a leading manufacturer of comprehensive coal mining and excavating equipment in the world. To this end, we intend to implement a business strategy with the following key aspects:

- Strategically increase our global presence and market share.
- Expand our product and service offerings to become a provider of comprehensive coal mining and excavating equipment and related services.
- Expand the coverage and customer base of our aftermarket services based on the “4S centers” service model and through the establishment of joint ventures with our major customers.
- Continue to establish strategic cooperation relationships with our customers.
- Grow our operations through acquisitions and joint ventures.

SUMMARY

Risk Factors

Our Directors believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorized into: (i) risks relating to our business and operations; (ii) risks relating to our industry; (iii) risks relating to the PRC; and (iv) risks relating to our Shares and the Global Offering.

We believe that the following are some of the major risks that may have a material adverse effect on us:

- We may not be able to successfully execute our international expansion plans.
- We may experience fluctuations in steel and other raw materials prices.
- Our negative operating cash flows may expose us to liquidity risk.
- We may not be able to maintain our domestic market share.
- We may be unable to maintain effective quality control or raw materials procurement systems which may affect the supply and quality of our raw materials.
- We are affected by general PRC and global economic and market conditions.

The risks mentioned above are not the only significant risks that may affect our business and results of operations. As different investors may have different interpretations and standards for determining materiality of a risk, you are cautioned that you should carefully read the entire section entitled “Risk Factors” of this prospectus before you decide to invest in the Offer Shares.

SUMMARY

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

Selected Audited Financial Information

The following tables present selected historical financial information during the Track Record Period. The financial information as of and for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 is derived from and should be read in conjunction with our consolidated audited financial statements, including the accompanying notes, set forth in the accountants' report included as Appendix I to this prospectus. Our financial statements for each of these periods are prepared and presented in accordance with International Financial Reporting Standards, or IFRS. For purposes of comparison to the selected audited financial information for the six months ended June 30, 2012, unaudited financial information for the comparative six months ended June 30, 2011 has also been presented.

	Year Ended December 31,			Six Months Ended June 30,	
	2009	2010	2011	2011	2012
	(RMB in millions, except earnings per share) (unaudited)				
Key Income Statement Information					
Revenue.....	4,994.4	6,358.3	8,060.1	3,586.3	4,723.6
Cost of sales.....	(3,745.7)	(4,723.8)	(6,108.0)	(2,581.7)	(3,388.7)
Gross profit.....	1,248.8	1,634.5	1,952.1	1,004.5	1,334.9
Profit before tax.....	773.2	1,064.4	1,421.0	783.1	989.6
Income tax expenses	(126.5)	(171.6)	(207.8)	(185.0)	(157.3)
Profit and total comprehensive income for the year/period.....	<u>646.8</u>	<u>892.8</u>	<u>1,213.3</u>	<u>598.2</u>	<u>832.3</u>
Attributable to:					
Owners of the Company.....	630.4	882.6	1,194.1	590.3	811.9
Non-controlling interests.....	16.3	10.2	19.2	7.9	20.4
Earnings per share ⁽¹⁾					
Basic and diluted (RMB).....	0.56	0.71	0.85	0.42	0.58

Note:

- (1) The weighted average number of shares for the purpose of calculating basic earnings per share has been adjusted to reflect the effect of our capital increase in March 2012. During the Track Record Period, we did not issue any convertible securities of the Company which were convertible into Shares.

SUMMARY

	As of December 31,			As of
	2009	2010	2011	June 30,
				2012
	(RMB in millions)			
Key Financial Position Information				
Non-current assets	630.3	1,374.4	1,926.8	2,262.3
Current assets	4,134.7	7,678.7	8,508.7	9,100.4
Current liabilities	2,910.5	3,778.1	4,202.9	4,387.3
Net current assets	1,224.3	3,900.6	4,305.8	4,713.1
Total assets less current liabilities	1,854.6	5,275.0	6,232.6	6,975.4
Non-current liabilities	295.0	135.0	84.0	78.5
Total equity	1,559.6	5,140.1	6,148.6	6,896.9

	Year Ended December 31,			Six Months Ended	
	2009	2010	2011	2011	2012
	(RMB in millions)				
	(unaudited)				

Key Cash Flow Information

Net cash from/(used in) operating activities	576.8	850.9	537.1	371.0	(107.9)
Net cash from/(used in) investing activities	(248.1)	(2,628.2)	(223.2)	(188.2)	54.2
Net cash from/(used in) financing activities	(41.1)	2,456.4	(191.3)	(61.6)	(87.2)

Selected Unaudited Financial Information

As required by the Shanghai Listing Rules, we published our quarterly financial report on October 16, 2012 containing our unaudited condensed consolidated financial statements as of and for the nine months ended September 30, 2012 prepared under PRC GAAP. Our unaudited condensed consolidated financial statements have been reviewed by our reporting accountants in accordance with Hong Kong Standards on Review Engagements 2410. The following selected unaudited financial information is derived from and should be read in conjunction with the information set forth in Appendix II to this prospectus, including the accompanying notes, and the information set forth in “Recent Developments” in this prospectus. For purposes of comparison, the key unaudited condensed consolidated income statement information for the nine months ended September 30, 2011 and the key condensed consolidated financial position information as of December 31, 2011 have also been presented.

SUMMARY

	Nine Months Ended September 30,	
	2011	2012
	(RMB in millions, except earnings per share) (unaudited)	
Key Unaudited Income Statement Information		
Revenue	5,787.7	7,306.6
Cost of sales	(4,307.6)	(5,348.6)
Gross profit	1,480.2	1,958.0
Profit and total comprehensive income for the period	863.6	1,230.4
Attributable to:		
Owners of the Company	850.6	1,207.0
Non-controlling interests	13.0	23.4
	863.6	1,230.4
Earnings per share		
— Basic and diluted (RMB)	0.61	0.86
	As of December 31,	As of September 30,
	2011	2012
	(RMB in millions) (unaudited)	
Key Unaudited Financial Position Information		
Non-current assets	1,926.8	2,527.4
Current assets	8,508.7	8,838.7
Current liabilities	4,202.9	4,095.8
Net current assets	4,305.8	4,742.8
Total assets less current liabilities	6,232.6	7,270.2

See “Recent Developments” for a discussion of our results of operations for the nine months ended September 30, 2011 and 2012.

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2012

Forecasted consolidated profit attributable

to owners of the Company⁽¹⁾ Not less than RMB1,582 million
(equivalent to HK\$1,948 million)

Unaudited pro forma forecast earnings per Share⁽²⁾ Not less than RMB97 cents
(equivalent to HK\$1.20)

Notes:

- (1) The bases and assumptions on which the forecasted consolidated profit attributable to owners of the Company for the year ending December 31, 2012 are presented in Appendix IV to this prospectus.
- (2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to owners of the Company for the year ending December 31, 2012 and assuming the Global Offering had been completed on January 1, 2012 and a total of 1,621,122,000 Shares had been in issue throughout the year ending December 31, 2012. The calculation assumes that the Over-allotment Option had not been exercised.

OFFERING STATISTICS

	Based on an Offer Price of HK\$10.38	Based on an Offer Price of HK\$12.28
Market capitalization of our H Shares ⁽¹⁾ (in millions).....	HK\$2,524.77	HK\$2,986.92
Pro forma historical price/earnings multiple ⁽²⁾	11.41 times	13.49 times
Unaudited pro forma adjusted net tangible asset value per Share ⁽³⁾	HK\$6.34	HK\$6.60

Notes:

- (1) The calculation of market capitalization is based on a total of 243,234,200 H Shares (including 221,122,000 H Shares to be issued pursuant to the Global Offering and 22,112,200 H Shares to be converted from A Shares which are to be transferred by Henan SASAC to NSSF in accordance with the relevant PRC regulations on reduction of state-owned shares) expected to be in issue immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised.
- (2) The pro forma historical price/earnings multiple is calculated based on the pro forma historical earnings per share of HK\$0.91 for the year ended December 31, 2011 (which has been computed after making appropriate adjustments to take into account completion of our capital increase in March 2012) at the respective Offer Prices of HK\$10.38 and HK\$12.28, assuming completion of the Global Offering with a capital structure of our Company comprising a total of 1,377,887,800 A Shares and a total of 243,234,200 H Shares in issue on January 1, 2011 and that the Over-allotment Option is not exercised.
- (3) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in “Unaudited Pro Forma Financial Information” included in Appendix III to this prospectus, and on the basis of a total of 1,621,122,000 Shares expected to be in issue immediately following the completion of the Global Offering. This calculation assumes respective Offer Prices of HK\$10.38 and HK\$12.28 and that the Over-allotment Option is not exercised.

SUMMARY

USE OF PROCEEDS

We currently estimate that our Offer Price will not be more than HK\$12.28 per Offer Share and not less than HK\$10.38 per Offer Share. Assuming an Offer Price of HK\$11.33 per Offer Share, which represents the mid-point of the indicative Offer Price range, we estimate that the proceeds from the Global Offering (after deducting underwriting commissions and other estimated offering expenses in the aggregate amount of approximately HK\$150 million payable by us), will total approximately HK\$2,355.31 million (equivalent to approximately US\$303.86 million), assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds for the following purposes:

Amount	Percentage of Net Proceeds	Purposes
HK\$471.06 million (equivalent to approximately RMB382.50 million)	20%	Establish overseas manufacturing and related facilities in Russia and India to implement our international business expansion plans.
HK\$282.64 million (equivalent to approximately RMB229.50 million)	12%	Establish overseas aftermarket service network and parts and components centers in Russia, the United States, India, Turkey and Australia.
HK\$282.64 million (equivalent to approximately RMB229.50 million)	12%	Establish an international sales and marketing network.
HK\$235.53 million (equivalent to approximately RMB191.25 million)	10%	Establish overseas coal mining transport equipment manufacturing facilities in Russia.
HK\$235.53 million (equivalent to approximately RMB191.25 million)	10%	Establish international research and development platforms in Germany and the United States, and generally enhance our research and development capabilities to support sustainable, long-term growth.
HK\$376.85 million (equivalent to approximately RMB306.00 million)	16%	Develop our coal washing equipment product segment and establish a related manufacturing facility.
HK\$235.53 million (equivalent to approximately RMB191.25 million)	10%	Procure raw materials and equipment necessary for our operations, particularly for the import of special purpose parts and components from overseas countries specifically for use in producing our high-end hydraulic roof supports, including electronic hydraulic control systems.

SUMMARY

Amount	Percentage of Net Proceeds	Purposes
HK\$235.53 million (equivalent to approximately RMB191.25 million)	10%	Any remaining balance will be used to fund our working capital and other general corporate purposes.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds in short-term interest-bearing and investment grade instruments with licensed commercial banks and/or authorized financial institutions in Hong Kong. We expect to utilize the proceeds from the Global Offering to finance the above purposes. However, to the extent that the proceeds from the Global Offering are unable to fully finance the above purposes, we will use our internal working capital.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds of approximately HK\$366.40 million, after deducting underwriting commissions and other estimated offering expenses payable by us and assuming the same Offer Price of HK\$11.33 as stated above. We intend to allocate these additional net proceeds to the above purposes on a pro rata basis.

The table below sets forth additional information on the Offer Price range and the related adjustments to the intended use of proceeds:

Offer Price	Over-allotment Option	Total Net Proceeds	Adjustments to the Use of Net Proceeds
HK\$12.28, being the high-end of the Offer Price range	Not exercised	HK\$2,565.38 million	The additional net proceeds will be allocated to the above purposes on a pro rata basis.
HK\$10.38, being the low-end of the Offer Price range	Not exercised	HK\$2,145.25 million	The amount of net proceeds allocated to working capital and other general corporate purposes will be reduced to the extent of the decrease in the net proceeds raised.

No Material Adverse Change

Our Directors confirm that, as of the date of this prospectus, there has been no material adverse change to our financial or trading position or prospects since June 30, 2012, being the date to which our most recent audited consolidated financial statements were prepared, and since that date, there has been no event up to the date of this prospectus that would materially affect the information shown in our consolidated financial statements included in the accountants' report set out in Appendix I to this prospectus, in each case except as otherwise disclosed in this prospectus.

DEFINITIONS

In this prospectus the following terms have the following meanings unless the context otherwise requires. Certain technical terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

“A Share Offering”	the offer for subscription of 140 million A Shares by our Company to the public in the PRC in connection with the initial listing of the A Shares on the Shanghai Stock Exchange in August 2010;
“A Shares”	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB;
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, which is used in relation to the Hong Kong Public Offering;
“Articles of Association” or “Articles”	the articles of association of the Company, which will become effective upon Listing. A summary of the Articles is set out in Appendix VII to this prospectus;
“Associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules that apply to the Company;
“Board”	the Board of Directors;
“BP Statistical Review June 2012”	the <i>BP Statistical Review of World Energy June 2012</i> , published by British Petroleum plc, a widely-used reference publication in the field of energy economics;
“bps” or “basis point”	a unit equal to one hundredth of one percent;
“Business Day(s)”	any day(s) (excluding Saturday(s) and Sunday(s)) in Hong Kong on which licensed banks in Hong Kong are open for banking business throughout their normal business hours and on which the Hong Kong Stock Exchange is open for the business of dealing in securities;
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC;
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant;
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant;

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation;
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant;
“CEN”	European Committee for Standardization;
“CENELEC”	European Committee for Electrotechnical Standardization;
“CMIA”	China National Coal Mining Machinery Industry Association;
“CNCA”	China National Coal Association;
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Company”	Zhengzhou Coal Mining Machinery Group Company Limited (鄭州煤礦機械集團股份有限公司), or ZMJ, and where the context requires, its predecessor(s);
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules that apply to the Company;
“Controlling Shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules, which, when applied to the Company, includes any Shareholder who is in a position to control the composition of a majority of the Board. Henan SASAC is, and is expected to continue to be, in a position to control the composition of a majority of the Board, and is accordingly our Controlling Shareholder;
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會);
“DGMS”	Directorate General of Mine Safety under the Ministry of Labour & Employment of the Government of India, a regulatory agency for safety in mines and oil-fields in India;
“Director(s)”	director(s) of the Company whose name(s) are set out in the section headed “Directors, Supervisors and Senior Management” of this prospectus;
“EIT Law”	the Enterprise Income Tax Law of the PRC;
“EIU”	the <i>Economist Intelligence Unit</i> , an independent business within The Economist Group, which offers independent and tailored research for companies that require analysis for particular markets or business sectors;

DEFINITIONS

“ERP”	enterprise resources planning;
“ETSI”	European Telecommunications Standards Institute;
“EU”	the European Union;
“GAC”	General Administration of Customs of the PRC (中華人民共和國海關總署);
“Global Offering”	the Hong Kong Public Offering and the International Offering;
“GREEN application form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited;
“Group,” “we,” “our” and “us”	the Company and its subsidiaries and, where the context requires, in respect of the period prior to the Company becoming the holding company of any of its present subsidiaries, such present subsidiaries of the Company, some or any of them and the businesses carried on by such subsidiaries and (as the case may be) their predecessors;
“H Share Registrar”	Computershare Hong Kong Investor Services Limited;
“H Shares”	overseas listed foreign shares in the ordinary share capital of our Company with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange;
“Heading Century Consulting”	Beijing Heading Century Limited Consultancy* (北京漢鼎盛世諮詢服務有限公司), an independent market research consulting firm which is principally engaged in the provision of market research consultancy services of the global coal mining machinery industry, with a focus on the PRC;
“Henan SASAC”	State-owned Assets Supervision and Administration Commission of Henan Provincial People’s Government (河南省人民政府國有資產監督管理委員會);
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC;
“HK\$,” “Hong Kong dollars” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;

DEFINITIONS

“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Offer Shares”	the H Shares offered by us for subscription under the Hong Kong Public Offering;
“Hong Kong Public Offering”	the conditional offering by the Company of initially 22,112,400 H Shares (subject to adjustment as described in the section headed “Structure of the Global Offering” of this prospectus) for subscription by the public in Hong Kong for cash at the Offer Price, payable in full on application, on and subject to the terms and conditions stated herein and in the related Application Forms;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Hong Kong Underwriters”	the underwriters listed in the paragraph headed “Hong Kong Underwriters” under the section headed “Underwriting” of this prospectus, being the underwriters of the Hong Kong Public Offering;
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated November 21, 2012 relating to the Hong Kong Public Offering and entered into between the Company, the Joint Sponsors, the Joint Global Coordinators and the Hong Kong Underwriters as further described under the section headed “Underwriting” of this prospectus;
“Hua Xin Venture Capital”	Jin Ling Hua Xin Venture Capital Company Limited* (金陵華新創業投資有限公司), an Independent Third Party;
“Huainan Mining”	Huainan Mining (Group) Co., Ltd.* (淮南礦業(集團)有限責任公司), a substantial shareholder of ZMJ Shun Li Machinery and therefore a connected person of the Company;
“Huainan Mining Group”	Huainan Mining and its subsidiaries and Associates (excluding ZMJ Shun Li Machinery);
“Huaxuan Investment”	Hua Xuan (Shanghai) Equity Investment Fund Co., Ltd.* (華軒(上海)股權投資基金有限公司), previously a subsidiary and currently an associate of our Company;
“IASB”	International Accounting Standards Board;
“IFRS”	International Financial Reporting Standards promulgated by the IASB, including the International Accounting Standards and their interpretations and amendments;
“Independent Third Party(ies)”	individual(s) or company(ies) who or which is/are not connected person(s) of the Company;

DEFINITIONS

“India”	the Republic of India;
“Infraline”	Infraline Energy Research & Information Services, an independent provider of research and consulting services for energy sector professionals based in India;
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters on behalf of the Company with professional and institutional investors for cash at the Offer Price, as described in the section headed “Structure of the Global Offering” of this prospectus;
“International Offer Shares”	the H Shares offered under the International Offering;
“International Underwriters”	the underwriters of the International Offering which will enter into the International Underwriting Agreement to underwrite the International Offering;
“International Underwriting Agreement”	the conditional international underwriting agreement relating to the International Offering and to be entered into between, among others, the Company, the Joint Global Coordinators and the International Underwriters on or about the Price Determination Date;
“Joint Bookrunners”	in respect of the Hong Kong Public Offering, UBS AG, Hong Kong Branch, CITIC Securities Corporate Finance (HK) Limited, J.P. Morgan Securities (Asia Pacific) Limited and Deutsche Bank AG, Hong Kong Branch, and in respect of the International Offering, UBS AG, Hong Kong Branch, CITIC Securities Corporate Finance (HK) Limited, J.P. Morgan Securities plc and Deutsche Bank AG, Hong Kong Branch;
“Joint Global Coordinators”	UBS AG, Hong Kong Branch, CITIC Securities Corporate Finance (HK) Limited, J.P. Morgan Securities (Asia Pacific) Limited and Deutsche Bank AG, Hong Kong Branch;
“Joint Lead Managers”	in respect of the Hong Kong Public Offering, UBS AG, Hong Kong Branch, CITIC Securities Corporate Finance (HK) Limited, J.P. Morgan Securities (Asia Pacific) Limited, Deutsche Bank AG, Hong Kong Branch, ICBC International Securities Limited and BOCOM International Securities Limited, and in respect of the International Offering, UBS AG, Hong Kong Branch, CITIC Securities Corporate Finance (HK) Limited, J.P. Morgan Securities plc, Deutsche Bank AG, Hong Kong Branch, ICBC International Securities Limited and BOCOM International Securities Limited;

DEFINITIONS

“Joint Sponsors”	UBS Securities Hong Kong Limited and J.P. Morgan Securities (Far East) Limited;
“Latest Practicable Date”	November 15, 2012, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus;
“Listing”	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange;
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange;
“Listing Date”	the date, expected to be on or about December 5, 2012, on which the H Shares are listed and from which dealings in the H Shares are permitted to take place on the Main Board;
“Longmay Group”	Heilongjiang Longmay Mining Group Co., Ltd.* (黑龍江龍煤礦業控股集團有限責任公司);
“Lu Xin Coal Chemical”	Lu An Xinjiang Coal Chemical (Group) Co., Ltd.* (潞安新疆煤化工(集團)有限公司), a substantial shareholder of ZMJ Lu An Xinjiang and is therefore a connected person of the Company;
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange, which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange;
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies Seeking an Overseas Listing (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated on August 27, 1994 by the PRC State Council Securities Policy Committee and the PRC State Commission for Restructuring the Economic System, as amended, supplemented or otherwise modified from time to time;
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部);
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部);
“MOST”	the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部);
“NBS”	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局);
“NDRC”	the National Development and Reform Committee of the PRC (中華人民共和國國家發展和改革委員會);

DEFINITIONS

“NSSF”	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會);
“Offer Price”	the final price for each Offer Share in Hong Kong dollars (exclusive of brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee payable thereon) at which the Offer Shares are to be subscribed for pursuant to the Global Offering;
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, collectively, including where relevant, any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option;
“Over-allotment Option”	the option expected to be granted by the Company to the Joint Global Coordinators and exercisable by the Joint Global Coordinators to require the Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last date for lodging of applications under the Hong Kong Public Offering, to allot and issue up to 33,168,200 additional H Shares at the Offer Price to cover over-allocations, if any, in the International Offering;
“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended, supplemented and otherwise modified from time to time;
“PRC GAAP”	the generally accepted accounting principles of the PRC;
“PRC Legal Advisers”	Zhong Lun Law Firm, legal advisers to our Company as to PRC law;
“PRC Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), as amended, supplemented and otherwise modified from time to time;
“Price Determination Agreement”	the agreement to be entered into between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before the Price Determination Date to fix and record the Offer Price;
“Price Determination Date”	the date, expected to be on or around November 28, 2012, on which the Offer Price is expected to be fixed, or such other time as the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may agree but in any event no later than December 3, 2012;

DEFINITIONS

“product liability”	a manufacturer’s or seller’s tort liability for any damages or injuries suffered by a buyer, user or bystander as a result of a defective product;
“QIBs”	qualified institutional buyers as defined in Rule 144A;
“Regulation S”	Regulation S under the Securities Act;
“RMB” or “Renminbi”	the lawful currency of the PRC;
“Rospatent”	the governmental agency for patent and trademarks for the Russian Federation;
“Rs.” or “rupees”	the lawful currency of India;
“rubles”	the lawful currency of the Russian Federation;
“Rule 144A”	Rule 144A under the Securities Act;
“Russia”	the Russian Federation;
“SACMS”	the State Administration of Coal Mine Safety of the PRC (中華人民共和國國家煤礦安全監察局);
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局);
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會);
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局);
“Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks on Shanghai Stock Exchange;
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所);
“Share(s)”	share(s) of our Company, with a nominal value of RMB1.00 each, comprising A Shares and H Shares;
“Shareholder(s)”	holder(s) of Share(s);

DEFINITIONS

“Shenhua Group”	China Shenhua Group Co., Ltd. and its relevant member companies during the Track Record Period;
“Special Regulations”	the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) issued by the State Council of the PRC on August 4, 1994, as amended, supplemented or otherwise modified from time to time;
“Stabilizing Manager”	CITIC Securities Corporate Finance (HK) Limited;
“State Council”	the State Council of the PRC (中華人民共和國國務院);
“subsidiary(ies)”	has the meaning ascribed thereto under section 2 of the Companies Ordinance;
“substantial shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules that apply to the Company;
“Supervisor(s)”	member(s) of the supervisory committee of the Company whose name(s) are set out in the section headed “Directors, Supervisors and Senior Management” of this prospectus;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“Track Record Period”	the financial years of our Company ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012;
“Underwriters”	the Hong Kong Underwriters and the International Underwriters;
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement;
“U.S.” or “United States”	the United States of America;
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States;
“VAT”	value-added tax;
“ White Form eIPO ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk ;
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited;
“ZCMM”	Zhengzhou Coal Mining Machinery Company* (鄭州煤礦機械集團有限責任公司), one of our predecessor companies;

DEFINITIONS

“Zhenglong Joint Venture”	Heilongjiang Zhenglong Coal Mining Machinery Co., Ltd.* (黑龍江鄭龍煤礦機械有限公司), in which we hold 47.5% equity interest;
“ZMJ Comprehensive Equipment”	Zhengzhou Coal Mining Machinery Comprehensive Equipment Co., Ltd.* (鄭州煤機綜機設備有限公司), a subsidiary of our Company that focuses on the manufacturing of mining equipment, which was incorporated in the PRC on September 3, 2004;
“ZMJ Foundry”	Zhengzhou Coal Mining Zhu Duan Co., Ltd.* (鄭州煤機鑄鍛有限公司), a subsidiary of our Company that focuses on the sale of molding and metal materials, which was incorporated in the PRC on November 25, 2011;
“ZMJ Hong Kong”	ZMJ International Trading (Hong Kong) Co., Limited (鄭煤機國際貿易(香港)有限公司), a subsidiary of our Company that we expect will focus on the sale and purchase of industrial and mining machinery and equipment, which was incorporated in Hong Kong on November 8, 2012;
“ZMJ Hydraulic Control”	Zhengzhou Coal Mining Machinery Hydraulic Electrical Control Co., Ltd.* (鄭州煤機液壓電控有限公司), a subsidiary of our Company that focuses on the manufacturing of hydraulic products, which was incorporated in the PRC on April 14, 1999;
“ZMJ Longwall Machinery”	Zhengzhou Coal Mining Longwall Face Machinery Co., Ltd.* (鄭州煤機長壁機械有限公司), a subsidiary of our Company that focuses on the manufacturing of mining equipment, which was incorporated in the PRC on March 25, 2009;
“ZMJ Lu An Xinjiang”	Zhengzhou Coal Mining Machinery Group Lu An Xinjiang Co., Ltd.* (鄭煤機集團潞安新疆機械有限公司), a subsidiary of our Company that focuses on the manufacturing of mining equipment, which was incorporated in the PRC on December 24, 2007;
“ZMJ Material Trading”	Zhengzhou Coal Mining Machinery Group Material Trading Co., Ltd.* (鄭州煤礦機械集團物資供銷有限公司), a subsidiary of our Company that focuses on steel and other raw materials trading, which was incorporated in the PRC on March 6, 2008;
“ZMJ Shun Li Machinery”	Huainan ZMJ Shun Li Machinery Co., Ltd.* (淮南鄭煤機舜立機械有限公司), a subsidiary of our Company that focuses on the manufacturing of mining equipment, which was incorporated in the PRC on November 24, 1998;
“ZMJ Siberia”	Zhengzhou Coal Mining Machinery Siberia Co., Ltd., a subsidiary of our Company incorporated in Russia;

DEFINITIONS

“ZMJ Suda”	ZMJ Suda Parts and Services Co., Ltd.* (鄭州煤機速達配件服務有限公司), in which our Company holds approximately 34.0% equity interest; and
“%”	per cent.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, unless otherwise stated, certain amounts denominated in RMB have been translated into HK\$ at an exchange rate of RMB0.8120 = HK\$1.00 for illustration purposes only. Such conversions shall not be construed as representations that amounts in RMB were or could have been or could be converted into HK\$ at such rates or any other exchange rates on such date or any other date.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. In this prospectus, the English translations of company names in Chinese or another language which are marked with “” and the Chinese translations, if any, of company names in English which are marked with “*” are for identification purposes only.*

GLOSSARY OF TECHNICAL TERMS

To facilitate a better understanding of the business and operations of our Company, the following glossary contains an explanation and description of certain terms used in this prospectus in connection with our Company and our business and operations. The terms and their assigned meanings may not correspond to standard industry or common meanings, as the case may be, or usage of these terms.

“4S centers”	sales and service platforms of our associate, ZMJ Suda, to offer aftermarket services generally including: (i) maintenance and overhaul services; (ii) spare parts and components provision; (iii) technical support; and (iv) customer feedback surveys;
“armored-face conveyor” or “AFC”	a chain conveyor used in the integrated coal mining process to transport material from the coal face;
“blast mining”	a coal mining technique that uses explosives such as dynamite to break up a coal seam, after which coal is gathered and loaded onto shuttle cars or conveyors for removal to a central loading area;
“CAD/CAE”	computer-aided design/computer-aided engineering;
“CAGR”	compound annual growth rate;
“CAPP”	computer-assisted process planning;
“CE”	the relevant certification required for imports of coal mining equipment into the European Union;
“coal”	an organic, solid, brittle, more or less distinctly stratified combustible carbonaceous rock, formed by partial to complete decomposition of vegetation;
“coal face” or “working face”	the working area where the extraction of coal takes place in an underground or surface mine;
“coal seam”	a stratum that contains coal within a defined zone;
“crusher”	a component of the integrated coal mining system that reduces larger rocks into smaller rocks, gravel or dust or changes the form of other materials for extraction and/or mining purposes;
“dip”	the natural incline or decline of a coal seam at varying angles;
“electronic hydraulic control systems”	electronic instrumentation and related facilities that control the operation of an integrated coal mining system and, particularly, hydraulic roof supports;

GLOSSARY OF TECHNICAL TERMS

“EN standard”	the European international manufacturing standard, maintained by CEN, CENELEC and ETSI, for the production of hydraulic roof supports which is widely used worldwide;
“GB25974.1-2010”	the PRC national standard promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and Standardization Administration of the PRC on January 10, 2011, for the production of hydraulic roof supports with high reliability;
“GFA”	gross floor area;
“GOST”	the relevant certification required for imports of coal mining and excavating equipment into the Russian Federation;
“high-end hydraulic roof support”	a hydraulic roof support that we manufacture in accordance with our internal manufacturing and quality control standards, which, for our high-end hydraulic roof supports, is higher than the PRC domestic MT312-2000 standard and, in certain areas, higher than the EN standard that is widely used worldwide;
“hydraulic prop”	a support device consisting of telescopic cylinders that can be used for permanent or temporary roof support in mining operations;
“hydraulic roof support”	a kind of specialized machine that uses hydraulic mechanisms to support and control the roof of coal mining sites to protect the safety of coal miners and equipment;
“integrated coal mining and excavating system”	in the coal mining process, an integrated coal mining and excavating system generally comprises four different kinds of coal mining and excavating equipment, i.e., the hydraulic roof support, armored-face conveyor, shearer and roadheader;
“km”	kilometer, a unit of measurement for distance;
“kN”	kilonewton, a unit of measurement for force;
“kW”	kilowatts, a unit of measurement for power;
“line pan”	a trough or section of an armored-face conveyor;
“loader”	a component of the longwall coal mining system which transports extracted coal outside the coal mining area;

GLOSSARY OF TECHNICAL TERMS

“longwall coal mining”	a fully mechanized underground mining method in which the coal face is supported by hydraulic roof supports or shield while the coal is excavated by a shearer and/or roadheader, and then transported to the surface by armored-face conveyors. When mining of the longwall panel has been completed, the longwall system is moved to a new mining area;
“m ² ” or “sq.m.”	square meters, a unit of measurement for area;
“medium and thick plate”	steel plate with a thickness between 4.0mm to 25.0mm that can be welded, cut, heat treated and subject to other processes in the construction and manufacturing industries is classified as medium plate. Steel plate with a thickness of more than 25.0mm is classified as thick plate and with a thickness of at least 100.0mm is classified as super-thick plate;
“medium-end hydraulic roof support”	a hydraulic roof support that we manufacture only in accordance with the PRC MT312-2000 industry standard promulgated by the PRC Coal Industry Bureau on December 8, 2000, which is the minimum technical standard for hydraulic roof supports in the PRC;
“mm”	millimeters, a unit of measurement for distance;
“MT312-2000”	the PRC domestic manufacturing standard, promulgated by the PRC Coal Industry Bureau, for the production of hydraulic roof supports;
“OA system”	office automation system, which refers to varied computer hardware and software used to digitally create, collect, store and manipulate office information needed for accomplishing relevant tasks;
“rib spalling”	a landslide or collapse of the mining rib that occurs in the mining working face;
“roadheader”	a kind of machine which can cut, load, convey and transport coal and rock, and can be used in underground coal mines as well as metal mines and construction work carried out in tunnels;
“room-and-pillar coal mining”	a coal mining technique which divides the coal seam into rooms and pillars in a grid pattern, where pillars of coal remain to support the roof;
“shearer”	a rotating cutting device used in underground mining to remove coal from the coal seam;

GLOSSARY OF TECHNICAL TERMS

“t/h”	tonnes per hour;
“thick coal seam”	typically hard igneous and/or metamorphic rock seam with diverse layering patterns and a thickness of above 3.5 meters, which requires certain types of mining techniques such as blast mining;
“thin coal seam”	typically soft sedimentary rock seam with common layering patterns and a thickness of 0.7 meters to 1.3 meters, which allows for certain types of mining techniques such as longwall mining and room- and-pillar coal mining;
“three soft coal seam”	a coal seam that has a soft roof, soft floor and soft coal quality;
“underground coal mining”	the extraction of coal or its by-products from rock strata by underground mining methods such as room-and-pillar coal mining, shortwall (continuous) mining and longwall mining;
“utilization rate”	percentage of total resources that can be utilized and, in our case, calculated as actual production volume for the relevant period divided by the weighted average production capacity during the same period; and
“welding”	the physical process involving the creation of a permanent linkage through the heating of two similar types of material with bonding materials.

FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our overall operations and business prospects;
- general conditions of the domestic and global economy, including those related to the PRC and international market conditions;
- any changes in the regulatory policies of the PRC government and other relevant government authorities relating to the coal mining equipment manufacturing industry and our business;
- the effects of competition in the coal mining equipment manufacturing industry and our business;
- changes in pricing for our coal mining and excavating equipment;
- changes in the availability of, or new requirements for, financing;
- changes in regulations and restrictions;
- our ability to expand and manage our business and to introduce new products and services;
- other future developments in the markets where we participate or are seeking to or will participate;
- changes in political, economic, legal and social conditions in the PRC, including the PRC government's specific policies with respect to economic growth, inflation and foreign exchange;
- macroeconomic measures taken by the PRC government to manage economic growth;
- changes in restrictions on foreign currency convertibility and remittance abroad;
- fluctuations in exchange rates and interest rates;
- our future financial position, our business or other strategy, plans, objectives, goals and targets and our ability to proceed with or implement all or any of them;
- our capital expenditure plans;
- our dividend policy;
- certain statements in the section headed "Financial Information" in this prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management, interest rates and exchange rates; and
- other statements in this prospectus that are not historical fact.

FORWARD-LOOKING STATEMENTS

The words “aim,” “anticipate,” “believe,” “can,” “consider,” “could,” “estimate,” “expect,” “intend,” “may,” “ought to,” “plan,” “potential,” “seek,” “should,” “will,” “would,” or similar expressions or the negatives thereof, are intended to identify a number of these forward-looking statements. These forward-looking statements with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialize, or underlying assumptions may prove incorrect, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

We caution you not to place undue reliance on these forward-looking statements which reflect our management’s view only as of the Latest Practicable Date. Subject to compliance with the relevant Hong Kong Listing Rules, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should read this prospectus in its entirety and carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, results of operations, financial condition, profitability and future prospects could be materially and adversely affected by any of the risks mentioned in this section. The trading price of our H Shares could decline due to any of these risks, and you may lose all or part of your investment. In addition, we are also subject to other risks and uncertainties that are not presently known to us or which we currently deem to be immaterial. Such risks and uncertainties could also have a material adverse effect on our business, results of operations, financial condition, profitability and future prospects.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

We may not be able to successfully execute our international expansion plans.

One of our key strategies is to expand our business overseas, which is subject to numerous risks and uncertainties. Specifically, the success of our international expansion plans depends, to a large extent, on our ability to provide high quality, customized products to our overseas customers and our ability to increase our production capacity and volumes in the countries where our future overseas manufacturing bases will be located. Part of our strategy is to increase our production capacity of hydraulic roof supports and armored-face conveyors by establishing our production facilities in overseas locations, such as Russia and India, establishing an overseas aftermarket service network and parts and components centers in Russia, the United States, India, Turkey and Australia, as well as establishing research and development facilities in the United States and Germany. However, our international expansion measures and plans subject us to the risks and uncertainties that are normally associated with expanding into overseas markets. These include, but are not limited to: (i) our inability to obtain local government approvals, permits, licenses or documents of a similar nature for our international expansion in a timely manner or at all and potential restrictions on foreign trade; (ii) possibility of cost overruns, construction delays, equipment problems, and other operating difficulties; (iii) insufficient management resources and potential increase in labor costs; (iv) our inability to comply with foreign labor, industrial and tax regulations; (v) lower than expected demand and lack of acceptance by local customers of, or compatibility issues with, our products in local mining operations; (vi) high sales and marketing costs; (vii) difficulty in expanding our sales, distribution and service network; (viii) difficulty in implementing our quality control policies in our overseas operations; (ix) difficulty in sourcing raw materials in our overseas operations; (x) difficulty in controlling our costs; (xi) lack of understanding of the local coal mining conditions, or the local business environment, or the financial, management or legal systems in the relevant countries as well as potentially more stringent product liability laws; (xii) unstable political, regulatory or macroeconomic environments and potential foreign exchange differences; (xiii) lack of available funding of our overseas customers; and (xiv) other related factors beyond our control.

RISK FACTORS

In particular, we have not made the necessary filings with the Russian Federal Anti-monopoly Service in connection with: (i) the establishment of ZMJ Siberia in June 2011; and (ii) our investment in the voting shares of ZMJ Siberia, which constitutes a legal entity being controlled by a non-Russian state entity (the “Non-Compliance”). Federal Law of the Russian Federation No. 160-FZ “*On Foreign Investments in the Russian Federation*”, dated July 9, 1999 (as amended), requires compliance with the requisite filing and registration procedures for the investment in more than 25% of the voting shares in a Russian company by a company controlled by a non-Russian state entity. As a result of the Non-Compliance, ZMJ Siberia may be liquidated by a Russian court through a claim made by the Russian authorities if the court concludes that the Company has failed to comply with the procedures. In addition, if the investment by the Company of the entire participation interest (or issued shares) in ZMJ Siberia is declared invalid, the Company will have no ownership rights to such participation interest (or issued shares) in ZMJ Siberia. This could also serve as a separate ground for the liquidation of ZMJ Siberia, as a Russian company cannot exist without any participants/shareholders. ZMJ Siberia generated revenues of approximately RMB3.5 million during the Track Record Period, which accounted for less than 0.02% of our total revenues during the Track Record Period, and its total assets and net assets accounted for less than 0.03% of the Company’s total assets and net assets as of December 31, 2011 and June 30, 2012.

We intend to rectify this situation by establishing a new Russian entity to undertake the business activities and operations currently carried out by ZMJ Siberia, which will entail the undertaking of the requisite filing and registration procedures. However, as with all regulatory procedures, we cannot assure you that this process will be completed in a timely manner, or at all. In addition, we cannot assure you that the relevant Russian regulatory authorities will not take any regulatory or legal action against ZMJ Siberia in the meantime. The occurrence of any of the foregoing may have a material adverse effect on the business and results of operations of ZMJ Siberia, and could temporarily delay our expansion plans in Russia.

In addition, we intend to establish specific measures to manage the risks associated with our international expansion by the middle of 2013 but, in any event, before we establish our manufacturing and related facilities overseas. However, these measures will not be completed before the Listing. The measures include those regarding: (i) compliance with foreign regulatory, labor, industrial and tax regulations; (ii) detailed staff recruitment plans; (iii) quality control policies; (iv) management resources; (v) raw material sourcing; and (vi) cost controls. However, due to our lack of overseas manufacturing experience, we may not be successful in implementing these measures, which could affect the management of our overseas operations and our international expansion plans. The failure to effectively manage our international expansion plans could materially and adversely affect our business, results of operations and financial condition. In addition, any inability to manage our international expansion plans may divert or strain the limited resources of our management and, consequently, materially and adversely affect our domestic operations.

RISK FACTORS

We may experience fluctuations in steel and other raw material prices.

We are affected by fluctuations in the prices of steel and other raw materials which we purchase for the manufacturing of our products and trading. Our production process depends on reliable and sufficient supply of high quality raw materials, particularly steel. A significant portion of our cost of sales comprises the costs of steel and other raw materials used in the production of our coal mining and excavating equipment. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, the cost of steel represented approximately 45.9%, 51.1%, 58.1%, 57.1% and 59.8%, respectively, of our cost of sales. The market prices of steel and other raw materials are volatile and may fluctuate as a result of factors beyond our control. For example, PRC governmental policies, macroeconomic factors, including exchange rates, interest rates and the level of inflation, global economic trends, industry trends and practices, inventory levels, the levels of construction activity, actions by participants in the commodity markets and other factors beyond our control could result in imbalances in the supply of and demand for steel, which, in turn, could result in fluctuations in the market prices of steel. Medium and thick plate steel (20mm) and other steel products of higher thickness account for a large portion of our annual steel purchase volume. According to the China Iron & Steel Association, the domestic steel price of medium and thick plate (20mm) fluctuated between RMB3,311 and RMB4,928 per tonne from January 1, 2009 to June 30, 2012. See “Industry Overview — Coal Mining and Excavating Equipment Industry Overview — Recent Steel Price Trends.”

The sales prices of our products are generally fixed at the time of execution of the sales contracts, taking into account the current steel price levels and our evaluation of steel price trends. We currently do not engage in any hedging transactions to mitigate the risks relating to raw materials price fluctuations. The gross profit margin of our high-end hydraulic roof supports, which accounted for 50.8% of our total sales of hydraulic roof supports in 2011, decreased from 35.3% in 2010 to 33.8% in 2011, primarily because market prices of steel and other ancillary materials and labor costs increased faster than the prices of our high-end hydraulic roof supports, reflecting that we were not able to fully pass on these cost increases to our customers. Therefore, we cannot assure you that we will be able to fully pass on any significant increase in the costs of steel and other raw materials to our customers by selling our products at higher prices. As a result, any increase in the prices of steel or other raw materials could have a material adverse effect on our business, results of operations, financial condition and profitability. In addition, our ability to pass increased raw material costs along to our customers may be limited by competitive pressures, customer resistance and the terms of our sales contracts. Even if we are able to pass along increased costs, there is typically a lag between the actual cost increase of raw materials and the corresponding increase in the prices of our products.

We are engaged in the purchase and sale of steel and other raw materials. See “Business — Our Products and Businesses — Steel and Other Raw Materials Trading Business” and “Financial Information — Factors Affecting Our Results of Operations — Raw Material Costs.” Our steel and other raw materials trading business, as with all business operations, are subject to market factors beyond our control, such as steel price fluctuations. Such factors may have a material adverse effect on the business, results of operations and financial condition of our steel and other raw materials trading business and, ultimately, may materially and adversely affect our results of operations and financial condition.

RISK FACTORS

Our negative operating cash flows may expose us to liquidity risk.

Our net cash used in operating activities was RMB107.9 million for the six months ended June 30, 2012, primarily reflected: (i) an increase in trade and other receivables of RMB634.6 million, primarily due to an increase in our sales; (ii) an increase in inventories of RMB613.5 million, primarily due to the increased scale of our product manufacturing operations after we commenced the operation of our newly-established manufacturing base in September 2011; and (iii) a decrease in advances from customers of RMB374.4 million, primarily as a result of reduced initial installment payments from certain long-term and/or large customers with positive credit profiles, or customers with whom we intend to develop strategic long-term relationships, as well as those strategic customers such as Henan Coal and Chemical Industry that may choose to directly order our products instead of utilizing the bidding process. While our Directors believe that we have sufficient funds to finance our current working capital requirements, our operating cash flows may be adversely affected by a variety of competitive, macroeconomic and other related factors that are beyond our control. Our future liquidity, the payment of trade, bills and other payables and accruals, as well as the repayment of outstanding debt obligations as and when they become due, will primarily depend on our ability to maintain adequate cash inflows from operating activities and proceeds from external financing. In the event that we are unable to generate sufficient cash flows from our operations to meet the demand from our operating and capital expenditures, our operations will have to be funded by other financing activities. However, our debt service and other fixed payment obligations could divert our cash flows from our operations and planned capital expenditures, and our finance costs associated with such debt obligations could materially and adversely affect our future profitability.

We may not be able to maintain our domestic market share.

The growth of our business and operations will depend, in part, on our ability to maintain our domestic sales and market share in the PRC. The performance of our overall business in the PRC is contingent on a variety of competitive, industry, macroeconomic, governmental and regulatory factors and conditions beyond our control. As such, we cannot assure you that we will be able to maintain our sales and market share in the PRC. For additional information on the risks associated with maintaining our domestic market share, see “— Risks Relating to Our Industry — We operate in a highly competitive industry” and “— Risks Relating to Our Industry — Demand for coal mining and excavating equipment is driven by the demand and supply conditions and other business and regulatory conditions in the coal mining industry, which exposes us to various risks and uncertainties beyond our control.” Any factors that have a negative impact on our domestic market share could result in a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

We may be unable to maintain effective quality control or raw materials procurement systems, which may affect the supply and quality of our raw materials.

The performance, quality and safety of our products are critical to our business and development. Although we have established and currently maintain stringent quality control standards and internal inspection procedures, the effectiveness of our quality control system is determined by various factors, including the implementation of quality standards, quality of training programs and the adherence by our employees to our quality control policies and guidelines.

In addition, our manufacturing output is highly dependent upon our quality control system and reliable and sufficient sources of high quality raw materials. The primary raw materials used in our operations are steel, as well as certain parts, components and other ancillary materials that support our coal mining and excavating equipment. While we are able to produce the core parts and components for our products, our customers from time to time will request that we procure certain non-critical parts, components and other ancillary materials for their customized products from a limited number of domestic or international suppliers. We cannot assure you that such parts, components and ancillary materials will be manufactured in accordance with our internal quality standards. Failure of such parts, components and ancillary materials to meet our internal quality standards may result in product defects in our finished coal mining and excavating equipment. Although we generally are not liable for product defects resulting from parts, components and ancillary materials of inferior quality provided by third parties, product liability claims may nonetheless arise. In addition, we also outsource the manufacturing of certain non-critical parts and components to selected domestic suppliers and we are primarily liable for product defects resulting from outsourced parts and components. We experienced warranty claims for our hydraulic roof supports due to product defects during the Track Record Period and we cannot assure you that we will not be subject to any claims related to product defects including product liability claims in the future. If any such claims were to arise, regardless of the merits or adjudication of such claims, we may incur significant costs and expenses to address such claims. In addition, addressing such claims could divert our management attention and resources. If any of the foregoing were to occur, our business, results of operations, financial condition and reputation could be materially and adversely affected.

In addition, we will, from time to time, enter into supply contracts with our suppliers immediately after we enter into sales contracts with our customers to mitigate the risk of raw material price fluctuations and to anticipate the supply requirements of future customer orders. Our ability to source certain parts and components from requested and/or alternative suppliers may be limited. Even if the requested and/or alternative supply sources can be found, procurement from such sources may result in additional costs incurred, or the use of products that are of lower quality. Furthermore, if the prices of raw materials increase significantly after we enter into a sales contract, we may have to procure raw materials at such increased prices, which may materially and adversely affect our results of operations and financial condition.

Moreover, parts and components are generally manufactured based on the specifications of a particular product and cannot be used in other products, which may result in excess unused supplies and additional costs and expenses associated with such suppliers. We may also experience a shortage of parts and components for any of the foregoing reasons. In addition, we cannot assure you that we will be able to source alternatives of similar quality or produce alternatives in a cost-efficient or timely manner. Any of the foregoing could result in manufacturing delays, products of lesser quality or additional costs, which could adversely affect our business, results of operations and financial condition.

RISK FACTORS

We derive a significant portion of our revenue from a limited number of products and services.

Our revenue is primarily derived from sales of hydraulic roof supports and related coal mining and excavating equipment, as well as spare parts for hydraulic roof supports. Our products are primarily designed for underground longwall coal mining and are not designed for, or used in, surface mining, room-and-pillar underground mining, blast mining or mining other types of minerals. Our business, prospects and profitability depend to a significant extent on customer demand for the particular products and services that we provide, as well as the general growth and viability of the PRC and global coal mining industry. In particular, our customers may change their preferences for coal mining equipment, which may reduce the demand for our products. Any material adverse change in market demand, customer preference, market prices for coal mining and excavating equipment and components, or the general growth and viability of the coal mining industry could have a material adverse effect on our business, results of operations, financial condition and profitability.

We rely on our major suppliers to provide us with raw materials for our production.

We rely on a limited number of raw material suppliers for our production and steel and other raw materials trading. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, purchases from our five largest suppliers, all of which are our steel suppliers, accounted for 20.2%, 30.4%, 30.9% and 43.0%, respectively, of our total cost of sales. Purchases from our largest supplier for the same periods accounted for 8.5%, 10.7%, 11.4% and 19.0%, respectively, of our total cost of sales. During the Track Record Period, we did not experience any interruptions that had a material adverse effect on our key raw materials supply. However, we cannot assure you that we will not experience any such interruptions to our raw materials supply in the future. Partial or complete loss of raw material supply from any one of our key suppliers, or a significant adverse change in the relationship with any of such suppliers, could cause interruptions to our raw materials supply. Our failure to obtain the required amount of raw materials in a timely manner and on commercially acceptable terms could increase our manufacturing costs and/or substantially limit our ability to meet our contractual obligations to deliver our products to our customers. Any failure by us to meet such obligations could have a material adverse effect on our reputation, ability to retain customers, market share, business and results of operations and may subject us to claims from our customers and other disputes. In addition, our failure to obtain sufficient raw materials could result in the under-utilization of our production facilities and an increase in our marginal production costs. Any of the above events could have a material adverse effect on our growth, profitability and results of operations.

Our revenue may vary from period to period due to fluctuations in customer purchase orders.

Our revenue and results of operations may fluctuate from period to period primarily due to the purchasing patterns of our customers, which are affected by a variety of factors beyond our control. In addition, due to the high sales prices of most of our products, a single or a small number of significant customer purchase orders may account for a substantial portion of our sales during a particular period. As we generally recognize sales when the relevant products have been delivered to and accepted by our customers, the timing of a single or a small number of significant customer purchase orders during a particular period may significantly affect our results of operations. For the same reason, the loss of one or more of our significant customers or any breach of their sales contracts could, at least on a short-term basis, have a material adverse effect on our business, results of operations and financial condition. Our sales and gross profit in a particular period may also fluctuate depending upon the size and the requirements of the sales contracts entered into during that period.

RISK FACTORS

While we expect to diversify our customer base by continuing to implement our international expansion plans, we currently derive a significant portion of our revenue from a limited number of customers. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, revenue from our largest customer accounted for 20.9%, 8.6%, 16.5% and 11.1%, respectively, of our total revenue. Our revenue generated from our five largest customers accounted for 40.6%, 23.3%, 35.7% and 29.6%, respectively, of our total revenue for the same periods. We cannot assure you that we will be able to retain our existing customers or that they will maintain their current level of purchases from us, as our sales are generally made on the basis of individual purchase orders we receive from time to time. Although we have entered into several strategic cooperation agreements with some of our customers, we generally do not have fixed purchase commitments from our customers as we allow our customers flexibility in relation to the volume, timing and pricing of their orders under these contracts on a case-by-case basis. Therefore, the volumes of products actually purchased by our customers under these contracts in any given period, as well as the timing and amount of revenue we recognize in such period, may not correspond to the terms of these contracts. As a result, the revenue we recognize from sales under these contracts from period to period may vary, and such variance could have a material adverse effect on our results of operations and financial condition.

In addition, any failure to maintain our established relationships with our large customers, due to unsuccessful sales and marketing efforts, limited production capacity, lack of suitable products, unsatisfactory customer support and aftermarket services or any other reason, could result in the loss of our major customers and their business. In particular, sales of our hydraulic roof supports historically were affected by our production capacity limitations, which also resulted in the weighted average utilization rates for our hydraulic roof support production lines to exceed 100% during the Track Record Period. To increase our production capacity to meet the increasing market demand, we have established a new manufacturing facility in Zhengzhou focusing on the production of hydraulic roof supports which commenced operations in September 2011. We cannot assure you that we will not experience production capacity limitations in the future due to increased demand. Our production capacity limitations may adversely affect our ability to accept additional orders from our customers, or may result in production delays that affect our product delivery schedules. The occurrence of any of the foregoing could have a material adverse effect on our customer relationships, and could result in the loss of potential or existing customers in the future. If we lose a key customer, or if a key customer significantly reduces its purchases or delays a major purchase due to the deterioration of its financial condition or for other reasons, or if demand in our industry decreases significantly, or if we fail to replace our major customers, our business, results of operations and financial condition could be materially and adversely affected. In addition, our bargaining power may be constrained due to the effects of consolidation in the PRC coal mining industry, which has required coal mining equipment manufacturers to utilize various measures to maintain their relationships with large coal mining enterprises and other major customers.

Furthermore, we currently depend on our sales agents to market and sell our products in the international markets. While we expect to provide marketing, sales and aftermarket services through our international sales and service network in the near future, we cannot assure you that our sales agents in the meantime will continue to assist us in expanding our customer base. We also cannot assure you that our sales and service network will be adequate to replace our sales agents and meet the needs of our customers. If we are unable to maintain our relationships with our customers either through our existing sales agents or our sales and service network, our business, results of operations, financial condition and future prospects may be materially and adversely affected.

RISK FACTORS

We may not be able to offer technologically improved products to our customers.

We believe that our customers in the coal mining industry generally focus on products that can be customized to their specifications and utilized in their operations. In addition, our customers seek to improve the automation, standardization and integration of equipment utilized in their coal mining operations. In this regard, we focus on producing customized mining equipment in accordance with the geological conditions of the mines that allows our customers to conduct safe and cost-efficient operations with minimal operational downtime. To remain competitive, we must continuously develop new and innovative products and/or enhance our existing product lines to ensure our products continue to be accepted by our customers on an ongoing basis. However, we may not be able to continue enhancing our research and development capabilities to develop new and innovative products or to enhance existing products to meet the evolving requirements of our customers. In addition, we may not be able to successfully bring newly-developed products to the market, or our competitors could develop, manufacture and sell equipment that is more technologically advanced, more price competitive or otherwise better received in the market than ours. If any of the foregoing were to occur, demand for our mining equipment could be materially and adversely affected, which would result in a material adverse effect on our business, results of operations and financial condition.

Our business operations require significant and continuous capital investment.

We have incurred, and will continue to incur, significant capital expenditures to expand our business operations. See “Future Plans and Use of Proceeds.” For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our capital expenditures were RMB262.3 million, RMB550.7 million, RMB497.1 million and RMB274.2 million, respectively, which were primarily used for the purchase of land use rights and manufacturing equipment, as well as the establishment of new facilities. We will also require additional capital funding to establish overseas manufacturing facilities, sales and aftermarket service networks and research and development centers in our international operations, as well as for working capital and other general corporate purposes in our domestic operations. If we are unable to secure sufficient capital funds when required, we may not be able to fund our required capital expenditures to support our business operations. The availability of external funding is subject to various factors beyond our control, including government approvals, prevailing conditions of the capital and financial markets, availability of credit, interest rates, investors’ perception of the coal industry and the performance of the businesses we operate. Any inability to obtain additional funding in a timely manner and on reasonably commercial terms could materially and adversely affect our business, results of operations, financial condition and expansion plans.

Our continued success depends in part on our ability to protect our intellectual property and know-how and not infringe on the intellectual property rights of third parties.

Our continued success depends in part upon our ability to develop new technology and machinery, which is affected by our ability to protect our intellectual property and know-how. To protect our intellectual property and know-how, we principally rely on trademark and patent laws and, to a lesser extent, technology confidentiality agreements, non-competition agreements and other contractual arrangements and laws relating to unfair competition. However, these measures could prove inadequate to protect our intellectual property and know-how from infringement by others or to prevent misappropriation of our proprietary rights, technologies or know-how. The intellectual property laws of PRC and Russia, where we have registered our intellectual property rights, are still evolving. As such, the protection of, and enforcement with respect to, intellectual property rights in the PRC and Russia may

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significantly differ from those in other jurisdictions. In addition, the enforcement of our intellectual property rights could be costly and divert management's attention and resources, and we may not be able to immediately detect the unauthorized use of our intellectual property and enforce our rights. Furthermore, other than two international patents that we have registered with Rospatent, we have not registered our patents and trademarks in any overseas countries, particularly in those countries that will be the focus of our international expansion plans. As we execute our international expansion plans, we will seek to register selected patents that are suitable for general application, as well as certain material trademarks for brand name protection purposes in selected international markets. However, we cannot assure you that we will be successful in obtaining adequate patent and trademark protection for our intellectual property rights in the international markets. Any inability to protect our proprietary technologies and know-how and enforce our intellectual property rights could have a material adverse effect on our business, results of operations and financial condition.

In addition, we cannot assure you that any of our existing intellectual property rights will not be challenged by third parties. Although we did not face any material challenges or legal action by third parties in relation to our intellectual property rights during the Track Record Period, we cannot assure you that we will not infringe upon the intellectual property rights of third parties in the future. We may incur substantial legal and other costs as a party to an intellectual property lawsuit, which could affect our business, results of operations, financial condition and profitability. Moreover, any judgment against us would materially and adversely affect our business and financial condition by potentially limiting our product offerings.

We may be adversely affected by a reduction in advance payments from our customers.

Advances from customers primarily comprise cash and bank note payments in accordance with our standard payment terms. Advance payments from customers contribute to our cash flow and allow us to reduce our reliance on bank borrowings for working capital requirements which, consequently, enables us to lower our finance costs and increase our net profit margin. We had advances from customers of RMB1,532.1 million, RMB1,596.5 million, RMB1,673.9 million and RMB1,299.5 million as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. However, in line with industry practice, from time to time and on a case-by-case basis, we may waive or reduce the amount of the initial installment payments or extend the payment terms for certain long-term and/or large customers with positive credit profiles, or customers with whom we intend to develop strategic, long-term relationships, with an aim to enhance our competitiveness and market profile. We may also waive or reduce advances for customers such as Henan Coal and Chemical Industry that may choose to directly order our products, instead of procuring our products through the bidding process. Advances from customers decreased by RMB374.4 million from RMB1,673.9 million as of December 31, 2011 to RMB1,299.5 million as of June 30, 2012, which partially contributed to our negative net operating cash flows for the six months ended June 30, 2012. See "Financial Information — Liquidity and Capital Resources — Cash Flows — Net Cash From/(Used in) Operating Activities." If we reduce or eliminate advance payments from customers as a result of changing industry practice, competitive factors or for any other reason, we will have to seek alternative means to fund our working capital needs, which could increase our finance costs and result in a material adverse effect on our results of operations, financial condition and net profit margins.

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In addition, our ability to collect advances and pre-payments from our customers depends on the financial condition of our customers, competitive factors, market conditions and other factors beyond our control. We cannot assure you that we will be able to timely collect, or at all, advance payments from customers according to our payment terms. Any inability to collect such advance payments, or the delay or failure of our customers in making advance payments, could result in a material adverse effect on our business, results of operations, financial condition and prospects. In the event that we are unable to obtain adequate financing to fund our operations, our business, results of operations, financial condition and prospects may be materially and adversely affected.

We may be unable to obtain, retain or renew required permits, licenses, registrations or certificates for our business operations.

We are required to maintain certain permits, licenses, registrations and certificates issued by relevant government agencies in the PRC and the overseas jurisdictions in which we operate to conduct our business operations. See “Regulation.” For example, our customers in the PRC typically require us to maintain the Safety Certificate of Approval for Mining Products issued by the Mining Products Safety Approval and Certification Center and specified by the SACMS for sales of coal mining and excavating equipment to our customers. In addition, we are required to obtain certifications and approvals from the relevant overseas regulatory agencies for the export of our products to overseas markets, such as the GOST and CE certificates, which are pre-requisites for us to export our products to Russia and the European Union, respectively. We are also required to obtain overseas safety permission for mining equipment, such as the DGMS approval for our products to be sold in India.

We cannot assure you that we will be able to renew our existing approvals, permits, licenses, registrations or certificates when they expire or that we will be able to successfully obtain, retain or renew future permits, licenses, registrations or certificates in a timely manner, or at all. In addition, we cannot assure you that such permits, licenses, registrations or certificates will not be revoked for whatever reason by the relevant authorities in the future. Failure to obtain or renew such permits, licenses, registrations and certificates as planned may result in delays in the sales and manufacturing of our coal mining and excavating equipment or our expansion plans, thereby materially and adversely affecting our business, results of operations and financial condition.

We have not obtained valid land use right certificate for one parcel of land that we own and valid building ownership certificates for certain buildings or units that we own and occupy.

As of the Latest Practicable Date, of the 12 parcels of land owned by our Group, we have obtained the relevant land use right certificates in respect of 11 parcels of land with a total site area of approximately 1,249,146.28 sq.m. and have applied for the relevant land use right certificate in respect of the remaining one parcel of land with a site area of approximately 17,679.71 sq.m. As advised by our PRC Legal Advisers, there is no legal impediment for us to obtain the land use right certificate to such parcel of land. As of the Latest Practicable Date, we have obtained the building ownership certificates in respect of 189 buildings or units with a total GFA of approximately 588,438.89 sq.m. and have not yet obtained the building ownership certificates in respect of 52 buildings or units occupied by our Group with a total GFA of approximately 25,151.63 sq.m. See “Business — Real Property.” While our Directors believe that our overall business operations will not be materially and adversely affected by the absence of the relevant land use right certificate or building ownership certificates, our rights and privileges arising from the use of these properties, land and buildings may be adversely affected due to the absence of valid certificates. Moreover, we cannot assure you that there will not be challenges against our rights to these

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or any other properties, land and buildings that we use or occupy. Any claims or actions in this regard may interfere with our operations and activities that occur on the relevant properties, land or buildings.

As our products are custom-made, any breach of contracts by our customers after we commence the manufacturing process may have a material adverse effect on us.

Our products are generally custom-made in accordance with our customers' specifications and thus may not be suitable for other customers or general application. If our customers breach their sales contracts with us after we commence the manufacturing process, we may incur unnecessary production costs, waste raw materials and other resources and delay our overall production timetables. In addition, it may be difficult for us to sell to other customers any completed products that have already been manufactured. Our customers are generally required to pay: (i) 30% of the total contract price at the signing of the sales contract; (ii) 30% of the contract price before volume production or delivery; (iii) 30% of the contract price upon the expiration of the credit period that we generally grant to our customers after delivery and completion of installation of our products; and (iv) 10% of the contract price upon the expiration of the warranty period, which is typically one year after the commencement of operation of our products. As such, we are subject to risks relating to recovering the costs incurred should our customers breach their sales contracts. For example, in 2010, one of our hydraulic roof supports customers defaulted on its obligations under its sales contract due to its delay in obtaining the required mining licenses after its corporate restructuring. Accordingly, we recorded an impairment loss of inventory of RMB10.0 million for this unsold set of hydraulic roof supports. Since the occurrence of the default, we have not made any sales to that particular customer. In this regard, we intend to: (i) enhance our management of customers' operational information and update our customers credit analysis; (ii) implement stricter customer selection policies and internal contracts review procedures; (iii) utilize customized installment payment percentages in our sales contracts that take into account customer credit profiles and payment history; (iv) enhance customer evaluation guidelines for our sales staff; and (v) closely monitor contract performance to implement an early warning system to prevent, or mitigate the effects of, customer defaults.

However, despite these planned measures, we cannot assure you that our customers will always comply with, or will not default on, their obligations under our sales contracts in the future. The failure of our customers to comply with sales contracts, for whatever reason, may have a material adverse effect on our business, results of operations, financial condition and cash flows.

The establishment and operation of joint ventures and the completion of any acquisitions, may subject us to risks and uncertainties.

As of the Latest Practicable Date, we had various joint venture companies with various third parties. We primarily cooperated with domestic machinery manufacturers in the PRC to establish these joint ventures to: (i) establish additional manufacturing capacity; (ii) develop and produce additional types of coal mining and related equipment; (iii) provide aftermarket services; and (iv) cover additional markets in the PRC. Currently, our equity interests in our principal joint venture companies range from 7.5% to 49%. Certain of these joint venture companies are our associates, which we do not control. In addition, our control over joint venture companies is or may be subject to the terms of the relevant joint venture agreements or articles of association, which may not provide us with the right to control all of the actions, business decisions, proposed strategies, policies or objectives of the joint venture companies. Furthermore, our joint venture partners may: (i) have different economic or business interests and goals; (ii) take actions contrary to our instructions or requests; (iii) be unwilling or unable to fulfill their

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obligations under the joint venture agreements; or (iv) have financial or operating difficulties, which exposes us to credit risk. As such, we cannot assure you that the occurrence of any of these incidents will not result in disputes between us and our joint venture partners, or that any joint venture partner will not breach its obligations to us. If a dispute cannot be timely resolved in a manner satisfactory to us, the business and results of operations of the affected joint venture company may be adversely affected, and the joint venture company may face the risk of termination if the dispute remains unresolved. The occurrence of any of these events could result in a material adverse effect on our business, results of operations and financial condition.

As part of our growth strategy, we may continue to explore opportunities to complement our existing businesses, such as acquisitions and establishment of new joint ventures. However, as of the Latest Practicable Date, we have not identified specific acquisition plans or targets, and have not entered into any definitive agreements with any potential targets. Such opportunities have risks and uncertainties, which include but are not limited to:

- the difficulty in integrating the acquisition targets;
- inability to generate sufficient profits to offset the costs and expenses of acquisitions;
- risks relating to the business, management, technology, market acceptance and potential loss of, or harm to, relationships with employees, customers and business partners;
- the availability, terms and cost of any financing required to make an acquisition or complete an expansion plan;
- potential ongoing financial obligations or unforeseen or hidden liabilities of our acquisition targets;
- diversion of resources and management attention from our existing businesses; and
- delays in securing or inability to secure necessary governmental approvals, third-party consents and land use rights.

In addition, any acquisition may also cause us to assume liabilities and acquire goodwill or non-amortizable intangible assets which would increase our expenses and working capital requirements. Accordingly, if we fail to manage and/or successfully integrate our acquisitions or joint ventures, our business, results of operations and financial condition may be materially and adversely affected.

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We may be subject to product liability claims, litigation, warranty claims or negative publicity.

The sale of coal mining and excavating equipment entails an inherent risk of product liability and other claims. Product liability refers to a manufacturer's or seller's tort liability for any damages or injuries suffered by a buyer, user or bystander as a result of a defective product. Underground coal mining is an inherently dangerous activity that is subject to numerous risks. Since our coal mining and excavating equipment is only used in underground mining operations, it is possible that people could be severely injured or killed in mining operations as a result of underground water, flooding, gas explosions, equipment malfunction, product defects, improper installations or other related causes. As such, we may be subject to liabilities as a result of accidents that arise from the use of our coal mining and excavating equipment. While we did not experience any product liability issues during the Track Record Period, we cannot assure you that our coal mining and excavating equipment will continue to perform as expected, will be properly used by mining operators, or will not become defective. Any incidents affecting our products, manufacturing operations or the performance of our products could result in accidents, severe injuries, fatalities or financial losses to our customers. If any of the foregoing were to occur, we may be subject to product liability claims and other claims under PRC laws or the laws of other jurisdictions where our products are sold and/or operated. We have not obtained insurance coverage for product liability and have not implemented any other protection scheme.

The warranty period provided in our sales contracts is typically one year after the commencement of operation of our products. Our warranty services are provided at our expense to our customers during the warranty period and generally comprise repair and maintenance of parts or components. If our products do not meet the specifications and requirements of our customers, or if any of our products are defective, such defects and any resulting complaints or negative publicity could materially and adversely affect the sales of our products and our brand name. We may also be subject to product liability and other claims and litigation. Any such claim, regardless of the merits or adjudication of the claim, could result in significant costs, harm our reputation and may divert or strain the limited resources of our management. Furthermore, if any such claim was ultimately successful, we could be required to pay substantial monetary damages or penalties, which could have a material adverse effect on our business, results of operations and financial condition.

Reliance on information technology systems may subject us to risks and uncertainties.

We rely on our information technology systems to facilitate our product development, manufacturing processes, customer services and overall business operations. Our ability to maintain our competitiveness in the coal mining and excavating equipment market is partially dependent on our ability to enhance and upgrade our information technology systems. We strive to continuously enhance and upgrade our information technology systems. For example, we are currently building a comprehensive digital manufacturing center that utilizes advanced management and planning systems for our product life-cycle management. However, our current back-up systems and disaster management plans are limited, and may not be able to prevent the loss of critical data and the interruption of our business operations in the event of any natural disasters, major failures, interruptions or breakdowns, the occurrence of which is beyond our control. If our information technology systems are affected by any natural disasters, major failures, interruptions or breakdowns, our business, results of operations and financial condition may be materially and adversely affected.

RISK FACTORS

We are affected by general PRC and global economic and market conditions.

For the past three years, the global financial crisis and economic downturn have materially and adversely affected the global economy, including the economy of the PRC. Primarily as a result of the continued effects of the global financial crisis in 2008 and the recent euro zone sovereign debt crisis, there has been a general slowdown in the growth of the overall economy of the PRC. We cannot predict whether these adverse conditions will continue, how this may affect the overall global economy, and what effect this may have on the global and PRC coal industries, as the growth of the overall coal industry is generally correlated to global macroeconomic conditions. Any slowdown of the growth and development of the global and PRC coal industries may have a corresponding effect on our industry and demand for our products. In addition, the PRC government may implement measures to control liquidity in the market, including increases of interest rates, which could contribute to a slowdown in the overall economy of the PRC and result in further adverse developments in the PRC coal mining industry, such as reduced domestic coal demand due to reduced energy consumption, decreased coal prices and production output, downward pressure on coal prices or slowed coal mining industry development. While our sales and business operations were not materially affected by the global financial crisis and past macroeconomic developments, future adverse developments in the overall economy of the PRC could reduce the demand for our products in the domestic market and result in a material adverse effect on our business, results of operations and financial condition.

In addition, we have customers, and are able to provide related aftermarket services, in Russia, Turkey and India, and we plan to expand our operations in these countries. We also plan to enter additional international markets, including coal-rich countries or countries with mining operations that utilize longwall mining techniques, such as the United States, Australia, Vietnam, Mexico, Colombia, South Africa, Brazil, Ukraine and Kazakhstan. As such, our business, results of operations and financial condition are also affected by general global macroeconomic trends and developments. In particular, the ongoing euro zone sovereign debt crisis and continued weakness and uncertainty regarding the durability of the emerging economic recovery in the United States and elsewhere in the world, have resulted in substantial fluctuations in the global financial markets and adversely affected the global economy, including the PRC and other countries in which we currently have business operations or sell our products. Any further deterioration of the economic conditions in Europe and the United States could materially and adversely affect the overall demand for our products, which could result in a material adverse effect on our business, results of operations and financial condition. These uncertainties could also negatively impact our goal to expand our business internationally.

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Preferential tax treatments currently available to us in the PRC could be discontinued or reduced.

The PRC government identified eight new technology sectors that are eligible for government support in the *Measures for the Administration of Designation of High and New Technology Enterprises* (the “Measures”) in April 2008. Such new technology sectors include electronic information technology, biotechnology and new medical technology, aerospace technology, new material technology, high-tech services, new energy and energy-saving technologies, renewable resources and environmental technologies and the application of new technologies to enhance traditional industries. In accordance with the Measures, our Company received the High and New Technology Enterprises Certificate (the “Technology Tax Certificate”) on November 14, 2008, which was renewed on October 28, 2011. Under these certificates, our Company is entitled to an enterprise income tax rate of 15% for the subsequent three years starting from January 1, 2011. In addition, two of our subsidiaries, ZMJ Hydraulic Control and ZMJ Comprehensive Equipment, received the Technology Tax Certificates in accordance with the Measures on August 8, 2010 and November 8, 2010, respectively, and are entitled to an enterprise income tax rate of 15% for the subsequent three years starting from January 1, 2010. See “Financial Information — Description of Selected Items of Our Statements of Comprehensive Income — Income Tax Expense.” However, we cannot assure you that our Company or subsidiaries will be able to continue to enjoy any further preferential tax treatments after the respective expiration dates, or that we or our subsidiaries will be able to pass the required annual assessment to qualify for preferential tax treatments. If there is any discontinuation or reduction of the preferential tax treatments, our business, results of operations and financial condition could be materially and adversely affected.

We may be affected by increases in labor costs and inflation.

Labor costs in the PRC have risen in recent years as a result of continued economic development and increased PRC government regulations. In addition, since 2009, inflation in the PRC has increased. According to the National Bureau of Statistics of the PRC (the “NBS”), consumer price index in the PRC was -0.7%, 3.3% and 5.4% in 2009, 2010 and 2011, respectively. Since we primarily depend on domestic employees for our operations and local energy supplies for our PRC-based manufacturing facilities, rising labor costs and inflation in the PRC could increase our overall production costs, which may adversely affect our business, results of operations, financial condition and prospects.

The interests of our Controlling Shareholder may conflict with the interests of our other Shareholders.

Immediately upon completion of the Global Offering, assuming the Over-allotment Option is not exercised, our Controlling Shareholder will own approximately 32.14% of our then enlarged issued share capital. Henan SASAC is and is expected to continue to be in a position to control the composition of a majority of the Board, and is our Controlling Shareholder. Subject to our Articles of Association and applicable laws and regulations, Henan SASAC is expected to continue to have the ability to exert influence on our management, policies and business. Our Controlling Shareholder may vote, take other actions or make decisions that conflict with our interests or the interests of our other Shareholders.

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Our growth depends on our ability to continue to attract and retain qualified personnel, including our senior management members and our core technical personnel.

The industry expertise and extensive contributions of our executive Directors and other members of our senior management are essential to our success to date and our continued development. For instance, Mr. Jiao Chengyao, the Chairman of our Company, and Mr. Shao Chunsheng, the Vice Chairman of our Company, each of whom has approximately 27 years of related experience, have been instrumental to our growth and success to date. In addition, most of the members of our senior management have been with us for a substantial period of time. As we continue to expand our operations and grow our business, we will increasingly require these individuals, as well as our executive Directors and senior management, to provide guidance and leadership. If we lose the services of our Chairman, Vice Chairman, or any of our executive Directors and senior management members, and are unable to recruit and retain replacement personnel with equivalent qualifications on a timely basis, the growth of our business could be materially and adversely affected.

In addition, we rely heavily on our employees, which include skilled manufacturing workers, equipment operators, engineers and other technical personnel. Demand for these personnel is currently high and supply is limited, particularly for skilled and experienced engineers and technicians, such as electric welders. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced engineers and technicians in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be materially and adversely affected.

We may be unable to comply with environmental, occupational health and safety and other regulations.

As a coal mining and excavating equipment manufacturer with most of its operations in the PRC, we are required to comply with a variety of national and local regulations with respect to environmental protection and occupational health and safety. In addition, we are also subject to other regulatory requirements in all aspects of our operations, including licensing and certification requirements and procedures for manufacturers, and operating and safety standards. PRC manufacturers are required to obtain certain permits and licenses from various PRC governmental authorities, including pollutant discharge permits for any pollutants discharged during the manufacturing process. We have obtained permits, licenses and certifications for the distribution of our products. These permits and licenses are subject to periodic renewal and/or reassessment by the relevant PRC government authorities. In order to maintain or renew our licenses, certificates, permits or approvals, we are subject to various periodic inspections, examinations, inquiries and audits by the relevant PRC regulatory authorities in accordance with applicable PRC laws and regulations. If we are found to be non-compliant, or if we fail to obtain, maintain or timely renew the necessary licenses, certificates, permits or approvals, our business, results of operations and financial condition may be materially and adversely affected. Such non-compliance could also subject us to administrative penalties, which could result in negative publicity and harm to our brand name and reputation and, in more serious cases, significant fines and criminal liability. In addition, if the interpretation or implementation of existing laws and regulations changes or new regulations come into effect requiring us to obtain additional permits, licenses and certifications that were previously not required to operate our existing businesses, we cannot assure you that we may successfully obtain such permits, licenses or certifications.

RISK FACTORS

Our PRC Legal Advisers and our Directors have confirmed that we complied with all relevant PRC environmental, occupational health and safety and other related regulations and laws in all material aspects during the Track Record Period. However, PRC environmental and occupational health and safety regulations are continuously evolving. While we did not experience any material issues with respect to compliance with environmental, occupational health and safety and other safety regulations during the Track Record Period, we cannot assure you that we will be able to comply with applicable regulations in the future or that future compliance will not entail materially greater expenses. The remedy of any past non-compliance may require us to incur material additional costs. Failure to comply with any of these regulations could result in, among other things, the untimely delivery of goods, delayed receipt of revenue, loss of income, the accrual of substantial costs and fines and the suspension or termination of our contracts and operations. Any limitations or costs incurred as a result of our non-compliance with environmental, occupational health and safety and other regulations may have a material adverse effect on our business, results of operations and financial condition.

Our insurance coverage may be insufficient to cover all risks of loss associated with our business operations.

As of the Latest Practicable Date, we had RMB1.7 billion of insurance coverage, covering losses which may arise from property damage to our facilities and equipment at our headquarters, as well as losses from damage to the facilities, equipment and inventory of ZMJ Shun Li Machinery. We also carry pension, medical, unemployment insurance, occupational injury and maternity insurance for our employees in compliance with the relevant PRC laws and regulations. Although we believe we maintain all necessary insurance coverage mandated under PRC laws and in an amount consistent with customary industry practice, we have not obtained fire, liability and other property insurance for our property, equipment or inventory in most of our subsidiaries. In addition, consistent with what we believe to be the customary industry practice in the PRC, we do not carry any insurance for business interruption or loss of profit arising from accidents at any of our production facilities or other disruptions. Therefore, accidents or natural disasters may result in significant property damage, disruption to our operations and personal injuries, and our insurance coverage may be inadequate to cover such losses. In the case of an uninsured loss or a loss in excess of our insured limits, we could lose all or a portion of our production capacity and our anticipated future revenues from the affected facilities, as well as our ability to fulfill our contractual obligations could be adversely affected which could, in turn, adversely affect our reputation. Moreover, we do not carry key-man insurance, and if we lose the services of any senior management and key personnel, we may not be able to identify suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and adversely affect our prospects. We cannot assure you that our current insurance policies will insure us against all risks and losses that may arise in the future, nor can we assure you that we will enter into new insurance policies or renew our current policies on similar or commercially acceptable terms, if at all. As such, any loss associated with our insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

We may have difficulties in monitoring and implementing internal control measures for our business operations in an effective and timely manner.

Upon completion of the Global Offering, we will be subject to the additional reporting obligations of the Hong Kong Stock Exchange, in addition to existing requirements of the Shanghai Stock Exchange. These obligations include, among others, preparing annual and interim reports of our business, results of operations and financial condition, including financial statements in accordance with IFRS. Our reporting obligations as a publicly-listed Hong Kong company and implementing necessary internal controls and risk management policies may place additional demand on our management and our operational and financial resources. Prior to the Global Offering, the development of our management and internal control measures has largely coincided with the expansion of our business and our A Share Listing. Some of our internal control and coordinating measures relating to our operations may not be implemented in a manner in accordance with IFRS throughout the Group, particularly after the acquisition of new subsidiaries or the establishment of new joint ventures in the PRC. In addition, we conduct our overseas operations in several countries and jurisdictions, and such operations may be governed by different laws, regulations, business practices and conventions. Our unfamiliarity with these foreign laws and regulations, or our inability to effectively manage the activities of our overseas subsidiaries may expose us to legal risks and liabilities. Accordingly, as we integrate the operations of our various subsidiaries and their operations, we will need to continue to enhance our management and internal control mechanisms. However, we cannot assure you that we will be able to successfully implement internal control mechanisms that will sufficiently respond to our expanded scope of operations. We also cannot assure you that our employees will not act in such a way that contravenes our internal control procedures.

Our production and operations may be affected by factors beyond our control.

Our manufacturing facilities are subject to numerous risks beyond our control, including, among others, equipment failures, earthquakes, fires, acts of terrorism, explosions, adverse weather conditions, accidents, power outages and other man-made or natural disasters. In addition, manufacturing processes for heavy machinery are inherently dangerous due to the complexity of the production environment, materials involved and human error in the operation of heavy manufacturing equipment. Although we have established a safety supervision department responsible for ensuring the safety and protection of our employees, we cannot assure you that serious accidents, physical injuries or fatalities will not occur.

Furthermore, members of our work force are currently employed under employment contracts which specify, among other things, each employee's position, responsibilities, remuneration and grounds for termination pursuant to the *PRC Labor Law* and other relevant regulations. However, the *PRC Labor Law* and other relevant regulations are subject to change, and we cannot assure you that any such change would not result in additional costs, restrictions or other requirements that would have an adverse effect on our business or results of operations. Although we believe that our relationships with our employees are good, we could be subject to employment disputes, strikes, work stoppages or other industrial actions.

The occurrence of any of the foregoing could disrupt our production schedules and business operations. Interruptions in production could increase our costs and delay delivery of our products. In addition, reductions in our production capacity could cause us to reduce or delay sales efforts until production capacity is available. Furthermore, any lost sales or increased costs that we may experience during the disruption of our production process and business operations may not be recoverable under our insurance policies, and longer-term business disruptions could result in a loss of customers. If any of the foregoing were to occur, our business, results of operations, financial condition and profitability could be materially and adversely affected.

RISK FACTORS

RISKS RELATING TO OUR INDUSTRY

Demand for coal mining and excavating equipment is driven by the demand and supply conditions and other business and regulatory conditions in the coal mining industry, which exposes us to various risks and uncertainties beyond our control.

Our coal mining and excavating equipment sales are derived primarily from domestic sales to major coal mining companies in the PRC and from international sales to reputable coal mining companies in our major export markets. The demand for coal mining and excavating equipment is driven by the demand and supply conditions and other business and regulatory conditions in the global coal mining industry, including, among other factors:

- general global economic conditions and market demand for coal;
- PRC laws, regulations and government policies;
- laws, policies and regulations of the countries that are major export markets of coal and coal mining and excavating equipment, or countries in which we expect to establish production facilities;
- cyclical fluctuations of the coal mining and excavating equipment industry;
- international treaties and customs;
- the amount and expected cost of developing new reserves;
- environmental protection, regulations and the promotion of renewable and alternative sources of energy;
- licensing and export quota systems; and
- occurrence of mining accidents and safety hazards.

Any adverse changes to any of the above in relation to the coal industry and coal mining equipment industry could have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

We operate in a highly competitive industry.

We operate in a highly competitive industry and our manufacturing and service operations are subject to significant competitive pressures. We compete directly and indirectly with other domestic and international manufacturers of coal mining and excavating equipment. Our primary competitors include ChinaCoal Beijing Coal Mining Machinery Co., Ltd. (“ChinaCoal Beijing Coal Mining Machinery”) and Pingdingshan Coal Mine Machinery Co., Ltd. (“Pingdingshan Coal Mine Machinery”) in our hydraulic roof supports, ChinaCoal Zhangjiakou Coal Mining Machinery Co., Ltd. (“ChinaCoal Zhangjiakou Coal Mining Machinery”) and Tiandi Science & Technology Co., Ltd. (“Tiandi Science & Technology”) in our armored-face conveyor products and International Mining Machinery Holdings Limited (“International Mining Machinery”) and Sany Heavy Equipment International Holdings Company Limited (“Sany Heavy Equipment International”) in our roadheader products. As we continue to implement our international expansions plans, we expect to face increasing competition from international competitors. Our primary international competitors currently include Caterpillar Inc. (“Caterpillar”) and Joy Global Inc. (“Joy Global”) in our hydraulic roof supports and coal excavating equipment products, and Caterpillar, Joy Global and KOPEX S.A. (“KOPEX”) in our armored-face conveyor products.

Some of our competitors may have better or longer operating track records, larger operations, more well-known brand names and industry reputation, more extensive sales networks coverage or greater financial resources than we do. Some of our competitors may also be publicly-listed companies on foreign stock exchanges and, therefore, may have better access to financing from international capital markets than we do. In addition, certain of our international competitors benefit from the familiarity of their home jurisdictions and developed customer relationships with international coal mining companies. Furthermore, our international competitors may also benefit from the perceived notion that products of international manufacturers are better in terms of technology and quality than PRC-manufactured products. Our competitors may also be less leveraged and may be willing to reduce profits for market share and revenues. As a result of the foregoing, our competitors may be more competitive, have better financing and be able to offer lower prices and more favorable payment terms than we can. If we cannot compete effectively with existing or future competitors, our business, results of operations, financial condition and profitability could be materially and adversely affected.

In addition, many of our customers are large mining companies with substantial bargaining power. They require our equipment to meet high standards of reliability, productivity, safety and cost effectiveness. Some of our customers require us to participate in competitive tenders where we must compete on the basis of various factors, including performance guarantees, pricing, lead times, operating costs, productivity, design, reliability, aftermarket service and other commercial factors. Furthermore, some of our customers have developed, or are currently developing internally, coal mining and excavating equipment manufacturing capabilities, and are seeking to expand into the high-end coal mining and excavating equipment market. The development of coal mining and excavating equipment produced by our customers could increase competition within our industry and also result in reduced sales to, and revenue generated from, that particular customer.

RISK FACTORS

The coal mining industry may be affected by the development of alternative energy and climate change, which would affect the coal mining equipment industry.

A portion of our customers supply coal used as fuel in the PRC thermal power generation industry and, as such, the coal mining industry and, to an extent, the coal mining equipment industry in which we operate, are affected by demand and growth of the thermal power industry in the PRC which, in turn, is affected by the development of alternative energy, climate change and global environmental factors. If the development of alternative energy technologies reduces the demand for coal in electricity generation processes, then demand for coal may decrease, which could materially and adversely affect the business of our customers and their demand for our products.

In addition, coal combustion generates significant greenhouse gas and other pollutants, and the effects of climate change resulting in global warming and increased pollution levels may provide incentives for governments to promote or invest in “green” energy technologies such as wind turbines, biomass power plants and solar-powered systems, or to reduce their consumption of conventional energy sources such as coal. While the majority of global energy consumption is from conventional energy sources such as coal, alternative energy industries are rapidly developing and are gradually gaining widespread acceptance. In particular, pursuant to the *Twelfth Five-Year Plan* published in 2011, the PRC government plans to encourage the development of alternative energy, such as solar energy, biomass energy and geothermal energy, in the next few years. As such, alternative energy industries may rapidly develop and gradually gain PRC and worldwide mainstream acceptance. If alternative energy technology develops and proves suitable for wide commercial application in the PRC and overseas markets, demand for conventional energy sources, such as coal, could gradually be reduced, which could have a material adverse effect on the coal mining and coal mining equipment industries. Consequently, such developments would also materially and adversely affect our business, results of operations and financial condition.

We may be affected by changes to industry standards.

Consistent delivery of high quality products has been and will continue to be critical to our success. We have implemented a quality control system to ensure that our products meet all relevant national standards and customers’ specifications, including standards relating to safety and technological requirements. SACMS is responsible for establishing industry standards and safety requirements for coal mining and excavating equipment in the PRC. As of the Latest Practicable Date, all of our products conform with the relevant industry standards for coal mining and excavating equipment. For example, for the production of hydraulic roof supports with high reliability, we comply with the PRC GB25974.1-2010 national standard. For mining equipment that we export, we comply with local and international standards, such as the GOST certification in Russia and DGMS approval in India. However, we cannot assure you that our current and newly developed products will continue to comply with changing domestic and international industry standards or safety requirements. If we do not comply with these standards or requirements, our business, results of operations and financial condition may be adversely affected.

RISK FACTORS

We may be affected by the consolidation of the PRC coal mining industry.

In order to enhance coal mining safety, efficiency of coal exploration, and environmental protection, the PRC government has taken initiatives to consolidate the coal mining industry. The *Twelfth Five-Year Plan for the Coal Industry Development*, issued in November 2011, encourages the consolidation of the coal mining industry through mergers and restructuring with the ultimate goal of establishing ten large-scale mining enterprises each with an annual production capacity of 100 million tonnes of coal, and ten large-scale mining enterprises each with an annual production capacity of 50 million tonnes of coal by 2015. These large enterprises are expected to have an aggregate output of over 60% of the total national coal mining output each year. In addition, pursuant to the *Coal Industry Policy* published by the NDRC on November 23, 2007, the PRC government encourages the development of large-scale mining enterprises by way of mergers as well as the restructuring of medium-sized and small-sized coal mines in the PRC. As a result of these measures to encourage PRC coal mining industry consolidation, certain large-scale mining enterprise customers, such as Shenhua Group, may have increased bargaining power when negotiating the terms of sales contracts with us, which may result in less favorable terms for us. In addition, a number of large-scale mining companies have started to expand their business lines to include the manufacture of coal mining and excavating equipment. If we are unable to adequately and timely respond to these industry changes, or fail to compete effectively with other suppliers of coal mining and excavating equipment to the large-scale coal mining operators, our business, results of operations, financial condition and prospects may be materially and adversely affected.

RISKS RELATING TO THE PRC

We may be affected by changes to the PRC economic, political and social conditions and policies adopted by the PRC government.

We are based in the PRC, and substantially all of our assets are located within, and a significant portion of our revenue is generated in, the PRC. Therefore, our business, results of operations and financial condition are subject to a number of risks relating to conducting business in the PRC, and will be affected to a significant extent by economic conditions, political and legal developments and government policies in the PRC. Although the PRC's economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, the PRC government still exercises significant control over the economic growth of the PRC through allocating resources, controlling foreign exchange and interest rates, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented economic reform measures emphasizing the use of market forces to facilitate the economic development. These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the PRC. As a result, some of these measures may benefit the overall PRC economy, but may also have a neutral or even negative effect on the coal mining equipment industry and, consequently, our business, results of operations and financial condition.

Additionally, an economic downturn in the PRC may reduce the amount of capital available to the coal industry and result in decreased demand for our products. A substantial majority of our revenue during the Track Record Period was attributable to sales within the PRC. As such, our future success is substantially dependent on the economic conditions in the PRC. Any significant downturn in market conditions, particularly in the PRC and global coal markets, may materially and adversely affect our business, results of operations and financial condition.

RISK FACTORS

We are a PRC company and our A Shares are listed on the Shanghai Stock Exchange and, as a result, we are subject to the relevant PRC rules and regulations.

As a PRC company with A Shares listed on the Shanghai Stock Exchange, we are subject to PRC rules and regulations, especially those issued by the CSRC and the Shanghai Stock Exchange. As it has done so in the past, in accordance with the evolving nature of the capital markets in the PRC, the CSRC and the Shanghai Stock Exchange may revise their existing rules and regulations, or adopt new rules and regulations in the future. For example, in view of substantial amendments to the PRC Company Law and the PRC Securities Law that came into effect on January 1, 2006, the CSRC revised the *Guidelines for the Articles of Association of Listed Companies* (the “AOA Guidelines”) on March 16, 2006, which provides that the Mandatory Provisions are still applicable to companies that issue foreign investment shares listed on the overseas stock exchanges, such as the Hong Kong Stock Exchange, and such companies are required to amend their articles of association by reference to the AOA Guidelines. Although the 2006 revision of the AOA Guidelines did not affect the applicability of the Mandatory Provisions for companies dual-listed on both domestic stock exchanges and overseas stock exchanges, we cannot assure you that any future revision of the current rules and regulations or the adoption of new rules and regulations by the CSRC and/or the Shanghai Stock Exchange will not have a material adverse effect on the rights of holders of H Shares.

Because we will be listed in Hong Kong, we are subject to the Special Regulations and the Mandatory Provisions, which impose particular standards of conduct and disclosure on us, our Directors and our Controlling Shareholder. In addition, we may be subject to various new regulations or policies relating to accounting standards or financial reporting, which may be issued by the IASB, or other relevant authorities in Hong Kong and China from time to time. Any changes in our accounting policies and estimates due to the above or otherwise may have a significant impact on the reporting of our financial statements, including our reported profit and shareholders’ equity, and we may be required to adjust or restate our financial statements.

We may be affected by PRC government control over the conversion of foreign exchange.

Currently, the RMB is not a freely convertible currency, and conversion and remittance of the RMB to foreign currencies is subject to PRC foreign exchange regulations. Under existing foreign exchange regulations, following completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. We cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, under the current foreign exchange control system, we cannot guarantee that we will be able to obtain sufficient foreign currency to pay dividends to shareholders or to satisfy any other foreign exchange requirements in the future. These limitations could adversely affect our capital expenditure plans and, consequently, our business, results of operations and financial condition.

RISK FACTORS

We face foreign exchange and conversion risks, and may be affected by the fluctuation of the value of the RMB.

As our operations are primarily conducted in the PRC and a majority of our revenue is denominated in RMB, fluctuations in the RMB exchange rate against other currencies did not have a material impact on our results of operations and financial condition during the Track Record Period. However, in line with our business expansion plan, we are exposed to foreign exchange risks because we generate revenues in foreign currencies from sales of our products, while the relevant cost and expenses are denominated in RMB. In addition, the exchange rates between RMB and foreign currencies for our export sales at the time of entry into the sales contract may be substantially different from those at the time when our products are delivered and payment for goods is received. Should the exchange rate of the RMB against the relevant foreign currencies increase substantially, our profit from certain export sales may be eroded. Following the continued development of our overseas operations, our foreign exchange assets may further increase. In particular, we plan to convert a majority of the proceeds denominated in Hong Kong dollars from the Global Offering into Russian rubles, Indian rupees, euros, US dollars or other foreign currencies to establish overseas manufacturing facilities and expand our international sales and service network. The foreign exchange rate of the Hong Kong dollars against an applicable foreign currency at the time we receive the proceeds may be substantially different from the time when we use or invest the proceeds. Furthermore, the conversion of foreign currencies in each overseas market into which we intend to expand will vary according to the time required to secure necessary government approvals, permits and licenses, as well as construction schedules, which are subject to factors beyond our control. Any material fluctuations of the relevant foreign exchange rates may result in increased capital expenditures and reduced gross profits and profit margins from our overseas manufacturing operations.

The value of the RMB steadily appreciated after the PRC government changed its policy of pegging the value of the RMB to the US dollar in 2005. If the PRC government decides to adopt a more flexible currency policy in the future, the RMB may further appreciate, which may cause our export prices of our products to increase and reduce our global competitiveness. On the other hand, if the exchange rate of the RMB against other related currencies were to depreciate, the price of our imported parts, components and equipment when converted into RMB may increase, which may have a material and adverse effect on our business and results of operations. In addition, if we decide to convert our RMB amounts into foreign currency for the purposes of making payments to overseas suppliers or dividends payments on our ordinary Shares, a depreciation of the RMB could reduce the foreign currency equivalent amounts of the RMB we convert, which may materially and adversely affect our results of operations and financial condition.

Moreover, we will need to convert part of the proceeds denominated in foreign currencies from the Global Offering into RMB. The appreciation of the RMB against the Hong Kong dollar could reduce the amount of RMB that would be available for our use upon conversion of such proceeds to RMB. The change in the value of the RMB against other currencies is affected by changes in the PRC's political and economic conditions, among other factors. We cannot predict how the RMB will fluctuate in the future. The fluctuation in the exchange rate between the RMB and other currencies may have a material adverse effect on our business, results of operations and financial condition, and thus your investment.

While we currently do not have a foreign currency hedging policy, we have entered into and may continue to enter into foreign exchange swap agreements and currency forward contracts to manage our exposure to foreign currency exchange risk. As we expand our international operations, we will continue to review our risk profiles. We intend to utilize forward currency contracts and establish specific hedging

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policies to manage foreign currency risks associated with our international expansion after we receive the net proceeds from the Global Offering and before we establish our overseas manufacturing and related facilities. However, the availability and effectiveness of these transactions and our internal review processes may be limited and we may not be able to successfully hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on our results of operations and financial condition.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law and our Articles of Association, we may only pay dividends out of our distributable profits. Distributable profits are our net profits as determined in accordance with PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year will be retained and available for distribution in subsequent years.

Moreover, because distributable profits are calculated differently under PRC GAAP from those under IFRS, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries for us to pay dividends. Any failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flows and our ability to make dividend distributions to our shareholders in the future, including in those periods for which our financial statements indicate that our operations have been profitable.

Holders of H Shares may be subject to PRC taxation.

Under PRC tax laws, rules and regulations, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of the H Shares.

According to the *Circular on Issues Concerning Taxation and Administration of Individual Income Tax*, issued by the SAT and effective on June 28, 2011, which superseded the *Guo Shui Fa [1993] No.45* (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知), we are required to withhold PRC individual income tax at a rate of 20% from any dividend payments that we may declare for non-PRC resident individuals, unless there is an applicable double taxation treaty. Generally, a convenient tax rate of 10% will apply to the dividends paid by our Company to foreign individuals without application according to the applicable treaties. When a tax rate of 10% is not applicable, our Company will: (i) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%, (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, or (iii) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

For non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishment or premises, under the PRC's EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a rate of

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20%. In accordance with the *Notice of the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to Shareholders which are Overseas Non-resident Enterprises* (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by the SAT and effective from November 6, 2008, such tax rate has been reduced to 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

As the PRC's EIT Law came into effect on January 1, 2008 and its implementation rules are relatively new, there remains significant uncertainty as to their interpretation and application by the PRC's tax authorities, including the taxation of capital gains by non-PRC resident enterprises, individual income tax on dividends to non-PRC resident individual holders of H Shares and on gains realized on the sale or disposition of H Shares. The PRC's tax laws, rules and regulations may also change. As such, any change to applicable tax laws, rules and regulations, and the interpretation and application of such laws, rules and regulations, may materially affect the value of your investment in our H Shares.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.

Unlike common law systems, the legal system in the PRC is a civil law system based on written statutes and in which prior court decisions have limited precedential value. The laws, rules and regulations regarding H Share companies are relatively new and the PRC legal system continues to rapidly evolve, the interpretation and enforcement of these laws and regulations are not always uniform and may involve significant uncertainties, which may limit protections available to us and our Shareholders. These uncertainties may impede our ability to enforce the contracts we have entered into with our customers, suppliers and business partners which could materially adversely affect our business and results of operations. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws, or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

It may be difficult to effect service of process on, or to enforce any judgments obtained outside the PRC against us, our Directors, or senior management members who live inside the PRC.

The legal framework to which our Company is subject is materially different from the Companies Ordinance or corporate law in the United States and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject to are also relatively undeveloped and untested. Although, according to the PRC Company Law that became effective from January 1, 2006, shareholders may commence a derivative action against the directors, supervisors, officers or any third-party on behalf of a company under certain circumstances, to the best of our knowledge, the courts in the PRC have not published any case report of a shareholders' derivative action under the PRC Company Law.

In addition, although we will be subject to the Hong Kong Listing Rules and Takeovers Code, upon the listing of the H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of any violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The Takeovers Code does not have the force of law and only provide standards of acceptable commercial conduct for takeovers, merger transactions and share repurchases in Hong Kong.

RISK FACTORS

On July 14, 2006, the Supreme People's Court of the PRC and the Hong Kong Government signed an *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned*. Under such arrangement, where any designated People's Court of the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective from August 1, 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Our Articles of Association and the Hong Kong Listing Rules provide that most disputes between holders of H Shares and our Company, our Directors, Supervisors or officers arising out of the Articles of Association or related laws and regulations concerning our Company's affairs, such as transfer of our H Shares, are to be resolved through arbitration. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards. This arrangement, made in accordance with the spirit of the *New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards*, was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective from February 1, 2000. Under the arrangement, awards that are made by the PRC arbitral authorities pursuant to the *Arbitration Law* of the PRC can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities under the *Arbitration Ordinance* of Hong Kong are also enforceable in the PRC. However, so far as we are aware, no action has been brought in the PRC by a holder of H Shares to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favor of a holder of H Shares. Accordingly, we are unable to predict the outcome of any such action.

The PRC is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with foreign countries such as the United States, the United Kingdom and Japan, and therefore enforcement in the PRC of judgments of a court in these jurisdictions may be difficult or impossible.

Any recurrence of natural disasters or severe contagious diseases in the PRC may adversely affect us.

Our products are manufactured and assembled at our facilities located in the PRC. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, construction projects and livelihood of the people of the PRC. Material damage to, or the loss of, the facilities due to fire, severe weather, flood, earthquake, or other acts of God or cause may not be adequately covered by proceeds of our insurance coverage and could materially and adversely affect our business and operating results. Acts of war and terrorist attacks may cause damage or disruption to our business, our employees and our markets, any of which could adversely impact our business and operating results.

RISK FACTORS

Any future outbreaks of contagious diseases, including avian influenza and severe acute respiratory syndrome, or SARS, may materially and adversely affect our business and results of operations. There have been reports in the past of outbreaks of a highly pathogenic avian influenza caused by H5N1 virus in certain regions of Asia and Africa since 2004. The World Health Organization and other agencies have issued and may continue to issue warnings on a potential avian influenza pandemic if there is sustained human-to-human transmission. Furthermore, the World Health Organization in April 2009 raised its pandemic alert level in response to an outbreak of influenza A caused by the H1N1 virus that originated in Mexico, and resulted in a number of confirmed cases worldwide. An outbreak of avian influenza in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, a recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in the first half of 2003, which affected the PRC, Hong Kong and certain other areas, could have similar adverse effects. We cannot assure you that any future outbreak of avian influenza, SARS, influenza A (H1N1) or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, influenza A (H1N1) or other epidemics, will not seriously interrupt our operations or those of our suppliers or customers, which may have a material adverse effect on our business, results of operations and financial condition.

RISKS RELATING TO OUR SHARES AND THE GLOBAL OFFERING

There has been no prior public market for our H Shares, and the liquidity, market price and trading volume of our H Shares may be volatile.

Prior to the Global Offering, our H Shares were not offered to the public in Hong Kong. The Offer Price will be determined by the Joint Global Coordinators, on behalf of the Underwriters, and us. The Offer Price may not be indicative of the price at which our H Shares will trade following the completion of the Global Offering. We also cannot assure you that there will be an active and liquid public trading market for our H Shares or, if it exists, that it can be sustained following the completion of the Global Offering, or that the market price at which our H Shares will trade will not fall below the Offer Price. Furthermore, the price and trading volume of our H Shares may be volatile, and are subject to the following factors:

- actual or anticipated fluctuations in our revenue and results of operations;
- announcements of competitive developments, acquisitions or strategic alliances in the industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation, regulatory investigations or other administrative actions;
- general market conditions, macroeconomic factors or other developments affecting us or our industry;
- fluctuations in the price and trading volume of the A Shares on the Shanghai Stock Exchange;
- any recruitment or loss of our key management and other personnel; and
- release of lock-up or other transfer restrictions on our outstanding H Shares, or the sale or perceived sale of additional H Shares by us or our shareholders.

RISK FACTORS

In addition, the H shares of other PRC issuers listed on the Hong Kong Stock Exchange have experienced price volatility in the past and it is possible that our H Shares could be subject to changes in price that are not directly related to our performance and results of operations.

The characteristics of the A share and H share markets may differ.

Our A Shares have been listed and traded on the Shanghai Stock Exchange since August 3, 2010. Without approval(s) from the relevant regulatory authorities, our A Shares and H Shares are neither interchangeable nor fungible, and there is no trading or settlement between the A share and the H share markets. The A share and H share markets have different trading characteristics (including trading volume and liquidity) and investor bases, including different levels of individual and institutional participation. As a result of these differences, the trading price of our A Shares and H Shares may not be the same. Moreover, fluctuations in our A Share price may affect our H Share price, and vice versa. Because of the different characteristics of the A share and H share markets, the changes in the prices of our A Shares may not be indicative of the price trend of our H Shares' performance. Therefore, you should not place undue reliance on the recent trading history of our A Shares when evaluating the Global Offering.

Purchasers of our H Shares will experience immediate dilution and may experience further dilution if we issue additional H Shares in the future.

The Offer Price of the H Shares is higher than our net tangible assets value per H Share immediately prior to the Global Offering. Therefore, purchasers of the H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value of HK\$6.60 per H Share, based on the maximum Offer Price of HK\$12.28. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our H Shares may experience dilution in the net tangible assets value per H Share if we issue additional H Shares in the future at a price which is lower than our net tangible assets value per H Share.

Our historical dividends may not be indicative of our future dividends.

During the years ended December 31, 2009 and 2010, we declared cash dividends in the aggregate amounts of approximately RMB16.2 million (being our 2008 final dividend) and of RMB84.0 million (being our 2009 final dividend), respectively. For further details regarding these dividends, please refer to note 17 to the accountants' report included as Appendix I to this prospectus. On September 28, 2011, we convened our first 2011 extraordinary general meeting and approved the proposal for distribution of accumulated profits prior to the Global Offering, pursuant to which we declared an interim cash dividend of RMB0.45 per share (equivalent to an aggregate amount of RMB315.0 million). On February 28, 2012, we convened our 2011 annual general meeting. At that meeting, we approved the proposal for distribution of profits in respect of the financial year of 2011, and we declared a cash dividend being our 2011 final dividend of RMB0.12 per share (equivalent to an aggregate amount of RMB84.0 million on the basis of the Company's then total issued share capital comprising 700,000,000 A Shares) for distribution to holders of our A Shares registered as of March 12, 2012.

RISK FACTORS

Although we have paid dividends in the past, we cannot assure you that our dividend policy will not change, and potential investors should be aware that the amount of dividends that were paid in the past should not be used as a reference or basis upon which future dividends will be determined. Whether dividends will be distributed and the amount to be distributed will depend on factors such as our profitability, financial condition, business development requirements, legal and contractual restrictions, future prospects and cash requirements. Any declaration and payment, as well as the amount of dividends, will be subject to our Articles of Association, contractual restrictions and PRC laws, including the approval(s) of our Shareholders and/or our Directors. For PRC law relating to the payment of dividends, please refer to the risk factor entitled “— Payment of dividends is subject to restrictions under the PRC law.” As a result of the foregoing, we cannot assure you that we will make any dividend payments on our Shares in the future with reference to our historical dividends. See “Financial Information — Dividend Policy.”

Future disposals or perceived disposals of a substantial number of our H Shares, A Shares or other securities relating to our H Shares or A Shares in the public market, including any future offering, or a decline in the market price of our A Shares could materially and adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future, and our Shareholders may experience dilution in their shareholdings.

Future disposals of a substantial number of our H Shares, A Shares or other securities relating to our H Shares or A Shares in the public market, or the possibility of such disposals, or a decline in the market price of our A Shares, could negatively affect the market price of our H Shares and our ability to raise equity capital in the future at a time or price that we consider appropriate. Our Shareholders may experience dilution in their shareholdings if we issue additional securities in the future. Shares held by Henan SASAC are currently, and will from the date on which trading in our H Shares commences on the Hong Kong Stock Exchange be, subject to certain lock-up restrictions, details of which are set out in the sections headed “Share Capital” and “Underwriting” in this prospectus. We cannot assure you that Henan SASAC or any other Shareholder will not dispose of any Shares they now own or may own in the future.

Under our Articles of Association, subject to approval(s) of the securities regulatory authorities of the PRC, holders of our domestic Shares may transfer their domestic Shares to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange must also comply with the regulatory procedures, rules and requirements of such stock exchange. As a result, subject to receiving the requisite approvals and upon the expiration of the applicable restrictions on share transfers (if any), holders of our A Shares may transfer such Shares to overseas investors, which may then trade on the Hong Kong Stock Exchange as H Shares. Further details are set out in the section headed “Share Capital — Transfer of Our A Shares for Listing and Trading on the Hong Kong Stock Exchange as H Shares” in this prospectus. If this occurs, it could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

RISK FACTORS

We may invest or spend the proceeds of the Global Offering in ways with which you may not agree.

We have broad discretion in the way we invest or spend the proceeds of the Global Offering. We intend to use a portion of the net proceeds from the Global Offering for general corporate purposes, which may include future acquisitions, capital expenditures and working capital. However, we do not have definite and specific commitments for any acquisitions and investments and our current intention may not materialize. You may disagree with the way we invest or spend the proceeds from the Global Offering, which could yield an unfavorable result for Shareholders. Because our use of offering proceeds is determined by a variety of factors, the actual uses of the offering proceeds may vary substantially from our current intention to use net proceeds from the Global Offering as described in the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

The market price of our H Shares when trading begins could be lower than the Offer Price as a result of, among other things, adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

The Offer Price will be determined on the Price Determination Date. However, the Offer Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be the fifth Business Day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Offer Shares during that period. Accordingly, holders of the Offer Shares are subject to the risk that the price of the Offer Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Information in this document regarding future plans reflects current intention and is subject to change.

Whether we ultimately implement the business plans described in this prospectus, and whether we achieve the objectives described in this prospectus, will depend on a number of factors including, but not limited to:

- the availability and cost of capital and financing;
- current and projected coal prices;
- coal and coal mining equipment markets;
- regulatory, economic and other related conditions of the PRC, Russia, India, Turkey, the United States, Germany and other countries in which our future projects are expected to be situated;
- costs and availability of land and materials to establish manufacturing facilities, sales and service networks, research and development platforms and related facilities;
- costs and availability of raw materials, supplies, equipment and personnel for our operations;
- success or failure of similar developmental activities in the PRC, Russia, India, Turkey, the United States, Germany and other countries in which our future projects are expected to be situated;

RISK FACTORS

- changes in estimates of project completion costs; and
- all other relevant factors.

We will continue to gather information about our projects, and it is possible that additional information will cause us to alter our schedule or determine that a project should not be pursued at all. Accordingly, our plans and objectives may change from those described in this prospectus.

Certain statistics, industry data and other information related to the economy and the coal mining equipment industry contained in this prospectus is derived from official government sources and may not be reliable.

Statistics, industry data and other information relating to the economy and the industry contained in this prospectus have been derived from various official government publications with information provided by the PRC government and other government agencies. We cannot assure you or make any representation as to the accuracy or completeness of such information. Neither we nor any of our respective affiliates or advisers, nor the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters or any of their respective directors, employees, agents, representatives, affiliates or advisers, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economy and the industry derived from official government sources may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources. In all cases, you should give careful consideration as to how much weight or importance you should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

You should not place any reliance on any information released by us in connection with our listed A Shares on the Shanghai Stock Exchange or other media outlets.

Following the listing of our A Shares on the Shanghai Stock Exchange, we have been subject to periodic reporting and other information disclosure requirements in the PRC. As a result, from time to time we publicly release information relating to us on the Shanghai Stock Exchange or other media outlets designated by the Shanghai Stock Exchange. However, the information announced by us in connection with our A Shares is based on regulatory requirements of the securities regulatory authorities and market practices in the PRC, which are different from those applicable to the Global Offering and the Listing. Such information does not and will not form part of this prospectus. As a result, prospective investors in our H Shares are reminded that, in making their investment decisions as to whether to purchase our H Shares, they should rely only on the financial, operating and other information included in this prospectus and the Application Forms. By applying to subscribe for our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong with respect to the Global Offering and the Listing.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules:

CONTINUING CONNECTED TRANSACTIONS

Members of our Group have entered into, and may after the Listing enter into, certain transactions, which will constitute non-exempt continuing connected transactions of the Company under the Hong Kong Listing Rules upon the Listing. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the announcement and independent Shareholders' approval requirements in respect of such non-exempt continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The details of such waiver are set out in the section headed "Connected Transactions" in this prospectus.

MANAGEMENT PRESENCE

According to Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, an issuer must have sufficient management presence in Hong Kong and at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Since we have our headquarters and principal operations in the PRC, we do not, and in the foreseeable future will not, have sufficient management presence in Hong Kong in strict compliance with the normal requirements under Rules 8.12 and 19A.15 of the Hong Kong Listing Rules. Currently, none of the executive Directors is a Hong Kong resident. Mr. Jiao Chengyao, Mr. Shao Chunsheng, Mr. Xiang Jiayu, Mr. Fu Zugang and Mr. Wang Xinying are all PRC residents and have to spend most of their time looking after the principal businesses and operations of our Group in the PRC. Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

Our Company has made arrangements to maintain regular and effective communication between the Hong Kong Stock Exchange and us as follows:

- Our Company has appointed Mr. Jiao Chengyao, Chairman of the Board, and Mr. Bao Xueliang, the Company Secretary, as the authorized representatives in compliance with Rule 3.05 of the Hong Kong Listing Rules. Mr. Jiao and Mr. Bao will serve as the principal channel of communication with the Hong Kong Stock Exchange on behalf of our Company and will be readily contactable by telephone, fax and email and if required, will be able to meet with the Hong Kong Stock Exchange to discuss any matter in relation to our Company.
- Mr. Jiao and Mr. Bao or their alternates to be appointed under Rule 3.06(2) of the Hong Kong Listing Rules have provided or will provide to the Hong Kong Stock Exchange their home and office telephone numbers and fax numbers, and shall therefore be readily contactable by the Hong Kong Stock Exchange as contemplated under Rule 19A.07 of the Hong Kong Listing Rules.
- Both Mr. Jiao and Mr. Bao have means of contacting all other Directors (including the independent non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact any Director on any matter.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

- Each of the Directors and the Company Secretary has provided to the Hong Kong Stock Exchange his office phone number, mobile phone number, fax number and email address.
- Each of our Directors who is not ordinarily resident in Hong Kong possesses or will be able to apply for valid travel documents to visit Hong Kong and should be able to meet with the Hong Kong Stock Exchange within a reasonable period of time.
- In accordance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules, our Company has agreed to appoint Haitong International Capital Limited as our Company's compliance adviser which will serve as a further channel of communication with the Hong Kong Stock Exchange for the period from the Listing Date to the date on which our Company has sent the annual report to the Shareholders in respect of the first full financial year commencing immediately after the Listing. The Company will ensure compliance with the requirements under Rules 19A.05 and 19A.06 of the Hong Kong Listing Rules applicable to and required of it, and the compliance adviser will have access at all times to our Company's authorized representatives, the other Directors and officers of our Company to ensure that they are in a position to provide prompt responses to any queries or requests from the Hong Kong Stock Exchange in respect of our Company.
- In accordance with Rule 19A.06(4) of the Hong Kong Listing Rules, it is expected that the compliance adviser will also provide the Hong Kong Stock Exchange with the names, home and office telephone numbers and fax numbers of at least one of its officers and an alternate who will act as its contact with our Company and the Hong Kong Stock Exchange.

COMPANY SECRETARY

According to Rules 3.28 and 8.17 of the Hong Kong Listing Rules, the issuer must appoint as its company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary, and the Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a Member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the *Legal Practitioners Ordinance*); and
- (c) a certified public accountant (as defined in the *Professional Accountants Ordinance*).

In assessing "relevant experience" of the company secretary as referred to in Rule 3.28 of the Hong Kong Listing Rules, the Hong Kong Stock Exchange will consider the individual's:

- (i) length of employment with the issuer and other issuers and the roles he played;
- (ii) familiarity with the Hong Kong Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance and the Takeovers Code;

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

- (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules; and
- (iv) professional qualifications in other jurisdictions.

Also, according to Rule 3.29 of the Hong Kong Listing Rules, in each financial year an issuer's company secretary must take no less than 15 hours of relevant professional training.

We have appointed Mr. Bao Xueliang as our Company Secretary. Mr. Bao Xueliang has substantial experience in handling corporate, legal and regulatory compliance and administrative matters relating to our Company. He is the secretary to the Board. He is responsible for the custody of relevant documents and handling information relating to our Shareholders. He joined our Group in 2007 and has a thorough understanding of the operations of the Board and our Company. Mr. Bao however does not possess the specified qualifications strictly required by Rule 3.28 of the Hong Kong Listing Rules and accordingly our Company has made the following arrangements:

- Our Company has appointed Ms. Chan Yin Wah, who meets the requirements under Rule 3.28 of the Hong Kong Listing Rules, as an assistant to the Company Secretary to work closely with Mr. Bao and to provide assistance to Mr. Bao to discharge his duties and responsibilities as company secretary such as organizing meetings of our Board and meetings of holders of the H Shares and in gaining the relevant experience as required under Rule 3.28 of the Hong Kong Listing Rules. Ms. Chan is a Member of The Hong Kong Institute of Chartered Secretaries. The biographical details of Mr. Bao and Ms. Chan are set out in the section headed "Directors, Supervisors and Senior Management" of this prospectus.
- Ms. Chan will communicate regularly with Mr. Bao on matters relating to corporate governance, the Hong Kong Listing Rules as well as other laws and regulations which are relevant to us and our other affairs.
- Ms. Chan will inform Mr. Bao on a timely basis of amendments or supplements to the Hong Kong Listing Rules and any new or amended laws, regulations or codes applicable to our Company, and provide Mr. Bao with relevant training upon our Company's request after the Listing.
- Ms. Chan has been appointed as an assistant to the Company Secretary for an initial period of three years from the date of Listing. Upon expiry of the three-year period, a further evaluation of the qualifications and experience of Mr. Bao and the need for on-going assistance will be made.

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The waiver will be revoked immediately when Ms. Chan ceases to provide assistance to Mr. Bao during the three-year period from the Listing Date. At the end of that three-year period, our Company will liaise with the Hong Kong Stock Exchange to re-visit the situation, with the expectation that we could then demonstrate to the Hong Kong Stock Exchange's satisfaction that Mr. Bao, having had the benefit of the assistance of Ms. Chan for three years, would have acquired the relevant experience within the meaning of the Notes to Rule 3.28 of the Hong Kong Listing Rules such that a further waiver would not be necessary.

WAIVER AND CONSENT FROM THE HONG KONG STOCK EXCHANGE REGARDING THE REQUIREMENTS UNDER RULE 10.04 AND PARAGRAPH 5(2) OF APPENDIX 6 TO THE HONG KONG LISTING RULES

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought if, among other conditions, no securities will be offered to it on a preferential basis and no preferential treatment will be given to it in the allocation of the securities. Paragraph 5(2) of appendix 6 to the Hong Kong Listing Rules provides, among other things, that without the prior written consent of the Hong Kong Stock Exchange, no allocations will be permitted to existing shareholders or their Associates, whether in their own names or through nominees unless the relevant conditions are fulfilled.

Prior to the Listing, our Company's share capital comprises entirely A Shares listed on the Shanghai Stock Exchange (stock code: 601717). Our A Shares are widely held. Other than our Controlling Shareholder, NSSF and Agricultural Bank of China — Zhongyou Core Growth Equity Securities Investment Fund* (中國農業銀行－中郵核心成長股票型證券投資基金), no other single public registered Shareholder held 2% or more of the total issued A Shares as of the Latest Practicable Date.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with, and its consent under, the relevant requirements of Rule 10.04 and paragraph 5(2) of appendix 6 to the Hong Kong Listing Rules so that our Company could allocate H Shares under the International Offering to investors who hold A Shares representing, in each case, less than 2% of our Company's total issued share capital immediately before completion of the Global Offering and their Associates (collectively, the "A Shareholders' Investors") on the grounds that:

- the Global Offering comprises the Hong Kong Public Offering and the International Offering, and the International Underwriters will solicit indications of interest from prospective investors in the book-building phase of the International Offering;
- it is not intended that any of our connected persons would participate directly or indirectly in the International Offering, or otherwise subscribe for or purchase any H Shares under the Global Offering;
- the A Shareholders' Investors are not, and would not be, our connected persons immediately prior to or after the Global Offering;

WAIVERS FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

- the A Shareholders' Investors have no board representation in our Company;
- the proposed placing of H Shares to such A Shareholders' Investors will be at the same Offer Price;
- the A Shareholders' Investors would be subject to the same book building and allocation process as other investors in the International Offering;
- on the basis of the above circumstances, the A Shareholders' Investors would not be in a position to exert any influence over the allocation process in the International Offering, and no preferential treatment would be given to them in the allocation of H Shares in the International Offering;
- the relevant International Underwriters will manage the allocation under the International Offering tranche so that none of the A Shareholders' Investors, if allocated H Share(s), will become a connected person of our Company. Allocation to these A Shareholders' Investors should therefore not negatively impact our Company's ability to satisfy the public float requirement under Rule 8.08 of the Hong Kong Listing Rules applicable to us; and
- we believe that allocation to the A Shareholders' Investors, if made, will contribute to the success of the Global Offering, and that the participation of these A Shareholders' Investors in the Global Offering will provide stability to the book-building process under the International Offering tranche.

EXPLANATION REGARDING POTENTIAL DEVIATION FROM CODE PROVISION A.1.8 OF THE CORPORATE GOVERNANCE CODE AS SET OUT IN APPENDIX 14 TO THE HONG KONG LISTING RULES

Our Directors are aware that, effective from April 1, 2012, the previous recommended best practice of a listed issuer to arrange appropriate insurance cover in respect of legal actions against its directors has been upgraded to a code provision in the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules. Our Directors are also aware that upon Listing, we are expected to comply with, but may choose to deviate from, such code provision. Any such deviation shall however be carefully considered, and the reasons for such deviation shall be given in the interim report and the annual report in respect of the relevant period.

While we are committed to achieving high standards of corporate governance and to complying with the applicable code provisions as set out in the Corporate Governance Code under the Hong Kong Listing Rules, according to our PRC Legal Advisers, insurance cover in respect of legal actions against our Directors has to be approved by our Shareholders at a general meeting under relevant PRC rules. Therefore, our Directors decide to submit the relevant insurance plans for our Shareholders' approval at our next general meeting, and accordingly, there will be an interim period of time during which we will deviate from code provision A.1.8 of the Corporate Governance Code under the Hong Kong Listing Rules.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Details of the terms of the Global Offering are described in the section headed "Structure of the Global Offering" in this prospectus and on the Application Forms. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Offering is managed by UBS AG, Hong Kong Branch, CITIC Securities Corporate Finance (HK) Limited, J.P. Morgan Securities plc and Deutsche Bank AG, Hong Kong Branch. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about November 28, 2012, subject to determination of the pricing of the Offer Shares. If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (on behalf of the Underwriters) by December 3, 2012, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. For further information relating to the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON THE OFFER AND SALE OF THE OFFER SHARES AND THE USE OF THIS PROSPECTUS

Each person acquiring Hong Kong Offer Shares will be required to confirm, or by his application for Hong Kong Offer Shares will be deemed to confirm, that he is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Hong Kong Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, or any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Application for Listing on the Hong Kong Stock Exchange

Our A Shares are listed on the Shanghai Stock Exchange. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares. Dealings in our H Shares on the Hong Kong Stock Exchange are expected to commence on December 5, 2012. The H Shares will be traded on the Hong Kong Stock Exchange in board lots of 200 H Shares each.

Except for the A Shares of our Company that have been listed on the Shanghai Stock Exchange and pending approval from the Hong Kong Stock Exchange for listing of, and permission to deal in, the H Shares, no part of our Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers, agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- (c) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and
- (d) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors and officers whereby such Directors, Supervisors and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

H Share Register and Hong Kong Stamp Duty

All H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our H Share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by us at our current registered office in the PRC.

No stamp duty is payable by applicants in the Global Offering. Dealings in the H Shares registered on our H Share register of members in Hong Kong will be subject to Hong Kong stamp duty. See “Appendix V — Taxation and Foreign Exchange” to this prospectus.

Eligibility for Admission into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our H Shares on the Main Board of the Hong Kong Stock Exchange and we comply with the stock admission requirements of the HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests. All necessary arrangements have been made enabling our H Shares to be admitted into CCASS.

Professional Tax Advice Recommended

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to the Offer Shares.

We, the Joint Global Coordinators, the Joint Sponsors, the Underwriters and any of their respective directors, agents, employees or advisers or any other person or party involved in the Global Offering do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to our H Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Procedure for Application for Hong Kong Offer Shares

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization are set out in the section headed “Structure of the Global Offering” in this prospectus.

EXCHANGE RATES

Solely for your convenience, this prospectus contains translations of certain currency amounts into Hong Kong dollars at specified rates. No representation is made that the currency amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless otherwise stated or in respect of transactions that have occurred at historical exchange rates, all translations of RMB into Hong Kong dollars were made at the rate of RMB0.8120 to HK\$1.00, which was the central parity exchange rate prevailing on November 16, 2012 set by the People’s Bank of China (the “PBOC”) for foreign exchange transactions. All translations of US dollars into Hong Kong dollars were made at the rate of US\$1.00 to HK\$7.7513, which was the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board as of November 9, 2012.

ROUNDING

Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding. Certain amounts and percentage figures included in this prospectus have also been subject to rounding adjustments, or have been rounded to one or two decimal places.

LANGUAGE

Names of any laws and regulations, governmental authorities, departments, facilities, certificates, titles, institutions, natural persons or other entities (including certain of our subsidiaries) which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Jiao Chengyao (焦承堯)	No. 5, Unit 4, Building 58 Court No. 1 Gang Po Road Zhong Yuan District Zhengzhou, Henan Province PRC	Chinese
Mr. Shao Chunsheng (邵春生)	No. 30, Unit 1, Building 12 Court No. 1 Gang Po Road Zhong Yuan District Zhengzhou, Henan Province PRC	Chinese
Mr. Xiang Jiayu (向家雨)	No. 2, Unit 3, Building 44 Court No. 1 Gang Po Road Zhong Yuan District Zhengzhou, Henan Province PRC	Chinese
Mr. Fu Zugang (付祖岡)	No. 419, Unit 1, Building 21 Court No. 2 Gang Po Road Zhong Yuan District Zhengzhou, Henan Province PRC	Chinese
Mr. Wang Xinying (王新瑩)	No. 6, Building 4 Court No. 74 Shi Chang Road Zhong Yuan District Zhengzhou, Henan Province PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Independent Non-Executive Directors		
Mr. Lin Zhijun (林志軍)	Flat G, 27th Floor, Block 11 Royal Ascot Sha Tin, New Territories Hong Kong	Hong Kong
Mr. Li Bin (李斌)	No. 47, Building 1 Court No. 99 Feng Chan Road Jin Shui District Zhengzhou, Henan Province PRC	Chinese
Mr. Gao Guoan (高國安)	No. 57, Building 1 Court No. 18 Jing Ba Road Jin Shui District Zhengzhou, Henan Province PRC	Chinese
Mr. Luo Jiamang (駱家驍)	No. 1658, Block B Xi Qing Building Lian Hui Road No. 101 Haidian District Beijing PRC	Chinese
SUPERVISORS		
Mr. Wang Tiehan (王鐵漢)	No. 36, Building 2 Court No. 50 Hua Yuan Road Jin Shui District Zhengzhou, Henan Province PRC	Chinese
Mr. Xu Yongen (徐永恩)	No. 71, Building 1 Court No. 18 Jing Ba Road Jin Shui District Zhengzhou, Henan Province PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Mr. Ding Hui (丁輝)	No. 4, Unit 2, Building 27 Court No. 3 Gang Po Road Zhong Yuan District Zhengzhou, Henan Province PRC	Chinese
Mr. Lv Yu (呂豫)	No. 1401, Unit 2, 13th Floor Qing Ya Yuan Special Central District Shang Ding Road Zheng Dong New District Zhengzhou, Henan Province PRC	Chinese
Mr. Ni Heping (倪和平)	No. 6, Building 5 Nong Ye Road No. 38 Jin Shui District Zhengzhou, Henan Province PRC	Chinese
Mr. Jia Jingcheng (賈景程)	No. 1, Unit 2, Building 6 Court No. 1 Gang Po Road Zhong Yuan District Zhengzhou, Henan Province PRC	Chinese
Ms. Xu Mingkai (徐明凱)	No. 8, Unit 1 (North) Qian Jin Road No. 19 Zhong Yuan District Zhengzhou, Henan Province PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Sponsors

UBS Securities Hong Kong Limited
42/F, One Exchange Square
8 Connaught Place, Central
Hong Kong

J.P. Morgan Securities (Far East) Limited
28/F, Chater House
8 Connaught Road Central, Central
Hong Kong

Joint Global Coordinators

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

CITIC Securities Corporate Finance (HK) Limited
26/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central, Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Hong Kong

Joint Bookrunners

Hong Kong Public Offering

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

CITIC Securities Corporate Finance (HK) Limited
26/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central, Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Hong Kong

International Offering

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

CITIC Securities Corporate Finance (HK) Limited
26/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Hong Kong

Joint Lead Managers

Hong Kong Public Offering

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

CITIC Securities Corporate Finance (HK) Limited
26/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central, Central
Hong Kong

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Hong Kong

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road, Central
Hong Kong

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

International Offering

UBS AG, Hong Kong Branch
52/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

CITIC Securities Corporate Finance (HK) Limited
26/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Hong Kong

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road, Central
Hong Kong

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisers to the Company

As to Hong Kong and United States laws:

Baker & McKenzie
23rd Floor, One Pacific Place
88 Queensway
Hong Kong

As to PRC law:

Zhong Lun Law Firm
36–37/F, SK Tower
6A Jianguomenwai Avenue
Beijing 100004
PRC

As to Russian Federation law:

Baker & McKenzie
Sadovaya Plaza, 12th Floor
7 Dolgorukovskaya Street
Moscow 127006
Russian Federation

As to India law:

Khaitan & Co.
One Indiabulls Centre, 13th Floor, Tower 1
841 Senapati Bapat Marg
Mumbai 400 013
India

Legal Advisers to the Joint Global Coordinators, Joint Sponsors, Joint Bookrunners, Joint Lead Managers and Underwriters

As to Hong Kong and United States laws:

Clifford Chance
28th Floor, Jardine House
One Connaught Place
Hong Kong

As to PRC law:

Jia Yuan Law Offices
F407–408, Ocean Plaza
158 Fu Xing Men Nei Avenue
Beijing 100031
PRC

Independent Auditors and Reporting Accountants

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Independent Property Valuer and
Consultant**

Jones Lang LaSalle Corporate Appraisal and Advisory
Limited
6th Floor, Three Pacific Place
1 Queen's Road East
Hong Kong

Independent Industry Consultant

Beijing Heading Century Limited Consultancy
1708 Building B, Focus Plaza
19 Financial Street
Beijing 100140
PRC

Receiving Banks

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central
Hong Kong

CORPORATE INFORMATION

Registered Office	No. 105, Huashan Road Zhengzhou, Henan Province PRC
Headquarters	No. 167, 9th Street Econ-Tech Development Zone Zhengzhou, Henan Province PRC
Principal Place of Business in Hong Kong	3907-08, 39/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Company Secretary	Mr. Bao Xueliang
Assistant to Company Secretary	Ms. Chan Yin Wah (<i>HKICS</i>)
Authorized Representatives	Mr. Jiao Chengyao No. 5, Unit 4, Building 58 Court No. 1 Gang Po Road Zhong Yuan District Zhengzhou, Henan Province PRC Mr. Bao Xueliang No. 2-302, Building 2 Water Conservancy Bureau Family Member Courtyard Wen Hua Gong Road Zhengzhou, Henan Province PRC
Compliance Adviser	Haitong International Capital Limited
Strategy Committee	Mr. Jiao Chengyao (<i>Chairman</i>) Mr. Shao Chunsheng Mr. Xiang Jiayu Mr. Luo Jiamang Mr. Wang Xinying
Audit Committee	Mr. Li Bin (<i>Chairman</i>) Mr. Lin Zhijun Mr. Luo Jiamang

CORPORATE INFORMATION

Nomination Committee

Mr. Gao Guoan (*Chairman*)
Mr. Luo Jiamang
Mr. Jiao Chengyao

Remuneration and Assessment Committee

Mr. Luo Jiamang (*Chairman*)
Mr. Shao Chunsheng
Mr. Li Bin

H Share Registrar

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

Company's Website

www.zzmj.com (the contents of this website do not form part of this prospectus)

Principal Bankers

Industrial and Commercial Bank of China
Jianshe Road Branch, Zhengzhou
No. 11 West Jianshe Road
Zhengzhou, Henan Province
PRC

Bank of China
Longxi Branch, Zhengzhou
No. 62 Huaihe Road
Zhengzhou, Henan Province
PRC

INDUSTRY OVERVIEW

Certain information and statistics in this section and elsewhere in this prospectus relating to the coal mining and coal mining and excavating equipment industries are derived from various official and independent third party sources and have been prepared on the basis of information made public by governmental entities and inter-governmental organizations including, among others, the NBS, the SACMS and the NDRC. The information presented in this section and elsewhere in this prospectus from these and other sources represents the most recent information that is currently available from those sources. We believe that the sources of the information in this section and elsewhere in this prospectus are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The Company, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, their respective directors, employees, agents, representatives, affiliates and advisers and all other parties involved in the Global Offering have not independently verified, and make no representation as to, the accuracy of the information from official or other third party sources. Such information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled within or outside the PRC. Accordingly, the official and other third party sources contained or referred to herein may not be accurate and should not be unduly relied on.

COAL INDUSTRY OVERVIEW

Global Coal Industry Overview

Coal has generally been regarded as the world's most abundant and cost-effective resource, with ample global reserves. According to the BP Statistical Review of World Energy June 2012 (the "BP Statistical Review June 2012"), as of the end of 2011, total global proven coal reserves reached 860.9 billion tonnes. Coal reserves are broadly distributed worldwide, with nearly 70 countries possessing minable coal resources. The five countries with the most abundant coal reserves are the United States, Russia, the PRC, Australia and India. The following table sets forth the distribution of total proven coal reserves as of December 31, 2011:

Country	The global proven coal reserves (million tonnes)	Proportion of the global proven coal reserves(%)
United States.....	237,295	27.6%
Russia	157,010	18.2%
PRC	114,500	13.3%
Australia	76,400	8.9%
India.....	60,600	7.0%
Rest of the world	215,133	25.0%
Total	<u>860,938</u>	<u>100.0%</u>

Source: BP Statistical Review of World Energy June 2012

INDUSTRY OVERVIEW

According to the BP Statistical Review June 2012, global proven coal reserves are sufficient to meet 112 years of global production. In contrast, global proven reserves of oil and natural gas are only sufficient to meet 54 years and 64 years of global production, respectively, with approximately 53% of oil and 60% of natural gas concentrated in the Middle East and Russia. As a result, countries without abundant oil and natural gas resources are expected to place increasing emphasis on the mining and usage of coal resources.

Global Coal Consumption

According to the BP Statistical Review June 2012, total global primary energy consumption in 2011 was approximately 12,275 million tonnes of oil equivalent, of which coal accounted for approximately 30.3%, or 3,724 million tonnes of oil equivalent. By comparison, oil and natural gas accounted for approximately 33.1% and 23.7%, respectively, of total global primary energy consumption.

The following table sets forth the distribution of total global energy consumption by energy resource in 2011:

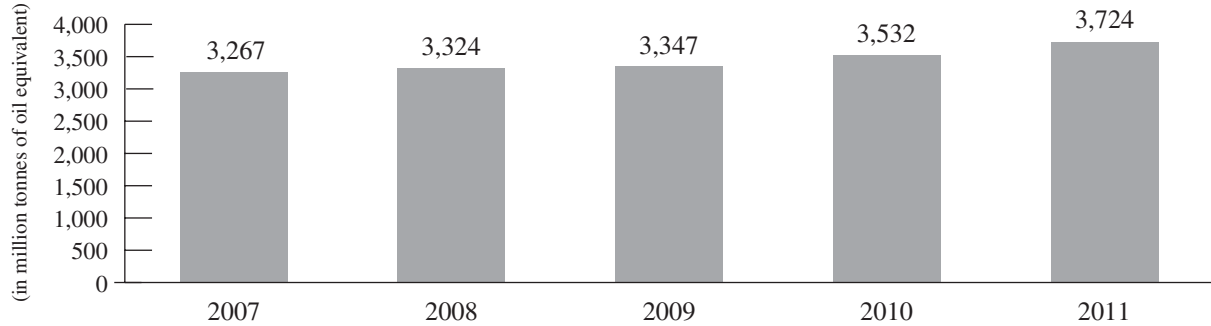
Energy resource	Total global primary energy consumption (in million tonnes of oil equivalent)	Proportion of total global primary energy consumption
Oil.....	4,059	33.1%
Coal	3,724	30.3%
Natural gas.....	2,906	23.7%
Hydroelectricity	792	6.4%
Nuclear energy	599	4.9%
Renewables	195	1.6%
Total	<u>12,275</u>	<u>100.0%</u>

Source: BP Statistical Review of World Energy June 2012

According to the BP Statistical Review June 2012, global coal consumption increased from approximately 3,267 million tonnes of oil equivalent in 2007 to approximately 3,724 million tonnes of oil equivalent in 2011, representing a CAGR of approximately 3.3%.

INDUSTRY OVERVIEW

The following chart illustrates the global coal consumption from 2007 to 2011:



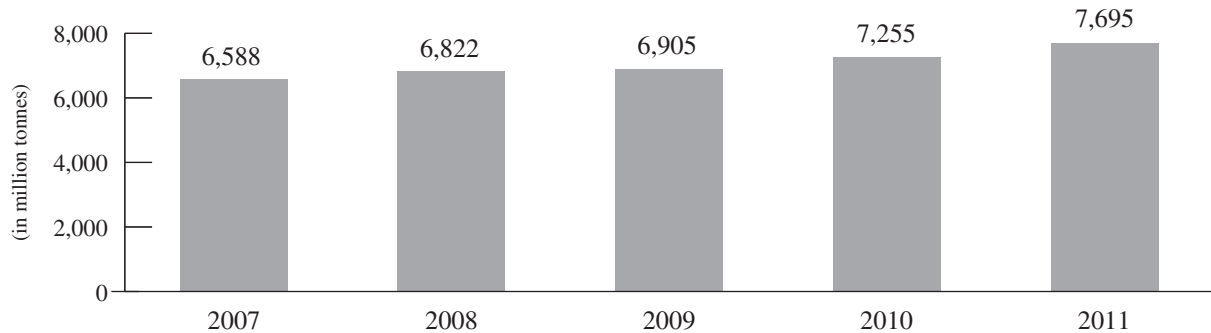
Source: BP Statistical Review of World Energy June 2012

The increase in global coal consumption was driven by a variety of factors, including:

- increased demand for electricity;
- growth of industrial production;
- fluctuations of the prices of oil and natural gas;
- cost-effectiveness of coal;
- technical advancements in coal mining and processing; and
- enhanced productivity in the steel industry that increases demand for coking coal.

Global Coal Production

The continued increase in demand for coal has resulted in the growth of global coal production, which increased from approximately 6,588 million tonnes in 2007 to approximately 7,695 million tonnes in 2011, representing a CAGR of approximately 4.0%. The following chart illustrates global coal production from 2007 to 2011:



Source: BP Statistical Review of World Energy June 2012

INDUSTRY OVERVIEW

According to BP Statistical Review June 2012, the PRC is the world's largest coal producing country, with total coal production of approximately 3,520 million tonnes in 2011, which accounted for approximately 45.7% of global coal production in 2011. The United States and India ranked second and third, accounting for approximately 12.9% and 7.6%, respectively, of global coal production in 2011.

The following table sets forth the coal production by country in 2011:

Country	Coal production (million tonnes)	Proportion in global coal production
PRC	3,520	45.7%
United States	993	12.9%
India	589	7.6%
Australia	416	5.4%
Russia	334	4.3%
Rest of the world	1,843	24.0%
Total	<u>7,695</u>	<u>100.0%</u>

Source: BP Statistical Review of World Energy June 2012

Global Coal Prices

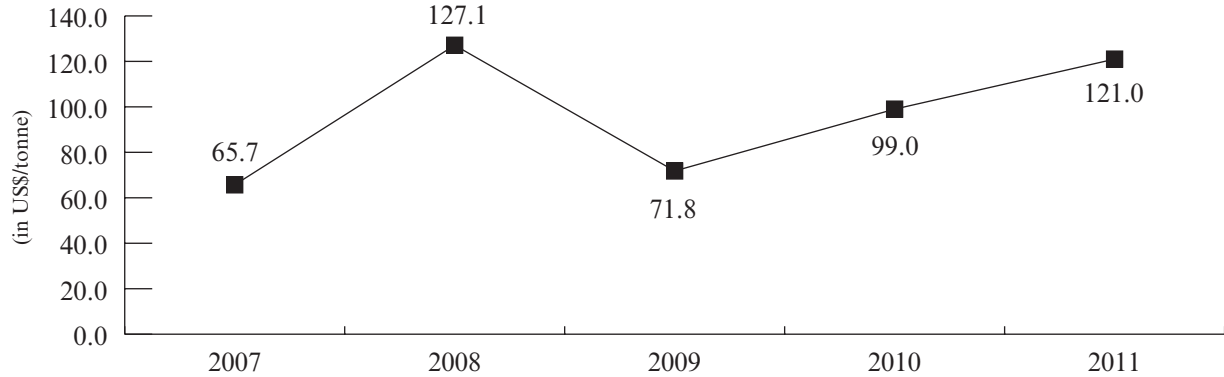
Despite significant price fluctuations, global prices of coal increased rapidly from 2006 to 2008. However, due to the global financial crisis, coal prices fell drastically in 2009 but began recovering in 2010 as the global economy started to recover.

According to the Economist Intelligence Unit (the "EIU"), the global coal price is expected to be US\$120 per tonne in 2015 as a result of the following factors:

- reduced coal exports due to floods in Australia in early 2011;
- shift in reliance from nuclear power to thermal power as a result of the nuclear disaster in Fukushima, Japan in March 2011;
- decreased commodity prices due to slow global economic growth; and
- strong demand in the Asia-Pacific Region due to comparatively higher prices of oil and other energy resources such as liquefied natural gas.

INDUSTRY OVERVIEW

The following chart sets forth global coal price per tonne from 2007 to 2011:



Source: EIU

PRC Coal Industry Overview

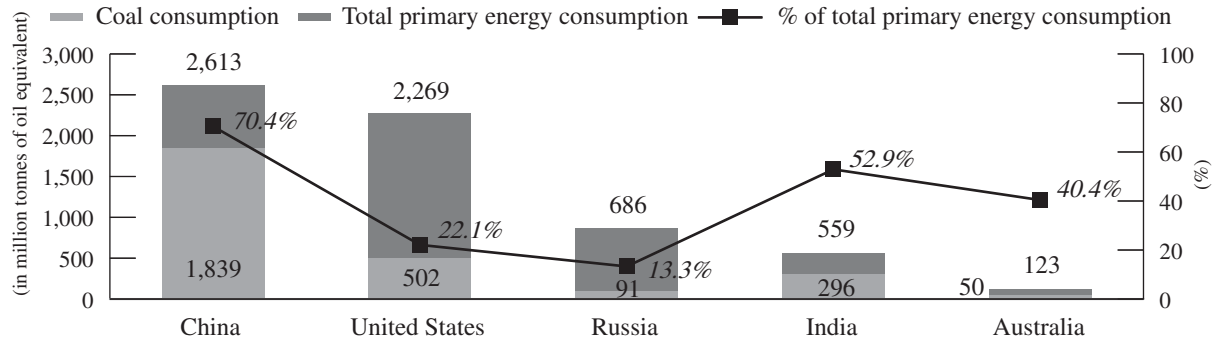
Coal Consumption in the PRC

According to the BP Statistical Review June 2012, the PRC had proven coal reserves of approximately 114,500 million tonnes as of December 31, 2011, which accounted for approximately 13.3% of total global proven coal reserves, ranking third globally after the United States and Russia. By comparison, proven oil and natural gas reserves in the PRC accounted for only approximately 0.9% and 1.5%, respectively, of total global reserves. As such, the PRC's coal reserves will continue to be the most important source of primary energy for its continued economic development.

According to the BP Statistical Review June 2012, the PRC was the largest energy-consuming country in the world in 2011, with total primary energy consumption of approximately 2,613 million tonnes of oil equivalent, which accounted for approximately 21.3% of total global primary energy consumption. For the same period, the PRC's coal consumption was approximately 1,839 million tonnes of oil equivalent, which accounted for approximately 49.4% of total global coal consumption and ranked first globally. In 2011, the PRC's coal consumption accounted for approximately 70.4% of its total primary energy consumption, the highest among all countries.

INDUSTRY OVERVIEW

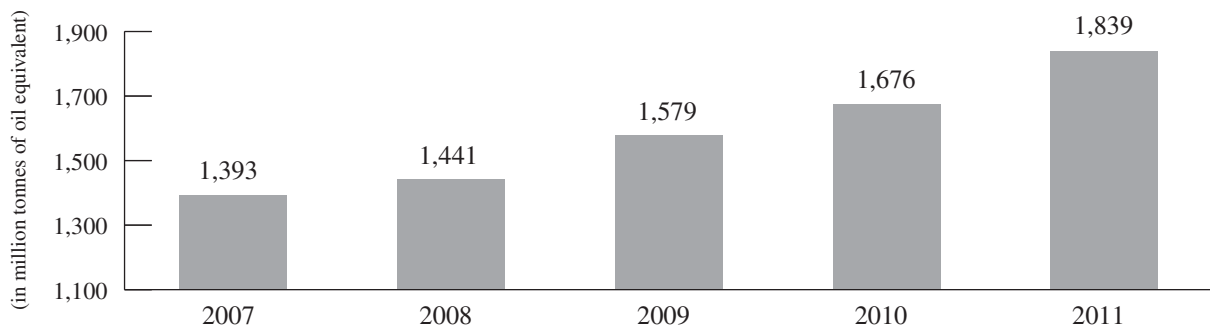
The following chart illustrates the coal consumption of the countries with the most abundant coal reserves in 2011:



Source: BP Statistical Review of World Energy June 2012

Driven by the rapid growth of the PRC economy, there has been steadily increasing demand for coal in the domestic power, steel and iron and chemical and fertilizer industries, the industries that are generally considered to consume the largest amounts of energy. According to the NBS, the following industries accounted for more than 80% of the total coal consumption in the PRC: (i) electricity and heating industry; (ii) metal smelting and rolling processing industry; and (iii) petroleum, coking coal, chemical materials and related products industry. The electricity and heating industry was the largest consumer of coal, accounting for approximately 50% of total coal consumption in the PRC in 2011. The total coal consumption in the PRC increased from approximately 1,393 million tonnes of oil equivalent in 2007 to approximately 1,839 million tonnes of oil equivalent in 2011, representing a CAGR of approximately 7.2%.

The following chart illustrates the total coal consumption in the PRC from 2007 to 2011:



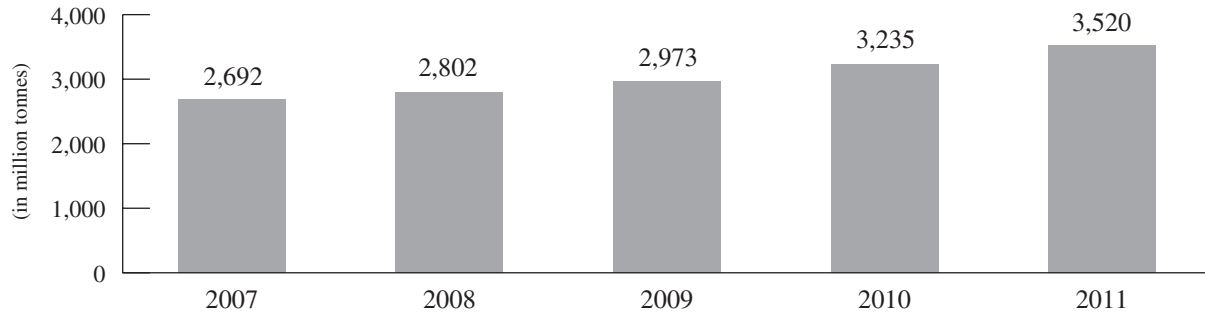
Source: BP Statistical Review of World Energy June 2012

INDUSTRY OVERVIEW

Coal Production in the PRC

The PRC is also the world's largest coal-producing country. According to the BP Statistical Review June 2012, the PRC's coal production increased from approximately 2,692 million tonnes in 2007 to approximately 3,520 million tonnes in 2011, representing a CAGR of approximately 6.9%. By comparison, the CAGR of global coal production during the same period was approximately 4.0%.

The following chart illustrates the PRC's total coal production from 2007 to 2011:



Source: BP Statistical Review of World Energy June 2012

The PRC coal industry plays an important role in the PRC's power industry and national economy. The China National Coal Association (the "CNCA") forecasts that the PRC's primary dependence on coal-based power supplies will remain unchanged for a long period of time. The CNCA also believes that the enhancement of coal processing technology will allow coal to become a more efficient and cleaner energy source.

Key Drivers of the PRC Coal Industry

The growth of the coal industry of the PRC is driven by several factors, some of which are discussed below.

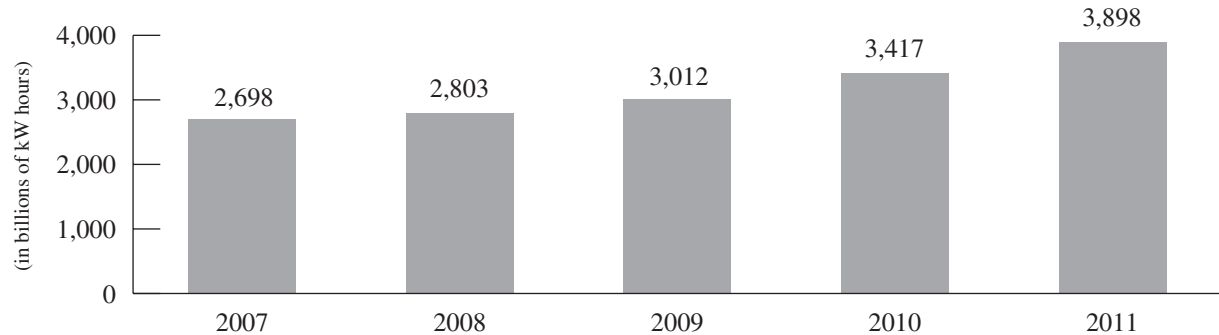
Growth of the PRC Electricity Power Industry

According to the China Electricity Council and Heading Century Consulting, the power grid of the PRC was the largest globally in terms of total installed length of electricity circuit lines and power transformation capacity as of December 31, 2011. Total installed capacity of electricity power plants in the PRC ranked second globally after the United States as of December 31, 2011.

According to the China Electricity Council, power generated in the PRC increased from approximately 3,256 billion kW hours in 2007 to approximately 4,722 billion kW hours in 2011, representing a CAGR of approximately 9.7%. Thermal power generation, which generally results from coal combustion, increased from approximately 2,698 billion kW hours in 2007 to approximately 3,898 billion kW hours in 2011, representing a CAGR of approximately 9.6%.

INDUSTRY OVERVIEW

The following chart illustrates the amount of thermal power generation in the PRC from 2007 to 2011:



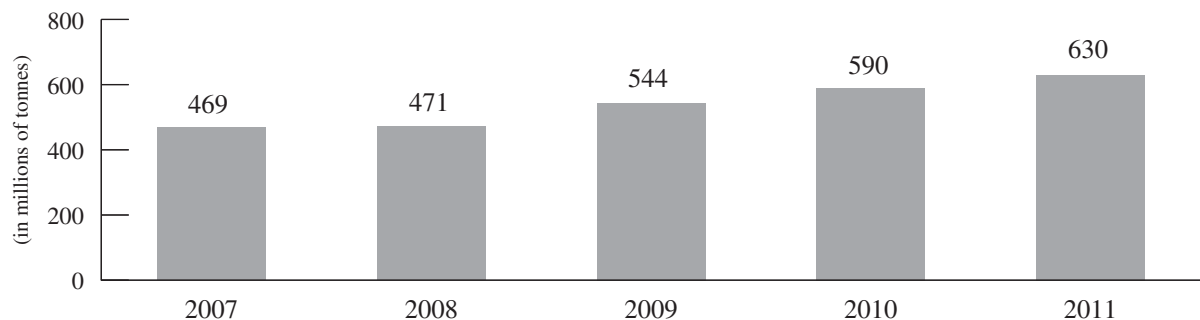
Source: China Electricity Council

According to the China Electricity Council and Heading Century Consulting, the PRC's national thermal power generation is expected to reach approximately 5,109 billion kW hours by 2015, representing an expected CAGR of approximately 7.0% from 2011 to 2015. The expected growth in thermal power generation is expected to result in increases in demand for coal.

Growth of the PRC Iron and Steel Industry

The demand for coal in the PRC's iron and steel industry is largely subject to iron and steel production. According to ChinaCoal.org.cn (中國煤炭工業網) and Cnii.com.cn (中國產業信息網), PRC pig iron output increased from approximately 469 million tonnes in 2007 to approximately 630 million tonnes in 2011, representing a CAGR of approximately 7.6%.

The following chart illustrates the pig iron production in the PRC from 2007 to 2011:



Sources: www.chinacoal.org.cn and www.cnii.com.cn

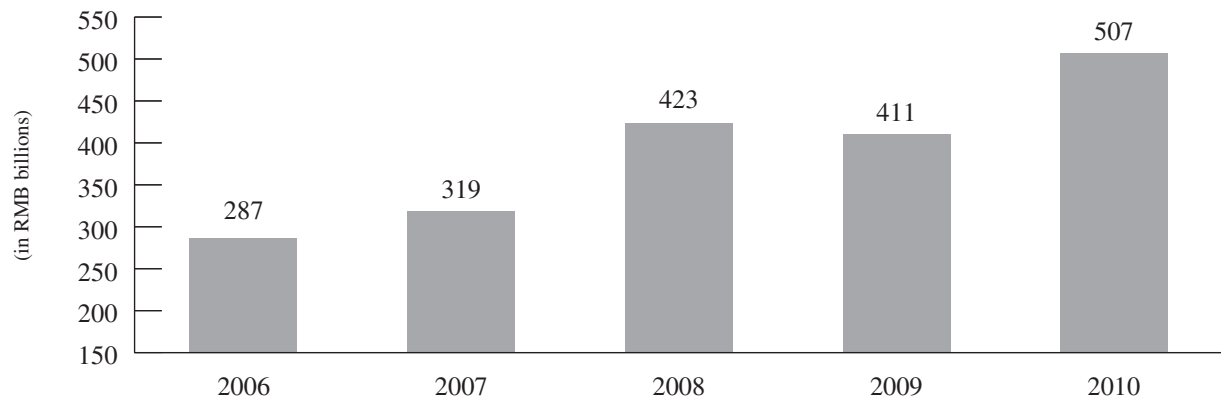
According to Heading Century Consulting, the annual production of pig iron in the PRC is expected to increase from 630 million tonnes in 2011 to 751 million tonnes in 2015, representing an expected CAGR of approximately 4.5%.

INDUSTRY OVERVIEW

Growth of the PRC Fertilizer Industry

The fertilizer industry primarily involves the transfer of energy such as coal, natural gas, phosphate rock, brines and other natural resources into plant nutrient. The PRC fertilizer industry remains dominated by producers using coal as their primary raw material for fertilizer production. According to the NBS, the output value of the PRC fertilizer industry increased from approximately RMB287 billion in 2006 to approximately RMB507 billion in 2010, representing a CAGR of approximately 15.3%.

The following chart illustrates the total production output value of the PRC fertilizer industry from 2006 to 2010:



Source: National Bureau of Statistics of China

According to Heading Century Consulting, the total output value of the PRC fertilizer industry is expected to increase from approximately RMB507 billion in 2010 to approximately RMB711 billion in 2015, representing an expected CAGR of approximately 7.0%.

Development of Large-Scale Coal Mines

The *Twelfth Five-Year Plan* in relation to the coal industry seeks to create ten 100 million-tonne and ten 50 million-tonne coal enterprises, which, in the aggregate, will account for more than 60% of the total national coal production in the PRC. According to the *Coal Industry Policy*, published by the NDRC in November 2007, existing large-scale coal companies in the PRC are encouraged to develop into larger coal enterprises through alliances, mergers or restructurings of their small and medium-sized coal mines, which will allow these enterprises to focus on efficient resource allocation. In addition, these large coal enterprises are encouraged to develop integrated businesses comprising coal, power, rail and port operations, which will allow them to compete in the international markets.

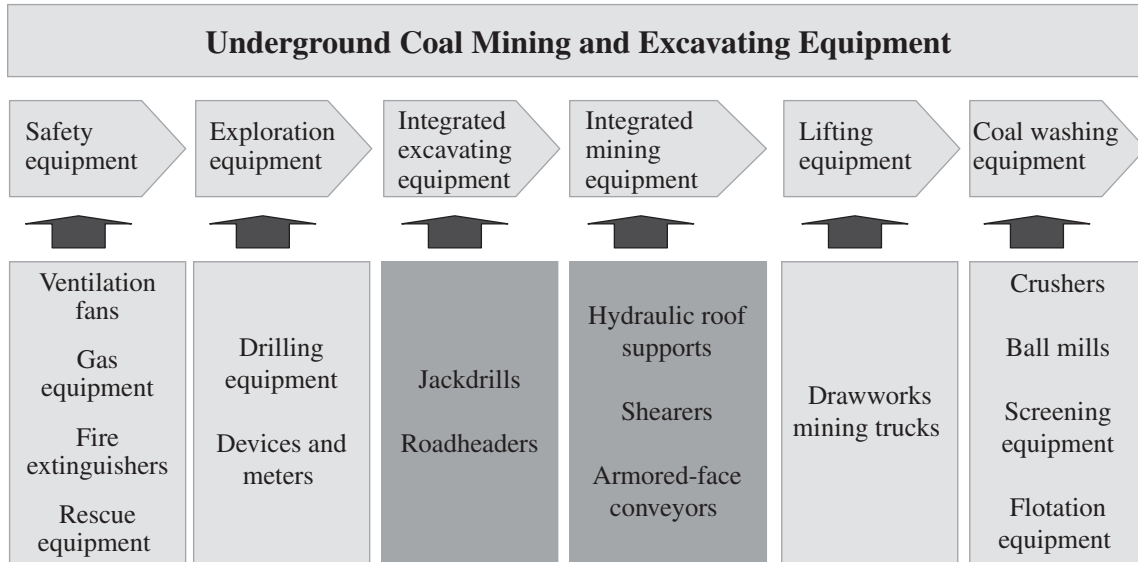
COAL MINING AND EXCAVATING EQUIPMENT INDUSTRY OVERVIEW

Coal mining equipment includes mining and excavating equipment that focuses on safety, efficiency and security. Depending on the extraction sequence, coal mining and excavating equipment can be categorized into: (i) safety equipment; (ii) exploration equipment; (iii) integrated excavating equipment; (iv) integrated mining equipment; (v) lifting equipment; and (vi) processing and related equipment. These categories can be further subdivided into: (i) surface mining machinery, which includes heavy-duty mining vehicles, dumpers, dozers and excavators; and (ii) underground coal mining and excavating equipment.

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Underground Coal Mining and Excavating Equipment

The following table illustrates selected underground mining machinery and equipment by category:



In normal industry terms and in the context of this prospectus, coal mining and excavating equipment typically refers to hydraulic roof supports, shearers, armored-face conveyors and roadheaders which, together, are also known as “Three Machines and One Roof Support.”

The following table describes selected coal mining and excavating equipment:

Type of Equipment	Definition	Functions
Hydraulic roof support 	Specialized machine that uses hydraulic mechanisms to control and provide support to the roof of coal mine.	Controls and supports the roof of the working face and prevents rock fragments and other debris from entering the working area and allows the conveyor to remain mobile.
Shearer 	Large, complex cutting system with integrated mechanical, electrical and hydraulic systems.	Cuts and loads coal and other mined materials from the working face.
Armored-face conveyor 	Specialized transportation machine with a scraper chain for transporting coal.	Transports coal and other mined material from the working face, and provides a mechanized track for the movement of the shearers.

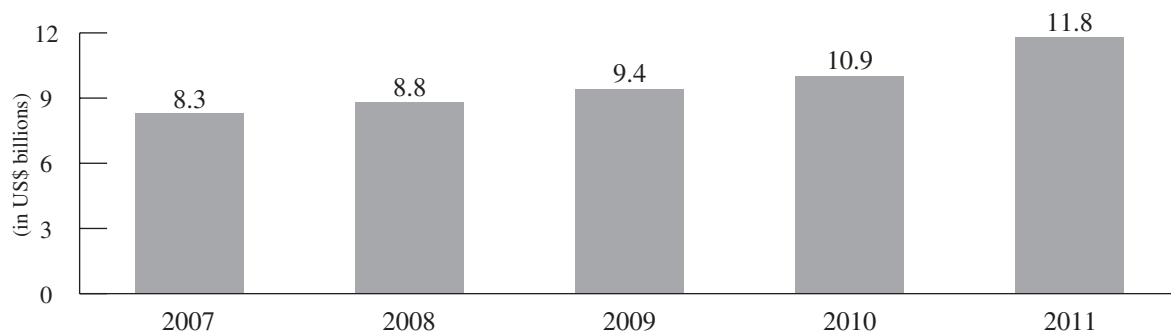
INDUSTRY OVERVIEW

Type of Equipment	Definition	Functions
Roadheader 	Specialized full-face tunneling machine that has moving, working, loading and conveying mechanisms, and uses a large-diameter rotating cutter to extract and roll-cut mining materials.	Excavates flat and straight underground tunnels, and can safely and efficiently cut and convey rocks through its moving and cutting mechanism.

Overview of the Global Coal Mining and Excavating Equipment Industry

As a result of increased demand for coal in developing countries and the steady increase in global coal prices, according to Heading Century Consulting, the coal mining and excavating equipment industry has entered a new upward development cycle, characterized by significant growth in capital investments in the coal mining industry. In addition, the replacement cycle of coal mining and excavating equipment has resulted in continuous demand for new equipment. According to Heading Century Consulting, the total global demand for coal mining and excavating equipment increased from approximately US\$8.3 billion in 2007 to approximately US\$11.8 billion in 2011, representing a CAGR of approximately 9.2%. According to Heading Century Consulting, the total global demand for coal mining and excavating equipment is expected to increase from approximately US\$11.8 billion in 2011 to approximately US\$20.0 billion by 2015, representing an expected CAGR of approximately 14.1%.

The following chart illustrates the total global demand for coal mining and excavating equipment from 2007 to 2011:



Source: Heading Century Consulting

As a result of rapid economic growth in the Asia-Pacific Region and the PRC, the steady increase in demand for coal has led to increased demand for coal mining and excavating equipment. The PRC's economic development, which has driven the demand for coal, has significantly affected the development of the global coal mining and excavating equipment industry.

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While the total production volume of coal in the United States, Australia and Canada has remained stable, the rapid development of the economy of, and increased demand for coal in, the PRC, Russia and India has led to increased demand for coal mining and excavating equipment. In particular, the continuous consumption of natural resources, enhancement in coal mining technology, as well as a gradual shift to the longwall mining method by operators in Russia and India, have driven this demand as it has become critical for mining operators in these countries to continue such mining operations to keep pace with the economic development and demand for energy of their countries.

The following table sets forth a breakdown of total global demand for coal mining and excavating equipment by product value for the geographical regions below in 2007 and 2011:

Country	Proportion of total global demand for coal mining and excavating equipment ⁽¹⁾	
	2007	2011
United States.....	36.7%	24.6%
PRC	30.9%	51.5%
Australia	14.8%	11.0%
Germany	7.4%	4.9%
Russia	5.6%	4.1%
Rest of the world	4.6%	3.9%
Total	<u>100.0%</u>	<u>100.0%</u>

Source: Heading Century Consulting

Note:

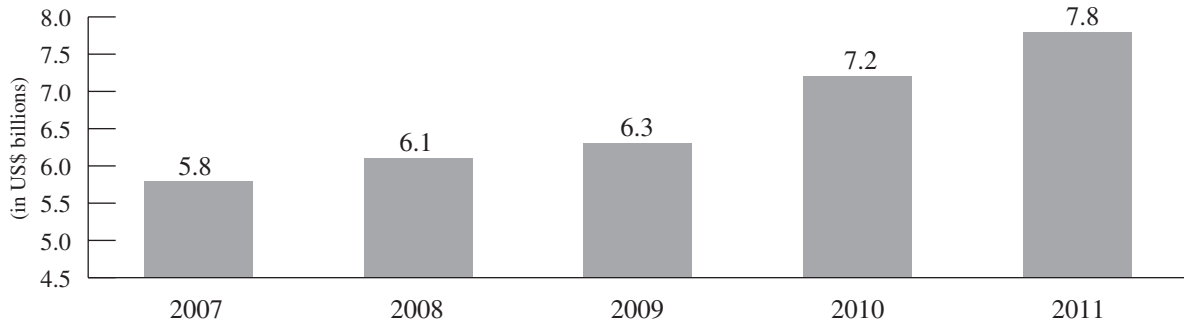
(1) Total global demand is measured in U.S. dollars.

Hydraulic Roof Supports

Hydraulic roof supports generally account for more than 50% of the total market value of the global coal mining and excavating equipment industry. According to Heading Century Consulting, total global demand for hydraulic roof supports increased from approximately US\$5.8 billion in 2007 to approximately US\$7.8 billion in 2011, representing a CAGR of approximately 7.7%. This amount is expected to increase to approximately US\$12.5 billion in 2015, representing an expected CAGR of approximately 12.7% from 2011 to 2015.

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The following chart illustrates the total global demand for hydraulic roof supports from 2007 to 2011:



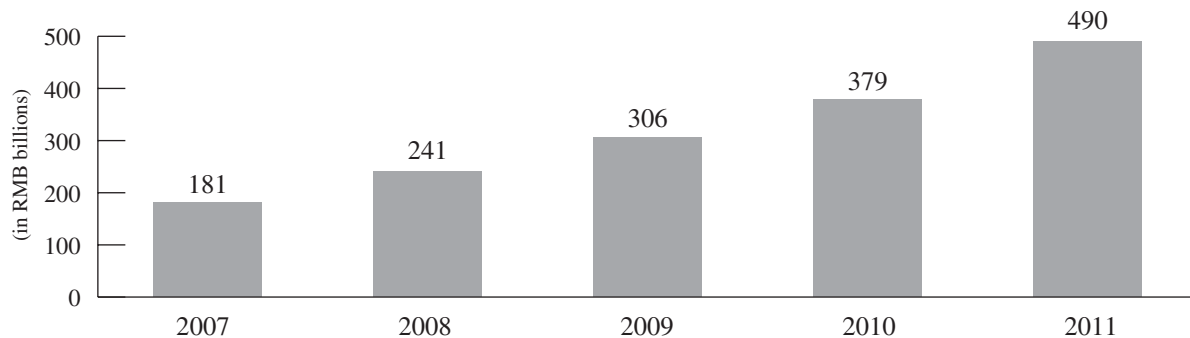
Source: Heading Century Consulting

Overview of the Coal Mining and Excavating Equipment Industry of the PRC

Coal consumption growth is generally strongly correlated with positive economic growth in the PRC, as coal is the key source for power generation and steel production. With the PRC's real GDP expected to grow at a rate of 7% under the *Twelfth Five-Year Plan*, demand for coal and coal mining and excavating equipment is expected to remain strong in the foreseeable future. The coal mining and excavating equipment industry is generally considered to be more stable than the construction equipment industry, which is largely dependent on changing PRC government policies on infrastructure spending.

According to the NBS, the fixed assets investment of coal mining industry in the PRC increased from approximately RMB181 billion in 2007 to approximately RMB490 billion in 2011, representing a CAGR of approximately 28.3%.

The following chart illustrates the total fixed assets investment in the PRC coal mining industry from 2007 to 2011:



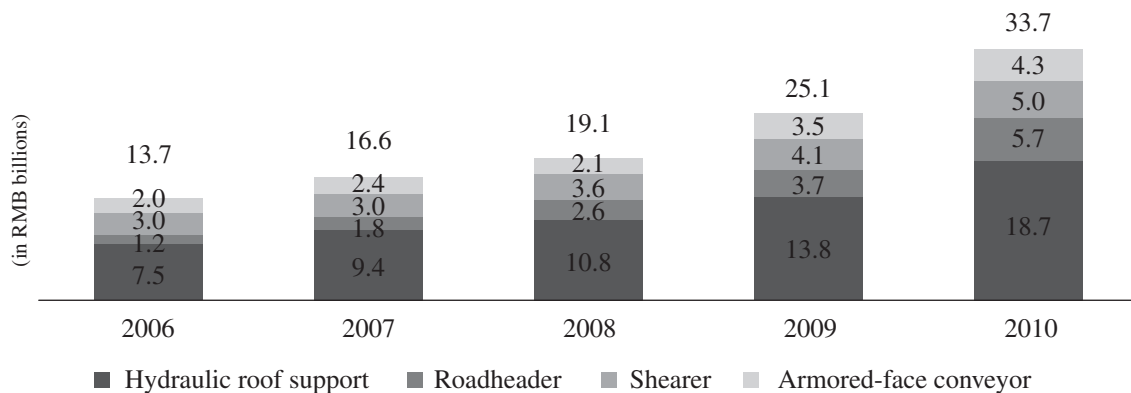
Source: National Bureau of Statistics of China

According to the CMIA, approximately 20% to 30% of the total fixed assets investment in the PRC coal mining and excavating industry from 2007 to 2011 was allocated to equipment investment.

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Overall Industry Scale

As PRC coal producers increase their investment in coal mining and excavating equipment, sales of coal mining and excavating equipment in the PRC have substantially increased. According to the CMIA, the total sales of the PRC's coal mining and excavating equipment increased from approximately RMB13.7 billion in 2006 to approximately RMB33.7 billion in 2010, representing a CAGR of approximately 25.2%, and is expected to further increase from RMB33.7 billion in 2010 to approximately RMB88.0 billion in 2015, representing an expected CAGR of approximately 21.1%. In particular, sales of hydraulic roof supports are expected to reach approximately RMB49.5 billion in 2015, accounting for approximately 56.3% of the total sales of coal mining and excavating equipment. The following chart illustrates the sales of the coal mining and excavating equipment industry from 2006 to 2010:



Source: China National Coal Mining Machinery Industry Association

Development Trends of the PRC Coal Mining and Excavating Equipment Industry

The growth and structural transformation of the PRC coal mining industry, along with a developing emphasis on safety and efficiency, has resulted in increased demand for high-end, integrated coal mining systems in the PRC. In response, coal mining and excavating equipment manufacturers have developed new and innovative technology, resulting in the development of high-end coal mining and excavating equipment that has been steadily adopted by, and has facilitated the modernization of, the PRC coal mining industry.

Industry Consolidation Trends

As a result of the industry policy of “Replacing Small Units with Large Units” promulgated by the PRC government, the consolidation of the PRC coal mining industry has resulted in the emergence of large-scale coal mining enterprises with significant financial resources, as well as industry demand for high-end coal mining equipment for safer and more efficient operations. This industry consolidation is expected to have a significant effect on product improvement in the coal mining and excavating equipment industry and create enormous market opportunities for coal mining and excavating equipment manufacturers.

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In addition to domestic consolidation, international manufacturers have also sought to enter the PRC market, generally through acquisitions of domestic entities. Recent examples include Caterpillar Inc.'s acquisition of ERA Mining Machinery and Joy Mining Machinery's acquisition of International Mining Machinery. Market penetration by international manufacturers is expected to further drive the consolidation trends in the PRC coal mining and excavating equipment industry.

Localization

The PRC government has increased efforts to encourage selected domestic industries, including the coal mining industry, to purchase domestically-manufactured equipment and PRC-developed technologies. To this end, the PRC government has set certain localization ratios, which requires that coal mining equipment used by coal mining enterprises comprise a certain percentage of domestically-produced materials and components.

New Coal Mine Investments and the Use of Finance Leases

The operation of existing coal mines and development of new coal mines are expected to increase demand for comprehensive coal mining and excavating equipment. According to the CMIA and Heading Century Consulting, investment in new coal mines is expected to increase demand for hydraulic roof supports, in particular, in the next few years.

Finance lease arrangements are commonly used by international companies to purchase coal mining and excavating equipment. Typically, a purchaser will lease coal mining and excavating equipment from a supplier, which is generally responsible for providing all maintenance-related services to the customer for a service fee. This arrangement reduces the one-off investment expenses and depreciation costs that arise from a direct purchase and allows the purchaser to save the costs and resources required for maintenance and servicing of the equipment. Under such an arrangement, the supplier is able to secure stable income from providing lease-related services, but also is required to continuously upgrade its products and services to remain competitive. As such, given the developments of the PRC coal mining industry, it is expected that the provision of total aftermarket services and the use of finance lease arrangements will gradually be adopted by coal mining and excavating equipment manufacturers in the PRC. This one-stop shop capability, which comprises sales and financing, installation and aftermarket maintenance, will allow coal mining and excavating equipment producers to develop an additional revenue source and to compete with international manufacturers.

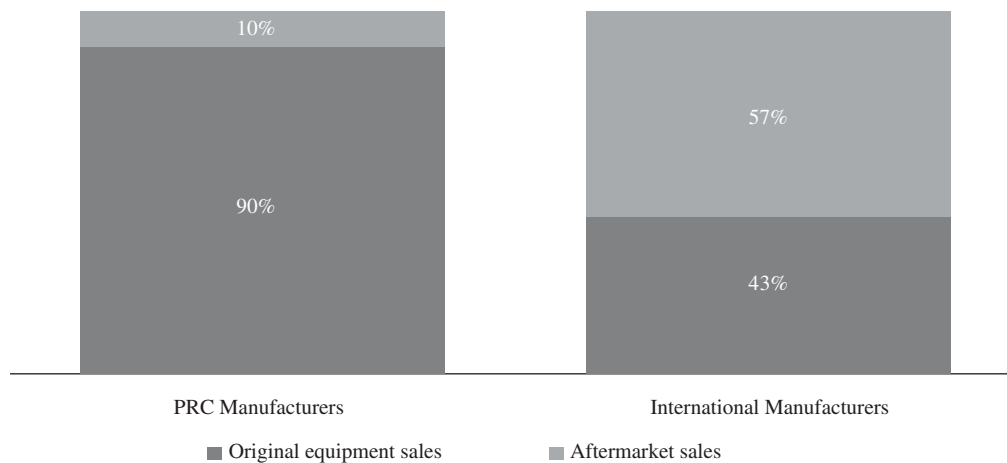
Upgrades, Replacement and Aftermarket Services

Coal mining and excavating equipment is generally installed and operated in harsh environments with heavy moisture and high pressure for long periods of time. As such, the maintenance and overhaul cycle of coal mining and excavating equipment is generally shorter than other mechanical equipment. For example, the life-span of hydraulic roof supports and shearers is generally five to eight years, and the life-span of shearer drums is generally three months, while the maintenance and overhaul cycle of an integrated coal mining system is generally one or two years. The safe and effective operation of integrated coal mining equipment requires frequent maintenance, parts replacement and overhaul services.

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According to the CMIA and Heading Century Consulting, demand for coal mining and excavating equipment upgrades and replacements from 2011 to 2015 will primarily depend on the investment in original equipment from 2006 to 2010. Annual maintenance overhaul expenses normally account for 30% to 40% of the total manufacturing cost of an integrated mining system, and annual expenses for routine repairs generally account for 15% to 20% of total annual operating costs. As sales of coal mining and excavating equipment have grown at an average annual rate of more than 30% since 2006, coal mining and excavating equipment upgrades and replacements are expected to maintain rapid growth as well.

According to Heading Century Consulting, while the coal mining and excavating equipment of international manufacturers is generally believed to be more durable, the actual maintenance costs for such equipment are generally higher than domestically-manufactured equipment due to higher service fees and unit prices of required spare parts. Therefore, aftermarket sales, which generally include revenues from maintenance and repair services, diagnostics and analysis, fabrication, rebuilds of mining equipment and electric motors, equipment installation services, training and sales of replacement parts, account for most of the revenues of international manufacturers. The following chart illustrates the breakdown of total revenues in 2011 for major PRC and international manufacturers:



Source: Heading Century Consulting

Currently, revenues from aftermarket services and spare parts sales of PRC coal mining and excavating equipment manufacturers are relatively small primarily because many coal mining enterprises in the PRC are large companies with comprehensive operations and generally rely on internal coal mining and excavating equipment maintenance services. As such, these enterprises generally maintain their own parts and equipment inventory and only procure simple spare parts from original equipment suppliers on an as-needed basis. In addition, small and medium-sized coal mining enterprises in the PRC generally do not purchase maintenance services or original spare parts for replacement from original equipment suppliers. Instead, they procure the services of low-end maintenance companies which often charge lower maintenance fees.

However, the aftermarket services and spare parts market in the PRC has significant potential, with numerous growth opportunities for domestic coal mining and excavating equipment manufacturers. As manufacturers continue to develop more advanced coal mining equipment, the timely provision of around-the-clock aftermarket services and solutions, as well as the provision of one-stop, value-added services and technical training for operators, are expected to become a significant focus of PRC end users and manufacturers of PRC coal mining and excavating equipment.

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Improved Production Safety and Mechanization Rates

According to State Administration of Work Safety of the PRC (the “SAWS”), the mechanization rate of coal mining in the United States was approximately 100% in 2010, and coal mining fatalities rate per million tonne of mined coal in the United States was 0.027. To improve coal mining safety, the PRC government has promulgated laws, regulations and other administrative measures to: (i) shut down small, unsafe coal mines; (ii) reorganize and consolidate small coal mines to form larger, regulated coal mining operations; and (iii) improve the automation and mechanization of underground coal mines. These measures have contributed to reduced coal mining fatalities in the PRC, as the coal mining fatalities rate per million tonne of mined coal in the PRC decreased to 0.564 in 2011 from 2.041 in 2006, according to the SAWS.

The demand for advanced coal mining and excavating equipment is expected to continue to grow as a result of: (i) expanded production scale and increased capacity of coal mines; (ii) newly-discovered deep mines; (iii) complicated geological conditions; and (iv) enhanced safety awareness measures. According to Heading Century Consulting, approximately 97% of coal reserves in the PRC are found 400 meters below the surface and, as such, complex underground mining operations will be required to extract such reserves. The use of advanced coal mining equipment will allow operators to increase production and improve efficiency and safety.

In addition, the PRC government continues to close underperforming or small to medium-sized coal mines, which has resulted in a decrease in the coal production of small to medium-sized coal mines. However, there has generally been an overall increase in coal production, as the output of large coal mines has increased primarily due to increased mechanization rates. According to the *Twelfth Five-Year Plan*, the targeted mechanization rate of coal mines in the PRC is 75% for all mines and 95% for large coal mines by 2015. According to the CMIA, the average mechanization rate of coal mines in the PRC was less than 60% in 2010. As a result of these development plans, demand for advanced coal mining and excavating equipment is expected to increase in the coming years. According to the CMIA and Heading Century Consulting, investment in mechanized mining as a result of upgrades of existing coal mining and excavating equipment and hydraulic roof supports is expected to increase in the coming years as well.

Recent Industry Developments

As the PRC’s economy focuses on steady growth, the domestic coal industry has seen increased fixed asset investment while the growth momentum has slowed down. Demand from the downstream sectors such as steel and electricity generation industries also shows signs of steady growth in the PRC.

The PRC government’s recent efforts to improve safe production are expected to drive the growth of the coal mining and excavating equipment industry. The SAWS and SACMS have recently announced a series of policies in relation to safe production in the PRC coal mining industry. Such efforts are expected to drive the demand for new constructions and expansions of coal mines that utilize high-quality coal mining and excavating equipment and mergers and acquisitions in the coal mining industry, both of which will increase the demand for sophisticated and safe coal mining and excavating equipment.

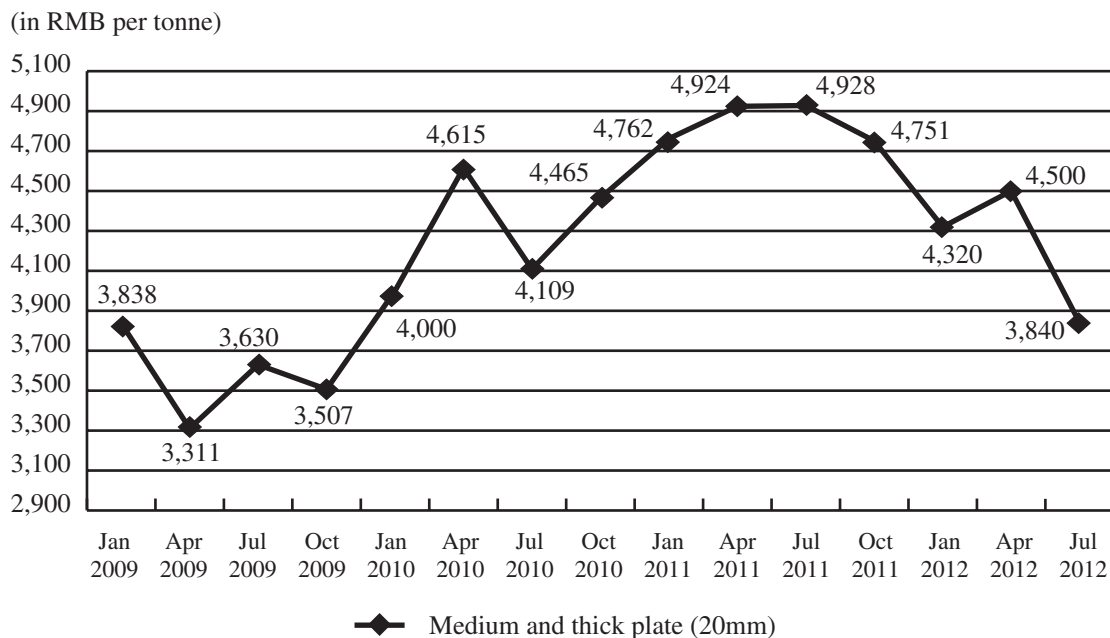
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Recent Steel Price Trends

Steel constitutes a substantial majority of the raw material used in the manufacture of coal mining and excavating equipment and, in particular, products that we currently manufacture and expect to manufacture in the future, including hydraulic roof supports, armored-face conveyors, roadheaders, coal washing equipment and other coal mining and excavating equipment.

Steel prices in the PRC have fluctuated and remained volatile during the past three years for a variety of reasons. From the second half of 2008 to the first half of 2009, steel prices in the PRC decreased significantly as a result of the global financial crisis and resulting economic recession in late 2008, as well as the completion of the 2008 Olympic Games in the PRC, which resulted in a slowdown of investments in various domestic downstream industries that require steel for their business operations. Steel prices began to rally in late 2009 as a result of market expectations for increased iron ore prices, as well as improving economic indicators due to various government-sponsored stimulus packages to promote domestic growth and economic activity. However, since the second half of 2011, certain downstream industries that utilize significant amounts of steel, including construction, transportation, infrastructure and general consumer products, have generally experienced a slowdown in growth as a result of the tightening or withdrawal of certain government-sponsored stimulus policies passed in late 2009. As a result, the PRC steel industry has been adversely affected and steel prices in the PRC have generally decreased. The first half of 2012 saw a slight recovery in steel prices followed by a sharp decline due to the continued pressure on the global economy, the slowdown of the fixed assets investment growth in the PRC, as well as oversupply in the PRC steel industry.

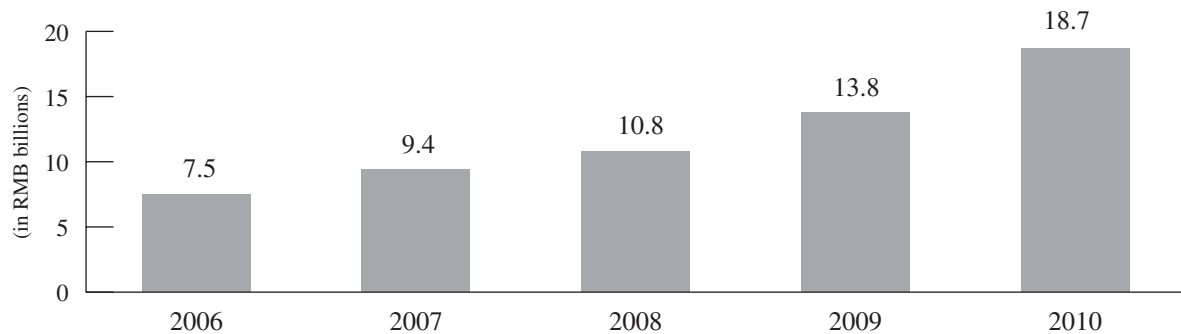
The following chart sets forth the prices of medium and thick plate (20mm) steel in the PRC during the periods indicated:



Sources: China Iron and Steel Association and Bsteel Online

Hydraulic Roof Support Market of the PRC

In recent years, the sales of hydraulic roof supports in the PRC have rapidly increased. According to the CMIA, sales of hydraulic roof supports in the PRC increased from approximately RMB7.5 billion in 2006 to approximately RMB18.7 billion in 2010, representing a CAGR of approximately 25.8%. According to the CMIA, demand for hydraulic roof supports in the PRC is expected to increase to approximately RMB49.5 billion in 2015, representing an expected CAGR of approximately 21.5%. The following chart illustrates the growth of total sales of hydraulic roof supports in the PRC from 2006 to 2010:



Source: China National Coal Mining Machinery Industry Association

Future Growth Trends of Hydraulic Roof Supports in the PRC

Prevalence of Electronic Hydraulic Control Systems

In recent years, the techniques for integrated coal mining and excavating equipment have shifted from labor-intensive and minimally-mechanized excavation to fully-automated, high productivity and mechanized excavating systems. While several research and development departments of PRC coal mining and excavating equipment manufacturers are currently developing electronic hydraulic control systems for hydraulic roof supports, electronic hydraulic control systems are not currently mass produced in the PRC.

As such, there is considerable development potential for electronic hydraulic control systems. Coal mining enterprises are expected to select manufacturers that can provide complete sets of coal mining equipment systems controlled by electronic hydraulic control systems. Therefore, the ability to mass produce electronic hydraulic control systems will become a significant competitive advantage for coal mining equipment manufacturers.

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Import Substitution for Electronic Hydraulic Control Systems in the PRC

Currently, the dominant international manufacturers for electronic hydraulic control systems include foreign companies such as Caterpillar, Marco SystemAnalyse und Entwicklung GmbH, Joy Global, Elektro-Elektronik Pranjic and Tiefenbach Control Systems GmbH. Domestic companies include the Company, Linzhou Heavy Machinery Group Co., Ltd. and Beijing Tiandi-Macro Electro-Hydraulic Control System Company Ltd. Currently, coal mining operators in the PRC generally prefer the products of international manufacturers to those of PRC manufacturers as products of international manufacturers have advantages in perceived product quality and lifespan. However, PRC manufacturers and their products have certain advantages, such as the provision of local, on-the-ground aftermarket services, availability of replacement components, maintenance turnover days and pricing. In terms of pricing, the prices of domestic products are approximately 40% less than those of comparable international products. According to Heading Century Consulting, the selection of international or domestically produced electronic hydraulic control systems is typically made by domestic end users, whom are expected to gradually adopt domestically-manufactured electronic hydraulic control systems primarily as a result of: (i) improved quality of domestic products resulting from maturing manufacturing technologies; (ii) accessibility to domestic aftermarket services; and (iii) more competitive pricing.

Competitive Landscape of the PRC Hydraulic Roof Support Market

Market Competitors

Hydraulic roof support manufacturers in the PRC domestic market are primarily categorized into three categories:

- manufacturers with significant manufacturing and research and development capabilities and the ability to independently design and manufacture hydraulic roof supports;
- manufacturers with better manufacturing capabilities than those in the third category discussed below but are in the process of developing independent design and/or research and development capabilities; and
- manufacturers that do not have independent design and/or research and development capabilities, and mainly assemble hydraulic roof supports or produce related parts and components. These entities primarily evolved from coal mining and excavating equipment maintenance enterprises and have experience in repairing hydraulic roof supports.

As a result of increased market demand, there have been new entrants to the hydraulic roof support market. New entrants have primarily been the second and third categories of manufacturers mentioned above, which has resulted in intensified competition in the low-end hydraulic roof support market. While compared with the first category of manufacturers, these smaller manufacturers typically have weaker technical production capabilities and do not enjoy significant brand recognition, they are able to occupy a significant market share for product sales and corresponding maintenance services by offering more competitive prices. Despite these developments, large-scale manufacturers are expected to maintain a dominant position in the overall hydraulic roof support market due to their manufacturing capacities, technical and production capabilities and market coverage. In addition, the five largest hydraulic roof

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support manufacturers in the PRC have remained relatively stable in recent years. The following table sets forth the production volumes and market shares of the five largest hydraulic roof support manufacturers in the PRC in 2011:

Rank	Name	2011	2011
		Production volume (in tonnes)	Market share
1	The Company	434,648 ⁽¹⁾	22.6%
2	Pingdingshan Coal Mine Machinery	166,505	8.7%
3	Chinacoal Beijing Coal Mining Machinery	162,550	8.5%
4	Zhengzhou Siwei Mechanical and Electrical Equipment	143,233	7.5%
5	Shandong Tiansheng Coal Mine Equipment	125,971	6.6%
	Total amount of top five manufacturers	1,032,907	53.8%
	Others	886,515	46.2%
	Total	1,919,422	100.0%

Source: China National Coal Machinery Industry Association

Note:

(1) Including 38,020 tonnes of hydraulic roof supports produced by ZMJ Shun Li Machinery in 2011.

Barriers to Entry

(1) Technology barriers

Accumulated experience and a proven track record in the coal mining and excavating equipment industry are crucial for a manufacturer to increase brand recognition and maintain market share. Integrated coal mining systems are highly technical and require not only substantial design, manufacturing and installation capabilities but also a profound understanding of the domestic coal mining industry. In addition, due to increasing industry standards and requirements in the coal mining industry, coal mining equipment manufacturers require significant capital investment and strong research and development capabilities to remain competitive.

(2) Customer relationship barriers

The current state of the PRC coal mining and excavating equipment industry is characterized by a few well-known enterprises, whose brands have significant competitive advantages as a result of many years of experience and proven track records. As a result, these enterprises have loyal and stable customer bases. These factors create a significant market barrier to entry for new entrants, as a new entrant needs to spend significant time and resources building up its brand and securing a stable customer base. The increasingly stringent safety requirements in the domestic industry will result in even more significant barriers to entry, which will not only limit the number of new entrants but also intensify competition among established manufacturers.

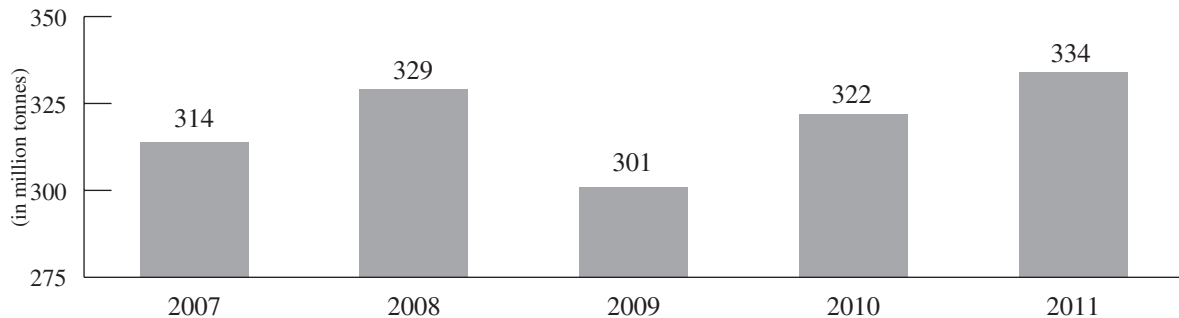
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(3) Capital barriers

The coal mining and excavating equipment industry is a capital intensive industry because the costs associated with the establishment and operation of production facilities are extremely high, with establishment expenses often exceeding RMB1 billion per facility. These expenses primarily comprise the procurement and use of high-precision production equipment, which requires significant fixed asset investments. Market entrants are also required to invest substantial capital resources in research and development. In addition, the costs of mass production of coal mining equipment are also generally high, particularly the costs associated with the production of high-end hydraulic roof supports, which can range from approximately RMB20 million to RMB100 million per set. As a result of the development and modernization of the PRC coal mining industry, large-scale coal mining enterprises are expected to require more complex coal mining and excavating equipment with more advanced technology and safety features.

Overview of the Coal Mining and Excavating Equipment Industry of Russia

According to the BP Statistical Review June 2012, Russia is the world's fifth largest coal producing country and has the second largest proven coal reserves in the world. The demand for coal in Russia is mainly driven by energy consumption and coal export. According to Heading Century Consulting, coal production in Russia will reach approximately 488 million tonnes by 2015, representing an expected CAGR of approximately 9.9% from 2011. The following chart illustrates the total estimated coal production in Russia from 2007 to 2011:

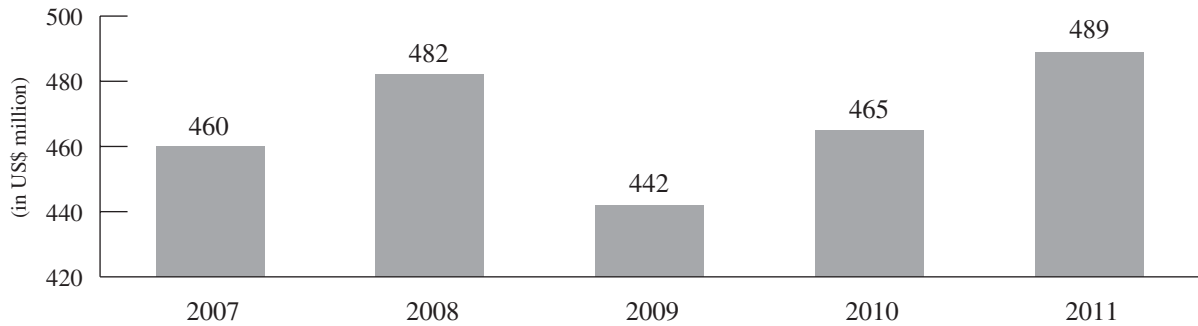


Source: BP Statistical Review of World Energy June 2012

According to Heading Century Consulting, from 2000 to 2009, underground mining accounted for approximately 35.0% of overall coal output in Russia, while the output of fully mechanized longwall mining accounted for approximately 50.0% of overall underground mining coal output in Russia.

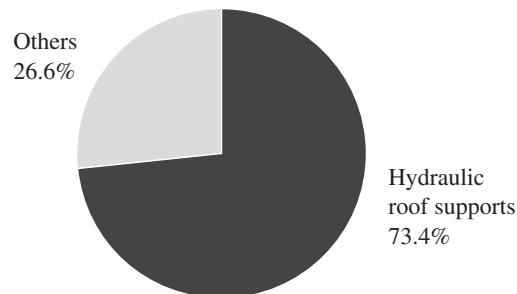
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Driven by the commencement of new coal production facilities and replacement of obsolete equipment in existing operating mines, the market value of coal mining and excavating equipment in Russia is expected to increase from approximately US\$489 million in 2011 to approximately US\$691 million in 2015, representing an expected CAGR of 9.0%. The following chart illustrates the market size of coal mining and excavating equipment in Russia from 2007 to 2011.



Source: Heading Century Consulting

The following chart illustrates the market share of hydraulic roof supports in the coal mining and excavating equipment market in Russia in 2011:



Source: Heading Century Consulting

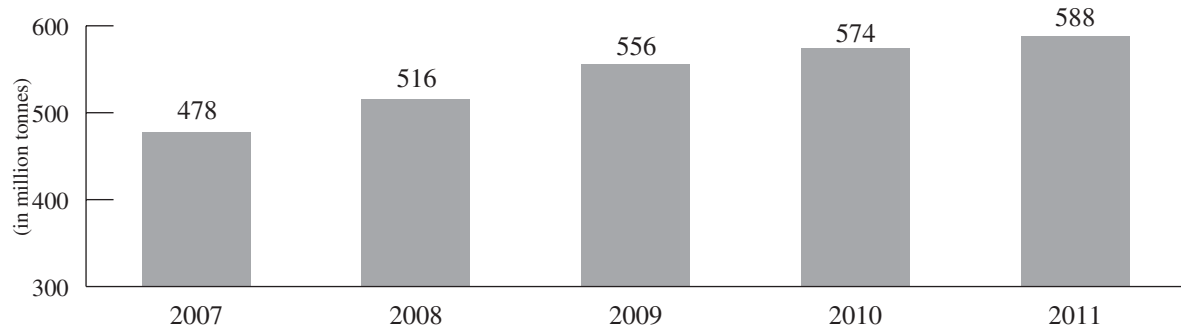
As of the Latest Practicable Date, Russia did not have restrictions on the importation of coal mining equipment. Currently, high-quality coal mining and excavating equipment manufactured in Russia generally has similar prices to that imported from Europe. As a result, some Russian mining companies prefer to purchase coal mining and excavating equipment imported from Europe.

PRC coal mining and excavating equipment manufacturers, which are generally able to offer more competitive pricing, have competitive advantages in the Russian market in terms of production costs and ability to deliver products on time. In addition, the products of the PRC manufacturers generally have lower maintenance expenses.

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Overview of the Coal Mining and Excavating Equipment Industry of India

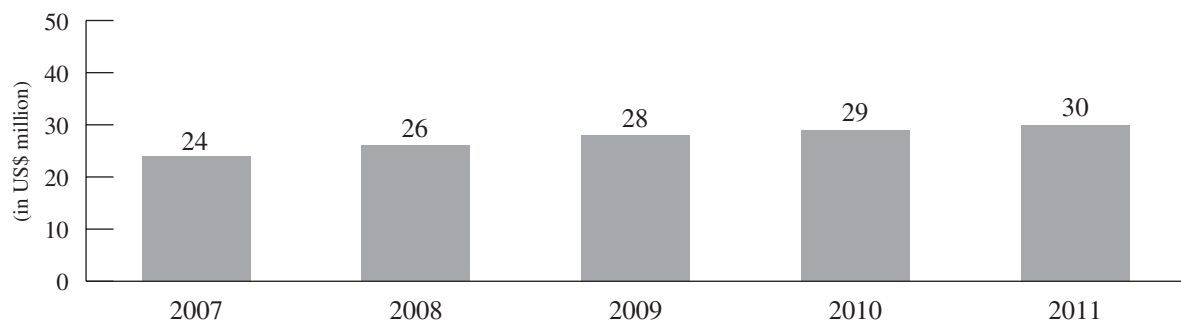
According to the BP Statistical Review June 2012, India is the third largest coal producing country and has the fifth largest proven reserves in the world. According to Infraline, a coal industry information provider specializing in India, coal production in India will reach approximately 634 million tonnes by 2015, representing an expected CAGR of approximately 1.9%. The following chart illustrates total estimated coal production in India from 2007 to 2011:



Source: BP Statistical Review of World Energy June 2012

In India, the most prevalent form of coal mining is surface mining, which accounted for approximately 89% of total coal production in 2010. As the surface mining coal resources are gradually depleted, it has become increasingly important for coal producers in India to utilize advanced mining technologies to access deep-mined reserves.

According to Heading Century Consulting, the value of coal mining and excavating equipment market in India will reach approximately US\$61 million by 2015, representing an expected CAGR of approximately 20.0%. The following chart sets forth the value of the coal mining and excavating equipment market in India from 2007 to 2011:



Source: Heading Century Consulting

The two conventional mining methods that are generally utilized in underground coal mining in India are room-and-pillar mining method and the longwall mining method. While room-and-pillar mining method accounts for a significant majority of underground mining in India, the higher coal recovery rates and lower operating costs associated with longwall coal mining method are expected to promote the use of underground longwall mining operations in India in the near future. According to Heading Century Consulting, as surface mining coal resources are gradually depleted, it will become increasingly

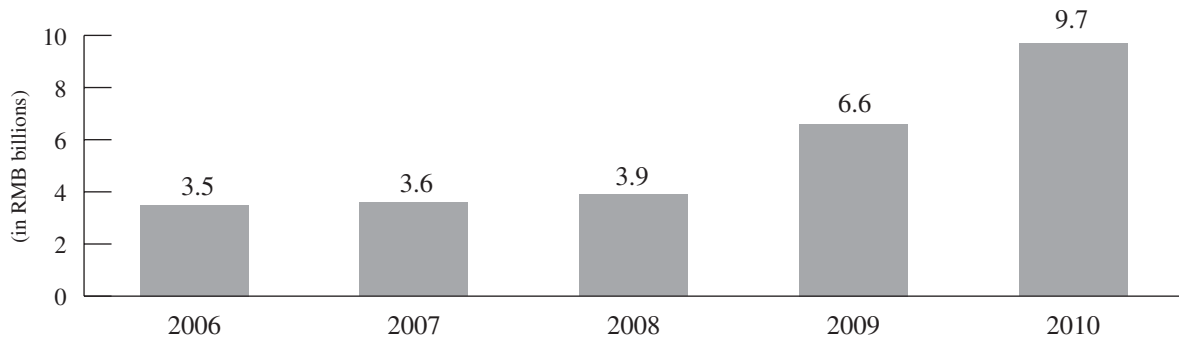
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important for coal producers in India to utilize longwall mining technologies to access deeper coal reserves. In addition, given that large state-owned mining enterprises hold more than 97% of the Indian coal market share, these entities will be able to purchase and utilize more sophisticated longwall coal mining equipment. According to Heading Century Consulting, underground longwall mining method will be the preferred coal extraction method in most of the newly-established and operating coal mines of the two of the largest coal producers in India.

Overview of Coal Washing Equipment Industry of the PRC

Coal washing equipment is generally large machine with processing equipment, water tanks and conveyors that facilitates the coal washing process. Coal washing is a process that utilizes various sorting techniques (such as chemical, biological or physical separation methods) to effectively separate coal from impurities, rock fragments or other debris, and to process the mined coal and other minerals according to quality and usage standards.

According to the China Market Research Center and Heading Century Consulting, during the period of the *Eleventh Five-Year Plan*, the total market value of the coal washing equipment industry in the PRC increased from RMB3.5 billion in 2006 to RMB9.7 billion in 2010, representing a CAGR of approximately 29.0%. According to Heading Century Consulting, the total market value of coal washing equipment industry in the PRC is expected to increase to RMB23.5 billion by 2015, representing an expected CAGR of approximately 19.4%. The percentage of raw coal in the PRC that underwent the washing process increased from 31.9% in 2005 to 50.9% in 2010. According to the *Twelfth Five-Year Plan*, this percentage is expected to increase to approximately 65.0% by 2015, which is expected to further drive demand for coal washing equipment. The following chart illustrates the growth of the PRC coal washing equipment industry from 2006 to 2010:



Source: China Market Research Center and Heading Century Consulting

Competitive Landscape of the PRC Coal Washing Equipment Industry

Coal mining equipment and coal washing equipment are both used by coal mining companies. As a result of certain PRC government measures to encourage the continued development of the domestic coal washing equipment industry, the number of manufacturers of coal washing equipment in the PRC has steadily increased to over one hundred in recent years. A key trend in the PRC coal mining industry is the increasingly stringent requirements for the coal mining industry, which include measures related to production safety and efficiency, as well as environmental protection. In order to meet such requirements, PRC coal mining companies must invest substantially in equipment such as hydraulic roof supports to promote safe and efficient mining operations as well as coal washing equipment to promote efficient

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transportation of mined resources and environmental protection. In China, coal washing equipment manufacturers have generally been small-scale companies that focus on low-end products, as PRC coal mining companies have largely relied on imported high-end coal washing equipment. However, the domestic coal washing equipment industry landscape has gradually shifted from small manufacturers producing low-end, generic equipment to large manufacturers innovating, developing and marketing fully-automated products that incorporate internally-developed and international technologies. Some of the major domestic coal washing equipment companies include Taian Coal Machinery, Tiandi Science & Technology Co., Ltd. and Dadi Engineering Development Group. Meanwhile, certain leading domestic coal mining equipment companies have also started to expand into the coal washing equipment industry.

Although domestic coal washing equipment manufacturers are developing rapidly, they are not yet able to match their international competitors in terms of product quality and research and development capabilities. For instance, large screening equipment typically used in large coal washing plants are generally imported due to the superior design and quality of the imported products. However, domestic manufacturers have significant cost advantages and have closer working relationships with PRC users. Domestic manufacturers have also begun to provide related installation, testing and aftermarket services that are more in line with international standards. Nevertheless, while domestic manufacturers continue to improve their products and services and are able to offer competitive pricing, international manufacturers have generally been able to continue to grow their market share.

INDUSTRY CONSULTANTS AND INFORMATION SOURCES

Heading Century Consulting

We commissioned Heading Century Consulting, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the global coal mining and excavating equipment industry, focusing on the PRC. Currently, Heading Century Consulting has regional offices and branches in Beijing, Shenzhen, Shanghai, Wuxi, Suzhou, Hangzhou, Xiamen, Guangzhou, Chengdu and Wuhan, with more than 210 full-time consultants. Heading Century Consulting has set over 40 market research departments with a database covering over 3,000 market segments.

Heading Century Consulting's independent market research was undertaken through both primary and secondary research obtained from various sources. Primary research involved field interviews with leading industry participants, organizations, associations as well as industry experts. Secondary research involved reviewing public official statistics issued and collected by government agencies, research reports and documents issued by independent third parties and industry organizations as well as Heading Century Consulting's proprietary database. In particular, the historical data regarding industry size, market growth rates and production and market share of industry players was compiled based on the above mentioned public official statistics. According to Heading Century Consulting, the projection of market growth rates as shown in its market research report was derived based on forecast data issued by government agencies and industry organizations, its analysis of historical trend of these parameters, its discussions during the above mentioned interviews as well as its judgment of industry outlook based on such data and discussions.

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We have extracted certain information from the research report of Heading Century Consulting, dated September 28, 2012, in this section as well as the sections headed “Risk Factors,” “Business,” “Financial Information” and elsewhere in this prospectus to provide our potential investors with a more comprehensive presentation of the industry in which we operate. We paid a fee of RMB300,000 to Heading Century Consulting for a market research report.

Infraline

We have commissioned Infraline, an independent provider of research and consulting services for energy sector professionals, for certain market research information. Based in India, Infraline’s products and services include real-time data analysis, presented in an unbiased manner, indicating key industry trends and developments, which in turn are used for effective strategic decision making.

Infraline’s independent market research utilizes in-depth and exclusive information on the current industry developments, market players, project details, tenders, news, reports, analysis and other key topics spanning across the power, coal, oil and gas, upstream, renewable energy and infrastructure sectors. Infraline’s research reports include publicly-available data, government data and information analysis to provide insight and findings that are crucial for making critical business decisions in the respective industries.

We have extracted certain information from Infraline’s market research information dated April 16, 2012, in this section as well as the sections headed “Risk Factors,” “Business” and elsewhere in this prospectus to provide our potential investors with a more comprehensive presentation of the industry in which we operate. We paid a fee of RMB90,000 to Infraline for market research information.

Except for the research materials provided by Heading Century Consulting and Infraline, we did not commission any other customized research reports or market information in connection with the Listing or for the preparation of this prospectus.

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The governments of the PRC, the Russian Federation and India have promulgated laws, regulations and policies specifically applicable to the coal mining industry. Many of such laws, regulations and policies have a significant impact on the coal mining equipment industry, given the interconnected nature of the two industries. In addition, in the PRC, we are subject to the supervision and regulations of the SACMS, which sets certain standards for coal mining and excavating equipment, in addition to other governmental authorities in various aspects of our business, such as taxes, environmental protection and foreign exchange.

PRINCIPAL COAL MINING EQUIPMENT INDUSTRY LAWS AND REGULATIONS OF THE PRC

The NDRC issued the *Coal Industry Policy* (煤炭產業政策) (the “Policy”) on November 23, 2007 to promote the adoption of integrated and mechanized coal mining technologies as well as the use of longwall coal mining methods. In addition, the *Policy* encourages the development of the mining technology and roof supports used in small-scale coal mines and the development of safe and efficient conveying technology and equipment.

The State Council promulgated *Several Opinions on Promoting the Healthy Development of the Coal Industry* (國務院關於促進煤炭工業健康發展的若干意見) (the “Opinions”) on June 7, 2005, which sets forth the PRC government’s policies with respect to the development and restructuring of the PRC coal industry. The Opinions reiterates the PRC government’s policies with respect to the administration of coal reserves, enhancement of coal mine safety, encouragement of industry consolidation among coal producers, acceleration of the construction of large coal production bases, improvement of mining techniques and equipment for coal production and the organization and regulation of small coal mines. The Policy and the Opinions, which are advisory in nature, encourage the development of, and innovation in, mining technology as well as the development and restructuring of the coal industry.

Patent Law

According to the *Patent Law of the PRC* (中華人民共和國專利法) (the “Patent Law”), a company can apply for an invention, utility or design patent based on the nature of the technical achievement. The duration of a patent is 20 years for inventions and ten years for utility models and designs and, in each case, valid from the date of filing. An invention of an employee that is made during the performance of any task for an employer or through the means or resources of the employer will be classified as a service invention, and the employer will be entitled to apply for the patent. Upon approval of the patent application, the patent rights for service inventions will belong to the employer, provided that there are no prior agreements to the contrary between the employer and the employee. As of the Latest Practicable Date, we held 163 patents, 129 of which are utility model patents, 13 of which are innovation patents and 21 of which are design patents. In addition, we had 218 patent applications pending the approval from the relevant intellectual property authorities in the PRC as of the Latest Practicable Date. See “Business — Intellectual Property.”

Quality Control

The *Product Quality Law of the PRC* (中華人民共和國產品質量法) sets forth the responsibilities of manufacturers and sellers with respect to product quality guarantees and stipulates the legal liability that producers are subject to pursuant to the *Product Quality Law*. In addition, the *Standardization Law of the PRC* (中華人民共和國標準化法) and the *Implementing Rules on the Standardization Law of the PRC* (中華人民共和國標準化法實施條例) stipulate that manufacturing enterprises which implement certain national, industrial, local or enterprise standards must indicate the code names, serial numbers and names of the relevant standards on their products and related instructions and/or packaging.

Foreign Investment by PRC Entities

The MOFCOM promulgated the *Measures for Overseas Investment Management* (境外投資管理辦法) on March 16, 2009, which became effective as of May 1, 2009, pursuant to which any PRC enterprise investing overseas must receive approval from the MOFCOM or its provincial departments. According to the *Interim Measures for the Administration of Examination and Approval of Overseas Investment Projects* (境外投資項目核准暫行管理辦法), which was promulgated by the NDRC on and became effective from October 9, 2004, any investment project using a significant amount of foreign exchange must be examined and approved by the NDRC or the State Council. Any change with respect to an investor of, or the equity holding in, such an approved overseas project must be approved by the NDRC.

According to the *Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions* (境內機構境外直接投資外匯管理規定) which was promulgated by the SAFE and became effective on August 1, 2009, upon obtaining approval from the relevant overseas investment authority, a PRC enterprise may apply for foreign exchange registration for its overseas direct investments.

Environmental Protection

The *Environmental Protection Law of the PRC* (中華人民共和國環境保護法) promulgated on and effective from December 26, 1989 (the “Environmental Protection Law”), is the basic law for environmental protection in the PRC and applies to anyone engaged in manufacturing operations. Under the *Environmental Protection Law*, the State Administration for Environmental Protection is required to establish the national standards for environmental protection. The provincial governments, autonomous regions and municipalities directly under the PRC Central Government may establish local standards for environmental protection.

The Environmental Protection Law requires each company that discharges environmental pollutants or other hazardous materials to incorporate environmental protection measures into its operations and establish an environmental protection responsibility system. According to this law, each company must adopt effective measures to prevent and control the pollution and harm to the environment by waste gases, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated during the course of production and related activities. In addition, a project operator must provide an assessment of the potential pollution and environmental impact of the project, as well as the prevention and control measures to the environmental protection authorities. The environmental protection authorities will not issue the approval to commence a construction project until they have reviewed and are satisfied with the pollution prevention and control measures.

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According to the *Ordinance of Environmental Protection Administration for the Construction Project* (建設項目環境保護管理條例) promulgated on and effective from November 29, 1998 and the *Law on Environmental Impact Appraisal of the PRC* (中華人民共和國環境影響評價法) promulgated on October 2, 2002 and effective from September 1, 2003, the PRC government has established a system to appraise the environmental impact of a construction project and administer an environmental impact appraisal based on the environmental impact. Construction enterprises must submit the environmental impact reports to the relevant environmental protection authorities for approval. No enterprise may commence its construction project without the approval of the relevant environmental protection authorities.

The *Law of the PRC on Prevention and Control of Water Pollution* (中華人民共和國水污染防治法) effective from June 1, 2008 provides that each new construction, expansion, reconstruction or other related project, which directly or indirectly discharges pollutants into a water source, is subject to the state regulations on environmental protection of construction projects. Each enterprise that discharges pollutants directly or indirectly into a water source must register its facility with, and submit relevant information to, the local environmental protection authorities. Such information may include the categories, quantity and concentration of pollutants discharged during the ordinary course of the operations of the enterprise. Such an enterprise may also be required to submit information on its water pollution prevention and control measures to the local environmental protection authorities. In addition, the PRC government also requires that each enterprise obtain a permit for the direct or indirect discharge of pollutants into the water, and pay a pollutant discharge fee.

The *Prevention and Control of Atmospheric Pollution Law of the PRC* (中華人民共和國大氣污染防治法) effective from September 1, 2000 provides that each new construction, expansion, reconstruction or other related project that discharges atmospheric pollutants is subject to state regulations on environmental protection of construction projects. Each enterprise that discharges atmospheric pollutants must register its facilities with, and submit relevant information to, the local environmental protection authorities. Such information may include the categories, quantity and concentration of pollutants during the ordinary course of the operations of the enterprise. Such an enterprise may also be required to provide certain technological information associated with atmospheric pollution to the local environmental protection authorities. In addition, the PRC government has implemented a system to collect fees from enterprises that discharge pollutants based on the categories and quantities of atmospheric pollutants discharged. The relevant environmental protection authorities have established standards for collecting fees that take into consideration the relevant atmospheric pollution regulations and the national economic and technological development level.

According to the amended *Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC* (中華人民共和國固體廢物污染環境防治法) effective from April 1, 2005, manufacturers, vendors, importers and users must seek to prevent and control the discharge of solid wastes.

According to the *Prevention and Control of Environmental Pollution by Noise Law of the PRC* (中華人民共和國環境噪聲污染防治法) promulgated on October 29, 1996 and effective from March 1, 1997, each new construction, expansion, or reconstruction project which discharges noise pollution is subject to the state regulations on environmental protection of construction projects. Industrial enterprises that emit noise pollution during industrial manufacturing at their facilities must report to the local environmental protection authorities certain information regarding the categories, quantity and volume of emitted noise pollution. Enterprises may also be required to provide certain prevention and control information for noise pollution to the local environmental protection authorities. If the noise pollutant emission of an

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enterprise exceeds the limits set by national or local pollution standards, such enterprise will be required to pay an additional fee for the excessive emission.

Labor Regulations

The *PRC Labor Law* (中華人民共和國勞動法) promulgated on July 5, 1994 and effective January 1, 1995, and the *PRC Labor Contract Law* (中華人民共和國勞動合同法) promulgated on June 29, 2007 and effective from January 1, 2008, require that each employer and employee execute a valid labor contract to legally establish an employment relationship. Employers may not require their employees to work in excess of the prescribed time limits and must timely pay wages that meet certain minimum wage standards. Each employer must establish a labor safety and sanitation system, and must strictly abide by labor safety and sanitation standards set by the state authorities. Each employer must provide its employees with safe and sanitary working conditions and protective clothing and in the case of employees working in hazardous conditions, regular health examinations.

According to the *Interim Regulations on the Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例), the *Interim Measures Concerning the Administration of the Registration of Social Insurance* (社會保險登記管理暫行辦法) and *Social Insurance Law* (社會保險法), Each PRC enterprise must register with the relevant authorities for social insurance purposes and make contributions to basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and occupational injury insurance for its employees.

The *Regulations on the Administration of Housing Fund* (住房公積金管理條例) stipulates that each PRC enterprise must register with the relevant housing fund management center and maintain a special housing fund account with a designated bank. Each enterprise and its employees must make monthly contributions to this housing fund in the amount of no less than 5% of such employees' monthly average wage during the preceding year.

Occupational Safety

The *Production Safety Law of the PRC* (中華人民共和國安全生產法) and the *Prevention and Treatment of Occupational Diseases Law of the PRC* (中華人民共和國職業病防治法) require each enterprise to provide its employees with safe production conditions. An enterprise without safe production conditions is not permitted to operate, and employees of manufacturing enterprises for certain specified operations including welding may not commence work until they have received and passed safety operations training courses and obtained qualification certificates for special operations in accordance with relevant regulations.

In addition, the *Measures for Administrative Penalties against Illegal Acts Concerning Work Safety* (安全生產違法行為行政處罰辦法) provide that the relevant production safety departments may impose administrative penalties such as warnings, fines, cancellation of licenses and related measures on the enterprises that violate the *Production Safety Law of the PRC*.

Taxation

According to the *Enterprise Income Taxation Law of the PRC* (中華人民共和國企業所得稅法) effective from January 1, 2008 and its implementation rules, a unified enterprise income tax rate of 25% is applied equally to both domestic enterprises and foreign invested enterprises.

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According to the *Measures for the Administration of the Recognition of Hi-tech Enterprises* (高新技術企業認定管理辦法) promulgated on April 14, 2008 and effective from January 1, 2008, an enterprise recognized as a hi-tech enterprise may apply for the favorable tax treatment at the rate of 15% pursuant to the *EIT Law* and its implementing rules and other relevant laws and regulations.

PRC Regulations on Reduction of State-owned Shares

Please see “Share Capital — Transfer of State-owned Shares to NSSF” for information on the relevant PRC regulations on reduction of state-owned shares.

PRINCIPAL COAL MINING EQUIPMENT INDUSTRY LAWS AND REGULATIONS OF THE RUSSIAN FEDERATION

There is no specific regulatory regime relating to either the provision of aftermarket coal mining equipment services or the development and manufacturing of coal mining equipment and coal mining transport equipment under Russian law. However, certain federal laws and regulations contain general requirements applicable to these industries, key aspects of which are summarized below.

Licensing

Federal Law “*On Licensing of Certain Types of Activities*” dated May 4, 2011 (the “Licensing Law”), establishes a list of activities that can only be performed on the basis of licenses issued by the relevant Russian authorities. These include licenses for the operation of hazardous fire and explosion production facilities (the “Fire and Explosion Licenses”) which may be required for the development, manufacturing and aftermarket servicing of coal mining and coal mining transport equipment.

The Fire and Explosion Licenses are issued pursuant to the Licensing Law, Federal Law “*On Industrial Safety of Hazardous Industrial Facilities*” dated July 21, 1997 (the “Industrial Safety Law”) and *Regulation on Licensing of Operation of Fire and Explosion Dangerous Production Facilities* approved by Decree of the Government No. 454, dated May 5, 2012. The Fire and Explosion Licenses are granted by the Federal Service for Ecological, Technical and Atomic Supervision (the “Rostekhnadzor”) for an indefinite term. Conditions for the issuance of Fire and Explosion Licenses include, *inter alia*, documentary proof of third-party liability insurance in the event of an accident at the relevant production facility. Licenses are granted on a non-competitive basis and are issued upon the relevant filing by an applicant provided that the following conditions are met, among others: (i) correct and complete documents have been filed; and (ii) the applicant or facilities owned or used by the applicant comply with applicable licensing and certification requirements, including, for example, obtaining certain permits provided by the Industrial Safety Law and compliance with industrial safety regulations. Rostekhnadzor carries out regular monitoring to ensure the licensees’ compliance with licensing terms and applicable laws and regulations. The frequency of announced inspections is established by Rostekhnadzor based on an analysis of industrial safety conditions relevant to the licensee’s activity. Unannounced inspections may also be carried out.

In addition, the development, manufacturing and aftermarket servicing of coal mining and coal mining transport equipment may be organized in a way that requires, among others, licenses for the collection, use, operations with and transportation of hazardous waste and for the use of water.

Industrial Safety

The principal law regulating the safety of employees at industrial workplaces is the *Industrial Safety Law*. Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by Rostekhnadzor.

Companies that operate such industrial facilities and sites have a wide range of obligations under the *Industrial Safety Law* and the *Labour Code of Russia*. In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The *Industrial Safety Law* also requires these companies to enter into contracts with professional wrecking companies or to create their own wrecking services in certain cases, conduct personnel training programs, create systems to respond to and inform Rostekhnadzor of accidents and maintain these systems in good working order.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarize the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declarations must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein.

Rostekhnadzor has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of Rostekhnadzor will conduct a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place will bear all costs of this investigation. The officials of Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. Rostekhnadzor may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Quality Control Laws

The Russian companies as well as products produced and facilities located in Russia are subject to various technical regulations enacted under the *Federal Law of the Russian Federation* (the "Federal Law") "*On Technical Regulation*" dated December 27, 2002, which sets forth requirements for production, manufacturing, storage, transportation, sales and certain other operations and processes, as well as quality of products. This law contains provisions on technical regulations, standardization, certification, accreditation of certification agencies and test laboratories, state control over compliance with the requirements of technical regulations, penalties for violations of technical regulations, product withdrawals and other related issues. Once manufacturing of coal mining equipment and coal mining transport equipment is commenced in Russia, the respective manufacturer will need to pass the relevant product certification procedures.

Environmental Protection Laws

Russian manufacturing companies are subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law “*On Environmental Protection*”, dated January 10, 2002, as amended (the “Environmental Protection Law”) as well as by a number of other federal and local legal acts.

Pay-to-Pollute

The Environmental Protection Law has established a “pay-to-pollute” regime administered by federal and local authorities. The Russian Government has established standards relating to the permissible impact of pollution on the environment and, in particular, has established rules for approving limits for emissions, waste disposal and resource extraction. An applicant may obtain approval to exceed these statutory limits from the federal or regional authorities, depending on the type and scale of the potential environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by an applicant and cleared with the appropriate governmental authority, and an applicant must apply the best technologies available as well as conduct various activities aimed at achieving statutory limits. Fees, as set forth in Decree of the Government No. 632, dated August 28, 1992 and Decree of the Government No. 344 dated June 12, 2003, as amended, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: (i) the lowest fees are imposed for pollution within the statutory limits; (ii) intermediate fees are imposed for pollution within individually approved limits; and (iii) the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Ecological Approval

Activities that may negatively affect the environment are subject to ecological approval by the competent authorities in accordance with the Federal Law “*On Ecological Expert Examination*” dated November 23, 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in “— Environmental Liability” below.

Enforcement Authorities

The Federal Service for the Supervision of the Use of Natural Resources and Rostekhnadzor are involved in environmental protection, and together with the Federal Agency on Subsoil Use and the Federal Agency on Water Resources (along with their regional branches), are responsible for the implementation and enforcement of relevant laws and regulations. The Russian government, including the Ministry of Natural Resources and Ecology, is responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-profit organizations, also have the right to initiate lawsuits seeking compensation for damage caused to the environment. The period of limitation for such lawsuits is 20 years.

Environmental Liability

If the operations of a company violate environmental requirements or cause harm to the environment, environmental authorities may suspend these operations or a court action may be brought to limit or ban those operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Foreign Investment Legislation

Foreign investments are regulated by the Federal Law “*On Foreign Investments in the Russian Federation*”, dated July 9, 1999 (the “Law on Foreign Investments”). The Law on Foreign Investments guarantees foreign investors the right to invest and to receive revenues and profits from such investments, and sets forth the terms for foreign investors’ business activity in Russia.

Federal Law “*On the Procedures for Foreign Investments in Companies of Strategic Significance for National Defense and Security*” dated April 29, 2008 (the “Law on Strategic Companies”) imposes certain restrictions on foreign investments in Russian companies of “strategic importance.” Pursuant to the Law on Strategic Companies, companies engaged in certain activities in the area of aviation, space exploration and technology, cryptography, certain activities involving use of subsoil resources, transportation, TV and radio broadcasting, certain telecommunication services, as well as certain military-related industries, are considered to be strategically important and foreign investments in such companies in excess of certain thresholds are subject to prior approval by the Governmental Commission for Control over Foreign Investments in Russia. As of the date of this prospectus, companies engaged in the provision of aftermarket coal mining equipment services or the development and manufacturing of coal mining equipment and coal mining transport equipment are not subject to restrictions on foreign investments as set forth in the Law on Strategic Companies.

Export Regulations

Customs legislation in Russia is based on the unified rules of the Customs Union (i.e., Russia, Belarus and Kazakhstan) created on January 1, 2010, the main legislative framework of which came into force on July 1, 2010.

Russian legislation, in particular, Law “*On the Customs Tariff*” dated May 21, 1993 and “*Regulation on Rates of Customs Duties Applicable to Goods Exported from the Russian Federation outside of the Member-Countries of the Customs Union*” approved by Decree of the Government No. 756 dated July 21, 2012, which sets forth the rates of export customs duties for certain types of goods, does not establish a rate of customs duty in relation to exports of coal mining and coal mining transport equipment. Therefore, export of such equipment is not subject to export customs duties.

According to the Russian *Tax Code*, the export of goods is subject to 0% VAT. In order to claim a refund of input VAT paid in relation to goods that subsequently were exported and subject to 0% VAT, the taxpayer is required to file various supporting documents with the Russian tax authorities. The VAT refund is granted only following a chamber tax audit of the respective VAT return and documents (except where the accelerated VAT procedure is used but this is rarely available).

PRINCIPAL COAL MINING EQUIPMENT INDUSTRY LAWS AND REGULATIONS OF INDIA

Overview

The following description is a summary of the relevant regulations as prescribed by the Government of India and the respective bye-laws framed by the local bodies incorporated under the laws in the state of West Bengal, India, where we propose to establish our production facility for hydraulic roof supports. The information detailed in this chapter has been obtained from the various local legislation and the bye-laws of the respective local authorities that are available in the public domain.

Regulation of Foreign Investment in India

Foreign investment in Indian securities is governed by the provisions of the *Foreign Exchange Management Act, 1999*, as amended (“FEMA”) read with the applicable FEMA regulations. *Foreign Direct Investment (“FDI”) Policy* issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India (“DIPP”) by circular 1 of 2012, effective from April 10, 2012 (“Circular 1 of 2012”), consolidates and supersedes all previous press notes, press releases and clarifications on FDI issued by the DIPP. The Indian government proposes to update the consolidated circular on FDI Policy once every year and therefore, Circular 1 of 2012 will be valid until the DIPP issues an updated circular (expected to be on April 10, 2013 and effective from April 10, 2013).

Foreign investment is permitted (except in the prohibited sectors) in Indian companies either through the automatic route or the approval route, where approval from the Government of India or the Reserve Bank of India (“RBI”) is required, depending upon the sector in which foreign investment is sought to be made.

Under the automatic route, the foreign investor or the Indian company does not require any approval from the RBI or the Indian government for investments. 100% FDI is allowed under the automatic route in the manufacturing of coal mining equipment. Under the approval route, prior approval of the Indian government through the Foreign Investment Promotion Board (“FIPB”) is required. Where FDI is allowed on an automatic basis without the approval of the FIPB, the RBI will continue to be the primary agency for the purposes of monitoring and regulating foreign investment.

Labor Legislations

We will be required to comply from time to time with certain laws in relation to the employment of labor for our proposed manufacturing facility in India. A brief description of certain labor legislations which are applicable to our operations is set forth below:

Industrial Disputes Act, 1947, as amended (the “ID Act”)

The ID Act provides the procedure for investigation and settlement of industrial disputes. When a dispute exists or is apprehended, the appropriate government authorities may refer the dispute to a labor court, tribunal or arbitrator, to prevent the occurrence or continuance of the dispute, or a strike or lock-out while a proceeding is pending. The labor court and tribunal may grant appropriate relief including ordering modification of contracts of employment or reinstatement of workmen. The Industrial Disputes (Amendment) Bill 2010 passed by the Rajya Sabha on August 3, 2010, proposes to, among other things, provide direct access for workmen to labor courts or tribunals in case of individual disputes, expand the

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scope of qualifications of presiding officers of labor courts or tribunals, constitute grievance settlement machineries in any establishment having 20 or more workmen, and vest industrial tribunals-cum-labor courts with the powers of a civil court in respect of enforcement of their decrees.

Factories Act, 1948, as amended (the “Factories Act”)

The Factories Act defines a “factory” to be any premises on which on any day in the previous 12 months, 10 or more workers are or were working and in which a manufacturing process is being carried on or is ordinarily carried on with the aid of power; or where at least 20 workers are or were working on any day in the preceding 12 months and on which a manufacturing process is being carried on or is ordinarily carried on without the aid of power. State governments prescribe rules with respect to the prior submission of plans, their approval for the establishment of factories and the registration and licensing of factories.

The Factories Act provides that the “occupier” of a factory (defined as the person who has ultimate control over the affairs of the factory and in the case of a company, any one of the directors) shall ensure the health, safety and welfare of all workers while they are at work in the factory, especially in respect of safety and proper maintenance of the factory such that it does not pose health risks, the safe use, handling, storage and transport of factory articles and substances, provision of adequate instruction, training and supervision to ensure workers’ health and safety, clean and safe working conditions. If there is a contravention of any of the provisions of the Factories Act or the rules framed thereunder, the occupier and manager of the factory may be punished with imprisonment or a fine.

Minimum Wages Act, 1948, as amended (the “Wages Act”)

The Wages Act, as amended, provides a framework for state governments to stipulate the minimum wage applicable to a particular industry. The minimum wage may consist of a basic rate of wages and a special allowance; or a basic rate of wages and the cash value of the concessions in respect of supplies of essential commodities; or an all-inclusive rate allowing for the basic rate, the cost of living allowance and the cash value of the concessions, if any. Workmen are to be paid for overtime at overtime rates stipulated by the appropriate government. Contravention of the provisions of this legislation may result in imprisonment for a term of up to six months or a fine of up to Rs. 500 or both.

Payment of Bonus Act, 1965 as amended (the “Bonus Act”)

Pursuant to the Bonus Act, an employee in a factory or in any establishment where 20 or more persons are employed on any day during an accounting year, who has worked for at least 30 working days in a year is eligible to be paid a bonus. Contravention of the provisions of the Bonus Act by a company is punishable with imprisonment or a fine, against persons in charge of, and responsible to the company for the conduct of the business of the company at the time of contravention.

Payment of Gratuity Act, 1972, as amended (the “Gratuity Act”)

Under the Gratuity Act, as amended, an employee who has been in continuous service for a period of five years will be eligible for gratuity upon his retirement, resignation, superannuation, death or disablement due to accident or disease. The entitlement to gratuity in the event of death or disablement is not contingent upon an employee having completed five years of continuous service.

REGULATION

Employees State Insurance Act, 1948, as amended (the “ESI Act”)

The ESI Act provides for certain benefits to employees in case of sickness, maternity and employment injury. All employees in establishments covered by the ESI Act are required to be insured, with an obligation imposed on the employer to make certain contributions in relation thereto. In addition, the employer is also required to register itself under the ESI Act and maintain prescribed records and registers.

Contract Labor (Regulation and Abolition) Act, 1970, as amended (the “CLRA”)

The CLRA requires establishments that employ, or have employed on any day in the previous 12 months, 20 or more workmen as contract labor to be registered and prescribes certain obligations with respect to the welfare and health of contract labor. The CLRA requires the principal employer of an establishment to which it applies to make an application to the registering officer in the prescribed manner for registration of the establishment. In the absence of registration, contract labor cannot be employed in the establishment. Likewise, every contractor to whom the CLRA applies is required to obtain a license and not to undertake or execute any work through contract labor except under and in accordance with the license issued. To ensure the welfare and health of contract labor, the CLRA imposes certain obligations on the contractor including the establishment of canteens, restrooms, drinking water, washing facilities, first aid facilities, other facilities and payment of wages. However, in the event the contractor fails to provide these amenities, the principal employer is under an obligation to provide these facilities within a prescribed time period. Penalties, including both fines and imprisonment, may be imposed for contravention of the provisions of the CLRA.

Employees Provident Fund and Miscellaneous Provisions Act, 1952, as amended (the “EPF Act”)

The EPF Act provides for the institution of compulsory provident fund, pension fund and deposit linked insurance funds for the benefit of employees in factories and other establishments. Both the employer and the employee are required to make certain contributions to such funds.

Apprentices Act, 1961, as amended (the “Apprentices Act”)

The Apprentices Act was enacted in 1961 for imparting training to apprentices (i.e., persons who are undergoing apprenticeship training in pursuance of contracts of apprenticeship). Every employer may make suitable arrangements in his workshop for imparting a course of practical training to every apprentice engaged by him in accordance with the program approved by the apprenticeship adviser. The central apprenticeship adviser or any other person not below the rank of an assistant apprenticeship adviser may be given all reasonable facilities for access to each apprentice with a view to test his work and to ensure that the practical training is being imparted in accordance with the approved program.

The Building and Other Construction Workers Act, 1996, as amended (the “BOCW Act”)

The BOCW Act provides for regulations on the employment and conditions of service of building and other construction workers and also provides for their safety, health and welfare measures and other matters connected therewith or incidental thereto.

REGULATION

Industrial Employment (Standing Orders) Act, 1946, as amended (the “Standing Orders Act”)

The Standing Orders Act requires employers in any industrial establishment which employs 100 or more workmen to define the conditions of employment of workmen employed and to make them known to such workmen. The Standing Orders Act requires every employer to which the Standing Orders Act applies to certify and register the draft standing orders proposed by such employer in the prescribed manner, until which time the model standing orders under the Standing Orders Act must be followed.

Environmental Legislation

Our proposed manufacturing facility in India will be subject to various environmental laws and regulations. Compliance with relevant environmental laws and regulations is the responsibility of the occupier or operator of the facilities.

Our proposed operations in India will require various environmental and other permits covering, among other things, water use and discharges, stream diversions, solid waste disposal and air and other emissions. Major environmental laws applicable to the business operations include:

The Environment (Protection) Act, 1986, as amended (the “EPA”)

The EPA is umbrella legislation in respect of the various environmental protection laws in India. The EPA vests the Indian government with the power to take any measure it deems necessary or expedient for protecting and improving the quality of the environment and preventing and controlling environmental pollution. This includes rules for, *inter alia*, laying down the quality of environment, standards for emission of discharge of environment pollutants from various sources as given under the Environment (Protection) Rules, 1986, inspection of any premises, plant, equipment, machinery, examination of manufacturing processes and materials likely to cause pollution. Penalties for violation of the EPA include fines of up to Rs. 100,000 or imprisonment of up to five years, or both. The imprisonment can extend up to seven years if the violation of the EPA continues.

The EPA also contains provisions with respect to certain compliances by persons handling hazardous substances, furnishing of information to the authorities in certain cases, establishment of environment laboratories and appointment of Government analysts.

Air (Prevention and Control of Pollution) Act, 1981, as amended, (the “Air Act”)

Under the provisions of the Air Act, under which any individual, industry or institution responsible for emitting smoke or gases by way of use as fuel or chemical reactions must apply in a prescribed form and obtain consent from the state pollution control board. The state pollution control board is required to grant consent within four months of receipt of the application. The consent may contain conditions relating to specifications of pollution control equipment to be installed.

REGULATION

Water (Prevention and Control of Pollution) Act, 1974, as amended (the “Water Act”)

The Water Act aims at the prevention and control of water pollution as well as restoration of water quality through the establishment of state pollution control boards. Under the provisions of the Water Act, any individual, company or institution discharging industrial or domestic wastewater is required to obtain consent of the state pollution control board. The consent to operate is granted for a specific period after which the conditions stipulated at the time of granting consent are reviewed by the state pollution control board. Even before the expiry of the consent period, the state pollution control board is authorized to carry out periodic checks on any industry to verify if the standards prescribed are being complied with by the concerned person/company. If the standards are not being complied with, the state pollution control board is authorized to serve a notice to the concerned person/company.

Environment Impact Assessment Notifications

The *Environment Impact Assessment Notification S.O.60(E)*, issued on January 27, 1994 (the “1994 Notification”) under the provisions of the EPA, prescribes that for the construction of certain power projects specified in the 1994 Notification, in the case of a new project, if the investment is more than Rs. 1,000 million and in the case of an expansion or modernization project, if the investment is more than Rs. 500 million, the prior environmental clearance of the Ministry of Environment and Forests, Government of India (“MoEF”) is required. The environmental clearance must be obtained from the MoEF according to the procedure specified in the 1994 Notification. No construction work, preliminary or other, relating to the setting up of a project can be undertaken until such clearance is obtained.

The application to the MoEF is required to be accompanied by a project report which should include, *inter alia*, an Environmental Impact Assessment Report and an Environment Management Plan.

The Impact Assessment Authority evaluates the report and plan submitted. Such assessment is required to be completed within a period of 90 days from receipt of the requisite documents from the project developer/manager. Thereafter, a public hearing has to be completed and a decision must be conveyed within 30 days.

The clearance granted is valid for a period of five years from the commencement of the construction or operation of the project. The project developer/manager concerned is required to submit a report to the Impact Assessment Authority every six months to enable it to effectively monitor the implementation of the recommendations and conditions subject to which the environmental clearance has been given.

If no comments from the Impact Assessment Authority are received within the time limits specified above, the project will be deemed to have been approved by the project developer/manager. On September 14, 2006, the *Environmental Impact Assessment Notification S.O.1533* (the “2006 Notification”) superseded the 1994 Notification.

Under the 2006 Notification, the environmental clearance process for new projects consists of four stages — screening, scoping, public consultation and appraisal. After completion of public consultation, the applicant is required to make appropriate changes in the draft Environment Impact Assessment Report and the Environment Management Plan. The final Environment Impact Assessment Report has to be submitted to the concerned regulatory authority for appraisal. The regulatory authority is required to give its decision within 105 days of the receipt of the final Environment Impact Assessment Report.

REGULATION

The Noise Pollution (Regulation & Control) Rules 2000 (“Noise Regulation Rules”)

The Noise Regulation Rules regulate noise levels in industrial (75 decibels), commercial (65 decibels) and residential zones (55 decibels). The Noise Regulation Rules also establish zones of silence of not less than 100 meters near schools, courts, hospitals, etc. The rules also assign a regulatory authority for administering these standards to the local district courts. Penalty for non-compliance with the Noise Regulation Rules is provided for by the EPA.

Hazardous Waste (Management and Handling) Rules, 1989, as amended (the “Hazardous Waste Rules”)

The Hazardous Waste Rules impose an obligation on each occupier and operator of any facility generating hazardous waste to dispose of such hazardous wastes properly and also imposes obligations in respect of the collection, treatment and storage of hazardous wastes. Each occupier and operator of any facility generating hazardous waste is required to obtain an approval from the relevant state pollution control board for collecting, storing and treating the hazardous waste.

Public Liability Insurance Act, 1991, as amended (the “Public Liability Act”)

The Public Liability Act imposes liabilities on the owners or controllers of hazardous substances for any damage arising out of an accident involving such hazardous substances. A list of “hazardous substances” covered by the legislation has been enumerated by the Indian government by way of a notification. The owner or handler of hazardous substances is required to take out an insurance policy insuring against liability under the legislation. The rules made under the Public Liability Act mandate that each employer handling hazardous substances must contribute towards the Environment Relief Fund a sum equal to the premium paid on the insurance policies. This amount is payable to the insurer.

Other Applicable Legislation

The Legal Metrology Act, 2009 (the “Legal Metrology Act”)

The *Standards of Weights & Measures Act, 1976* & the *Standards of Weights & Measures (Enforcement) Act, 1985* have been repealed with the implementation of the Legal Metrology Act. The Legal Metrology Act provides for establishing uniform standards of weights and measures, regulates trade in weights and other goods which are sold or distributed by weight, measure or number. Use of non-standard weights and measures is punishable with imprisonment and penalties which are prescribed under the Legal Metrology Act. The Legal Metrology Enforcement Rules is the tool by which the state authorities enforce various provisions of the Legal Metrology Act and rules made thereunder.

West Bengal State Tax on Professions, Trade, Calling and Employment Act, 1979

The objective of this Act is to levy tax on every person engaged in professions, trades, callings and employments. The Act requires tax to be levied on both salaried employees as well as self-employed persons. The Act provides directions for taxpayers to apply for tax registration/ enrollment. Registered employers are required to file returns with receipted challan showing payment of tax. Enrolled persons are required to pay tax only once every financial year. Failure to do the same is penalized by payment of interest on the overdue amount. The Act also provides for prosecution for certain offences such as failure to pay taxes and failure to furnish tax returns.

Approvals from Local Authorities

Setting up of a factory or manufacturing/housing unit entails the requisite planning approvals to be obtained from the relevant local panchayat(s) outside the city limits and appropriate Metropolitan Development Authority within the city limits. Consents from the state pollution control board(s), the relevant state electricity board(s), the state excise authorities and sales tax authorities, among others, are required to be obtained before commencing the building of a factory or the start of manufacturing operations.

The Shops and Establishments Legislations

Under the provisions of local shops and establishments legislations applicable in the states in which establishments are set up, establishments are required to be registered. Such legislations regulate the working and employment conditions of the workers employed in shops and establishments including commercial establishments and provide for fixation of working hours, rest intervals, overtime, holidays, leave, termination of service, maintenance of shops and establishments and other rights and obligations of the employers and employees.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

MILESTONES IN OUR HISTORY

We have achieved the following key milestones in our development into a leading comprehensive coal mining and excavating equipment manufacturer in the PRC:

1958	The Ministry of Coal Industry of the PRC initiated to establish Zhengzhou Coal Mining Machinery Factory, the predecessor of our Company.
1964	Zhengzhou Coal Mining Machinery Factory successfully manufactured the first hydraulic roof support in the PRC.
2002	Zhengzhou Coal Mining Machinery Factory was reorganized into a wholly state-owned company with limited liability and officially renamed as ZCMM.
2004	ZCMM entered into a procurement agreement with Shenhua Group, pursuant to which we sold the first domestic-manufactured high-end hydraulic roof supports in the PRC.
2006	We were restructured to become a state-owned and -controlled company. ZCMM developed the ZY10800/28/63D hydraulic roof support, which had the world's largest roof support height of 6.3 meters at the time.
2008	Our Company was incorporated as a joint stock limited company in the PRC. Our Company commenced research and development of high-powered armored-face conveyors and successfully delivered these products to customers.
2009	We developed the ZY16800/32/70D hydraulic roof support, which had the world's largest roof support height of 7.0 meters at the time.
2010	Our A Shares have been listed on the Shanghai Stock Exchange since August 3, 2010.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Establishment of Zhengzhou Coal Mining Machinery Factory in 1958

Zhengzhou Coal Mining Machinery Factory, the predecessor of our Company, was established in 1958 under the administration of the Ministry of Coal Industry of the PRC (中華人民共和國煤炭工業部, currently the PRC State Administration of Coal Industry). The administration of Zhengzhou Coal Mining Machinery Factory was transferred to Henan Provincial Coal Authority in September 1998.

Incorporation of ZCMM in 2002

In September 2002, the People's Government of Henan Province (the "Henan Government") approved the reorganization of Zhengzhou Coal Mining Machinery Factory into a wholly state-owned company, with the Henan Government as promoter, and the Henan Provincial Coal Authority supervising and administering its state-owned assets. As a result of the reorganization, Zhengzhou Coal Mining Machinery Factory was officially renamed "Zhengzhou Coal Mining Machinery Company"* (鄭州煤礦機械集團有限責任公司), and obtained its business license from the Zhengzhou Administration for Industry and Commerce on November 6, 2002.

Restructuring as a State-Owned and -Controlled Company in 2006

In October 2006, in order to diversify ZCMM's ownership and to improve its corporate governance structure, ZCMM was restructured to become a state-owned and -controlled company, which involved certain changes in its registered capital. As part of the restructuring process, certain ZCMM's employees collectively established Zhengzhou Bai Si Te Coal Mining Company* (鄭州百斯特礦機有限公司) ("BST") in the name of the labor union of ZCMM then formed to hold the equity interest on behalf of those employees. Immediately upon the completion of its restructuring, the registered capital of ZCMM was RMB80.7 million and the Henan Government and BST held 51% and 49%, respectively, of the equity interest in ZCMM.

There were certain prior irregularities associated with the restructuring. As confirmed by the PRC Legal Advisers, these irregularities include:

- that technically, the restructuring steps involved a partial reduction of ZCMM's registered capital in the process before BST acquired equity interest in ZCMM, and ZCMM had not gone through a creditors' announcement procedure required in such process. Despite this, as recognized by the PRC Legal Advisers, the restructuring and the steps involved did not result in any material change or impact on ZCMM's business operation or capability and its then ability to repay debts. As of the Latest Practicable Date, the Directors were not aware of any claim by any creditor of ZCMM at that time made as a result of its not having gone through the creditors' announcement procedure. Accordingly, as opined by the PRC Legal Advisers, such prior procedural irregularity did not result in any substantive detriment to the interests of the Company's creditors;
- certain accounting adjustments believed to be necessitated from or following the restructuring, which, as approved by the relevant authorities including Henan SASAC and Henan Provincial Financial Department (河南省財政廳), were subsequently rectified and restated. The rectified and restated accounting treatment was endorsed by the Company's independent PRC auditors at the material time to be in compliance with the relevant accounting principles; and

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- certain other prior procedural or ancillary employees' settlement allowance-related matters, which, according to the PRC Legal Advisers, have been either addressed by way of appropriate accounting rectifications and/or approved and endorsed under various documents issued by the Henan Government and Henan SASAC.

As advised by our PRC Legal Advisers, the above prior irregularities have all been approved and endorsed under various documents issued by the competent PRC authorities before our A Shares were listed on the Shanghai Stock Exchange as described below. In particular, the Henan Government and Henan SASAC have: (i) approved of the asset and capital verification and the valuation associated with the restructuring of ZCMM in 2006, and their effectiveness; (ii) approved that the consideration by the relevant ZCMM's employees for the equity interest of BST in ZCMM's registered capital was fair and reasonable, and that the relevant restructuring steps did not result in any detriment to the interests of PRC state-owned assets; and (iii) approved of the legality and validity of the restructuring. Further, certain features or details underlying the above prior irregularities have been publicly disclosed in the prospectus issued by the Company in connection with the listing of our A Shares on the Shanghai Stock Exchange in 2010. On the basis of the above, the PRC Legal Advisers have opined that the Company will not be subject to any administrative penalty in relation to any of the prior irregularities described above, and such irregularities will not create any legal impediment to the Listing.

Transfer of the Indirect Shareholding of the Employees in 2008

In June 2008, BST entered into an equity transfer agreement with certain enterprises and companies (which, save for their shareholding interest in our Company, are Independent Third Parties) and various ZCMM's executives and employees, to transfer all of its equity interest in ZCMM for a total consideration of approximately RMB743 million. The consideration (which was determined after arm's length negotiations between the parties which took into account various factors, such as the Company's development potential and the then possibility of an A Share listing) represented 4.8 times of the net asset value of ZCMM as of the date of October 31, 2007. The equity transfer was approved by Henan SASAC, and had been registered with Zhengzhou Administration for Industry and Commerce (鄭州市工商行政管理局) in July 2008. As confirmed by our PRC Legal Advisers, the transfer was legal and valid under PRC laws.

Incorporation as a Joint Stock Limited Company in 2008

On December 5, 2008, the shareholders of ZCMM passed a resolution to incorporate ZCMM as a joint stock limited company in preparation for the initial public offering and listing of our A Shares on the Shanghai Stock Exchange. ZCMM's then shareholders were the promoters of the joint stock limited company as required under PRC law. These promoters include Mr. Jiao Chengyao, Mr. Shao Chunsheng, Mr. Xiang Jiayu, Mr. Fu Zugang and Mr. Wang Xinying, being our executive Directors, and Mr. Ding Hui and Mr. Ni Heping, being two of our Supervisors. In addition, the shareholders resolved to capitalize an amount of RMB560,000,000, representing approximately 99.5% of ZCMM's audited net assets as of July 31, 2008, to issue 560,000,000 domestic shares with a par value of RMB1.00 per share, with the amount being the balance of its audited net assets being credited as the capital reserves of ZCMM.

On December 24, 2008, Henan SASAC approved the change of ZCMM's name to our current name, Zhengzhou Coal Mining Machinery Group Company Limited. On December 28, 2008, the Zhengzhou Administration for Industry and Commerce issued the business license to our Company.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Transfer of Equity Interest in Zhengzhou Coal Mining Machinery Property Management Co., Ltd. in 2009

We established Zhengzhou Coal Mining Machinery Property Management Co., Ltd. (“ZCMMPM”) in 2001, which was then our subsidiary. ZCMMPM primarily conducts property management business and provides social welfare and ancillary services, which did not form part of our core business operations. In 2008, as approved by the relevant governmental or regulatory bodies, we underwent a corporate reorganization to divest and reform our non-core business involving ZCMMPM. Pursuant to this reorganization, we participated in transactions involving transfers in and capital changes of equity interests in ZCMMPM. As part and a step of these transactions, we disposed of our equity interest in ZCMMPM. Following completion of these transactions which all took place in March 2009, we had an approximately 9.1% equity interest in ZCMMPM. The amounts involved in such transactions were of a *de minimis* amount to the Company. We have since then retained an approximately 9.1% equity interest in ZCMMPM. The transactions described above were publicly disclosed in the prospectus issued by the Company in connection with the listing of our A Shares on the Shanghai Stock Exchange as referred to below.

Establishment of ZMJ Suda in 2009

In July 2009, we established ZMJ Suda with certain Independent Third Parties. As of the Latest Practicable Date, the Company held an approximately 34% equity interest in ZMJ Suda, and four other individuals or entities being Independent Third Parties held, respectively, approximately 34%, 15%, 12.75% and 4.25% equity interests in ZMJ Suda. Our investment in ZMJ Suda has been recorded as an investment in an associate under the accountants’ report included in Appendix I to this prospectus. ZMJ Suda was established to provide comprehensive aftermarket services. The Company has had an outsourcing arrangement with ZMJ Suda for provision of aftermarket services to our customers since August 1, 2009, details of which are set out in the “Business — Sales and Marketing — Aftermarket Services” section of this prospectus.

Listing on the Shanghai Stock Exchange in 2010

On August 3, 2010, the Company completed its initial public offering of 140,000,000 new A Shares which were issued at an offer price of RMB20 per share under the A Share Offering, and our A Shares have since then been listed on the Shanghai Stock Exchange under stock code “601717”. Immediately following completion of the A Share Offering, the Company’s registered capital increased to RMB700,000,000 comprising 700,000,000 A Shares of RMB1.00 each. Our Company raised net proceeds of approximately RMB2,700.4 million from the A Share Offering, after deducting underwriting commissions and offering and related expenses in an aggregate amount of approximately RMB99.6 million.

As disclosed in the prospectus issued by the Company in connection with the listing of our A Shares, we intended to invest proceeds raised from the A Share Offering in a project to construct a production base of our Company for producing high-end hydraulic roof supports. The total investment amount of that project was then estimated to be approximately RMB1,493 million. The exact timing in respect of the use of such proceeds would be subject to appropriate adjustments depending on factors including the status in carrying out the project.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

On April 22, 2011, we convened our 2010 annual general meeting. It was approved at the meeting that an additional amount of approximately RMB977 million out of the proceeds raised from the A Share Offering would be used in accordance with the following breakdown:

- (i) approximately RMB402 million to enhance the project in constructing the high-end hydraulic roof supports production base as described above. Such funds were anticipated to be used for acquiring additional equipment and for investments in infrastructure to build more efficient production lines for support rams and automatic robotic systems to weld structural parts;
- (ii) approximately RMB455 million to fund ancillary projects, which in turn involve setting up an electronic hydraulic control system and a research and development center to complement the high-end hydraulic roof supports production base being constructed as described above; and
- (iii) approximately RMB120 million to purchase a parcel of reserved land for industrial use, which was anticipated to support our future projects and developments.

Based on the above, out of the net proceeds raised from the A Share Offering, an aggregate amount of around RMB2,470 million has been allocated for use as described above. As of June 30, 2012, out of that amount, a total amount of approximately RMB1,215.9 million has been used for the above purposes. As of that date, we had a balance of approximately RMB1,484.5 million raised from the A Share Offering which had not been used, and among that balance, an amount of approximately RMB230 million (which represents around 8.5% of the total net proceeds raised from the A Share Offering) has not been allocated for any specific use. We will make the allocation at an appropriate time in accordance with applicable PRC laws and procedures. The above amounts are unaudited.

Please refer to the section headed “Financial Information — Capital Expenditures” of this prospectus in respect of further details regarding the accounting treatment and the status of the use of proceeds from the A Share Offering for the above purposes as of June 30, 2012.

As of the Latest Practicable Date, the Company had not received any notice from the Shanghai Stock Exchange alleging any PRC securities regulatory non-compliance committed by the Company; and the Directors believe that from the date the A Shares were listed on the Shanghai Stock Exchange, the Company has been operating in compliance with applicable Shanghai Listing Rules in all material respects.

Acquisition of ZMJ Shun Li Machinery in 2010

On October 28, 2010, the Company entered into an equity transfer agreement with Anhui Guoyuan Trust Co., Ltd* (安徽國元信託有限責任公司), pursuant to which the Company acquired approximately 44.94% equity interest of ZMJ Shun Li Machinery for a total consideration of RMB44,490,000. In November 2010, the Company injected into ZMJ Shun Li Machinery a total sum of RMB30,690,000, of which RMB18,600,000 was contributed as the increased registered capital of ZMJ Shun Li Machinery and RMB12,090,000 was contributed as its capital reserves. After the capital injection, ZMJ Shun Li Machinery became 57.97% owned by and a subsidiary of our Company. The principal business of ZMJ Shun Li Machinery is the manufacturing of mining equipment.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Establishment of ZMJ Siberia in 2011

On June 2, 2011, with the approval of Henan Provincial Commerce Department (河南省商務廳), the Company established its first overseas subsidiary, ZMJ Siberia. ZMJ Siberia has a total investment amount of US\$200,000 of which US\$100,000 (which represents the amount of its registered capital as shown in the relevant foreign investment certificate issued by MOFCOM) has been paid up and contributed by the Company. ZMJ Siberia is located in Siberia, Russia and focuses on the aftermarket service for the products sold to Russia. According to the relevant foreign investment certificate, ZMJ Siberia has an initial term of operation of 10 years.

We have not made the necessary filings with the Russian Federal Anti-monopoly Service in connection with the establishment of ZMJ Siberia and our investment in more than 25% of its voting shares as a legal entity controlled by a non-Russian state entity. We intend to rectify the situation by establishing a new Russian entity to undertake the business activities and operation of ZMJ Siberia, which would entail the undertaking of the requisite filing and registration procedures. Further details are set out under “Risk Factors — Risks Relating to Our Business and Operations — We may not be able to successfully execute our international expansion plans.”

Establishment of ZMJ Foundry in 2011

On November 25, 2011, ZMJ Foundry was established. As of the Latest Practicable Date, the registered capital of ZMJ Foundry was RMB30,000,000. The Company directly holds 38.60% equity interest of ZMJ Foundry, and indirectly (through its subsidiaries including ZMJ Shun Li Machinery and ZMJ Comprehensive Equipment) holds another approximately 16.66% equity interest of ZMJ Foundry. The principal business of ZMJ Foundry is the production and sale of casting pieces (鑄件) and forgeable pieces (鍛件) for use in coal mining machines. ZMJ Foundry was established so as principally to increase the Company’s operation efficiency and improve its corporate governance in respect of its foundry business previously performed by its foundry factory.

Establishment of Huaxuan Investment in 2011 and its Subsequent Developments

On December 5, 2011, Huaxuan Investment was established. The registered capital of Huaxuan Investment is RMB500,000,000, which shall be contributed as to RMB300,000,000 by the Company and as to RMB200,000,000 by Hua Xin Venture Capital. As of the Latest Practicable Date, Huaxuan Investment had a paid-up capital of RMB400,000,000, of which RMB300,000,000 was contributed by the Company and RMB100,000,000 was contributed by Hua Xin Venture Capital. Under PRC law, as a result of the relative stipulated contribution amounts towards the registered capital of Huaxuan Investment, the Company holds a 60% equity interest of Huaxuan Investment, and Hua Xin Venture Capital holds the remaining 40% equity interest. Despite this, according to the articles of association of Huaxuan Investment, its profits will be shared between the Company and Hua Xin Venture Capital according to their respective percentage interests in its paid-up capital instead of its registered capital (i.e., as to 75% and 25%, respectively, as of the Latest Practicable Date). The principal business of Huaxuan Investment is equity investments and financial management. The Company invested in Huaxuan Investment so as principally to facilitate the Company to seek investment opportunities in line with the Group’s business operations and strategies and in accordance with its investment policies and parameters.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

On July 27, 2012, the Company and Hua Xin Venture Capital, as shareholders of Huaxuan Investment, passed a shareholders' resolution at a meeting to approve a further capital injection by Hua Xin Venture Capital into Huaxuan Investment (the "Proposed Capital Increase in Huaxuan Investment"). According to that resolution, upon completion of the Proposed Capital Increase in Huaxuan Investment, our equity interest in Huaxuan Investment will be diluted to 46.15%. The relevant parties are in the process of implementing the Proposed Capital Increase in Huaxuan Investment. As confirmed by our PRC Legal Advisers, since July 27, 2012: (i) the articles of association of Huaxuan Investment have been amended such that its board of directors now comprises seven directors, of whom four are nominated by Hua Xin Venture Capital and three by us; and (ii) our voting rights at general meetings of Huaxuan Investment have decreased from 60% to 46.15%, while Hua Xin Venture Capital has been entitled to exercise 53.85% of the voting rights. On this basis and in the opinion of the Directors, since July 27, 2012, Huaxuan Investment has ceased to be a subsidiary of the Company and a member of the Group, and since the third quarter of 2012, Huaxuan Investment has ceased to be accounted for and consolidated in our audited consolidated accounts as a subsidiary pursuant to IFRS. Huaxuan Investment is now accounted for as an investment in an associate of our Company. Given that the business of Huaxuan Investment is not a core business line of the Group, and its contribution to the Group in terms of total assets, profits and revenue during the Track Record Period was considered insignificant by the Directors, the Directors take the view that such developments concerning Huaxuan Investment would not be expected to result in any material adverse impact on the Group's financial condition or operations.

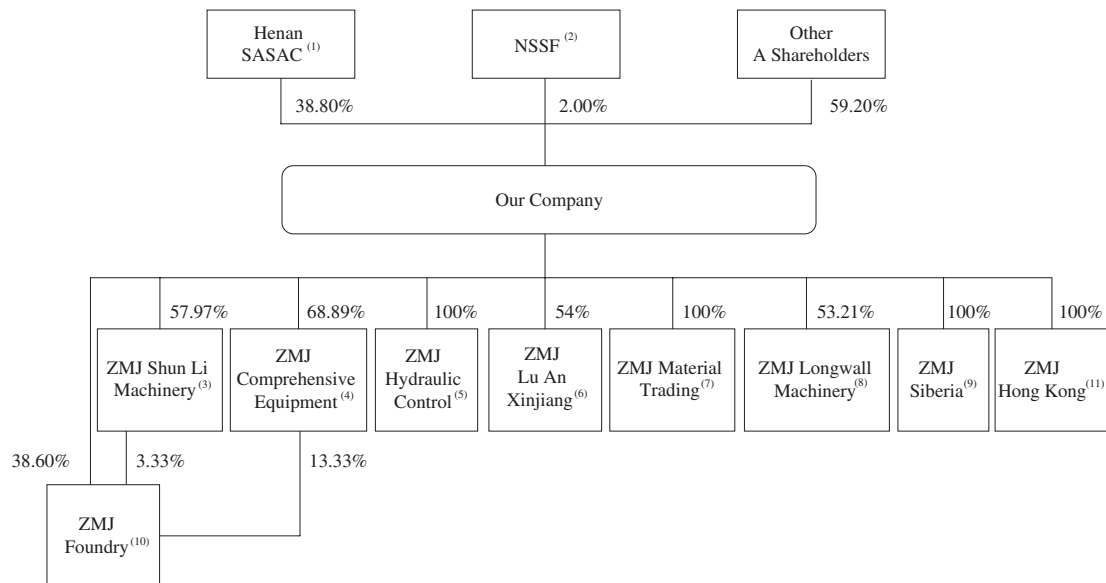
Capital Increase in 2012

Pursuant to the shareholders' resolutions passed at the 2011 annual general meeting of the Company held on February 28, 2012, the Company has, by way of capitalization of the capital reserves, issued 700,000,000 new A Shares (on the basis of the Company's total issued share capital comprising 700,000,000 A Shares as of December 31, 2011) to all holders of A Shares whose names appeared on the Company's register of members as of the closing of trading on the Shanghai Stock Exchange on March 12, 2012, on the basis of ten new A Shares for every ten then issued A Shares. The registered capital of the Company has thereby increased to RMB1,400,000,000, comprising 1,400,000,000 A Shares. The shareholding percentage of the holders of A Shares in the Company's registered capital was unchanged immediately after such capital increase. Trading of the A Shares newly issued under such capital increase commenced on the Shanghai Stock Exchange on March 14, 2012.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

GROUP STRUCTURE PRIOR TO THE GLOBAL OFFERING

The following chart sets out our shareholding structure, to the knowledge of our Directors, as of the Latest Practicable Date:



Notes:

- (1) As of the Latest Practicable Date, Henan SASAC directly held 543,200,000 A Shares, representing 38.80% of the Company's issued share capital. Henan SASAC is considered a "PRC Governmental Body" for all purposes of and as defined under the Hong Kong Listing Rules.
- (2) As of the Latest Practicable Date, NSSF directly held 28,000,000 A Shares, representing 2.00% of our Company's issued share capital, which were acquired by NSSF following the transfer of such A Shares by Henan SASAC to NSSF in accordance with the relevant PRC regulations on reduction of state-owned shares at the time when our A Shares were listed on the Shanghai Stock Exchange, and these 28,000,000 A Shares are subject to a moratorium of 36 months commencing from August 3, 2010 (being the date of registration of such A Shares in the name of NSSF). Please see "Share Capital — Transfer of State-owned Shares to NSSF" for further information about the relevant PRC regulations on reduction of state-owned shares. NSSF is not a connected person of the Company, and therefore the 28,000,000 A Shares directly held by it are considered to be held in public hands for the purpose of the Hong Kong Listing Rules.
- (3) ZMJ Shun Li Machinery is a company incorporated in the PRC with a registered capital of RMB78.6 million. Huainan Mining is another substantial shareholder of ZMJ Shun Li Machinery holding approximately 37.40% of the equity interest in it. The remaining approximately 4.63% of the equity interest is held by nine individuals, one of them being a director of ZMJ Shun Li Machinery. Huainan Mining is a company incorporated in Anhui Province in the PRC, and, as we understand, is principally engaged in businesses including coal production, power generation, sale and purchase of industrial and mining equipment, machineries and metal materials.
- (4) ZMJ Comprehensive Equipment is a company incorporated in the PRC with a registered capital of RMB100 million. Zhengzhou Hua Yuan Investment Company Limited* (鄭州華源投資股份有限公司) is another substantial shareholder of ZMJ Comprehensive Equipment holding approximately 31.11% of the equity interest in it. Zhengzhou Hua Yuan Investment Company Limited is a company incorporated in Henan Province in the PRC, and, as we understand, is principally engaged in investment holding.
- (5) ZMJ Hydraulic Control is a company incorporated in the PRC with a registered capital of RMB15 million.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

- (6) ZMJ Lu An Xinjiang is a company incorporated in the PRC with a registered capital of RMB50 million. Lu Xin Coal Chemical is another substantial shareholder of ZMJ Lu An Xinjiang holding 40.00% of the equity interest in it. The remaining 6% of the equity interest is held by seven individuals, two of them being directors of ZMJ Lu An Xinjiang. Lu Xin Coal Chemical is a company incorporated in Xin Jiang Uyghur Autonomous Region in the PRC, and, as we understand, is principally engaged in businesses including coal production, coal-based chemical processing business and power generation business.
- (7) ZMJ Material Trading is a company incorporated in the PRC with a registered capital of RMB10 million.
- (8) ZMJ Longwall Machinery is a company incorporated in the PRC with a registered capital of RMB50 million. Shanghai Wan You Dynamic Technology Company Limited* (上海萬友動力科技有限公司) is another substantial shareholder of ZMJ Longwall Machinery holding 40.00% of the equity interest in it. The remaining approximately 6.79% of the equity interest is held by fifteen individuals, one of them being a director of ZMJ Longwall Machinery. Shanghai Wan You Dynamic Technology Company Limited is a company incorporated in Shanghai in the PRC, and, as we understand, is principally engaged in businesses comprising development of leak-proof materials, design, production and testing of leak-proof systems and products.
- (9) ZMJ Siberia is a company incorporated in Russia with a total investment amount of US\$200,000 of which US\$100,000 (which represents the amount of its registered capital as shown in the relevant foreign investment certificate issued by MOFCOM) has been paid up and contributed by the Company.
- (10) ZMJ Foundry is a company incorporated in the PRC with a registered capital of RMB30 million. Zhengzhou Dongdian Technology Company Limited* (鄭州東點科技股份有限公司) is another substantial shareholder of ZMJ Foundry holding approximately 34.73% of the equity interest in it. The remaining equity interest is held as to approximately 6.67% by a director of ZMJ Foundry and approximately 3.33% by Xi'an Huantai Technology Development Limited* (西安環太科技發展有限公司). Zhengzhou Dongdian Technology Company Limited is a company incorporated in Henan Province in the PRC, and, as we understand, is principally engaged in investment holding.
- (11) ZMJ Hong Kong is a company incorporated in Hong Kong on November 8, 2012 with an authorized and issued share capital of US\$7.5 million divided into 7.5 million shares of US\$1.0 each, all of which were issued to our Company and were unpaid as of the Latest Practicable Date.

Our Joint Ventures Being Our Non-Wholly Owned Subsidiaries

As shown in the chart above, the Company has the following non-wholly owned subsidiaries which are joint ventures:

- ZMJ Shun Li Machinery;
- ZMJ Comprehensive Equipment;
- ZMJ Lu An Xinjiang;
- ZMJ Longwall Machinery; and
- ZMJ Foundry.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Our Other Principal Joint Ventures

Apart from these non-wholly owned subsidiaries, the Company has also set up other joint ventures, including joint ventures with certain strategic customers of our Group. These principal joint ventures include:

- Datong Coal Mining Group Zhongbei Electromechanical Equipment Machinery Co., Ltd.* (大同煤礦集團機電裝備中北機械有限公司) (“Datong Equipment”), in which the Company holds 31% equity interest; and
- the Zhenglong Joint Venture, in which the Company holds 47.5% equity interest.

These two joint ventures are not, or are not expected to become, subsidiaries of the Company, and therefore are not members of our Group. Their details are further described in “Business — Our Business Strategies — Grow our operations through acquisitions and joint ventures.” and “Business — Sales and Marketing — Aftermarket Services — Joint Ventures With Selected Strategic Customers” of this prospectus.

Our Investments in Other Associates and Jointly Controlled Entities

In addition, as of the Latest Practicable Date, the Company had investments in other associates and jointly controlled entities, including:

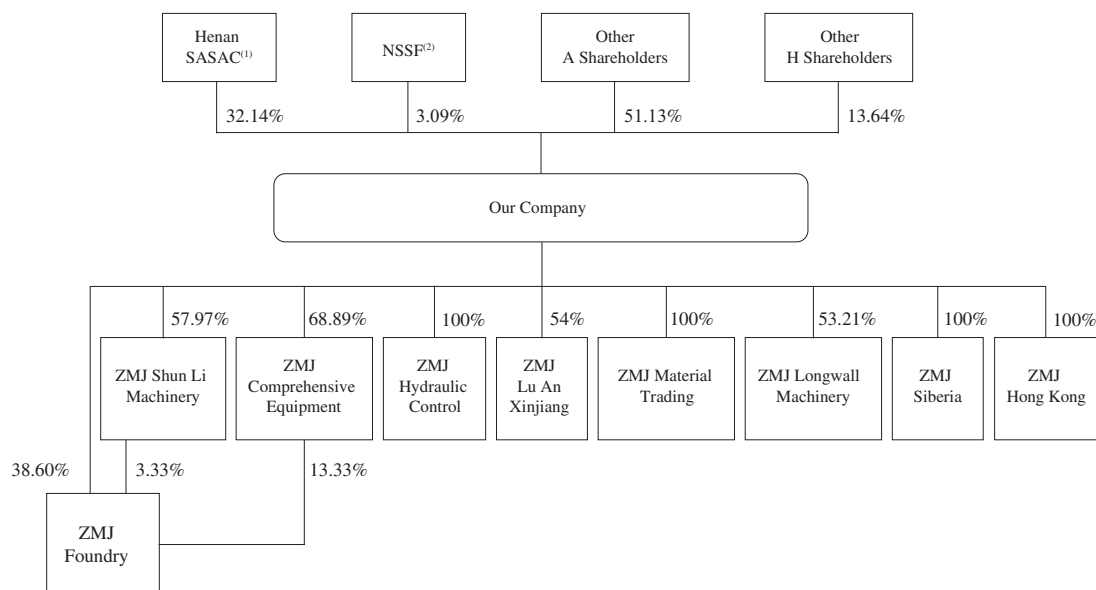
- Huaxuan Investment;
- ZMJ Suda;
- ZMJ (Jiangxi) Comprehensive Equipment Co., Ltd.* (鄭州煤機(江西)綜機設備有限公司) (“ZMJ Jiangxi”);
- Xinjiang Kerui ZMJ Heavy Machinery Co., Ltd.* (新疆克瑞鄭煤機重型機械股份有限公司) (“Xinjiang Coal”);
- Huainan Phillips Mining Machinery Manufacturing Co., Ltd.* (淮南菲利普斯採礦機械製造有限公司) (“Huainan Phillips”);
- Huainan Allen West Electromechanical Equipment Co., Ltd.* (淮南阿蘭維斯特電器有限公司) (“Huainan Allen West”);
- Huainan Shun Li Coal Mining Machinery Maintenance Co., Ltd.* (淮南舜立煤礦機械設備檢修有限公司) (“Shun Li Machinery Maintenance”); and
- Zhengzhou Coal Mining Special Forging Pressing and Manufacturing Co., Ltd.* (鄭州煤機特種鍛壓製造有限公司) (“ZMJ Forging and Pressing”).

Details of these investments (except for Huaxuan Investment and ZMJ Forging and Pressing) are more particularly set out in notes 25 and 26 to the accountants’ report included as Appendix I to this prospectus. Details in respect of ZMJ Forging and Pressing are set out in the “Recent Developments — Establishment of Joint Venture” section of this prospectus.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

GROUP STRUCTURE FOLLOWING COMPLETION OF THE GLOBAL OFFERING

The following chart sets out our shareholding structure, to the knowledge of our Directors, immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised:



Notes:

- (1) Upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised, Henan SASAC is expected to directly hold 521,087,800 A Shares, representing approximately 32.14% of the Company's then enlarged issued share capital. Henan SASAC is and will remain to be considered a "PRC Governmental Body" for all purposes of and as defined under the Hong Kong Listing Rules.
- (2) Upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised and that NSSF's shareholding interest in the A Shares remains unchanged since the Latest Practicable Date, NSSF is expected to: (i) directly hold 28,000,000 A Shares (which will represent approximately 1.73% of the Company's then enlarged issued share capital); and (ii) hold 22,112,200 H Shares (to be converted from A Shares which are to be transferred by Henan SASAC in accordance with the relevant PRC regulations on reduction of state-owned shares upon the Listing, and which will represent approximately 1.36% of the Company's then enlarged issued share capital). Please see "Share Capital — Transfer of State-owned Shares to NSSF" for further information about the relevant PRC regulations on reduction of state-owned shares. NSSF is not a connected person of the Company, and therefore the 50,112,200 Shares held and to be held by it are considered to be held in public hands for the purpose of the Hong Kong Listing Rules.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Henan SASAC is expected to hold approximately 32.14% of the enlarged issued share capital of the Company immediately upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised). Henan SASAC is and is expected to continue to be in a position to control the composition of a majority of the Board, and is our Controlling Shareholder. Henan SASAC itself has no business operations.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDER

Having taken into account the following factors, our Directors are satisfied that we can carry on our business independently of our Controlling Shareholder following the Listing.

Management Independence

Our management and operational decisions are made by the Board and a team of members of senior management. The Board consists of nine Directors, comprising five executive Directors and four independent non-executive Directors. The independent non-executive Directors will bring independent judgment to the decision making process of the Board. In addition, members of our senior management, who are responsible for taking charge of our daily operations, are independent from the Controlling Shareholder and its Associates. Our senior management team possesses in-depth experience and understanding of the industry in which we are engaged. In this regard, the Directors are of the view that our Group can be managed independently from the Controlling Shareholder.

Operational Independence

Our organizational structure is made up of a number of departments including, among others, our own finance department, human resources department, production control department, sales and marketing department, design and research department, quality control department and safety and supervision department. Each department plays a specific role in our operations and is independent from the Controlling Shareholder and its Associates. There are internal control procedures to ensure effective operation of our business. Furthermore, we have our own production lines and our own sources of suppliers and customers. Accordingly, we can carry out our business operations independently.

Financial Independence

We have established our own financial accounting system independent of the Controlling Shareholder, and have our own bank account, make our own tax registrations and have employed a sufficient number of financial accounting personnel. Accordingly, our Directors consider that we are capable of operating independently from a financial perspective.

OVERVIEW

We are a leading comprehensive coal mining and excavating equipment manufacturer in the PRC in terms of total sales of coal mining and excavating equipment in 2011, according to the CMIA. We focus on the manufacturing and sale of hydraulic roof supports, and were the largest hydraulic roof support manufacturer in the PRC, with approximately 22.6% of the PRC market share for hydraulic roof supports based on production volume in 2011, according to the CMIA. We are also engaged in the trading of steel and other raw materials primarily through our wholly-owned subsidiary, ZMJ Material Trading, which we established in March 2008. We have commenced manufacturing and selling armored-face conveyors in recent years and intend to commence selling roadheaders by the end of 2012. We are one of the few coal mining and excavating equipment manufacturers in the PRC able to manufacture three of the four components that comprise a complete integrated coal mining and excavating system for underground coal mining, namely, hydraulic roof supports, armored-face conveyors and roadheaders. We currently do not manufacture the fourth component, shearers, but are in the process of developing the related manufacturing technology and capability. Our established operating history, high quality products, strong in-house research and development capabilities, advanced manufacturing processes and extensive sales and service network are the keys to our success and allow us to maintain our leading position in the PRC coal mining and excavating equipment market.

The following is a brief overview of our products and businesses:

- ***Hydraulic roof supports.*** Hydraulic roof supports control the height of, and provide support to, the mine roof of the working face during the coal mining process to form a moveable underground mining area, allowing the armored-face conveyor and shearer to operate underneath. Hydraulic roof supports generally account for over 50% of the total value of a coal mining and excavating system. In addition, we are one of the few manufacturers in the PRC able to design and manufacture high-end hydraulic roof supports. In 2004, we developed the PRC's first set of high-end hydraulic roof supports with electronic hydraulic control systems, which have emerged as a significant domestic alternative to imported high-end hydraulic roof supports. Such hydraulic roof supports have been widely used by domestic coal mining enterprises since their introduction. Moreover, we are one of the few hydraulic roof support manufacturers in the PRC able to independently manufacture such electronic hydraulic control systems, a critical component of high-end hydraulic roof supports. As of June 30, 2012, we had an annual production capacity of 23,400 units of hydraulic roof supports.
- ***Steel and other raw materials trading.*** We trade steel and other raw materials primarily through our wholly-owned subsidiary, ZMJ Material Trading, which we established in March 2008. Due to our large procurement volumes, we are able to leverage on our bargaining power and sourcing network with steel producers to purchase high quality steel in bulk from approximately 20 suppliers at competitive prices for sales to third party customers. Our steel and other raw materials trading business allows us to efficiently manage our overall procurement costs for key raw materials, in particular, steel, used in our manufacturing operations while mitigating the impact of steel price fluctuations.

- ***Spare parts.*** We sell spare parts, such as jacks, hydraulic valves and structural parts for hydraulic roof supports, to third-party coal mining companies, most of which have previously purchased our hydraulic roof supports. Since 2009, we have also sold spare parts to our associate, ZMJ Suda, which focuses on the provision of aftermarket services for the hydraulic roof supports sold by our Company in the PRC. We sell spare parts through bidding or direct ordering processes, and we generally do not enter into long-term sales agreements with our customers for spare parts. Our spare parts are primarily manufactured and sold by our Company, as well as our subsidiaries, ZMJ Comprehensive Equipment and ZMJ Hydraulic Control.
- ***Other coal mining equipment.*** Since 2008, we have manufactured high-powered armored-face conveyors, which are used in mining operations to support shearers and transport coal cut from the working face by shearers. In 2011, we completed production and delivery of one of the largest armored-face conveyors in the PRC, with an operating capacity of 2,000kW and line pans of 1.2 meters. In 2010, we commenced designing and testing of prototype roadheaders which are mobile mining units used to dig tunnels and crush rocks with drill units. We are currently testing five prototype models of roadheaders that are generally classified into light-duty, medium-duty and heavy-duty categories according to their cutting power. We intend to commence selling roadheaders by the end of 2012. We also provide various related mining and excavating equipment that support coal mining operations, including belt conveyors, crushers and loaders.

We have a strong in-house research and development team and have substantially invested in research and development. In 2004, we realized 30 years of research and development by manufacturing the PRC's first set of high-end hydraulic roof supports with electronic hydraulic systems, which were characterized by high support capacity and high reliability. Certain large mining height hydraulic roof supports that we manufactured in 2009 and 2010 had the world's largest support height of 7.0 meters at that time. In recent years, we have developed the technology and capability to produce armored-face conveyors and roadheaders. We have been able to maintain our position as an industry leader in innovation and have continuously improved the function and quality of our products and our manufacturing processes. As a result of our industry-leading products, we have won several awards and received widespread recognition in the PRC, including being designated a National Innovative Enterprise by the MOST, SASAC and the All-China Federation of Trade Unions. In 2007, our technology center was jointly recognized as a nationally-accredited technical center by five separate PRC government departments and authorities, namely the NDRC, MOST, MOF, GAC and SAT.

We have advanced and efficient production processes. Supported by our large, advanced and comprehensive manufacturing facilities located in Zhengzhou, Henan Province, we are able to provide our customers with customized coal mining and excavating equipment within short lead times. In addition, we utilize standardized production processes that incorporate state-of-the-art technologies and equipment such as our large-scale, multi-stage robotic welding systems and advanced hydraulic cylinder production technology and equipment. From time to time, we also selectively outsource the production of certain non-critical parts and components, such as structural parts and rams, to third-party manufacturers and assemble such outsourced parts at our manufacturing facilities. We believe that outsourced manufacturing enhances our manufacturing efficiency and enables us to meet the increasing demand for our products.

Our sales and service network allows us to provide our customers with a broad range of services. Our Company's sales and service network primarily comprises eight domestic sales offices and four overseas sales agents in Russia, India, Turkey and the United States. In addition, we provide aftermarket services through a three-tier system which comprises: (i) joint ventures with our selected strategic customers, focusing on manufacturing coal mining and excavating equipment and providing aftermarket services; (ii) certain of our subsidiaries; and (iii) our associate, ZMJ Suda. See "— Sales and Marketing — Aftermarket Services." Our domestic sales and service network together with those of our joint ventures and ZMJ Suda cover substantially all of the major coal mining provinces and regions in the PRC, and are in close proximity to most of our domestic customers located in Shanxi, Shaanxi, Anhui, Henan, Shandong, Guizhou, Hebei, Heilongjiang, Jilin, Liaoning and Gansu Provinces, as well as Inner Mongolia, Ningxia and Xinjiang Autonomous Regions. Through our overseas sales agents, we have the ability to provide related aftermarket services to international customers. Leveraging on our sales and service network, research and development strengths and high quality products, we have been able to continue to expand our customer base and establish long-term relationships with leading coal mining and energy enterprises in the PRC such as Shenhua Group, Huainan Mining, Henan Coal and Chemical Industry, Yitai Coal and Datong Coal. We have also established long-term relationships with overseas mining companies such as Russia Stark, Russia Belon, Yuzhkuzbassugol and Turkish Coal.

We believe the favorable industry and regulatory environment in the PRC has contributed, and will continue to contribute, significantly to our growth. A majority of the coal reserves in the PRC can be economically extracted only through underground mining. Compared with room-and-pillar mining, longwall mining is fully mechanized and, as a result, is a more efficient and safer method of underground mining. As part of its measures to improve the mechanization rate, operating efficiency and safety of the PRC coal mining industry, the PRC government implements policies, such as the *Twelfth Five-Year Plan* published in 2011, to encourage the consolidation of the PRC coal mining industry. As hydraulic roof supports generally account for over 50% of the total value of an integrated coal mining and excavating system, and are typically considered to be the most important component of an integrated coal mining and excavating system, we believe these industry measures will enable us to increase the sales of our hydraulic roof supports in the future.

We have experienced significant growth in revenue and profit in recent years. For the years ended December 31, 2009, 2010 and 2011, our revenue was RMB4,994.4 million, RMB6,358.3 million and RMB8,060.1 million, respectively, representing a CAGR of 27.0% from 2009 to 2011. Our profit for the same periods was RMB646.8 million, RMB892.8 million and RMB1,213.3 million, respectively, representing a CAGR of 37.0% from 2009 to 2011. For the six months ended June 30, 2011 and 2012, our revenue was RMB3,586.3 million and RMB4,723.6 million, respectively, representing an increase of 31.7%. Our profit for the same periods was RMB598.2 million and RMB832.3 million, respectively, representing an increase of 39.1%. For the six months ended June 30, 2012, revenue generated from our sales of hydraulic roof supports and steel and other raw materials trading accounted for 69.3% and 23.7%, respectively, of our total revenue.

OUR COMPETITIVE STRENGTHS

According to the CMIA, we are a leading comprehensive coal mining and excavating equipment manufacturer in the PRC in terms of total sales of coal mining and excavating equipment in 2011, with strong research and development, manufacturing, sales and aftermarket services capabilities. We believe that the following competitive strengths have contributed to our historical success and will contribute to our future growth:

We are a leader in manufacturing hydraulic roof supports in the PRC.

We are a leader in manufacturing hydraulic roof supports in the PRC. According to the CMIA, we were the largest manufacturer of hydraulic roof supports in the PRC, with approximately 22.6% of the PRC market share for hydraulic roof supports based on production volume in 2011. In addition, we are one of the few manufacturers in the PRC able to design and manufacture high-end hydraulic roof supports.

We manufactured the first hydraulic roof support in the PRC in 1964, and since 2003, have been a leading manufacturer of hydraulic roof supports in the PRC. We developed the ZY10800/28/63D hydraulic roof support, ZY16800/32/70D hydraulic roof support and the ZY18000/32/70D hydraulic roof support in 2006, 2009 and 2010, respectively, all of which were significant achievements in global coal mining equipment industry at those times. As a result of our accumulated experience in utilizing heavy-duty load test beds, we are able to provide our customers with hydraulic roof supports that have an industry-best support capacity of 18,000KN. See “— Our Products and Businesses — Hydraulic Roof Supports.” As of the Latest Practicable Date, we had sold more than 150 units in one set of the ZY16800/32/70D hydraulic roof supports and more than 700 units in five sets of the ZY18000/32/70D hydraulic roof supports. We believe that our continued commitment to research and development will allow us to continue to enhance our products and increase our sales and market share.

We have advanced technology and strong research and development capabilities.

Since our establishment in 1958, we have focused on the research and development of hydraulic roof supports in the PRC. We designed and manufactured the first hydraulic roof support in the PRC in 1964 and also designed the world’s first top coal caving hydraulic roof support used in the mining of thick coal seams in 1984. In 2004, we independently designed and produced the PRC’s first set of high-end hydraulic roof supports, which allowed domestic coal mining enterprises to rely on domestically produced hydraulic roof supports, as opposed to imported hydraulic roof supports. We are one of the few hydraulic roof support manufacturers in the world able to independently produce electronic hydraulic control systems for hydraulic roof supports, a key component to achieve automation of hydraulic roof supports. With approximately 50 years of industry experience and industry-leading research and development capabilities, we have also pioneered technologies to produce a series of specialized products and components which our customers are able to apply to specific coal mining conditions or coal seams. In addition, we have the technology and capacity to develop other key coal mining and excavating equipment, including armored-face conveyors and roadheaders.

We are the only enterprise in the PRC hydraulic roof support industry with a state-level technical research and development center, the State-Accredited Enterprise Technology Center of the PRC. In addition, we have established a post-doctoral research institute and a workshop for research fellows of both the Chinese Academy of Sciences and the Chinese Academy of Engineering to further enhance our

comprehensive research and development platform. Furthermore, we have formed strategic alliances primarily with major academic institutions, steel companies and coal manufacturers in the PRC to bolster our external research and development efforts. See “— Research and Development — Cooperation with Third Parties.” We have also entered into strategic alliance agreements with several of our major customers in the PRC to cooperate in a variety of areas, including developing new technologies and products, such as advanced coal mining and excavating equipment. See “— Customers.” Benefiting from such cooperation with industry leaders, we have been able to maintain our market leading position in innovation and have continuously improved the function and quality of our products and our manufacturing processes. We have received various recognitions and awards in the PRC for our achievements in research and development. See “— Awards and Recognitions.”

As of the Latest Practicable Date, our committed research and development team of 480 members included three professor level senior engineers, 65 senior engineers, 166 engineers and 303 professional technicians. Among our research and development staff, 147 members held master’s degrees and above and two members were awarded the special expert allowance by the State Council for their expertise and contributions to the industry.

Our advanced and efficient production facilities and manufacturing process allow us to efficiently produce high quality coal mining and excavating equipment.

Our manufacturing bases are equipped with state-of-the-art production facilities that utilize advanced manufacturing equipment, which enables us to control our labor costs and have high production efficiency. In particular, we started to utilize multi-stage, automated robotic welding systems for linkage welding in April 2009 and started to implement this advanced welding system for manufacturing components such as base frames, canopies, caving shields and lemniscate linkages of hydraulic roof supports in March 2011, which has enabled us to increase our production efficiency, improve our product quality and reduce the number of our production staff while ensuring the safety of our production process. In 2011, we imported skiving and roller burnishing equipment and developed related processing technology, which enables us to efficiently produce refined and precise hydraulic cylinders. We also developed an automated surface treatment process for manufacturing all of our structural parts in 2011, which enables us to improve our production efficiency. In addition, we utilize advanced digitalized control systems in our operations, such as our ERP system and OA system, which enables us to fully automate and integrate our manufacturing processes and order and warehouse management.

We have developed an advanced and efficient production process which allows us to provide our customers with coal mining and excavating equipment within short lead times. From design to mass production, we adhere to a strict product development cycle and manufacturing procedures to ensure the high quality of our products. We are able to design and manufacture key parts and components of hydraulic roof supports such as the electronic hydraulic control systems in-house, which allows us to provide our customers with reliable and high quality products in a timely manner. We have also implemented various computer-aided design and process planning software, such as CAD/CAE and CAPP. As part of our CAD system, we use Pro/Engineer software to facilitate our three-dimensional computer design. We believe these industry-leading technological measures contribute to our advanced and efficient production processes. As our coal mining and excavating equipment is required to operate in complex and challenging environment, which in most cases differs from mine to mine, we are able to leverage on our experience and production management efficiency to quickly customize our products to our customers’ specifications. See “— Product Design and Manufacturing.” We believe this process allows us to efficiently manufacture high quality and customized products for our customers.

We are able to efficiently control our production costs throughout our manufacturing process.

We have a state-of-the-art, automated and efficient design and manufacturing process. With our in-depth industry experience and strong internal research and development capabilities, we have developed and integrated our own design and manufacturing processes, which enables us to efficiently optimize our comprehensive design solutions and manufacture our products in line with customers' needs.

Our operations are supported by what we believe to be the PRC coal mining equipment industry's largest and most complete manufacturing facilities in Zhengzhou. After expanding the production capacity of our facilities in September 2011, we had an aggregate annual production capacity of 23,400 units of hydraulic roof supports as of June 30, 2012, and our manufacturing facilities had a total GFA of 586,253.08 sq.m. as of the Latest Practicable Date. Our facilities are equipped with highly advanced and versatile production equipment, which allows us to manufacture all of our products as well as most of the parts and components for our products in-house. The scale of our operations provides us with significant bargaining power in our raw materials procurement. In addition, we have entered into strategic alliance agreements, long-term supply contracts and steel technology development agreements with a number of domestic steel manufacturers to maintain stable raw material supplies and develop industry-leading special steel for the manufacturing of high-end hydraulic roof supports. Such agreements enable us to secure a stable supply of quality raw materials at relatively competitive prices.

We have also implemented a lean management model to improve our business and operational efficiency and overall utilization rate. We believe this management system strengthens our commitment to high quality products and enables us to optimize our resource allocation and increase our overall competitiveness. In addition, as a result of our vertically integrated manufacturing process, we are able to minimize raw materials inventory and reduce production costs, as several phases of the supply and production chain are completed by our multi-function and automated production equipment. As such, we are able to capture profits all along the supply and production chain.

We have a professional, efficient and extensive sales and service network and have successfully entered the international markets.

Our sales and service network is supported by our professional team comprising members of the sales and marketing, manufacturing and research and development departments. Through our sales and service network, we provide our customers with effective services, including on-site installation and routine inspection, testing and adjustment of our products, technical and operational training and general troubleshooting, refurbishing and overhaul and spare and replacement parts supply.

We provide aftermarket services through a three-tier system which comprises: (i) joint ventures with our selected strategic customers, focusing on manufacturing coal mining and excavating equipment and providing aftermarket services; (ii) certain of our subsidiaries; and (iii) our associate, ZMJ Suda. See "— Sales and Marketing — Aftermarket Services." Leveraging on the geographic advantage of Zhengzhou, a key transportation center in the PRC in close proximity to domestic coal mining areas, our domestic sales and service network and the service networks of our joint ventures and ZMJ Suda, including two 4S centers of ZMJ Suda, cover substantially all of the major coal mining provinces and regions in the PRC, and are in close proximity to most of our domestic customers located in Shanxi, Shaanxi, Anhui, Henan, Shandong, Guizhou, Hebei, Heilongjiang, Jilin, Liaoning and Gansu Provinces, as well as Inner Mongolia, Ningxia and Xinjiang Autonomous Regions. The 4S centers operated by ZMJ Suda are

distinguished from traditional aftermarket services offices in that 4S centers are sales and service platforms that offer comprehensive aftermarket services including: (i) maintenance and overhaul services; (ii) spare parts and components provision; (iii) technical support; and (iv) customer feedback surveys in key coal mining regions across the PRC. As of the Latest Practicable Date, we had a sales and marketing team of 178 members and ZMJ Suda had 48 well-trained professional aftermarket services engineers. Through our sales and service network, we have been able to continue to expand our customer base and establish long-term relationships with major domestic coal mining enterprises such as Shenhua Group, Huainan Mining, Henan Coal and Chemical Industry, Yitai Coal and Datong Coal, as well as overseas customers such as Russia Stark, Russia Belon, Yuzhkuzbassugol and Turkish Coal.

In addition, we have commenced implementation of our international growth strategy to further expand our global operations and increase our overseas market share. We have customers, and are able to provide related aftermarket services, in Russia, Turkey and India, three of the major coal-rich countries in the world. We also have the capability to provide related aftermarket services in the United States through a third-party sales agent. In June 2011, we established a wholly-owned subsidiary, ZMJ Siberia, to facilitate our provision of aftermarket services in Russia. We entered into contracts with our overseas customers for the sale of approximately RMB700.0 million of coal mining and excavating equipment and sold approximately RMB208.2 million of coal mining and excavating equipment to our overseas customers in 2011.

We are able to provide our customers with customized and comprehensive solutions in their coal mining operations.

In line with international practices, we are committed to providing our customers with customized and comprehensive coal mining and excavating equipment solutions, manufactured in accordance with customers' specifications and the topographies, geologic rock formations and mining conditions where our coal mining and excavating equipment will be used. We maintain close communications with our customers during the entire sales cycle. As a result, we are able to precisely understand and respond to the needs of our customers. We generally conduct on-site inspections to prepare technical proposals detailing the conditions of the coal seam, thickness of the mining wall and other relevant geological conditions of a particular coal mine. In addition, our sales team works closely with our technology and production teams to ensure that our customers' requirements are reflected in our products and to manage production timetables. We believe this allows us to effectively manage our production, inventory levels and raw materials procurement.

Leveraging on our ability to manufacture high quality hydraulic roof supports, our experience in the coal mining and excavating equipment industry and our research and development capabilities, we have become one of the few manufacturers in the PRC with the ability to provide comprehensive coal mining and excavating system solutions, which typically comprise hydraulic roof supports, armored-face conveyors, shearers and roadheaders. We are currently able to manufacture hydraulic roof supports, armored-face conveyors and roadheaders in-house, and are developing the technology and capability to manufacture shearers. We are committed to delivering high quality, reliable, safe and highly efficient coal mining and excavating equipment with consistent performance and minimum downtime for maintenance and overhaul. We also work closely with our customers to develop products and procure components and parts from a broad array of third-party manufacturers inside and outside the PRC to address their specific needs. For example, as a solution provider to certain of our Russian and Turkish customers, we are providing complete sets of hydraulic roof supports and sourcing certain coal mining and excavating equipment from third parties to meet our customers' specified needs.

We have experienced senior management and operations teams and have established a modern and scientific management system.

Our senior management team has extensive industry experience and management skills. In particular, Mr. Jiao Chengyao, Chairman of our Company, and Mr. Shao Chunsheng, Vice Chairman of our Company, each of whom have approximately 27 years of related experience in the coal mining and excavating equipment industry, have been instrumental in our development and achievements to date. Our other senior management personnel have an average of 20 years of experience in the coal mining equipment industry, manufacturing operations and general business management. Members of our senior management provide strong strategic direction, leadership and inspiration to our Company and employees, and invest in our continued development. Our Directors, Supervisors and senior management held approximately 3.05% of the shares of our Company as of the Latest Practicable Date, which we believe has further motivated those involved and facilitated the overall improvement of our business and operational results.

In addition, our day-to-day operations are managed by a capable team with significant operational experience and management ability. We also have a highly skilled work force which we have recruited from reputable colleges and universities in the PRC and receives regular training and related education.

OUR BUSINESS STRATEGIES

Our long-term objective is to become a leading manufacturer of comprehensive coal mining and excavating equipment in the world. To this end, we intend to implement a business strategy with the following key aspects:

Strategically increase our global presence and market share.

We intend to expand our global presence and increase our sales and market share. We expect that our sales to overseas customers will continue to increase and contribute to our total sales. We have customers, and are able to provide related aftermarket services in Russia, Turkey and India. We also have the capability to provide aftermarket services in the United States through a third-party sales agent. See “— Sales and Marketing — Aftermarket Services.” These capabilities have laid a solid foundation for implementing our future international strategies and extending our global reach. Building on these capabilities, we intend to expand our market presence in Russia, Turkey and India, and enter additional international markets, including coal-rich countries or countries with mining operations that utilize longwall mining techniques, such as the United States, Australia, Vietnam, Mexico, Colombia, South Africa, Brazil, Ukraine and Kazakhstan. By executing this strategy, we expect to build a strong international brand and expand our business in the global market within three to five years.

We intend to take the following steps to execute our international expansion plans:

- ***Establish our overseas production capacity.*** We plan to establish hydraulic roof support manufacturing facilities in Tomsk, Russia and Kolkata, India by 2016, with an estimated annual production capacity of 2,600 and 2,000 units, respectively, of high-end hydraulic roof supports. We also plan to establish an integrated coal mining transport equipment manufacturing base in Novokuznetsk, Russia, focusing on manufacturing armored-face conveyors, loaders and belt conveyors, by 2016, with an estimated annual production capacity of 30 units of both heavy-duty armored-face conveyers and loaders and 80 units of belt conveyors.

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- ***Expand overseas sales and marketing coverage.*** In addition to our existing wholly-owned subsidiary in Russia, ZMJ Siberia, we plan to increase our international sales and marketing coverage by establishing representative offices in the United States, Russia, Germany, India, Turkey, Australia, Colombia, South Africa, Ukraine and Kazakhstan by 2014.
- ***Establish aftermarket services bases and spare parts centers to provide aftermarket services.*** We plan to establish aftermarket service bases and spare parts centers to provide aftermarket services in Russia by the end of 2012 and in the United States, India, Turkey and Australia by 2014.
- ***Establish overseas research and development centers.*** We plan to establish research and development centers in Germany and the United States in 2013 to enhance our research and development capabilities.

We have conducted feasibility and sustainability studies for each of our projects that comprise our international expansion plans based on our research, experience in doing business in the relevant overseas countries and on-site visits and meetings with local customers and agents. We have assessed local market conditions, regulations and policies, competition, staff, taxation and other operational and financial factors. In particular, these feasibility studies involve assessing the establishment of manufacturing facilities in Russia and India, and our findings include the following:

- Russia has the world's second largest coal reserves and favorable government policies that facilitate investment by PRC companies in its natural resources, which we believe will enable us to expand our operations in the country;
- India is expected to rely on its domestic coal resources to continue its rapid economic growth due to its lack of oil and natural gas resources; and
- due to the current low mechanization rates of Russian and Indian coal mining industries and the active efforts of Russian and Indian governments to improve mechanization rates in their domestic mining operations, sales of coal mining and excavating equipment to these countries have significant growth potential.

Compared to general manufacturing operations in the PRC, we believe that establishing our manufacturing bases in Russia and India will enable us to: (i) respond to local market conditions and customer demand on a more timely basis; (ii) better utilize our strong research and development capabilities to manufacture products that meet varying local customer requirements; and (iii) reduce the delivery time of our products to the overseas markets. We also seek to achieve rapid market penetration and increase our global presence and market share by identifying and securing potential customers in these overseas markets. However, our international expansion plans are subject to various risks and uncertainties. The overseas markets for coal mining and excavating equipment, particularly in the emerging markets that we are currently targeting, may be volatile for an extended period of time. As such, we intend to remain flexible in implementing our international expansion plans, and adjust our expansion timetable in accordance with our overall performance and market conditions. In addition, due to our lack of overseas manufacturing experience, we may be subject to risks and uncertainties in addition to those associated with manufacturing operations in the PRC. Such additional risks and uncertainties include, but are not limited to, difficulties in obtaining local government approvals, permits and licenses, including

land use rights, and unstable political, regulatory or macroeconomic environments. See “Risk Factors — Risks Relating to Our Business and Operations — We may not be able to successfully execute our international expansion plans.”

To manage our international expansion, we will continue to closely monitor overseas markets and take into account overseas regulations and policies, labor safety, quality control, raw materials procurement, production costs and other relevant factors. In addition, we expect to establish specific overseas management measures within a year, which will include further overseas market research, hiring professional local consultants, communicating with local governments and making periodic on-site visits to our targeted overseas countries. We plan to hire additional engineers, technicians and sales and marketing personnel with international experience and offer training programs to such employees through our newly-established overseas representative offices. In addition, to manage our overseas production costs, we intend to procure raw materials and key components, such as high-strength steel, hoses and hydraulic seals, primarily from domestic suppliers with whom we are familiar or have previously worked to ensure the quality and price competitiveness of our products. We believe these efforts will enable us to develop and manufacture customized products and provide maintenance services for our customers in the overseas markets, which will reduce our costs and delivery time and, consequently, enhance our competitiveness and increase our market share in these overseas markets. For the establishment of our existing subsidiary in Russia, ZMJ Siberia, we engaged local consultants and legal counsel to collect market information, assist in the bidding process and to ensure compliance with applicable Russian laws and regulations. We believe that these measures and our experience with ZMJ Siberia will enable us to better manage our expansion in Russia as well as other overseas countries.

We plan to implement our international strategies in an opportunistic way through acquisitions, establishment of joint ventures or formation of strategic alliances with partners that offer complementary research and development, sales network, manufacturing and product enhancement synergies. As of the Latest Practicable Date, we had not identified any overseas acquisition targets or joint ventures and strategic alliance partners.

Expand our product and service offerings to become a provider of comprehensive coal mining and excavating equipment and related services.

We plan to expand our product lines and become a leading manufacturer of comprehensive coal mining and excavating equipment. By increasing our production capacity of roadheaders and armored-face conveyors and extending our product line to shearers in the next few years, we expect to become one of the few manufacturers in the world able to manufacture integrated coal mining and excavating systems. We plan to focus on developing highly reliable heavy-duty shearers and armored-face conveyors, as well as a full range of roadheaders that can operate under diverse working conditions.

At the same time, we plan to provide our customers with other complementary equipment in the coal mining industry such as coal washing equipment, mine safety capsules, underground transport equipment, ventilation systems and related products, which will support our primary coal mining and excavating equipment offerings. We believe we are well-positioned to benefit from the growth of the coal washing equipment industry and supportive PRC government policies in rapidly expanding our coal washing equipment product line. See “Industry Overview — Overview of Coal Washing Equipment Industry of the PRC.” In addition, our current coal mining equipment product line and planned coal washing equipment and other coal mining equipment share a common raw material, steel, as well as

substantially similar manufacturing processes including, among others, raw material preparation and processing, machining and welding and surface treatment. As such, we expect to benefit from our extensive manufacturing experience and leading research and development capabilities in developing and manufacturing coal washing equipment and other coal mining equipment. Furthermore, we also intend to improve the vertical integration of our production process and improve our ability to manufacture parts and components for our products to reduce our reliance on third-party manufacturers for those parts and components and ensure the quality and delivery of our products. We believe enhancing our in-house production process and capability will enhance our overall competitiveness. We have selected a site in Zhengzhou for establishing our coal washing equipment manufacturing base, the construction of which is expected to be completed by the end of 2013. We expect to commence operation of this manufacturing base in 2014.

In the future, we also expect to leverage on our experience in manufacturing coal mining and excavating equipment and our sales and service network to expand our operations to provide services such as underground mining exploration advisory, coal mine site planning and design and equipment supply. We believe this will complement our current business and operations and allow us to benefit from the resulting synergies. We have not established detailed production plans, timetables or expenditures schedules for the implementation of our future service offerings. We plan to commence preparations for such service offerings at a later stage, and expect to use our internal working capital as the primary source of funding for these future plans.

Expand the coverage and customer base of our aftermarket services based on the 4S centers service model and through the establishment of joint ventures with our major customers.

Our associate, ZMJ Suda, as a sub-contractor of the Company for the provision of comprehensive aftermarket services in the PRC, currently operates two 4S centers to provide comprehensive aftermarket services to coal mining enterprises. We believe we will be able to efficiently expand the coverage of the aftermarket services for our products by leveraging on the strength of the 4S service model and the expertise that ZMJ Suda has developed through operating its existing 4S centers. In addition, our joint ventures with Huainan Mining and Lu Xin Coal Chemical, have proved to be effective and efficient in providing aftermarket services to our strategic customers. We plan to take the following steps to expand the coverage and customer base of our aftermarket services:

- assist ZMJ Suda in establishing additional 4S centers in the PRC and expanding its service coverage;
- establish joint ventures with major PRC coal mining enterprises to efficiently expand our aftermarket services network by leveraging on their existing maintenance and overhaul workshops; and
- expand our service coverage in Siberia and establish additional service centers in the overseas markets, including India and Turkey.

In addition, we intend to enhance the quality of our existing aftermarket services by recruiting additional technical service personnel and implementing advanced repair evaluation processes for coal mining equipment. Although we had not entered into any definitive agreements as of the Latest Practicable Date to establish new joint ventures, we believe we will be able to successfully identify suitable partners in the industry to expand our aftermarket service network. We believe implementation of this strategy will enable us to expand our customer base, increase our sales and diversify our revenue source.

Continue to establish strategic cooperation relationships with our customers.

We plan to build on the strength of our brand and increase our sales through establishing strategic cooperation relationships with our major customers. As of the Latest Practicable Date, we had entered into strategic alliance agreements with selected major coal mining enterprises in the PRC. Such agreements generally, among other things, allow us to have easy access to such major customers and cooperate with them in developing new technology and products. We plan to continue to enter into similar relationships with additional major customers to strengthen our customer relationships and increase our sales. To this end, we plan to take the following steps:

- establish cooperation relationships with major customers to increase the sales of our new products and provision of aftermarket services. We believe our major customers will continue to be an important revenue source for sales of new products. In addition, as we expand our aftermarket business, our cooperation relationships with our major customers will enable us to achieve rapid penetration in the aftermarket service market and expansion of our aftermarket service network; and
- establish technology cooperation relationships with major customers to jointly develop new technology and products. We believe such cooperation will enable us to develop strong relationship with our customers, develop in-depth understanding of the mining conditions of such customers, efficiently develop mining solutions optimized for the customers and increase our competitiveness.

We believe the implementation of this strategy will enable us to rapidly expand our market share in both new product market and aftermarket services market and efficiently improve our technology and product offering. In addition, we seek to increase the sales of our high-end products by enhancing our marketing and promotion efforts. We will also seek to actively promote the regulated development of the coal mining and excavating equipment industry to facilitate the development of healthy competition in the market.

Grow our operations through acquisitions and joint ventures.

In addition to organic growth, we plan to take advantage of the fragmented nature and rapid growth of the coal mining and excavating equipment manufacturing industry in the PRC to selectively acquire coal mining and excavating equipment manufacturing businesses complementary to our existing business, as well as selected upstream suppliers that provide parts and components for our products. In exploring acquisition opportunities, we plan to target those companies with substantial research and development, manufacturing or sales capabilities, or those companies with substantial growth potential. We believe we can achieve rapid growth, expand our product portfolio and increase our market share through selective acquisitions. In addition, we may establish additional joint ventures in the PRC to: (i) establish additional manufacturing capacity; (ii) develop and produce additional types of coal mining and related equipment; (iii) provide aftermarket services; and (iv) cover additional markets in the PRC. In May 2012, we entered into a joint venture agreement with one of our major customers, the Longmay Group, for the establishment of the Zhenglong Joint Venture. According to the capital contribution agreement dated May 17, 2012 between the Company and Longmay Group, the Company and Longmay Group have each invested RMB38.0 million and hold 47.5% of the equity interest in Zhenglong Joint Venture, which is expected to commence production by the end of 2014 and have an expected annual production capacity of 4,500 units of hydraulic roof supports and 15,000 tonnes of armored-face

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conveyors. In addition, Longmay Group will purchase hydraulic roof supports exclusively from Zhenglong Joint Venture and armored-face conveyors from Zhenglong Joint Venture on a priority basis. If Zhenglong Joint Venture is not able to manufacture such hydraulic roof supports for whatever reason, Longmay Group will purchase hydraulic roof supports on a priority basis from the Company.

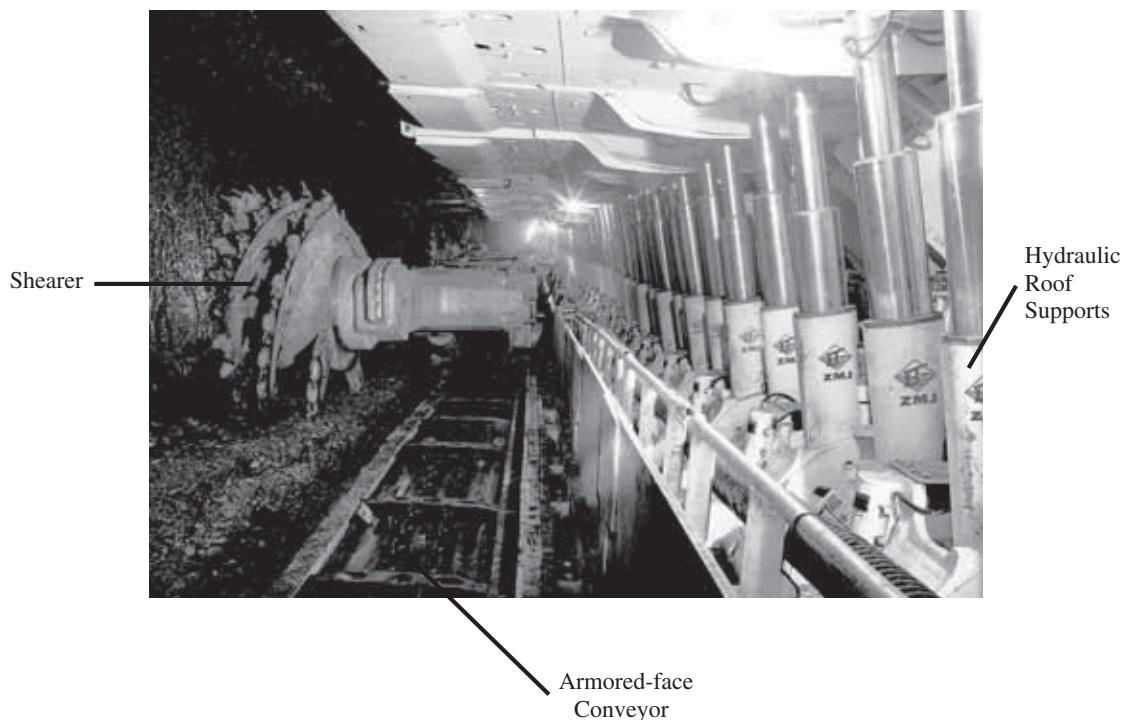
From time to time, we may explore and evaluate further acquisition or joint venture opportunities. As of the Latest Practicable Date, we have not identified specific acquisition plans or targets, and have not entered into any definitive agreements with any potential targets. However, we believe we will be able to identify appropriate acquisition, joint venture and alliance opportunities to grow our business and operations.

OUR PRODUCTS AND BUSINESSES

Introduction

A complete integrated underground coal mining and excavating system consists of four core components: the hydraulic roof supports, armored-face conveyors, shearers and roadheaders. In a typical coal mining operation, a block of coal that is typically 250 meters to 400 meters in width and three km to four km in length is cut from an underground seam that is approximately one to ten or more meters in thickness. This cutting is initially performed by excavating long tunnels using roadheaders. Once the cutting surface, or the working face, of a coal mine is formed, the actual longwall coal mining begins. Working under the hydraulic roof supports, the shearer rides on the armored-face conveyor that runs parallel to the coal face and cuts and spills coal onto the armored-face conveyor for transport out of the mine. When the shearer has traversed the full length of the coal face, it travels back along the face taking the next cut. Hydraulic roof supports allow armored-face conveyors and shearers to operate underneath, as well as provide a power source for the armored-face conveyors to operate.

The following diagram sets forth a typical working face in longwall mining operations.



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Founded in 1958, we have accumulated more than 50 years of experience in manufacturing hydraulic roof supports. We commenced:

- designing hydraulic roof supports in the 1960s;
- manufacturing the first hydraulic roof support in the PRC in 1964; and
- designing and manufacturing the first set of high-end hydraulic roof supports with electronic hydraulic control systems in the PRC in 2004, which is suitable for various large mining heights and characterized by high working resistance and high reliability.

We are engaged in the trading of steel and other raw materials primarily through our wholly-owned subsidiary, ZMJ Material Trading, which we established in 2008. Due to our large steel procurement volumes, we are able to leverage our bargaining power and sourcing network with steel producers to purchase high quality steel in bulk from approximately 20 suppliers at competitive prices, for sales to third party customers. Our steel and other raw materials trading business allows us to efficiently manage our overall procurement costs for key raw materials, in particular, steel, while mitigating the impact of steel price fluctuations.

We are also engaged in providing comprehensive aftermarket services including spare parts provision, storage and related services as well as maintenance and overhaul services. Our associate, ZMJ Suda, as a sub-contractor of the Company for the provision of comprehensive aftermarket services in respect of the hydraulic roof supports sold by the Company during the warranty periods of such products in the PRC, currently operates two 4S centers and is in the process of establishing four additional 4S centers in the PRC. In addition, ZMJ Suda has six aftermarket service offices. Our sales and service network primarily comprises eight domestic sales offices in the PRC and four overseas sales agents in Russia, India, Turkey and the United States.

We commenced manufacturing and selling high-powered armored-face conveyors in 2008 and expect to commence manufacturing and selling of roadheaders by the end of 2012. We also manufacture and sell various related mining and excavating equipment that supports coal mining operations including crushers and loaders.

We plan to build on our existing experience to continue diversifying our product portfolio and become one of the few manufacturers worldwide able to design, manufacture and sell all four components that comprise a complete integrated coal mining and excavating system.

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The following table sets forth our revenue and revenue percentage by product and business for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	(RMB in millions, except for %)									
	(unaudited)									
Hydraulic roof supports	4,062.7	81.3%	4,593.4	72.2%	5,642.0	70.0%	2,675.2	74.6%	3,272.2	69.3%
Steel and other raw materials trading	583.0	11.7%	1,247.9	19.6%	1,854.7	23.0%	613.8	17.1%	1,120.6	23.7%
Spare parts ⁽¹⁾	308.6	6.2%	450.1	7.1%	393.8	4.9%	213.7	6.0%	154.8	3.3%
Other coal mining equipment ⁽²⁾	29.9	0.6%	52.5	0.8%	122.4	1.5%	55.8	1.6%	145.4	3.1%
Others ⁽³⁾	10.2	0.2%	14.4	0.2%	47.2	0.6%	27.7	0.8%	30.6	0.6%
Total	4,994.4	100.0%	6,358.3	100.0%	8,060.1	100.0%	3,586.3	100.0%	4,723.6	100.0%

Notes:

- (1) Primarily include jacks, hydraulic valves and structural parts of hydraulic roof supports.
- (2) Primarily include armored-face conveyors and belt conveyors.
- (3) Primarily include provision of machining services for spare parts and overhaul services for hydraulic roof supports and leasing of equipment and rental properties.

Hydraulic Roof Supports

According to the CMIA, we were the largest manufacturer of hydraulic roof supports in the PRC, with approximately 22.6% of market share for hydraulic roof supports in the PRC based on production volume in 2011. As of June 30, 2012, we had an annual production capacity of 23,400 units of hydraulic roof supports. In addition, we are one of the few manufacturers in the PRC able to design and manufacture high-end hydraulic roof supports. In 2004, we developed the PRC's first set of high-end hydraulic roof supports with electronic hydraulic control systems, which has emerged as a significant domestic alternative to imported high-end hydraulic roof supports and has been widely used by domestic coal mining enterprises since then. Our sales of our high-end hydraulic roof supports accounted for 47.7%, 48.5%, 50.8%, 51.0% and 44.0% of our total revenues from hydraulic roof supports sales for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively.

Hydraulic roof supports are the core component supporting a mechanized underground integrated coal mining and excavating system and generally account for over 50% of the total value of a coal mining and excavating system. Hydraulic roof supports control the height of, and provide support to, the mine roof of the working face during the coal mining process, allowing armored-face conveyor and shearer to operate underneath. They also prevent rock fragments and other debris from entering the mining area, which enhances equipment performance and improves overall coal mining efficiency and safety.

We offer a full range of hydraulic roof supports suitable for various mining heights (from 0.55 meters to 13 meters), including, among others, shield roof supports, chock-shield roof supports and top coal caving roof supports, three types of the most commonly used hydraulic roof supports in the coal mining industry. Our hydraulic roof supports can be used in different mining conditions, topographies and geologic rock formations, such as thin coal seam (sedimentary) and thick coal seam (igneous and metamorphic) conditions, and are designed to withstand high pressure. We are able to provide deep incline hydraulic roof supports of up to 60 degrees that are capable of operating on steep coal seam slopes. In addition, we are able to provide our customers with several types of our in-house developed electronic hydraulic control systems and hydraulic valves. At the request of our customers, we may also source specified electronic hydraulic control systems and hydraulic valves from third party suppliers to incorporate in our hydraulic roof supports. Currently, the average product life of our hydraulic roof supports range from five to eight years.

Our hydraulic roof supports are generally classified into high-end and medium-end hydraulic roof supports. High-end hydraulic roof supports are designed, manufactured and tested in accordance with our internal standards that are, in all aspects, higher than the PRC MT312-2000 industry standard established by the PRC Coal Industry Bureau and, in certain aspects, higher than the EU standard EN1804 for hydraulic roof supports established by CEN, CENELEC and ETSI.

Our high-end hydraulic roof supports are more advanced than our medium-end hydraulic roof supports because our high-end hydraulic roof supports:

- incorporate electronic hydraulic control systems that enable mining operators to control automated mining processes and improve mining efficiency and safety;
- have better durability as we use higher-strength special steel, more advanced welding techniques and cutting-edge product designs which allow our high-end hydraulic roof supports to pass more than 31,000 heavy load tests in accordance with EU standard EN1804 standard;
- have greater support heights with a maximum support height of at least 6.0 meters; or
- have a maximum support resistance of at least 10,000 kN in the case of four-leg shield hydraulic roof supports.

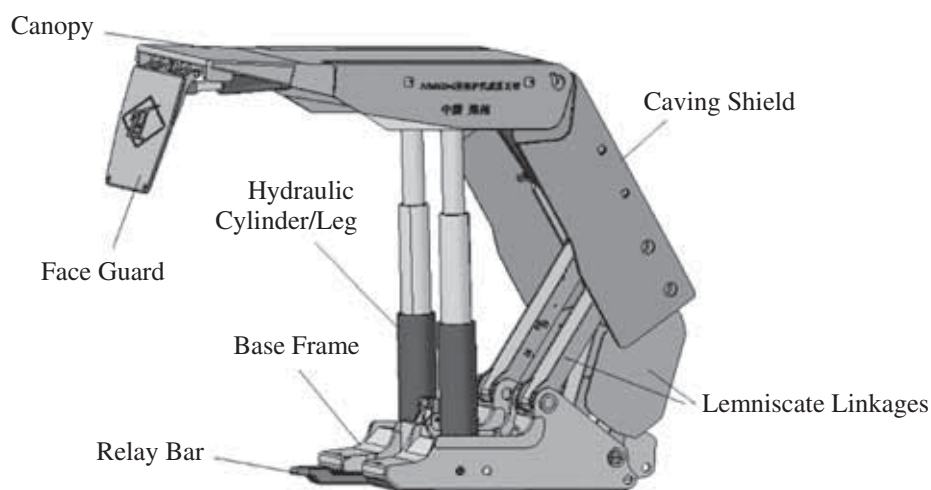
Our hydraulic roof supports that meet any of the foregoing standards are classified as high-end hydraulic roof supports, and those that do not are classified as medium-end hydraulic roof supports.

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During the Track Record Period, we produced and sold high-end hydraulic roof supports, medium-end hydraulic roof supports and components such as valves. The following table sets forth a breakdown of our hydraulic roof support sales for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
(RMB in millions, except for %)										
(Unaudited)										
Products										
High-end hydraulic roof										
supports	1,938.4	47.7%	2,227.1	48.5%	2,864.9	50.8%	1,363.2	51.0%	1,438.5	44.0%
Medium-end hydraulic										
roof supports	2,124.3	52.3%	2,366.3	51.5%	2,777.1	49.2%	1,312.0	49.0%	1,833.7	56.0%
Total	4,062.7	100.0%	4,593.4	100.0%	5,642.0	100.0%	2,675.2	100.0%	3,272.2	100.0%

A hydraulic roof support generally consists of a canopy, base frame, hydraulic cylinder, caving shield, lemniscates linkages, face guard, relay bar and other related components, which can be classified into three categories: (i) structural parts; (ii) support rams; and (iii) hydraulic valves. The following image provides a general description of the components comprising a shield hydraulic roof support.

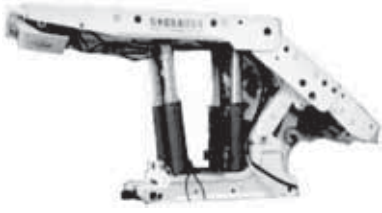
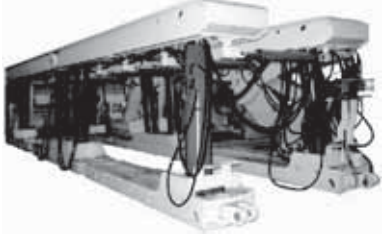


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The following table sets forth selected hydraulic roof supports that we currently manufacture:

Product Type	Product Description	Product Image
Shield hydraulic roof support.....	Also known as the two-leg shield hydraulic roof support, this product is used to directly support a mine roof that has mid-to-low stability and mild periodic roof pressure. This product operates with two legs. Some of our shield hydraulic roof supports are controlled by electronic hydraulic control systems.	
Hydraulic chock-shield roof support	Also known as the four-leg shield hydraulic roof support, this product is used for direct roof support of a mine with medium stability and strong periodic roof pressure. This product can be applied on both soft and hard coal floors. Hydraulic roof supports using four-leg stands can be applied to coal seams with thickness of 1.1 meters to 5.0 meters.	
Large mining height hydraulic roof support.....	Providing shield roof support, this product operates with two legs and is generally controlled by an electronic hydraulic control system. It is primarily applied in one-off, full coal seams with mining height of up to 7.0 meters.	
Medium thickness hydraulic roof support	Providing shield roof support, this product operates with two legs and is normally controlled by an electronic hydraulic control system. It is primarily applied in one-off, full coal seams with mining height of 0.55 meters to 2.2 meters.	

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Product Type	Product Description	Product Image
Top coal caving hydraulic roof support	Providing roof support for a height of up to 4.0 meters, this product provides shield support, with a few operating with two legs. This product is primarily applied in thick coal seams with thickness of 7.0 meters to 13.0 meters.	
Deep incline hydraulic roof support	This product is primarily applied in coal seams with an inclined angle of 45° to 60°, and can support roof of up to 4.8 meters high.	
Face-end and tunnel hydraulic roof support	This product supports the roof of the coal face from face end through the tunnel of the mine, and is equipped with a pusher jack and loader.	
Transition hydraulic roof support	This product provides support between the basic supports of the coal face and the gate end and is primarily applied after the application of the primary hydraulic roof support.	

Steel and Other Raw Materials Trading Business

In order to efficiently manage our overall procurement costs for key raw materials, in particular, steel, used in our manufacturing operations, we established our wholly-owned subsidiary, ZMJ Material Trading, in March 2008, to conduct the trading of steel and other raw materials including welding wires, hoses and hydraulic seals. Due to our large procurement volumes, we are able to leverage on our bargaining power and sourcing network with steel producers to purchase high quality steel in bulk from approximately 20 suppliers at competitive prices for sales to third party customers. Our steel and other raw materials trading business also allows us to efficiently manage our overall procurement costs while mitigating the impact of steel price fluctuations on our manufacturing operations. For example, we may sell excess inventory resulting from the changes in our manufacturing schedules to our customers to mitigate the impact of the fluctuations in the steel prices. Our sales of excess steel inventory accounted for less than 5% of the total revenue of steel and other raw materials trading business during the Track Record Period. We did not incur material losses from disposal of excess inventory during the Track Record Period as we procured raw materials in accordance with our manufacturing schedules and sold steel when we had favorable steel price margins. In addition, we utilize an early warning system to monitor excess inventories of steel and maintain our inventory levels in line with our production. Therefore, we have generally been able to successfully control our inventory levels within acceptable limits.

Our steel suppliers include steel manufacturers and trading companies. We have established long-term relationships with major steel suppliers in the PRC, including Bengang Steel Plates Co., Ltd. (“Bengang Steel”) and Anyang Iron & Steel Co., Ltd. (“Anyang Steel”), from which we are able to procure steel at favorable prices. We have also entered into technology development agreements with selected steel producers to develop special steel materials for our products. These contracts enable us to purchase high quality special steel materials in bulk at favorable prices. If we were unable to procure steel materials at favorable prices, the price of our products would generally increase, which could adversely affect our competitiveness in terms of product prices. However, given the nature of, and demand for, our products, we believe we are generally able to pass along substantially all of the steel materials price increases to our customers.

The customers of our steel trading business primarily comprise third-party PRC steel trading companies, heavy machinery companies and welding wire manufacturers. After we receive these purchase orders, we will secure a price quote from our network of steel suppliers. To minimize our inventory and maximize profits, we generally set our sales price of steel based on market prices and our procurement costs, and will generally only enter into direct steel sales and purchase agreements with customers if we are able to generate a profit or, if required, reduce our existing inventory. We generally require payment of the full price before delivery. While we generally deliver steel products to our customers, depending on the specific sales agreement, our sales price may or may not include transportation costs. Due to our cost advantages in procurement as a result of our strategic cooperation with certain steel companies and our bulk purchase volumes, especially the high-quality steel with the same specifications as those we use in our manufacturing of hydraulic roof supports, we have been selling our steel products at competitive prices in the market. We did not experience any customer default during the Track Record Period. In the case of customer default in the steel trading business, we will utilize the steel designated for such defaulting customer to manufacture coal mining and excavating equipment for our other customers.

We also sell scrap steel from our production process to scrap steel recycling companies through a weekly bidding process. Our sales of scrap steel generally have higher gross profit margins than those of our steel products as the costs of such scrap steel are recognized during the production process. As such, while sales of scrap steel constitute a small proportion of our steel and other raw materials trading revenue, such sales account for a significant portion of our profit derived from our steel and other raw materials trading business during the Track Record Period.

As of the Latest Practicable Date, our steel trading business had a team of 17 members, who work closely with the procurement, storage, corporate planning, finance and human resources departments of our Company. During the Track Record Period, ZMJ Material Trading complied with applicable laws and regulations in all material respects, and possessed the relevant necessary government approvals in relation to its operations.

Spare Parts

We sell spare parts, such as jacks, hydraulic valves and structural parts for hydraulic roof supports, to third-party coal mining companies, most of which have previously purchased our hydraulic roof supports. Since 2009, we have also sold spare parts to our associate, ZMJ Suda, which focuses on the provision of aftermarket services for the hydraulic roof supports sold by the Company in the PRC. We sell spare parts through a bidding or direct ordering process, and we generally do not enter into long-term sales agreements with our customers for spare parts. Our spare parts are primarily manufactured and sold by our Company, as well as our subsidiaries, ZMJ Comprehensive Equipment and ZMJ Hydraulic Control.

Currently, the majority of coal mining enterprises in the PRC do not procure spare parts from original equipment manufacturers as large coal mining enterprises typically have internal maintenance facilities, and small and medium-sized coal mining enterprises generally tend to purchase spare parts from local suppliers for cost reasons, as the domestic aftermarket service networks of original equipment manufacturers are generally under-developed. Accordingly, we plan to penetrate the existing aftermarket services market in the following manner:

- We plan to increase our cooperative efforts with the maintenance facilities of large coal mining enterprises to increase sales of our spare parts. These large coal mining enterprises, some of which are our customers, are generally familiar with our high quality standards and internal maintenance service capabilities; and
- We also plan to increase our sales to small and medium-sized coal mining enterprises. According to Heading Century Consulting, as the consolidation of coal mines in the PRC continues, small and medium-sized coal mining enterprises are expected to have the financial resources required to procure high-quality original spare parts. As the use of more advanced coal mining equipment and technologies becomes more widespread, small and medium-sized enterprises will also need to seek spare parts and aftermarket services from professional and original suppliers more frequently.

As we expand our aftermarket services coverage and enhance our cooperative efforts with our existing customers, we believe we will be able to increase our sales of spare parts and market share in the domestic spare parts market. In addition, we believe our provision of professional one-stop, value-added services and technical training for equipment operators will provide us with competitive advantages.

Other Coal Mining Equipment

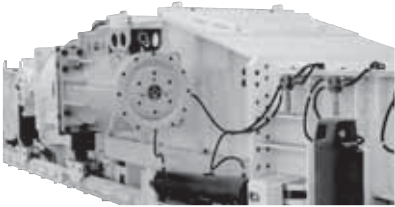
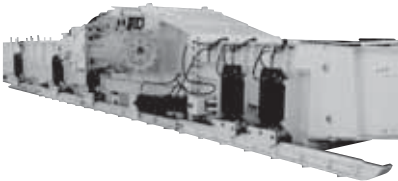
We are currently able to manufacture armored-face conveyors and prototype roadheaders in-house and are developing the technology and capability to manufacture shearers. We have allocated substantial resources, which include research and development teams and facilities, sales and marketing teams and general working capital, to developing our other coal mining equipment business. While our current sales volumes of other coal mining equipment are low, as we commenced selling armored-face conveyors in 2008 and intend to commence selling roadheaders by the end of 2012, we expect that our sales volumes will increase in the future as a result of our commitment to, and substantial resources allocated for, our other coal mining equipment business.

Armored-face Conveyors and Related Products

Armored-face conveyors are used in longwall mining operations to support the shearers and transport coal, rock fragments and other debris cut from the working face by the shearers. In early 2008, we commenced research and development of high-powered armored-face conveyors and successfully delivered our products to customers by the end of 2008. Our armored-face conveyors product line consists of five product models with power capacities ranging from 2x110kW to 3x1,000kW and line pans ranging from 0.63 meters to 1.25 meters. We are one of the few armored-face conveyor manufacturers in the PRC able to design and manufacture heavy-duty armored-face conveyors that can be used in large coal mines. In 2011, we completed production and delivery of one of the largest armored-face conveyors in the PRC, with an operating capacity of 2,000kW and line pans of 1.2 meters. In addition to armored-face conveyors, our product portfolio also includes crushers, loaders and related products.

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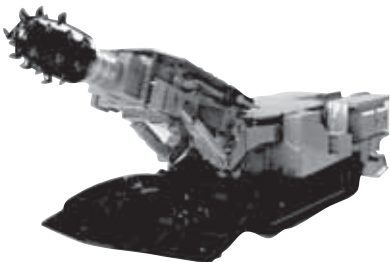
The following table sets forth certain key features of selected armored-face conveyors and related products that we currently offer:

Product Type	Product Description	Product Image
Armored-face conveyor	This product covers all series of line pans, with line pan widths ranging from 630mm to 1,250mm, and has an installed power capacity ranging from 2×110kW to 3×1,000kW. This product satisfies transport requirements for coal mines with annual coal production capacities of one million to 10 million tonnes.	
Gate conveyor	This product works with an armored-face conveyor and has an installed power capacity ranging from 90kW to 700kW, with line pan widths ranging from 630mm to 1,400mm.	
Wheel crusher	This product works with a gate conveyor and crushes large-size coal, rock fragments and other debris, and has an installed power capacity ranging from 90kW to 400kW and crushing capability of 800 t/h to 4,500t/h.	
Self-propelled system for gate conveyor	A high-yield and highly-efficient roadway system that propels the movement of conveyor and crusher. This product can be utilized with self-propelled system for belt conveyor and has a distance range of 800mm to 1,200mm.	
Self-propelled system for belt conveyor	This product allows for propelling and adjusting the movement of conveyor and crusher and docking with other units, and has a distance range of 800mm to 1,400mm.	

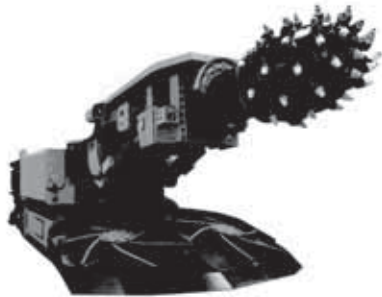
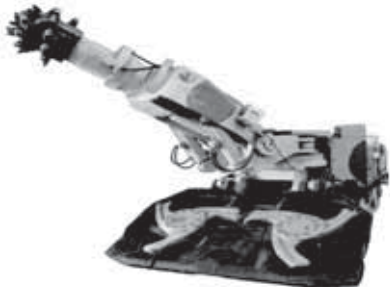
Roadheaders

Roadheaders are mobile units used to dig tunnels and crush rocks with drill units, while removing rock fragments and other debris. We commenced the designing and testing of prototype roadheaders in 2010, and currently have five prototype models that are generally classified into light-duty, medium-duty and heavy-duty roadheaders based on cutting power. As of the Latest Practicable Date, we had not commenced selling roadheaders. We intend to commence selling roadheaders by the end of 2012. Our roadheaders are expected to operate under diverse mining conditions and be used in other construction applications, such as railway, roadway, subway and other construction settings.

The following table sets forth the prototype models of roadheaders that we are currently testing and expect to offer:

Product Type/ Model Number	Product Description	Product Image
EBZ230	Our heavy-duty roadheader, with a cutting power of 230kW.	
EBZ200	Our heavy-duty roadheader, with a cutting power of 200kW.	
EBZ160	Our medium-duty roadheader, with a cutting power of 160kW.	

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Product Type/ Model Number	Product Description	Product Image
EBZ135	Our medium-duty roadheader, with a cutting power of 135kW.	
EBZ120	Our light-duty roadheader, with a cutting power of 120kW.	

PRODUCT DESIGN AND MANUFACTURING

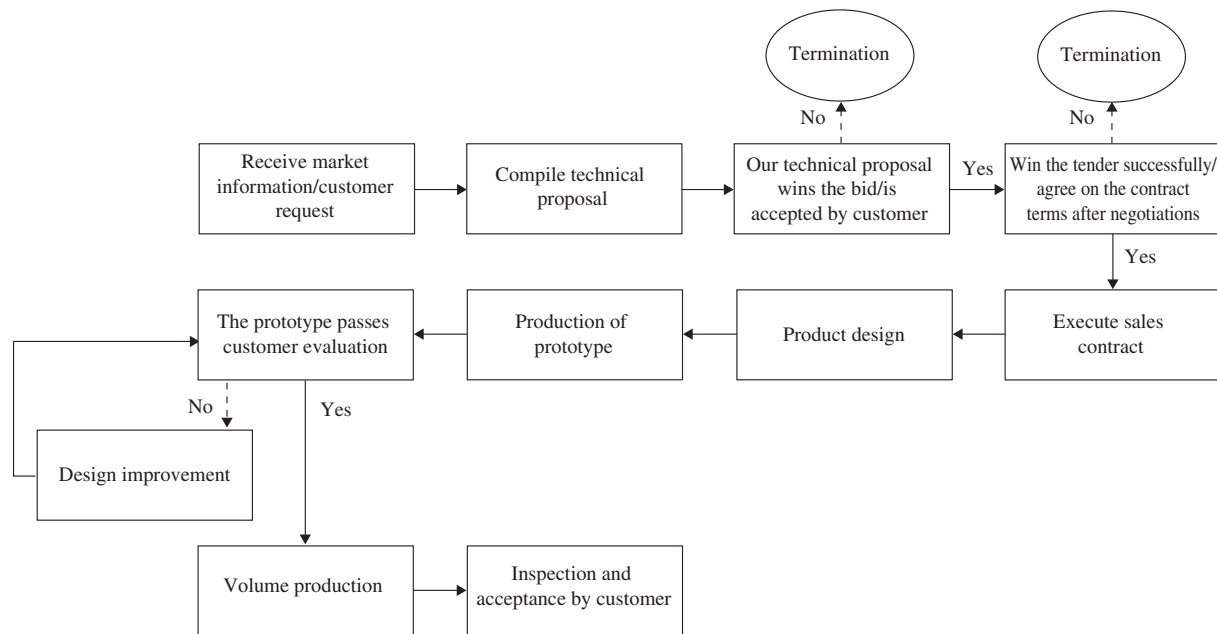
Consultation and Design Process

We provide a complete set of customized solutions for our customers, including coal mining design solutions and equipment selection in accordance with the different coal mine conditions of each customer. As our products, particularly hydraulic roof supports, operate under different challenging and intensive working environments, they are generally customized based on the specifications of our customers. Our experienced team of engineers and technicians normally visit our customer's proposed project site to study the topography of the site, geologic rock formations, conditions of the coal seam, thickness of the mining wall and other geological conditions to prepare a technical proposal for our discussions of the potential solutions with our customer. Our potential customers may also liaise with third-party experts to develop specific design solutions for their proposed projects. In this regard, our many years of production experience and adoption of various three-dimensional computer-aided design technology enable us to provide practical advice to enhance and optimize their designs.

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As part of the inquiry and design process, we invite our customers to visit our production sites. After a technical proposal is agreed to with the customer, we then participate in commercial bidding and tender process or price negotiations. If our bid is successful or if the principal contract terms have been agreed to after negotiations, we will sign a sales contract with the customer. After we sign the contract, we will produce detailed designs pursuant to our customer's specifications and agreed technical requirements which take into account the relevant geological information of the coal mine. After the customer reviews and approves the design specifications, we will produce the product prototype for the customer's review. During this review process, our sales team will assist our manufacturing and technology team in responding to any inquiries that the customer may have, and these two teams will work closely together to ensure that the product meets the specifications. After the customer approves the product prototype, we will then commence volume production. We believe this process allows us to cost effectively manufacture high quality customized products for our customers.

Manufacturing a prototype generally requires approximately 10 to 15 days. Volume production for one set of hydraulic roof supports generally requires approximately 30 to 40 days, depending on the specifications of the product and the number of units in each set. The flow chart below illustrates the general consultation and design process.



Manufacturing Process

As a result of our commitment to research and development and advanced manufacturing processes, we have established vertically-integrated production facilities and processes which allow us to produce most of the parts and components for our products in-house. Our hydraulic roof supports generally have three main categories of parts and components: structural parts, support rams and hydraulic valves. Benefiting from our advanced manufacturing processes, we are able to produce each component in parallel, which allows us to maximize production efficiency and optimize the use of our resources.

The production process for the majority of our products can be broadly categorized into seven steps: raw material preparation, raw materials processing, thermal treatment, machining/welding, surface treatment, general assembly and inspection and testing, which we summarize below:

- ***Raw material preparation.*** We inspect and process raw materials and parts used in our production process according to the applicable technical specifications. Our principal raw material for each of our product lines is steel. Other raw materials include hoses and hydraulic seals. Our procured parts vary depending on our product line:
 - *Hydraulic roof supports.* We are able to manufacture in-house all electronic hydraulic control systems and hydraulic valves used in our hydraulic roof supports. However, pursuant to our customers' requests, we may also procure specified electronic hydraulic control systems and hydraulic valves from third party suppliers. In addition, from time to time, we procure some non-critical parts such as hoses, hydraulic seals and other standard parts that we do not intend to produce from our suppliers.
 - *Armored-face conveyors and related mining and excavating equipment.* We mainly produce structural parts and attaching parts, while standard parts such as power generators and speed reducers are generally procured from our suppliers.
 - *Roadheaders.* We mainly produce structural parts and machining parts, while other parts such as drill heads and power generators are procured from our suppliers.
- ***Raw materials processing.*** We use band saws and cutting machine to shape raw materials into unfinished parts in accordance with our specifications for further processing.
- ***Thermal treatment.*** We use thermal treatment techniques, such as tempering and hardening, to improve the mechanical performance of our unfinished parts so that they can withstand pressure, heat and other external factors.
- ***Machining/Welding.*** The unfinished parts and components become finished parts and components after going through various machining and welding. We currently implement multi-function, automated robotic systems to weld structural parts. We also utilize digital control machine tools for volume production of machining parts.
- ***Surface treatment.*** We treat the finished parts and components with finishing processes, such as spray painting and surface coating, which ensures that the finished parts and components are suitable for general assembly.
- ***General assembly.*** We assemble the finished parts and components to form the finished products.
- ***Inspection and testing.*** We test and adjust each product before it is warehoused or delivered to our customers to ensure that our products meets our rigorous quality control standards and specifications as well as those of our customers.

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Manufacturing Facilities

As of the Latest Practicable Date, we had manufacturing facilities located in Zhengzhou, Henan Province, Huainan, Anhui Province and Changji, Xinjiang Autonomous Region. As of the Latest Practicable Date, the manufacturing facilities owned by us had a total GFA of 595,964.20 sq.m. and we had the rights to use the underlying land. Our manufacturing facilities are equipped with highly advanced and versatile production machinery, which allows us to manufacture all of our products, as well as most of the parts and components for our products in-house. Due to our scale of operations and vertically-integrated manufacturing process, we are able to efficiently adjust our production output to quickly respond to changing customer demand and market conditions. We are also able to minimize raw materials inventory and reduce our production costs and logistics expenses as several phases of the supply and production chain are completed in our new Zhengzhou facility through our multi-function production process. As of June 30, 2012, we had an annual production capacity of 23,400 units of hydraulic roof supports. For the year ended December 31, 2011, the weighted average utilization rate of our manufacturing facilities for our hydraulic roof supports was 116.0% and we produced 14,693 units of hydraulic roof supports. For the six months ended June 30, 2012, the weighted average utilization rate of our manufacturing facilities for our hydraulic roof supports was 107.4% and we produced 11,873 units of hydraulic roof supports. See “— Production Capacity.”

The following table sets forth the GFA, years of commencement of operations and primary uses of our manufacturing facilities as of the Latest Practicable Date:

	Manufacturing Facility	GFA (sq.m.)	Commencement of Operations	Primary Use/Primary Products Produced
The Company	Zhengzhou (Old manufacturing base)	137,822.69	1960	Medium-end hydraulic roof supports
	Zhengzhou (New manufacturing base, which includes manufacturing bases for high-end hydraulic roof supports and electronic hydraulic control systems and a research and development center)	260,315.13	2011	High-end hydraulic roof supports, high-end and medium-end hydraulic valves and electronic hydraulic control systems

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	Manufacturing Facility	GFA (sq.m.)	Commencement of Operations	Primary Use/Primary Products Produced
ZMJ Comprehensive Equipment.	Zhengzhou	6,309.03	1994	Medium-end hydraulic roof supports, spare parts and provision of maintenance and overhaul services
	Xingyang, Zhengzhou (Old facility)	31,679.07	2005	Medium-end hydraulic roof supports, spare parts and general assembly of hydraulic roof supports
	Xingyang, Zhengzhou (New facility)	42,414.42	2012	Newly-established production facilities for manufacturing roadheaders, spare parts and general assembly of hydraulic roof supports
ZMJ Longwall Machinery ...	Zhengzhou	25,545.25	2010	Armored-face conveyors
ZMJ Shun Li Machinery.	Huainan	63,046.20	1981	Medium-end hydraulic roof supports and small-sized armored-face conveyors
ZMJ Lu An Xinjiang.	Changji	28,832.41	2010	Coal mining equipment components, provision of maintenance and overhaul services and hydraulic roof supports
	Total	<u>595,964.20</u>		

Although we believe our existing manufacturing facilities and capabilities are adequate for our current operational needs, we plan to expand our manufacturing capacity in the future to respond to growing market demand for our products. We plan to commence the construction of a new manufacturing facility in Zhengzhou for the production of coal washing equipment. In addition, we are currently constructing a new manufacturing facility in Huainan, Anhui Province for the production of spare parts of hydraulic roof supports and a new manufacturing facility in Xingyang, Henan Province for the production

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of roadheaders and spare parts and the general assembly of hydraulic roof supports. The following table sets forth selected information on our owned manufacturing facilities under construction as of June 30, 2012:

As of June 30, 2012								
	Manufacturing Facility	Planned GFA (sq.m.)	Expected Year of Commencement of Operations	Estimated Investment Costs	Investment Costs Paid	Unpaid Balances	Source of Funding	Expected Primary Use/Primary Products
				(RMB in millions)	(RMB in millions)	(RMB in millions)		
The Company	Zhengzhou	109,071.0	2013	929.6	97.6	832.0	Proceeds from the Global Offering	Construction of a new manufacturing facility for coal washing equipment
ZMJ Shun Li Machinery	Huainan	29,438.0	2012	126.0	97.1	28.9	Existing working capital	Construction of a new manufacturing facility for the production of spare parts of hydraulic roof supports

In line with our international expansion plans, we also plan to expand our overseas production capacity by implementing selected overseas projects after this Global Offering. See “— Our Business Strategies — Strategically increase our global presence and market share.”

Advanced Processes

We utilize industry-leading technology and advanced production processes to improve our manufacturing performance and efficiency. See “— Research and Development.” Some of these technologies and production processes include the following.

Robotic Welding Systems

Since 2008, we have collaborated with innovative companies such as Tangshan Kaiyuan Robot System Co., Ltd. (“TKRS”) and Cloos Welding Technology (Beijing) Co., Ltd. (“CLOOS”), a PRC subsidiary of Germany-based CARL CLOOS SCHWEISSTECHNIK GMBH, to use their robotic welding systems to weld steel-based structural parts of hydraulic roof supports. Our state-of-the-art manufacturing equipment includes a multi-stage robotic welding system, which we started to utilize in April 2009 for linkage welding. We commenced the implementation of this advanced welding system for manufacturing components such as the base frame, canopy, caving shield and lemniscate linkage of hydraulic roof supports in March 2011.

Each of our robotic welding systems can operate continuously and contains several welding units, each consisting of two or four robots and can be programmed with manufacturing instructions offline to produce high quality steel-based structural parts with high precision. Each of our robotic welding systems is designed to allow technicians to control two or more units simultaneously, increasing our production efficiency. In addition, automated welding is generally safer than manual welding. We expect to broadly implement the robotic welding process, which we anticipate will become a viable alternative to our manual welding processes in our production lines.

Advanced Production Technology for Hydraulic Cylinders

We apply a new processing technology called skiving and roller burnishing technology to machine hydraulic cylinders that we manufacture in-house for our hydraulic roof supports and other coal mining and excavating equipment. Skiving and roller burnishing technology, which is a machining process applied to internal hydraulic cylindrical surfaces, enables us to increase the efficiency of our machining processes for, and the precision of, our hydraulic cylinders. We use boring machines made by Tacchi, an Italian machine equipment company, in conjunction with skiver heads made by EcoRoll, a German company, for our skiving and roller burnishing processes.

Lean Management

In March 2011, we adopted the lean management model to improve our business and operational efficiency and overall utilization rate. According to Heading Century Consulting, we are one of the first PRC enterprises in the coal mining equipment manufacturing industry to streamline our production process through the adoption of assembly lines in the manufacturing of our hydraulic roof supports, which enables us to optimize our resource allocation and effectively control costs. In addition, we are also able to minimize raw materials inventory, reduce production costs and logistics expenses, as our general assembly team regularly provides feedback to our procurement team and other production teams. As such, we are able to capture profits all along the production chain. This management system complements our commitment to high quality products, assists us in maintaining high staff morale and allows us to increase our overall operational efficiency and competitiveness.

Quality Control

We are committed to designing and manufacturing quality products. To this end, we implement rigorous quality control measures throughout our production process. In particular, we implement our Operation Guide Book 2011, which includes internal rules and regulations covering quality control measures, policies and guidelines over product design, technology development, raw materials procurement, product manufacturing, outsourcing manufacturing and product dispatching. As a testament to our commitment to quality control, we have obtained and maintained ISO9001:2008 certification for our quality management system. As of the Latest Practicable Date, we held 300 valid safety certificates of approval for mining equipment products issued by the Mining Products Safety Approval and Certification Center as specified by the SACMS. We have also received and maintained the GOST certificate and DGMS approval for all of our products sold or to be sold in Russia and India, respectively. All of our principal operating subsidiaries have obtained from the SACMS and maintained the relevant product safety certifications for the products that we currently sell.

To ensure the quality of the raw materials we purchase, we implement rigorous selection and screening process for our suppliers. We continuously monitor the quality of the raw materials supplied and conduct periodic evaluations of our suppliers. We regularly inspect our production facilities and carry out performance tests at each stage of the production process. Our quality inspection teams conduct random sample testing of semi-finished and finished products to ensure that our products comply with the relevant product standards. We also conduct regular checks, repairs and maintenance of our manufacturing equipment and facilities to ensure stable, safe and reliable operation. For additional information on quality control measures with respect to outsourced manufacturing process, see “— Outsourced Manufacturing.” As of the Latest Practicable Date, the quality control team at our headquarters comprised approximately 143 staff.

During the Track Record Period, we did not experience any sales returns by customers as a result of product defects, nor did we experience any product liability issues. However, due to the nature and usage of our products, we may be subject to product liability claims in the future. See “Risk Factors — Risks Relating to Our Business and Operations — We may be subject to product liability claims, litigation, warranty claims or negative publicity.”

Information Technology

Since 2002, we have rapidly improved our information technology to facilitate our product development, manufacturing processes and overall business operations. We implement what we believe to be the industry-leading digitalized management systems, including our ERP system and OA system, which allow us to integrate our manufacturing processes and order and warehouse management. To supplement our ERP system and facilitate efficient manufacturing processes and research and development, we implement the “Collaborative Management Software System for Standardized Design and Documents,” a centrally-managed information sharing and resource retrieval system that enables our employees to search and utilize technical data and designs, administrative materials and miscellaneous files, while allowing us to maintain and protect our intellectual property on our internal networks. We also implement various computer-aided design and process planning softwares such as CAD/CAE and CAPP. As a part of our CAD system, we use Pro/Engineer software to facilitate our three-dimensional computer design. We believe these industry-leading technological measures contribute to our advanced and efficient processes and allow us to further grow our business and operations.

We expect to implement additional advanced information technology in our Zhengzhou facilities to improve our research and development, technology, manufacturing and management capabilities. We are currently building a comprehensive digital manufacturing center that utilizes advanced management and planning systems for our product life-cycle management. Our digital manufacturing center is expected to have advanced functions such as production scheduling, logistics management, quality control and remote monitoring. We plan to fund the establishment of the comprehensive digital manufacturing center with our internally-generated capital resources. In addition, we will seek to manage our supply chain and sales cycles through the implementation of a customer relationship management system and a supply chain management system. We also intend to utilize digital data interchange technology to seamlessly exchange data and information with our suppliers and customers to reduce our costs of sales and improve the quality and responsiveness of our customer services.

Production Capacity

The following table sets forth the annual production capacity, production volume and weighted average utilization rate for hydraulic roof supports as of the dates or for the years/period indicated and our estimated production capacity for hydraulic roof supports after our expansion plans.

	As of/for the Year Ended December 31,						As of/for the Six Months Ended June 30,			Post Expansion Plan ⁽³⁾			
	2009			2010			2012						
	Annual Production Capacity ⁽¹⁾	Production Volume	Utilization Rate ⁽²⁾	Annual Production Capacity ⁽¹⁾	Production Volume	Utilization Rate ⁽²⁾	Annual Production Capacity ⁽¹⁾	Production Volume	Utilization Rate ⁽²⁾				
Hydraulic Roof Supports	(Units)		(%)	(Units)		(%)	(Units)		(%)	(Units)			
The Group ⁽⁴⁾	10,200	11,522	113.0	10,500	12,943	125.1	20,800	14,693	116.0	23,400	11,873	107.4	23,500

Notes:

- (1) Annual production capacity is calculated based on 21.5 working days per month, two shifts per day (or three shifts per day for certain exceptional processes) and eight hours per shift, which includes the production capacity of our outsourced suppliers for the manufacturing of non-critical parts and components to be assembled by us.
 - (2) The weighted average utilization rate of the production lines of our hydraulic roof supports for a period is calculated by dividing the production volume by the weighted average production capacity for the same period. As we significantly increased our production capacity following the commencement of the operation of our new manufacturing facility in Zhengzhou in September 2011, the weighted average production capacity is calculated by dividing the sum of the annual production capacity as of the end of each quarter during such period by the number of quarters in the period.
 - (3) Our post expansion plans involve ramping-up and fully utilizing certain production lines at our new Zhengzhou manufacturing facilities which commenced operations in September 2011. As of September 30, 2011, our annual production capacity was 20,800 units of hydraulic roof supports.
 - (4) Comprises the Company, ZMJ Comprehensive Equipment and ZMJ Shun Li Machinery. See “— Manufacturing Facilities” for details on their respective manufacturing bases and manufactured products.
- The production capacity of the Company’s hydraulic roof supports has contributed, and will continue to contribute, to a majority of the Group’s production capacity of hydraulic roof supports. Before our new Zhengzhou manufacturing facilities commenced operations in September 2011, our production capacity for hydraulic roof supports was derived solely from our old manufacturing base. Since September 2011, we have allocated the manufacturing of each component utilized in the hydraulic roof supports production process between our old and new manufacturing bases, which enables us to maximize the production capacity and utilization rates of our two manufacturing bases as a whole. As such, the production capacity of hydraulic roof supports of the Company is calculated on a combined basis.

The weighted average utilization rates for the production lines of our hydraulic roof supports exceeded 100% during the Track Record Period, primarily because our actual working hours and outsourcing exceeded those we use to calculate our production capacity to meet the increased market demand. The weighted average utilization rate for the production lines of our hydraulic roof supports increased from 113.0% for 2009 to 125.1% for 2010 primarily due to an increase in working hours, as well as improvements in the manufacturing efficiency and transportation logistics. The weighted average utilization rate for the production lines of our hydraulic roof supports decreased from 125.1% for 2010 to 116.0% for 2011, and further decreased to 107.4% for the six months ended June 30, 2012, primarily because our new manufacturing facilities in Zhengzhou commenced operations in September 2011 and required some ramp-up time. We cannot assure you that the weighted average utilization rates for our hydraulic roof support production lines will not exceed 100% in the future. See “Risk Factors — Risks Relating to Our Business and Operations — Our revenue may vary from period to period due to fluctuations in customer purchase orders.”

Outsourced Manufacturing

Depending on our production capacity and the product delivery schedule, we selectively outsource the production of certain non-critical parts and components such as structural parts and rams to third-party manufacturers from time to time. As a part of our strict quality control measures, we only work with those manufacturers which we have selected based on their expertise and product quality. Our internal assessment team evaluates and selects third-party manufacturers on an annual basis. Our quality control department assigns staff to supervise the manufacturing on-site as well as conduct random tests to ensure the quality of outsourced parts and components of hydraulic roof supports. In addition, those third-party manufacturers are required to use raw materials in the manufacturing of products that we supply or specify to ensure the quality of our outsourced products. We work with more than 50 manufacturers on a regular basis and have established long-term cooperative relationships with approximately 30 of them. We do not depend on any particular third-party manufacturer for outsourced parts and components. We believe that our supervision of the outsourced manufacturing processes allows us to control production costs and ensure efficient manufacturing processes and product quality.

We are primarily liable for the product defects of our outsourced parts and components. During the Track Record Period, we experienced warranty claims as a result of such product defects, which we believe, individually or in the aggregate, were not material to our business operations or financial condition. We have taken responsive steps to address the claims of our customers and have sought damages from the responsible outsourced partners according to the warranty terms in the relevant supply agreements. As part of our general efforts to prevent product defects, we have established stringent quality assurance standards and an on-site supervision system for our outsourced manufacturing. We have also standardized the selection criteria for our outsourced manufacturers. We will continue to monitor the outsourced manufacturing process and adjust our current procedures and standards when required. See “Risk Factors — Risks Relating to Our Business and Operations — We may be unable to maintain effective quality control or raw materials procurement systems, which may affect the supply and quality of our raw materials.”

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The table below sets forth our actual output and the outsourced production of non-critical parts and components for the periods indicated:

Items	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
Actual output (tonnes in thousands) ⁽¹⁾	315.6	338.0	430.0	277.1
Outsourced structural parts (tonnes in thousands).....	59.9	43.0	48.9	32.2
Outsourced ram (tonnes in thousands)	8.5	12.3	15.9	7.4
Outsourced total output (tonnes in thousands).....	68.4	55.3	64.8	39.6
Outsourced percentage (%)	21.7	16.4	15.1	14.3

Note:

(1) Includes our production output and outsourced parts and components.

RESEARCH AND DEVELOPMENT

Overview

We are strongly committed to continuously enhancing our research and development capabilities, which we believe will allow us to build on our industry-leading position. According to Heading Century Consulting, we are a market leader with respect to research and development in the hydraulic roof support industry and have continued to diversify our product offerings in an efficient and cost-effective manner by improving our existing product portfolio while developing new coal mining and excavating equipment. As of the Latest Practicable Date, we had a research and development team of 480 members including three professor level senior engineers, 65 senior engineers, 166 engineers and 303 professional technicians. Among our research and development staff, 147 members held masters degrees and above and two member were awarded the special expert allowance by the State Council for his expertise and contributions to the industry. Our research and development team is led by our Deputy General Manager and Chief Engineer, Mr. Gao Youjin, who has worked in various capacities with the Group since 1985. Mr. Gao has approximately 27 years of experience in research and development in the coal mining equipment industry. In addition to his participation in many landmark research and development projects of hydraulic roof supports within the Group, Mr. Gao is also a professor-level senior engineer, and holds a doctoral degree in science from Huazhong University of Science and Technology. See “Directors, Supervisors and Senior Management — Senior Management.”

During the Track Record Period, our total expenditures for research and development were RMB148.2 million, RMB206.8 million, RMB258.1 million and RMB89.4 million for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. These total research and development expenditures consist of the aggregate costs that we incur for the design and production of prototype coal mining and excavating equipment, which are accounted for and include: (i) cost of sales when the prototype equipment is sold to our customers; (ii) inventories before the prototype

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equipment is sold; or (iii) administrative expenses when expenses are incurred for the improvement of manufacturing processes, internal research and development programs or other related measures (including the payment of our patent registration fees). See “Financial Information — Description of Selected Items of Our Statements of Comprehensive Income — Cost of Sales” and “Financial Information — Description of Selected Items of Our Statements of Comprehensive Income — Administrative Expenses.”

Product Development

We have developed several landmark products such as the first hydraulic roof support and first high-end hydraulic roof support in the PRC and the world’s first top coal caving hydraulic roof support. In addition, we developed the ZY10800/28/63D hydraulic roof support which had the world’s industry-best roof support height of 6.3 meters at the time. We subsequently surpassed this achievement by introducing new models of hydraulic roof supports in 2009 and 2010, both of which had an industry-best support height of 7.0 meters at the time. We believe these and our other products have influenced the PRC coal mining industry and made us the industry leader in manufacturing hydraulic roof supports. Our primary hydraulic roof supports include, among others, the following:

Hydraulic Roof Support	Specifications	Year	Classification
Large mining height hydraulic roof support	ZY10800/28/63D hydraulic roof support, with a support height of 2.8 meters to 6.3 meters.	2006	High-end
	ZY16800/32/70D hydraulic roof support and ZY18000/32/70D hydraulic roof support, each with a support height of 3.2 meters to 7.0 meters.	2009/2010	High-end
Deep incline hydraulic roof support	ZF3600/16/28 hydraulic roof support, with a support height of 1.6 meters to 2.8 meters and a coal seam dip of 45°.	2002	Medium-end
	ZZ6500/22/48 hydraulic roof support, with a support height of 2.2 meters to 4.8 meters and a coal seam dip of 55°.	2011	Medium-end
	ZF5200/17/28 hydraulic roof support, with a support height of 1.7 meters to 2.8 meters and a coal seam dip of 60°.	2011	Medium-end

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Hydraulic Roof Support	Specifications	Year	Classification
Top coal caving hydraulic roof support	ZF6200/18/35 lower top coal caving hydraulic roof support, with a support height of 1.8 meters to 3.5 meters.	2002	Medium-end
	ZF15000/27.5/42 lower top coal caving hydraulic roof support, with a support height of 2.8 meters to 4.2 meters.	2009	High-end
Hydraulic roof support for thin coal seams.....	ZZ5200/08/18 hydraulic roof support, with a support height of 0.8 meters to 1.8 meters.	2006	Medium-end
	ZY4000/7.5/17 hydraulic roof support, with a support height of 0.75 meters to 1.7 meters.	2011	Medium-end
Hydraulic roof support for “three soft” coal seams	ZY3300/15/33 hydraulic roof support, with a support height of 1.5 meters to 3.3 meters.	2002	Medium-end
	ZF2800/15/24 hydraulic roof support, with a support height of 1.5 meters to 2.4 meters.	2004	Medium-end
Hydraulic roof support for sub-vertical dipping coal seams ..	ZFQ3600/16/28 hydraulic roof support, with a support height of 1.6 meters to 2.8 meters.	2003	Medium-end
	ZY4800/16.5/37 hydraulic roof support, with a support height of 1.65 meters to 3.7 meters.	2005	Medium-end

Research Capabilities and Facilities

Our research and development efforts focus on analyzing data such as those related to the topography of the mining site, geologic rock formations, conditions of the coal seam, thickness of the mining wall and other geologic conditions to design customized products for customers and enhance the overall productivity of our coal mining and excavating equipment. We focus on enhancing the automation and mechanization of our product manufacturing processes and developing parts and components that can be easily integrated into complete underground coal mining systems.

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We have a leading research and development institution in the industry, with our in-house research capabilities dating back to the 1980s. Within the hydraulic roof support industry in the PRC, we are the only enterprise with a state-level technical research and development center, the State-Accredited Enterprise Technology Center of the PRC. This technology center includes departments and institutes for technology development, standardization, design research and technical collaboration and introduction, as well as a specific research and development center dedicated to the research and development of electronic hydraulic control systems. We have also established a post-doctoral research workshop and a workshop for research fellows of both the Chinese Academy of Sciences and the Chinese Academy of Engineering to further enhance our comprehensive research and development capabilities.

We implement a number of computer-aided design and process planning softwares, such as CAD/CAE and CAPP. As part of our CAD system, we use Pro/Engineer software to facilitate our three-dimensional computer design. To enhance our efficient manufacturing processes and our research and development capability, we also implement the internal “Collaborative Management Software System for Standardized Design and Documents”, a centrally-managed secure content-sharing and resource retrieval system to search and utilize technical data and designs and administrative files.

In line with our international expansion plans, our research and development team is developing products for the overseas market that meet international coal mining and related local standards. We are also enhancing our manufacturing processes so that they meet or exceed international quality control standards. In addition, we plan to establish research and development facilities in Germany and the United States in the future. We believe these efforts will enable us to build on our industry-leading research and development team, improve our technology, expand our product portfolio, streamline our manufacturing process and compete successfully in a number of international markets.

Cooperation with Third Parties

We cooperate with major academic institutions, steel companies, robotic welding companies and coal producers from the PRC and Germany to improve research and development capabilities. The following table sets forth our selected external cooperative efforts for research and development as of the Latest Practicable Date:

Entity(ies)	Scope of Cooperation	Year of Commencement	Ownership of Intellectual Property Rights
Pangang Group Chengdu Steel & Vanadium Co., Ltd. (“Pangang”)	Research and development of advanced seamless steel pipes.	2008	Jointly owned by our Group and Pangang
TKRS.....	Application of multi-stage, robotic welding systems.	2008	TKRS
Harbin Welding Institute	Development of welding techniques in relation to 1,100MPa high strength steel.	2010	Our Group
CLOOS	Application of multi-stage, robotic welding systems.	2010	CLOOS

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Entity(ies)	Scope of Cooperation	Year of Commencement	Ownership of Intellectual Property Rights
China University of Mining and Technology.....	Research on the safety techniques for the working faces of super large mining height hydraulic roof supports.	2011	Our Group
Huazhong University of Science and Technology	Research on the test-bed of large flow hydraulic roof components. Research on the reliability and durability of super large mining height hydraulic roof supports.	2011	Our Group
Shandong University of Science and Technology	Research on the correlation of the hydraulic roof support and surrounding rocks.	2011	Our Group
Shanxi Lu'an Mining (Group) Co., Ltd.....	Development of large mining height hydraulic roof supports.	2011	Our Group

CUSTOMERS

We have established a stable customer base in the PRC. Our domestic customer base primarily consists of coal producers, including leading coal mining enterprises, such as Shenhua Group, Huainan Mining, Henan Coal and Chemistry Industry, Yitai Coal and Datong Coal, and coal mining enterprises under major power generation enterprises in the PRC. In addition, we have entered into strategic alliance agreements with selected major coal mining enterprises in the PRC. Our strategic alliance agreements, which are legally binding, generally do not have fixed terms. Such agreements enable us to access our major customers and cooperate with them in developing new technologies and products and prioritizing our provision of coal mining and excavating equipment and related aftermarket services. Under such agreements, we are obligated to supply our products to such major customers at favorable prices on a priority basis. If we sell our products to third-party customers at more favorable prices with other terms being the same, we could be subject to liabilities under such agreements. We generally do not have fixed purchase commitments from our customers. Most of our domestic customers are located in Shanxi, Shaanxi, Anhui, Henan, Shandong, Guizhou, Hebei, Heilongjiang, Jilin, Liaoning and Gansu Provinces, as well as Inner Mongolia, Ningxia and Xinjiang Autonomous Regions. During the Track Record Period, approximately 97% of our customers were based in the PRC.

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We are expanding into the international markets and have international customers located in Russia, Turkey and India. These customers include mining companies such as Russia Stark, Russia Belon, Yuzhkuzbassugol and Turkish Coal, all of which are engaged in coal mining operations. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, our revenues from the international markets represented 0.3%, 1.3%, 2.6%, 3.2% and 5.9%, respectively, of our total revenues. We plan to enter additional international markets, including coal-rich countries and countries with mining operations that utilize longwall mining techniques, such as the United States, Australia, Vietnam, Mexico, Colombia, South Africa, Brazil, Ukraine and Kazakhstan. Going forward, we expect our international sales to increase and comprise a larger portion of our total revenue.

Our sales to our largest customer accounted for 20.9%, 8.6%, 16.5% and 11.1% of our total revenue for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. Sales to our five largest customers collectively accounted for 40.6%, 23.3%, 35.7% and 29.6% of our total revenue for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively.

The following table sets forth our revenue by geographic location for the periods indicated.

Location	Year Ended December 31,			Six Months Ended June 30,	
	2009	2010	2011	2011	2012
(RMB in millions)					
(unaudited)					
Domestic	4,977.4	6,274.6	7,851.9	3,472.9	4,443.2
International ⁽¹⁾	17.0	83.7	208.2	113.4	280.4
Total	<u>4,994.4</u>	<u>6,358.3</u>	<u>8,060.1</u>	<u>3,586.3</u>	<u>4,723.6</u>

Note:

(1) Primarily includes revenue from customers located in Russia.

During the Track Record Period, our top five customers included Henan Coal and Chemistry Industry and a subsidiary of Yongcheng Coal & Electricity. Our Controlling Shareholder, Henan SASAC, directly and/or indirectly controls the shareholding interest in them. Save as disclosed, and to the best knowledge of our Directors, none of our Directors, Supervisors, their respective Associates or shareholders of our Company holding more than 5% of our issued share capital had any interest in any of our top five customers as of the Latest Practicable Date.

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AWARDS AND RECOGNITIONS

In recognition of our products, services and business, we have received several significant awards since our incorporation. These following table sets forth the major awards and certifications that we have received in recent years.

Year of Grant	Award/Award/Recognition	Awarding Body
Comprehensive Capabilities		
2010.....	MECHPOST 500 CHINA	China Machinery Enterprise Management Association
2010.....	National Innovative Enterprise	MOST, SASAC and All-China Federation of Trade Unions
2009.....	Special Contribution Prize to the Industrial Sector of Henan Province	The Industrial Economy Association of Henan Province and the Organizing Committee of Special Contribution Prize to the Industry of Henan Province
Brand		
2010.....	ZMJ branded hydraulic roof supports receive the title of “Well-Known Brand Products of Henan Province”	Henan Provincial Well-known Brand Strategic Promotion Committee
Product Quality		
2010.....	Zhengzhou Mayor’s Quality Prize	Zhengzhou Municipal Government
2009.....	ISO9001:2008 certification for our quality management systems	China National Accreditation Service for Conformity Assessment and International Accreditation Forum
Research and Development		
2011.....	Outstanding Execution Team for the “Eleventh Five-Year” National Technology Plan	MOST
2010.....	First Prize for Science and Technology Advancement for research on electronic hydraulic control systems	Zhengzhou Municipal Government

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Year of Grant	Award/Award/Recognition	Awarding Body
2009.....	First Prize for Science and Technology Advancement for research on our hydraulic roof support with a support height of 6.3 meters	Henan Provincial Government
2009.....	Workshop for research fellows of both Chinese Academy of Sciences and Chinese Academy of Engineering	Zhengzhou Municipal Government
2008.....	Certification of ZMJ's post-doctoral research facility as a Post-doctoral Research Center	Ministry of Human Resources and Social Security of the PRC and National Post-doctoral Management Committee
2008.....	National High-tech Enterprise	Department of Science & Technology of Henan Province, Finance Department of Henan Province, Henan Provincial Office SAT and Henan Local Tax Bureau
2007.....	Henan Provincial Engineering & Technical Research Center for Coal Mine Support Equipment	Department of Science & Technology of Henan Province
2007.....	Certification of ZMJ's technology center as a State-Accredited Enterprise Technology Center	NDRC, MOST, MOF, GAC and SAT
2007.....	First Prize for Science and Technology Advancement for our hydraulic roof support with a support height of 6.2 meters	China National Coal Association and China Coal Society

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SALES AND MARKETING

Sales and Services Channels

Our entire senior management team is involved in the sales process and is responsible for maintaining relationships with the management of our major customers, especially large state-owned enterprises. Our sales headquarters in Zhengzhou is responsible for managing our sales and service network and overall planning for, and coordination of, the sales and marketing activities of our sales offices in the PRC and our overseas sales agents.

At the initial sales stage, we conduct proactive and constructive pre-sales marketing activities that include market research, product introduction and technical advisory services. Due to the customized nature of our products and the varied conditions of our customers' mining operations, we believe it is critical for us to understand and respond to the needs of our customers. As such, our dedicated team is well-trained and experienced in providing personalized pre-sales advisory services to our potential customers so that we may better understand their needs and provide cost-effective and customized products. In addition, our sales services also include on-site installation, testing and adjustment of our products and technical and operational training for our customers' operating staff.

We sell our hydraulic roof supports and other coal mining and excavating equipment primarily to coal mining enterprises which are the end users of our products in the PRC and overseas countries through bidding and direct ordering. The following table sets forth the percentages of orders obtained through bidding and direct ordering processes for the periods indicated:

	Year Ended December 31,			Six Months Ended June 30,	
	2009	2010	2011	2011	2012
Bidding	63.4%	57.5%	54.9%	55.4%	63.8%
Direct Ordering.....	36.6%	42.5%	45.1%	44.6%	36.2%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The method of purchase is a purely commercial decision of each individual customer and customers determine whether to purchase coal mining and executing equipment through bidding or direct ordering on a case-by-case basis. Therefore, there is no particular purchasing pattern with respect to our particular customer in this regard. The sales orders obtained through bidding processes are not recurring in nature. See "Risk Factors — Risks Relating to Our Business and Operations — Our revenue may vary from period to period due to fluctuations in customer purchase orders." However, with our industry reputation, advanced technology and high quality products, we have been able to secure winning bids in the public bidding processes involving our major customers. The percentage of sales obtained through direct ordering processes increased from 36.6% in 2009 to 42.5% in 2010 and further to 45.1% in 2011. The percentage of sales obtained through direct ordering processes decreased from 44.6% for the six months ended June 30, 2011 to 36.2% for the six months ended June 30, 2012, primarily as a result of our increased international sales. Due to the uncertainty associated with the results of the public bidding processes, we have enhanced our marketing efforts to sell our products to our repeat customers through direct ordering rather than public bidding. As we continue to expand our sales and service network and enhance our technology and product quality, we expect our sales through direct ordering processes will increase in the future. The use of either the bidding or direct ordering by our customers to purchase our products does not affect our business or results of operations.

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We rely on direct sales to our customers in the PRC. For our international sales, we also enter into sales contracts directly with customers but engage agents to assist us in sales in major export markets such as Russia, Turkey, the United States and India. Pursuant to our agency agreements, our overseas sales agents advise us on sales strategy, assist us in collecting overseas market information and preparing proposals and act as a liaison between our existing and prospective customers and us in their respective markets. For our international sales, we provide products that meet the local industry standards and customers' specifications. The sales prices of our products in a particular overseas market are generally determined based on such local factors as market competition, technical requirements and the cost of production. Our domestic sales prices and international sales prices include transportation expenses and related charges.

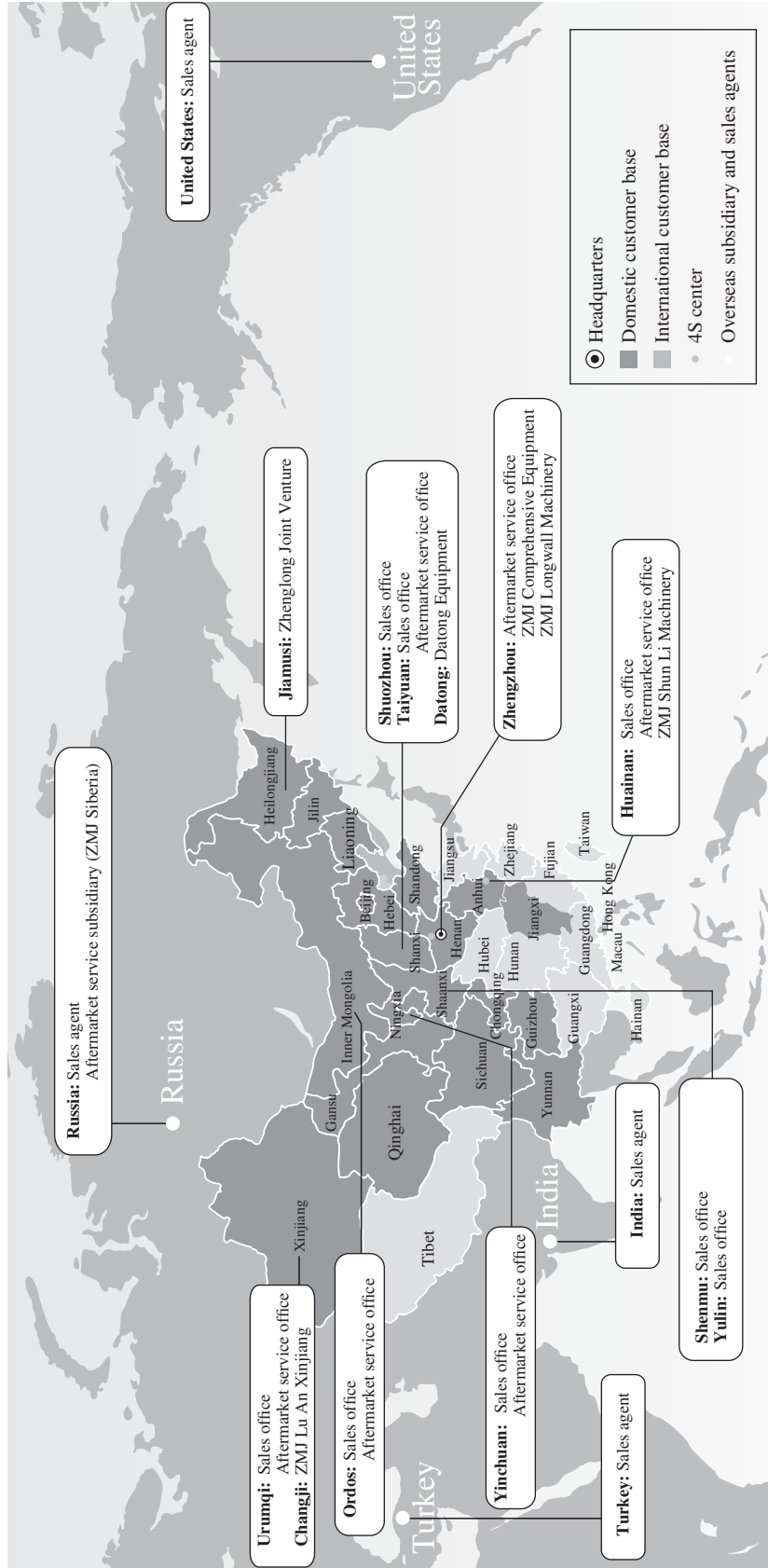
The following table sets forth our revenue by sales channel for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%
(RMB in millions, except for %)										
(Unaudited)										
Direct sales	4,977.4	99.7%	6,274.6	98.7%	7,851.9	97.4%	3,472.9	96.8%	4,443.2	94.1%
Sales agents	17.0	0.3%	83.7	1.3%	208.2	2.6%	113.4	3.2%	280.4	5.9%
Total	4,994.4	100.0%	6,358.3	100.0%	8,060.1	100.0%	3,586.3	100.0%	4,723.6	100.0%

Sales Network

As of the Latest Practicable Date, the Company had eight domestic sales offices located in Ordos, Inner Mongolia Autonomous Region, Yulin and Shenmu, Shaanxi Province, Taiyuan and Shuozhou, Shanxi Province, Huainan, Anhui Province, Urumqi, Xinjiang Autonomous Region and Yinchuan, Ningxia Autonomous Region to facilitate our sales and marketing in these regions. As of the Latest Practicable Date, we had a sales and marketing team of 178 members. In addition, as of the Latest Practicable Date, we had four overseas sales agents located in Russia, India, Turkey and the United States assisting us in collecting overseas market information and promoting our products. Our overseas sales agents also act as a liaison between our Company and existing and prospective customers in their respective markets.

The following map shows the coverage of our sales and service network and the service networks of our joint ventures and ZMJ Suda as of the Latest Practicable Date:



Note: Our associate, ZMJ Suda, owns and operates the aftermarket service offices and 4S centers as a sub-contractor of the Company for the provision of aftermarket services in respect of the hydraulic roof supports sold by the Company during the warranty periods of such products. See “ — Sales and Marketing — Aftermarket Services.”

Sales Cycle

Our sales cycle may vary significantly from product to product, generally ranging from four to six months, and primarily consists of the following stages:

- **Identifying potential orders and pre-sales services.** Our customers generally purchase coal mining and excavating equipment through either bidding or direct ordering processes. The bidding process generally begins with a potential customer publishing a public notice requesting from various manufacturers, or notifying us directly of, the product to be procured and its technical requirements. We will then prepare and submit both the technical bid and commercial bid in accordance with these product requirements, which together with other manufacturers' bids will be evaluated by the customer. The customer will then select the winning bid from a particular manufacturer. The direct ordering process generally begins with a potential customer liaising with us for a specified technical proposal. If our technical proposal is accepted by a customer, we will negotiate the principal terms of the sales contract with the potential customer. When required, we typically provide pre-sales services, which include on-site visits to understand the technical requirements and product introduction and technical advisory services. The potential customer may also visit our facility to further discuss our technical proposal or review our qualifications and capacity.
- **Signing of sales contracts.** If our bids are accepted or if the principal contract terms are agreed on, we generally enter into a sales contract with the customer.
- **Production.** Our production process generally consists of design, preparation, processing, assembly, testing and installation. When requested by the customer, we will procure certain parts and components from third-party manufacturers or outsource the production of non-critical parts and components.
- **Delivery.** We generally deliver our products to our customer's coal mine. Depending on the terms of our sales contract, we may arrange shipment by truck or rail to the customer's designated destination.

Material Sales Contracts

The material terms of our material sales contracts, all of which are for the sales of high-end hydraulic roof supports, are set forth below:

- **Duration.** Consistent with industry practice, we generally do not enter into long-term sales contracts with our customers. The sales contracts for the majority of our products typically have delivery terms ranging from four to six months after execution of the sales contracts. From time to time, we may be requested to deliver our products in accordance with our customers' accelerated or delayed project schedules.
- **Pricing.** High-end hydraulic roof supports are typically priced on a per unit basis. However, if the actual product weight deviates from the design product weight, we may price our hydraulic roof supports on a per tonne basis according to our customers' requirements. In comparison, our medium-end hydraulic roof supports are typically priced on a per tonne basis, which is consistent with industry practice. We set the price of our hydraulic roof supports based on a

variety of factors, including customer specifications, cost and type of raw materials (in particular, steel, parts and components) to be used, domestic and international competition and other market factors. When determining the contribution of raw materials costs to the overall contract price, we refer to the spot market prices of the raw materials and our expectation of future price trends. Due to our strong research and development capabilities and our advanced production processes, the prices of our high quality products are generally higher than those of our competitors. However, to remain competitive, we also take into account market factors and our relationship with our customer in setting the prices of our products. Our domestic sales prices and international sales prices include transportation expenses and related charges.

- **Payment and Credit Terms.** We generally require our customers to make installment payments based on certain production or delivery milestones. The following table sets forth our standard payment schedule:

Timeline	Percentage of Installment	Description of Accounting Treatment
At the signing of the sales contract.....	30% of the total contract price	We receive advances from customers in the amount of 30% of the contract price.
Before volume production or delivery.....	30% of the total contract price	We receive accumulated advances from customers in the amount of 60% of the contract price.
Upon completion of installation of our products on our customers' mining sites (normally two months after delivery).....	nil	We recognize revenue in its entirety and record trade receivables in the amount of 40% of the contract price.
Upon expiration of the credit period granted to customers (normally 90 days after completion of installation of our products in the case of our third party customers)....	30% of the total contract price	We settle trade receivables in the amount of 30% of the contract price.
Upon expiration of warranty period (typically one year after commencement of operation of our products)....	10% of the total contract price	We receive the trade receivable in the amount of 10% of the contract price.

However, as we seek to develop long-term relationships with our customers, we attempt to accommodate our customers' requests and, as such, the payment schedule of our sales contracts may vary on a case-by-case basis. For long-term and/or large customers with positive credit profiles, or selected customers with whom we intend to develop long-term relationships, we may reduce the percentage of the initial installment or extend their payment terms. Due to our strong bargaining power, which arises from our strong research and development capabilities and efficient production processes, our customers generally seek to develop long-term relationships with us and hence provide significant prepayments up-front. In addition, consistent with international practice, our international customers may provide

prepayment of up to 90% of the contract price before delivery of our products. Payments by our domestic and international customers are typically settled in RMB and US\$ or Euro, respectively, and generally via wire transfer or banknotes. We generally allow an average credit period of 90 days to our customers. In the case of our related party customers, the credit period is normally shorter than 90 days. The credit period provided to our customers can vary significantly based on a number of factors, including our relationship with the customer, the customer's credit profile and payment history, total contract value and market conditions. We regularly review the status of our accounts receivables to determine their recoverability and the adequacy of our provisions for accounts receivables.

- **Warranties.** Our warranty policies are aligned with our strategy of engaging the customers at every stage of the coal mining supply chain. Our warranty period varies with the products and the parts and components of the products and is typically a period of one year after the commencement of operation of our products. In certain cases, the warranty period may be up to 18 or 24 months after delivery and acceptance of our products at our customers' mining sites. We typically allow our customer to withhold up to 10% of the total contract price until the expiration of the warranty period provided in our sales contract. After the expiration of the warranty period, we are generally able to collect in full all such amounts withheld by our customers, although we have experienced delays in such payments from time to time. If our hydraulic roof supports and other coal mining equipment products do not meet the quality standards set forth in the sales contract, we are contractually obligated to replace or repair such hydraulic roof supports and other mining equipment products at our expenses within the warranty period until our products meet the relevant product quality tests. Following the expiration of the warranty period, we provide maintenance and overhaul services and supply parts to our customers for fees. During the Track Record Period, we did not experience any product returns or recalls as a result of product defects, except for certain warranty claims from our customers, which we confirm were not material to our business, results of operations and financial condition. Because these warranty claims were immaterial, we did not record during the Track Record Period, and will not record in the future, any provisions for these warranty claims.

Aftermarket Services

We offer a complete range of aftermarket services including products testing and adjustment upon delivery to the customers' mines, installation guidance and monthly routine inspection on our customers' coal mines as well as general troubleshooting, refurbishing and overhaul and spare and replacement parts supply. In addition, we also provide training to the operating staff of our customers in relation to operation and maintenance of equipment. We provide aftermarket services in the PRC through a three-tier system: (i) the Company establishes joint ventures with our selected strategic customers to manufacture coal mining and excavating equipment and provide aftermarket services to such customers; (ii) certain of our subsidiaries provide aftermarket services for their products such as hydraulic roof supports and armored-face conveyors through their own sales and service networks; and (iii) the Company engages our associate, ZMJ Suda, as a sub-contractor of the Company, to provide comprehensive aftermarket services in respect of hydraulic roof supports sold by the Company within the warranty periods of such products. We also provide aftermarket services in the overseas market.

We intend to expand our aftermarket services to capture the significant growth potential of the coal mining and excavating equipment aftermarket services and spare parts sales markets in the PRC. See “Industry Overview — Coal Mining at Excavating Equipment industry Overview — Overview of the Coal Mining and Excavating Equipment Industry of the PRC — Development Trends of the PRC Coal Mining and Excavating Equipment Industry — Upgrades, Replacement and Aftermarket Services” and “— Our Products and Businesses — Spare Parts.”

Joint Ventures with Selected Strategic Customers

- In November 2009, we acquired 44.00% and 10.00% of the equity interest in Lu Xin Coal Mine (Group) Machinery Manufacturing Company from Lu Xin Coal Chemical and Shanxi Lu An Machinery Company, respectively, and changed the company’s name to ZMJ Lu An Xinjiang. We and Lu Xin Coal Chemical currently hold 54.00% and 40.00%, respectively, of the equity interest in ZMJ Lu An Xinjiang. The remaining 6.00% of the equity interest is held by seven individuals, including two directors of ZMJ Lu An Xinjiang. ZMJ Lu An Xinjiang focuses on manufacturing hydraulic roof supports and coal mining equipment components and providing maintenance and overhaul services to Lu Xin Coal Chemical and other coal mining companies in the region.
- In October 2010, we acquired approximately 44.94% of the equity interest in ZMJ Shun Li Machinery from Anhui Guoyuan Trust Co., Ltd. Following a share capital increase of ZMJ Shun Li Machinery in November 2011, we and Huainan Mining currently hold approximately 57.97% and 37.40%, respectively, of the equity interest in ZMJ Shun Li Machinery. The remaining approximately 4.63% of the equity interest is held by nine individuals, including a director of ZMJ Shun Li Machinery. ZMJ Shun Li Machinery focuses on providing coal mining equipment and related aftermarket services to Huainan Mining and other coal mining companies in the region.
- In April 2011, we established Datong Equipment as a joint venture with Datong Coal and Shanxi Pingyang Industry Machinery Co., Ltd. (“Shanxi Industry”), in which Datong Coal, Shanxi Industry and we currently hold 44.00%, 20.00% and 31.00%, respectively, of the equity interest. The remaining 5.00% of the equity interest is held by a director of Datong Equipment. Datong Equipment focuses on providing coal mining equipment and related aftermarket services to Datong Coal.
- In July 2012, we established the Zhenglong Joint Venture as a joint venture with Longmay Group, in which Longmay Group and we currently each hold 47.50% of the equity interest. The remaining 5.00% of the equity interest is held by six individuals who are directors and senior management members of the Zhenglong Joint Venture. Zhenglong Joint Venture focuses on providing coal mining equipment and related aftermarket services to Longmay Group. Zhenglong Joint Venture is expected to commence production by the end of 2014 and is expected to have an expected initial annual production capacity of approximately 4,500 units of hydraulic roof supports and 15,000 tonnes of armored-face conveyors. In addition, Longmay Group will purchase hydraulic roof supports exclusively from the Zhenglong Joint Venture and armored-face conveyors from Zhenglong Joint Venture on a priority basis. If Zhenglong Joint Venture is not able to manufacture such hydraulic roof supports for any reason, Longmay Group will purchase hydraulic roof supports on a priority basis from our Company.

We plan to continue to enter into similar arrangements to efficiently penetrate the coal mining and excavating equipment aftermarket services market in the PRC. See “— Our Business Strategies — Expand the coverage and customer base of our aftermarket services based on the 4S centers service model and through the establishment of joint ventures with our major customers.”

Our Subsidiaries

Our subsidiaries, ZMJ Comprehensive Equipment and ZMJ Longwall Machinery, also provide aftermarket services for hydraulic roof supports and armored-face conveyors, respectively, through their own service networks in the PRC.

ZMJ Suda

In July 2009, we established our associate, ZMJ Suda, with certain Independent Third Parties, to provide comprehensive aftermarket services. See “History, Development and Corporate Structure — History and Development — Establishment of ZMJ Suda in 2009.” Following its establishment, we entered into an outsourcing agreement with ZMJ Suda for an unlimited duration, pursuant to which ZMJ Suda agrees to provide aftermarket services to our PRC customers within the warranty periods of the hydraulic roof supports that we sell. In return, ZMJ Suda is allowed to provide original spare parts that we manufacture, or it sources from specified suppliers to our customers. We sell spare parts to ZMJ Suda based on purchase orders at market prices. ZMJ Suda generally sells the spare parts sourced from us and provide value-added services to our customers through its 4S centers and aftermarket services network. Our headquarters in Zhengzhou assists ZMJ Suda in improving its domestic aftermarket services through monthly evaluation and customer surveys, as well as providing technical support and comprehensive repair and overhaul services to customers that receive such services, most of which have previously purchased our hydraulic roof supports.

To deliver aftermarket services in a timely manner, ZMJ Suda has also established a national service network with six aftermarket services offices nationwide and two 4S centers in the key coal mining regions across the PRC. ZMJ Suda has an experienced aftermarket services team that is on call 24 hours a day, seven days a week, and is required to respond to customers’ requests within one hour or undertake inspections of our customers’ mining sites within four to 48 hours, depending on the locations of the mine sites.

Overseas Aftermarket Services

We established a wholly-owned subsidiary, ZMJ Siberia in Russia in June 2011 to facilitate our provision of aftermarket services in Russia. ZMJ Siberia enables us to respond to our customers’ requests and inspect their mining sites in Russia within four to 48 hours after receiving such requests. Our headquarters routinely assigns aftermarket services engineers to provide on-site technical support and various aftermarket services, including product testing and general troubleshooting after delivery of our products to our customers in Russia. We also assign coal mining experts to provide on-site coal mining technology training to the operating staff of our customers. We have engaged a third party agent to provide aftermarket services in the United States once we begin to sell our products in the United States. In addition, we plan to assign aftermarket services engineers to work on-site during the warranty periods of our products and establish local warehouse systems for the provision of spare parts in Turkey and India.

4S Centers

To supplement the sales and service network of the Company, ZMJ Suda currently operates two 4S centers located in Zhengzhou and Huainan, respectively. ZMJ Suda is also in the process of establishing four additional 4S centers in Yinchuan, Ordos, Shuozhou and Lvliang. These 4S centers are sales and service platforms that offer comprehensive aftermarket services, including: (i) maintenance and overhaul services; (ii) spare parts and components provision; (iii) technical support; and (iv) customer feedback surveys. We plan to expand our sales network through establishing overseas sales offices, manufacturing facilities and 4S centers.

RAW MATERIALS, SUPPLIERS AND INVENTORY

Steel, hydraulic parts and other ancillary materials are the main raw materials for our coal mining and excavating equipment manufacturing operations.

Raw Materials and Suppliers

Steel, which accounts for the largest portion of our purchased raw materials, is mainly purchased directly from steel producers. Cost of steel constituted 45.9%, 51.1%, 58.1%, 57.1% and 59.8% of our total cost of sales for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively. Medium and thick plate (20mm) steel and other steel products of higher thickness account for a large portion of our annual steel purchase volume as we require such steel plates to ensure the structural strength, durability and support heights of our hydraulic roof supports. According to the China Iron & Steel Association, the domestic steel price of medium and thick plate (20mm) fluctuated between RMB3,311 and RMB4,928 per tonne from January 1, 2009 to June 30, 2012, and the average price of domestic medium and thick plate (20mm) in the PRC was RMB3,572 per tonne, RMB4,297 per tonne, RMB4,841 per tonne and RMB4,292 per tonne for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. Although the price of steel fluctuated during the Track Record Period, we were able to minimize the impact of market fluctuations by adjusting our production process and procurement policies to secure a continuous supply of steel and other raw materials at competitive prices.

We have also generally maintained long-term, stable relationships with our steel suppliers to ensure timely delivery and quality of steel supply and control our procurement costs. As of the Latest Practicable Date, we had entered into a strategic alliance agreement with Anyang Steel and separate long-term supply contracts with Anyang Steel and Bengang Steel. We entered into these contracts to procure high quality steel at favorable prices, which allows us to mitigate the impact of steel price fluctuations. Our strategic alliance agreement with Anyang Steel is for a term of three years and is legally binding on both parties. Under this agreement, Anyang Steel is obligated to supply steel products to us on a priority basis at favorable prices. Each of our long-term supply contracts with Anyang Steel and Bengang Steel is for a term of one year and is legally binding on both parties. Our long-term supply contracts with Anyang Steel and Bengang Steel operate as framework contracts, pursuant to which we and our suppliers agree to enter into separate monthly purchase contracts in the month before delivery. Such monthly purchase contracts confirm, among other things, the prices and volumes of the products to be supplied, product specifications and time of delivery. The prices under these monthly purchase orders are determined by reference to the monthly offer prices of a number of major steel suppliers and we generally purchase steel materials at favorable offer prices of, or obtain rebates from, these suppliers if our purchase volumes reach certain monthly and annual thresholds stipulated in the long-term supply contracts. We are also

entitled to additional discounts if we purchase certain specified high quality steel products. In addition, we have entered into technology development agreements with selected steel producers to develop special steel materials for our products.

Currently, we are able to produce most of the parts and components of our hydraulic roof supports in-house. However, from time to time, pursuant to our customers' request, we may procure certain parts and components, such as electronic hydraulic control systems and hydraulic valves, and other ancillary materials such as hoses and hydraulic seals, from customer-specified international and domestic third-party manufacturers. We may also secure certain parts and components at market prices from various suppliers from time to time when such procurement complements our manufacturing schedules and product designs.

The energy we consume in manufacturing our products is primarily electricity and, to a lesser extent, diesel oil, coal, natural gas and industrial gases for metal cutting. We consume a significant amount of electricity transmitted by the Zhengzhou Power Supply Company, which is a major and reliable industrial enterprise in Zhengzhou. The water supplies used in our operations are sourced from public water utilities. We did not experience any material electricity or water shortages during the Track Record Period.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, the purchases from our five largest suppliers, all of which are our steel suppliers, collectively accounted for 20.2%, 30.4%, 30.9% and 43.0%, respectively, of our total cost of sales, and the purchases from our largest supplier for the same periods accounted for 8.5%, 10.7%, 11.4% and 19.0%, respectively, of our total cost of sales. The percentage of purchases from our largest suppliers significantly increased from 2011 to the six months ended June 30, 2012, primarily as a result of our enhanced cooperation with Huainan Mining in the first quarter of 2012, which enabled us to efficiently procure steel products from a subsidiary of Huainan Mining through its comprehensive steel sourcing network. In line with our business expansion, we plan to continue seeking such business opportunities, which will enable us to strengthen our cooperation with other major suppliers.

Our Controlling Shareholder, Henan SASAC, is the controlling shareholder of one of our top five suppliers, Anyang Steel, during the Track Record Period. Save as disclosed, and to the best knowledge of our Directors, none of our Directors, Supervisors, their respective Associates or any shareholders of our Company holding more than 5% of our issued share capital had any interest in any of our top five suppliers as of the Latest Practicable Date.

Raw Materials Quality Control

Our raw materials supply department is mainly responsible for purchasing steel and other metal materials, parts and components. We evaluate and select our steel suppliers on a monthly basis and our selection process for suppliers of other raw materials is relatively flexible. Our raw materials supply department is responsible for organizing the evaluation and selection process. Typically, our raw materials supply department surveys and collects information on supplies from various raw materials suppliers to provide senior management with a raw materials procurement report on a monthly and annual basis. Based on our raw materials procurement report, our senior management responsible for procurement regularly examine the prices and quality of procured raw materials, and prepare a monthly procurement plan and an inventory management plan based on our production plans, customer orders and market factors.

Raw Materials Inventory Control

We procure and maintain a stock of steel and other parts and components used in our production to ensure timely delivery of our products. We also maintain this stock in anticipation of our customers' needs for aftermarket services during or beyond the warranty periods and to hedge against increased product orders. As a result, during the Track Record Period, we did not experience any material interruptions to our key raw materials supply. As an integrated part of our ERP system, we have established an early warning system for excessive steel materials inventories, through which we are able to monitor and manage our inventory levels based on our production volume and procurement cycles. In addition, we implement two management models, the consignment sale model and purchase-to-order model, with the aim of achieving zero inventory for parts, components and other ancillary materials used to produce our coal mining and excavating equipment.

COMPETITION

The coal mining equipment industry in the PRC is relatively fragmented but currently undergoing consolidation. According to CMIA, as of the Latest Practicable Date, there were over a hundred sizable PRC coal mining equipment manufacturers in the PRC, excluding a large number of small manufacturers, component producers and repair entities. We compete on the basis of performance, reliability, suitability and compatibility of our products with other longwall mining equipment as well as pricing, technology and the quality of aftermarket services. In the future, we expect manufacturers to compete on the basis of ability to provide complete coal mining system solutions. See "Risk Factors — Risks Relating to Our Industry — We operate in a highly competitive industry."

The table below sets forth our significant domestic and international competitors by product:

Product	Domestic Manufacturer	International Manufacturer
Hydraulic roof support systems.....	• ChinaCoal Beijing Coal Mining Machinery • Pingdingshan Coal Mine Machinery • Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing • Shanxi Pingyang Industry Machinery • Chongqing Dajiang Xinda Vehicle	• Caterpillar • Joy Global
Armored-face conveyors and related products.....	• ChinaCoal Zhangjiakou Coal Mining Machinery • Tiandi Science & Technology • Shanxi Coal Mine Machinery Manufacturing	• Caterpillar • Joy Global • KOPEX
Roadheaders and other coal excavating equipment.....	• SANY Heavy Equipment International • International Mining Machinery • Tiandi Science & Technology • ChinaCoal Shijiazhuang Coal Mining Machinery	• Caterpillar • Joy Global

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Our competitors may have better track records, longer operating history, larger operations, larger customer bases, more well-known brand names, stronger industry reputation and developed market profiles, more extensive sales network coverage or greater financial resources than we do. Some of our competitors may be publicly-listed companies on foreign stock exchanges and therefore, may have better access to financing from international capital markets than we do. Certain of our international competitors benefit from the familiarity of their home jurisdictions and developed customer relationships with international coal mining companies. Furthermore, our international competitors may also benefit from the perception that products of international manufacturers are better than PRC-manufactured products in terms of technology and quality. However, we believe we are narrowing the gap between our products and those offered by our international competitors in terms of technology and quality. In addition, we have implemented certain pricing strategies with respect to the international markets which provide us with certain competitive advantages. As such, we believe we are able to remain competitive on the basis of our reputation, strong research and development capabilities, high quality products and solid relationships with our customers.

INTELLECTUAL PROPERTY

Our intellectual property rights and know-how are critical to our business and we rely on patents and trademarks laws, as well as technology confidentiality agreements and non-competition agreements, to protect our intellectual property rights and know-how.

Patents

As of the Latest Practicable Date, we held 163 patents registered in the PRC, including 129 utility model patents, 13 innovation patents and 21 design patents. We believe the following selected patents are material to our business, operations and competitive position as the advanced technology and processes protected by these patents distinguish us from our competitors and allow us to design and manufacture high quality hydraulic roof supports and related coal mining equipment.

The following table sets forth our material patents registered in the PRC as of the Latest Practicable Date:

Patent	Registration Date	Expiry Date	Significance
Welding method for high strength low-alloy steel	December 19, 2006	December 18, 2026	This patented process enables us to improve certain welding techniques to produce stronger structural parts incorporated into our hydraulic roof supports to improve their reliability and enable our hydraulic roof supports to operate in harsh working environments.

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Patent	Registration Date	Expiry Date	Significance
Electronic hydraulic control system of the hydraulic roof support on mining working face	November 22, 2011	November 21, 2031	This patent is a testament to our commitment to research and development, as we are one of the few manufacturers in the PRC able to mass produce electronic hydraulic control systems. The electronic hydraulic control system controls the automated operation of integrated coal mining and excavating systems, particularly the hydraulic roof supports, which are the key component to ensure safe and efficient coal mining operations.
Manufacturing method for the fuel tank of hydraulic cylinder	October 9, 2009	October 8, 2029	This patented method improves the manufacturing efficiency of fuel tanks while reducing hydraulic fuel leakage. The fuel tank is a key component of a hydraulic roof support as it allows the hydraulic roof support to reliably operate under harsh working environments.
Large mining height shield hydraulic roof support	December 16, 2008	December 15, 2018	This patented hydraulic roof support had the industry's largest support height and resistance at the time.
Three-level face guard of the hydraulic roof support	December 16, 2008	December 15, 2018	This patented three-level face guard is an important safety mechanism on a hydraulic roof support. This technology enables us to prevent rock fragments and other rib spalling debris that are separated from the working face from entering the working area, thus ensuring safer and more efficient mining operations.
Deep incline face-end and tunnel hydraulic roof support	June 5, 2009	June 4, 2029	The technology related to this patent enables us to improve the stability of a 30° to 55° deep incline mining working face, while resolving certain maintenance difficulties related to this type of equipment installation.

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As of the Latest Practicable Date, we had been granted international patents from Rospatent, the agency for patents and trademarks of the Russian Federation, including:

Patent	Registration Date	Expiry Date	Significance
Two-leg lower shield top caving hydraulic roof support	August 10, 2007	August 9, 2027	Our shield top caving hydraulic roof support is an advanced hydraulic roof support that can be used in coal mining operations in Russia. The patent for this product will enable us to protect our intellectual property as we expand our sales and business operations in the Russian market.
Four-leg lower chock-shield top caving hydraulic roof support	August 10, 2007	August 9, 2027	Our four-leg lower chock-shield top caving hydraulic roof support is an advanced hydraulic roof support that can be used in coal mining operations in Russia. The patent for this product will enable us to protect our intellectual property as we expand our sales and business operations in the Russian market.

From time to time, to actively protect our intellectual property rights, we submit additional patent applications for products, technologies and processes that we have developed. As of the Latest Practicable Date, we had 218 patent applications that are pending approvals from the relevant intellectual property authorities in the PRC.

Trademarks

As of the Latest Practicable Date, we had registered 19 trademarks in the PRC, and believe the following trademarks are significant to our operations:

Trademark	Registrant	Registration Date	Expiry Date
	Our Company	September 21, 2006	September 20, 2016
郑煤机	Our Company	May 7, 2009	May 6, 2019
ZMJ	Our Company	May 7, 2009	May 6, 2019

As of the Latest Practicable Date, we had submitted applications for registration of the following trademarks in Hong Kong in classes 6, 7, 8, 9, 17, 35, 37, 40 and 42:

“”, “郑煤机” and “ZMJ”

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We were not a party to any material litigation or legal proceedings for the violation of intellectual property rights, nor are we aware of any violation of the same during the Track Record Period.

INSURANCE

We maintain property insurance for our manufacturing facilities located at our headquarters in Zhengzhou and for those of ZMJ Shun Li Machinery. As of the Latest Practicable Date, we had RMB1.7 billion of such insurance coverage for losses of and damages to our facilities and equipment of the Company and facilities, equipment and inventory of ZMJ Shun Li Machinery. We also carry pension, medical, unemployment insurance, occupational injury and maternity insurance for our employees in compliance with the relevant PRC laws and regulations.

Although we believe we maintain all necessary insurance coverage mandated under PRC law and in an amount consistent with what we believe to be industry practice, we have not obtained fire, liability and other property insurance for our property, equipment or inventory for most of our subsidiaries. In addition, consistent with what we consider the customary practice in the PRC, we do not carry any insurance for business interruption or loss of profit arising from accidents at any of our production facilities, or insurance for other disruptions of our operations, nor do we carry any product liability insurance for any of our products. Moreover, as of the Latest Practicable Date, we did not carry key-man insurance for our directors and senior management. Therefore, we are subject to risks associated with the scope of our insurance coverage. See “Risk Factors — Risks Relating to Our Business and Operations — Our insurance coverage may be insufficient to cover all risks of loss associated with our business operations.”

We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance coverage in line with our needs and with industry practice in the PRC. We did not receive any material claims from our customers regarding any of our products during the Track Record Period. During the Track Record Period, we were not required under PRC laws to maintain, and we do not have plans to maintain after the Listing Date, general product liability insurance for any of our products.

OCCUPATIONAL HEALTH AND SAFETY

The PRC government imposes a number of regulatory requirements on occupational health and safety. See “Regulation — Principal Coal Mining Equipment Industry Laws and Regulations of the PRC — Occupational Safety.” We regard occupational health and safety as one of our important social responsibilities and believe that adopting safe practices is the best way to ensure employee safety. We require each of our employees to undergo equipment operation and safety training, pass a test on safety operations and obtain an occupation certificate issued by the relevant authorities before such employee is permitted to handle specialized equipment such as pressure vessels, hoisting equipment and welding machines.

We also impose safety measures and conduct regular and random internal safety inspections at all stages of our operations in order to minimize the occurrence of work-related accidents and injuries. We provide various healthcare benefits and insurance to our employees in accordance with applicable laws and regulations. We have established safety standards in connection with various aspects of our operations such as purchasing, installation and operation of new manufacturing equipment, construction of new facilities and renovation of existing facilities. In addition, we post safety reminders throughout

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our production facilities, require the use of protective gear in our workshops and conduct regular training sessions for employees on accident prevention and safe operation. We have also purchased advanced respiratory devices for our technicians working in welding workshops and offer them annual health examinations to prevent potential occupational diseases.

During the Track Record Period, we did not experience any material production accidents caused by individual error during our operations.

EMPLOYEES

As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had 5,619, 7,968, 8,561 and 8,476 directly and indirectly-employed employees, respectively, based in the PRC and abroad. The majority of our employees are directly-employed full-time employees. When necessary, we source indirectly-employed employees from domestic staffing agencies for certain labor-intensive and semi-skilled job functions. As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had 1,437, 1,988, 2,857 and 2,963 full-time, indirectly-employed employees, respectively. These indirectly-employed employees remain employees of the relevant domestic staffing agency.

The following table sets forth the relevant information with respect to our directly-employed employees and their roles with us as of June 30, 2012.

Department	Number of Employees	% of Total
Manufacturing	3,423	62.1
Technical (including R&D and IT)	787	14.3
Sales and marketing	178	3.2
Procurement	68	1.2
General and administrative.....	748	13.6
Finance.....	60	1.1
Others	249	4.5
Total.....	<u>5,513</u>	<u>100.0</u>

Our senior management team has adopted a lean management model to streamline our business and operations, which has improved the overall utilization rates and efficiencies of our human resources. As a result, we have gradually enhanced our staff morale, corporate culture and leadership skills, which we believe has improved our overall competitiveness.

To support our manufacturing operations, we have a well-trained and professional team of engineers, technicians and production staff, comprising 3,423 full-time, directly-employed employees as of June 30, 2012. Our production staff work closely with our research and development team and operations management to facilitate the manufacturing process and ensure the high quality of our products.

We are required under PRC law to make contributions to employee benefit plans in the amount equivalent to a fixed percentage of the salaries, bonuses and certain allowances of our employees. As of the Latest Practicable Date, our employees received pension insurance, medical insurance, occupational

injury insurance, unemployment insurance and maternity insurance in compliance with the relevant PRC laws and regulations. According to our PRC Legal Advisers, during the Track Record Period, we were in compliance with all applicable social security insurance laws and regulations in all material respects, and have made all required contributions to our social security fund for our employees. We also provide our employees with employee public housing reserve contributions. Our total salaries and related employee benefits for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, was RMB320.9 million, RMB388.9 million, RMB411.3 million and RMB219.1 million, respectively.

All our directly-employed employees are employed under employment contracts which set out, among other things, the employees' responsibilities, remuneration and grounds for termination of employment. We believe we have maintained good working relationships with our employees and have not encountered material difficulties with respect to recruitment and retention of staff. We did not experience any interruption to our operations as a result of labor disputes or other industrial actions during the Track Record Period.

ENVIRONMENTAL MATTERS

Our operations in the PRC are subject to the relevant environmental protection standards under PRC environmental laws and regulations, including: (i) the *Environmental Protection Law of the PRC*; (ii) the *Law of the PRC on Prevention and Control of Water Pollution*; (iii) the *Law on the Environmental Impact Appraisal of the PRC*; (iv) the *Prevention and Control of Atmospheric Pollution Law of the PRC*; (v) the *Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC*; and (vi) the *Prevention and Control of Environmental Pollution by Noise Law of the PRC*.

Our operations affect the environment by generating waste water and solid waste and producing dust and noise pollution. We have installed in our plants: (i) isolators and damping devices to minimize the noise; and (ii) dust-removal systems to discharge dust and other pollutants. We discharge industrial waste water to the Zhengzhou municipal sewage system after internal sewage treatment. Under the guidance of the Zhengzhou Environmental Protection Bureau, we have established a temporary storage site for hazardous waste to be delivered to, and disposed in, a professional hazardous waste treatment center in Henan Province. As of the Latest Practicable Date, our Company had 12 employees conducting regular inspections on our plants to ensure compliance with our internal measures for environmental protection.

We conduct environmental feasibility studies and environmental impact assessments for all of our new production or expansion projects, and establish pollution control facilities whenever necessary to ensure our compliance with applicable environmental protection standards and requirements. Our total expenditures for environmental compliance for the years ended December 31, 2009, 2010 and 2011 and six months ended June 30, 2012, were approximately RMB1.5 million, RMB8.5 million, RMB22.0 million and RMB4.8 million, respectively. These costs mainly comprises expenditures and charges associated with: (i) water resources treatment; (ii) sewage treatment; (iii) greening of urban spaces/industrial environment; (iv) environmental assessment and protection; (v) hazardous waste treatment; and (vi) purchases of other environmental protection equipment. The significant increase in our environmental expenditures in 2011 was primarily due to increased investment in the greening of our urban spaces and industrial environment in Zhengzhou, as well as purchases of environmental protection equipment during the construction of our new manufacturing facility in Zhengzhou which commenced operation in 2011. We expect that our costs for compliance with applicable environmental rules and regulations for the year ended December 31, 2012 will be more than RMB10.0 million.

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We are currently in compliance in all material respects with applicable national, provincial and municipal environmental laws and regulations, and have obtained the relevant necessary government approvals in relation to our operations. As of the Latest Practicable Date, we had not been the subject of any material environmental violation or complaint or administrative penalty. In this regard, our PRC Legal Advisers has confirmed that we were in compliance with all applicable environmental laws and regulations in all material respects during the Track Record Period.

REAL PROPERTY

Overview

We are headquartered in Zhengzhou, Henan Province, PRC. According to a due diligence report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, our independent property valuer and consultant, as of the Latest Practicable Date, the Company and its subsidiaries occupied 12 parcels of land (including one parcel in respect of which the application for the relevant land use right certificate is pending) and leased four parcels of land, together having a total site area of approximately 1,867,684.05 sq.m. in aggregate, and occupied 241 completed buildings or units with a total GFA of approximately 613,590.52 sq.m., all in the PRC which are or will be mainly used for production, office and ancillary purposes. Certain details of these properties are set forth below:

No.	Location	Property	Description and Tenure	Purpose
Henan Province				
1.	Zhengzhou	No. 105 Huashan Road, Zhongyuan District	Three parcels of land with a total site area of approximately 411,392.60 sq.m. leased from the State-owned Resources Bureau of Zhengzhou to the Company and ZMJ Comprehensive Equipment expiring on February 17, 2029 and March 10, 2029, respectively, for industrial use, and 131 buildings with a total GFA of approximately 144,131.72 sq.m. erected thereon.	Production, ancillary
2.	Zhengzhou	No. 167 9th Street, Econ-Tech Development Zone	Two parcels of land with a total site area of approximately 413,813.45 sq.m. granted to the Company expiring on June 2, 2059 and August 9, 2060, respectively, for industrial use, and 20 buildings with a total GFA of approximately 260,315.13 sq.m. erected thereon.	Production, ancillary
3.	Zhengzhou	South of Jingnan San Road and east of 9th Street, Econ-Tech Development Zone	One parcel of land with a site area of approximately 176,248.69 sq.m. granted to the Company expiring on May 31, 2062, for industrial use, and various buildings under construction with a total planned GFA of approximately 109,071 sq.m. to be erected thereon.	Production
4.	Zhengzhou	No. 123 10th Street, Econ-Tech Development Zone	One parcel of land with a site area of approximately 45,769.90 sq.m. granted to ZMJ Longwell Machinery expiring on May 3, 2060, for industrial use, and two buildings with a total GFA of approximately 25,545.25 sq.m. erected thereon.	Production, ancillary

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No.	Location	Property	Description and Tenure	Purpose
5.	Xingyang	Zhongyuan Road, Huaixi Village, Yulong Town	Three parcels of land with a total site area of approximately 113,621.39 sq.m. granted to ZMJ Comprehensive Equipment expiring on August 25, 2056, July 11, 2059 and October 24, 2061, respectively, for industrial use, and 18 buildings with a total GFA of approximately 72,203.49 sq.m. erected thereon; and one parcel of land, of which the land use right certificate is being applied for by ZMJ Comprehensive Equipment, for industrial use, with a site area of approximately 17,679.71 sq.m., and one building with a GFA of approximately 1,890.00 sq.m.	Production, ancillary
6.	Zhengzhou	Gangpo Road and Qinling Road	Two retail units and eight buildings with a total GFA of approximately 12,783.09 sq.m.	Lease, ancillary
7.	Zhengzhou	Ruhe Community, Nan Duan of Funiu Road, Zhongyuan District	Two residential buildings with a total GFA of approximately 4,122.00 sq.m.	Residential
Anhui Province				
8.	Huainan	Jixing Road East, Datong District	One parcel of land with a site area of approximately 83,563.00 sq.m. granted to ZMJ Shun Li Machinery expiring on May 9, 2061, for industrial use, and two buildings under construction with a total planned GFA of approximately 29,437.95 sq.m. to be erected thereon.	Production, ancillary
9.	Huainan	Tianji Town, Panji District	One parcel of land with a site area of approximately 181,493.31 sq.m. granted to ZMJ Shun Li Machinery expiring on March 9, 2053, for industrial use, and 38 buildings with a total GFA of approximately 59,822.66 sq.m. erected thereon.	Production, ancillary
10.	Huainan	Dongshan Xi Road, Wangfenggang, Xiejiaji District	One parcel of land with a site area of approximately 189,465.46 sq.m. leased from Huainan Mining to ZMJ Shun Li Machinery expiring on December 31, 2014, for industrial use, and 10 buildings with a total GFA of approximately 3,223.54 sq.m. erected thereon.	Production, ancillary

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No.	Location	Property	Description and Tenure	Purpose
Xinjiang Autonomous Region				
11.	Changji	Hi-Tech Industry Development Zone, Yushugou Town	Two parcels of land with a total site area of approximately 234,636.54 sq.m. granted to ZMJ Lu An Xinjiang expiring on January 14, 2059, for industrial use, and expiring on November 8, 2078, for residential use, respectively, and five buildings with a total GFA of approximately 28,832.41 sq.m. erected thereon.	Production, ancillary
Shanxi Province				
12.	Shuozhou	Block 3, Yu Long Yuan	One unit with a GFA of approximately 174.64 sq.m.	Office
Beijing Municipality				
13.	Haidian District	Xiaoying Dong Road	One unit with a GFA of approximately 207.38 sq.m.	Office
Inner Mongolia Autonomous Region				
14.	Ordos	Yili City Huating, Yihua South Road	One unit with a GFA of approximately 159.80 sq.m.	Office
15.	Ordos	Wanbo Square, Tianjiao North Road	One unit with a GFA of approximately 179.41 sq.m.	Office

Self-owned Properties

- As of the Latest Practicable Date, the Company and its subsidiaries had been transferred land use rights in respect of 11 parcels of self-owned land of a total site area of approximately 1,249,146.28 sq.m. where the relevant land use right certificates were obtained, and had obtained the building ownership certificates in respect of 189 buildings which they own and occupy with a total GFA of approximately 588,438.89 sq.m. Our PRC Legal Advisers are of the opinion that in respect of the land parcels owned and occupied by our Group where the relevant land use right certificates have been obtained, our Group has valid legal title to those land parcels and has the right to own and occupy and use those land parcels in accordance with the relevant land use right certificates within the specified time period; and in respect of the buildings and units with building ownership certificates situated in the land parcels where the relevant land use right certificates have been obtained, our Group has the legal right to transfer, mortgage or otherwise dispose of those buildings and units.
- As of the Latest Practicable Date, the Group had applied for the land use right certificate in respect of one parcel of land with a site area of approximately 17,679.71 sq.m. for which the relevant state-owned land use rights grant contract had been signed and the land-granting fee had been paid. Our PRC Legal Advisers are of the opinion that in respect of that land parcel occupied by our Group but pending the relevant land use right certificate being obtained, there is no legal impediment for our Group to obtain such certificate, and after such certificate has been obtained, the legal right of our Group to own and occupy that land parcel will be protected in accordance with such certificate.

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- As of the Latest Practicable Date, the Company and its subsidiaries had not obtained the building ownership certificates in respect of 52 buildings or units which they occupy with a total GFA of approximately 25,151.63 sq.m. Out of such area, around 25.52% of the area (the “Relevant Premises”) is being used for production, while the remaining spaces are mainly used for provision of facilities and residence. If we are required to relocate those Relevant Premises, we may consider relocating to our properties under construction near such Relevant Premises when the construction is completed. This may incur relocation costs of an amount that we believe, based on current information available to and estimates made by us, would not be significant to or have a material adverse impact on our business or financial condition as a whole.

As of the Latest Practicable Date, buildings or units occupied by our Group without relevant building ownership certificates accounted for around 4.10% of the total GFA of the buildings and units occupied by our Group, and the Relevant Premises accounted for around 1.05% of the total GFA of the buildings and units occupied by our Group. Furthermore, we may relocate the Relevant Premises to our properties under construction near such Relevant Premises when the construction is completed. On this basis, and because we have obtained valid building ownership certificates in respect of a vast majority of our owned properties, our Directors believe that the owned properties without relevant building ownership certificates are not crucial to, and will not have a material adverse impact on, our overall business operations, and therefore, no substantive steps are being taken to obtain the relevant building ownership certificates in respect of those properties.

Leased Properties

As of the Latest Practicable Date, the Group leased the land use rights in respect of three parcels of land located at No. 105 Huashan Road, Zhongyuan District in Zhengzhou, with a total site area of approximately 411,392.60 sq.m., from the State-owned Land Resource Bureau of Zhengzhou Municipality, for a term expiring in 2029 at an annual rent of RMB13 per sq.m. The Group also leased the land use rights in respect of one parcel of land located at Dongshan Xi Road, Wangfenggang Town, Xiejiaji District in Huainan, with a site area of approximately 189,465.46 sq.m., from Huainan Mining. Further details of this lease with Huainan Mining are contained in the section headed “Connected Transactions — Exempt Continuing Connected Transactions — Transactions with Huainan Mining — Lease of Land from Huainan Mining” of this prospectus.

Our PRC Legal Advisers are of the opinion that in respect of the leased land parcels, the relevant land lease agreements are legal, valid and binding on the parties to the agreements, and our Group has the right to occupy and use those land parcels in accordance with the relevant land lease agreements within the stipulated time period.

Other Properties-related Matters

Our PRC Legal Advisers have further confirmed that, save as disclosed above, none of the above properties is subject to:

- third party rights such as encumbrances, liens, pledges or mortgages; and
- investigations, notices, pending litigations, breaches of law or other title defects in the PRC.

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Save as disclosed in this prospectus, our Group currently has no plan to carry out significant construction, renovation or development work, or to dispose of or change the use, in respect of the above properties.

Having considered all relevant circumstances of our Group including the information and results identified in the due diligence report from our independent property valuer and consultant, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, our Directors take the view that the properties numbered 1, 2, 4, 5 and 8 to 11 in the table set out under “— Overview” above constitute material properties of the Group. This is mainly because these properties are used for production and ancillary purposes, and they together form the principal or major production sites of the Group. The Directors believe that such properties contribute a considerable portion of revenue to our Group.

For the purpose of Chapter 5 of the Hong Kong Listing Rules, according to our latest audited consolidated balance sheets in the accountants’ report set forth in Appendix I to this prospectus, the total carrying amount of our owned property interests and of our total assets as of June 30, 2012 were RMB1,193.6 million and RMB11,362.7 million, respectively, and that as of that date:

- no single property interest that formed part of our property activities (as defined in Rule 5.01 of the Hong Kong Listing Rules) had a carrying amount of 1% or more of our total assets, and the total carrying amount of all such property interests did not exceed 10% of our total assets; and
- no single property interest that formed part of our non-property activities had a carrying amount of 15% or more of our total assets,

and on this basis, we are not required by Chapter 5 of the Hong Kong Listing Rules to value or include in this prospectus any valuation report of our property interests.

Accordingly, pursuant to section 6(2) of the *Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice*, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all our Company’s interests in land or buildings.

LEGAL PROCEEDINGS AND COMPLIANCE

We may from time to time be involved in contract disputes or legal proceedings arising from the ordinary course of business. During the Track Record Period and up to the Latest Practicable Date, we were not a party to any material legal or administrative proceedings. In addition, we have not received any notice of any threatened or pending proceedings by any government or other administrative authorities or third parties which, if adversely determined, would have a material adverse effect on our business and operations.

Save as disclosed, the Directors and the Joint Sponsors have confirmed that we have complied with all applicable regulations in the PRC in all material respects and have obtained all material licenses, permits and certificates necessary to conduct our operations from the relevant governmental bodies in the PRC. These include our compliance with the applicable PRC laws and regulations and, in particular, export regulations in relation to our sales in major export markets. For our export business, pursuant to

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the overseas sales contracts that are generally under DAP (Delivered at Place) terms or DDU (Delivered Duty Unpaid) terms, the title of goods and associated risks and responsibilities pass to the overseas buyers when we deliver the goods to the relevant border points or locations that are stipulated in the relevant sales contracts. In these overseas transactions, the buyers are generally responsible for compliance with local laws and procedures, which include import clearance. Accordingly, under such contracts, we are not responsible for compliance with the laws and procedures of the overseas markets for the export of its products to such markets. We can legally export our products if we are in compliance with the applicable PRC laws and regulations (including export regulations) and possess the requisite product certifications.

So far as we are aware, during the Track Record Period, we did not conduct any business with or within any countries which are targets of economic sanctions imposed by the United States, the European Union or the United Nations. It is our current intention that we will not conduct business with or within countries which are currently targets of such economic sanctions that have been imposed. As elaborated in the “Summary” section and in this “Business” section of this prospectus, we have plans to expand our operations in Russia, Turkey and India. We also plan to enter additional international markets, including coal-rich countries or countries with mining operations that utilize longwall mining techniques, such as the United States, Australia, Vietnam, Mexico, Colombia, South Africa, Brazil, Ukraine and Kazakhstan.

Our Directors, to their best knowledge and the information available to them, have confirmed that save as disclosed, our overseas subsidiary, ZMJ Siberia, has complied with applicable Russian laws and regulations in operating its business in Russia in all material respects and it is not required to obtain any regulatory approval or license to conduct its current operations in Russia.

For additional information on our identified matters of non-compliance, which we believe will not materially affect our operations or the Global Offering, see “Risk Factors — Risks Relating to Our Business and Operations — We may not be able to successfully execute our international expansion plans”, “— Real Property — Self-owned Properties” and “Financial Information — Indebtedness.”

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors consists of nine Directors, comprising five executive Directors and four independent non-executive Directors. Our Directors are appointed for a term of three years, after which they may be re-elected. A Director is not required to hold any qualification shares in the Company. The power and duties of our Directors include: (i) convening Shareholders' meetings and reporting our Board's work at the Shareholders' meetings; (ii) implementing resolutions passed at Shareholders' meetings; (iii) determining our business plans and investment plans; (iv) formulating our annual budget and final accounts; (v) formulating our proposals for profit distributions and for the increase or reduction of registered capital; and (vi) exercising other powers, functions and duties as conferred by our Articles of Association.

The following table sets forth certain information regarding members of our Board of Directors:

Name	Age	Position	Date of Appointment/ Re-election
<i>Executive Directors</i>			
Mr. Jiao Chengyao (焦承堯).....	49	Chairman	February 28, 2012
Mr. Shao Chunsheng (邵春生).....	54	Vice Chairman	February 28, 2012
Mr. Xiang Jiayu (向家雨)	47	Director and General Manager	February 28, 2012
Mr. Fu Zugang (付祖岡)	47	Director and Deputy General Manager	February 28, 2012
Mr. Wang Xinying (王新瑩)	47	Director and Deputy General Manager	February 28, 2012
<i>Independent Non-executive Directors</i>			
Mr. Lin Zhijun (林志軍)	57	Independent non-executive Director	February 28, 2012
Mr. Li Bin (李斌)	65	Independent non-executive Director	February 28, 2012
Mr. Gao Guoan (高國安)	70	Independent non-executive Director	February 28, 2012
Mr. Luo Jiamang (駱家驍)	48	Independent non-executive Director	February 28, 2012

Detailed information concerning our Directors is set forth below.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Jiao Chengyao (焦承堯), aged 49, is the Chairman of our Company. Mr. Jiao joined our Group in 1985, and was appointed as our Director in December 2008 and was re-elected on February 28, 2012. Mr. Jiao has held various positions at our Company and our predecessor companies, including as a technician, a production dispatcher and an engineer of the No. 1 machinery sub-plant of Zhengzhou Coal Mining Machinery Factory, as well as the deputy plant manager and the plant manager of Zhengzhou Coal Mining Machinery Factory. Mr. Jiao was previously the chairman and general manager of ZCMM. Mr. Jiao is also a director of ZMJ Comprehensive Equipment, ZMJ Longwall Machinery and ZMJ Hong Kong. Mr. Jiao has been awarded various honors and titles in his career, including “Outstanding Entrepreneur of the Coal Industry of China” (中國煤炭工業優秀企業家), “the Labor Model of National Coal Industry” (全國煤炭工業勞動模範), “Outstanding Entrepreneur of the Coal Machinery Industry” (中國煤炭機械工業優秀企業家) and the “Double Ten/Best Outstanding Entrepreneur of the Coal Machinery of China” (中國煤炭機械工業雙十佳優秀企業家). He has also received the “May 1st Labor Medal of Henan Province” (河南省五一勞動獎章), and was named the “Pioneer of Henan Corporate Management” (河南省企業管理創新先進工作者), a “Top Ten Reformer of Henan Province” (河南十大改革新聞人物), as well as a “Role Model of the Coal Mining System of Henan Province” (河南省煤炭系統勞動模範) and an “Outstanding Entrepreneur of Zhengzhou” (鄭州市優秀企業家). Mr. Jiao obtained a master’s degree in engineering in December 2003 from China University of Mining and Technology (中國礦業大學), after which he obtained a doctoral degree in economics from Huazhong University of Science and Technology in December 2007 and is a professor-level senior engineer.

Mr. Shao Chunsheng (邵春生), aged 54, is the Secretary of the Party Committee and Vice Chairman of our Company. Mr. Shao joined our Group in 1980, and was appointed as our Director in December 2008 and was re-elected on February 28, 2012. Mr. Shao has held various positions with our Company and our predecessor companies, including as a workshop worker and an officer of the Cadres Section, as well as an assistant engineer, a secretary of administration office, a secretary of the office of the Party Committee and the deputy director of Organizational Cadres Bureau (組織幹部處) of Zhengzhou Coal Mining Machinery Factory. He has also served as the deputy plant manager, the deputy secretary of the Party Committee and subsequently the plant manager of our sub-plant of structural parts. Mr. Shao was previously the secretary of the Party Committee and vice chairman of ZCMM. Mr. Shao has been designated by the Company as economist. Mr. Shao is also a director of ZMJ Comprehensive Equipment, ZMJ Shun Li Machinery and ZMJ Lu An Xinjiang. During the period between 1982 and 1985, Mr. Shao studied mechanical manufacturing at Zhengzhou Coal Mining Machinery Factory Staff College (鄭州煤礦機械廠職工大學) (this institution has not been authorized by the relevant competent authorities to grant accreditations).

Mr. Xiang Jiayu (向家雨), aged 47, is a Director and general manager of our Company. Mr. Xiang joined our Group in 1991, and was appointed as our Director in December 2008 and was re-elected on February 28, 2012. He was appointed as our general manager in December 2008 and was re-appointed on February 28, 2012. Mr. Xiang was previously an assistant lecturer at Yima Mining Technical School (義馬礦務局技校) from 1984 to 1988 and has held various positions with our Company since 1991, including as an engineer and the executive officer of the research center and the deputy plant manager of Zhengzhou Coal Mining Machinery Factory, as well as the deputy plant manager and the executive officer of the hydraulic project center at the Huanghe Electronics Institute* (黃河電動車廠) of Zhengzhou Coal Mining Machinery Factory. Mr. Xiang was previously a director, deputy general manager and general manager of ZCMM. Mr. Xiang studied at the China University of Mining and Technology, Master’s Department (Beijing) (中國礦業大學北京研究生部) during the period between 1988 and 1991 and obtained a master’s degree of mining mechanical engineering in January 1991. Mr. Xiang is a senior engineer.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Fu Zugang (付祖岡), aged 47, is a Director and deputy general manager of our Company. Mr. Fu joined our Group in 1985, and was appointed as our Director on February 28, 2012. He was appointed as our deputy general manager in December 2008 and was re-appointed on February 28, 2012. Mr. Fu has held various positions with our Company and our predecessor companies, including as a technician, an assistant engineer, an engineer, a senior engineer, a team leader of technology team, an assistant to plant manager, a deputy plant manager and the plant manager of our sub-plant of casting, and subsequently the deputy plant manager of Zhengzhou Coal Mining Machinery Factory. Mr. Fu is also a director of ZMJ Foundry. He was previously the chairman of labor union, a director and deputy general manager of ZCMM. He obtained a bachelor's degree in casting in 1985 from Wu Han Technology College (武漢工學院) (now known as WuHan University of Technology (武漢理工大學)) and is a senior engineer.

Mr. Wang Xinying (王新瑩), aged 47, is a Director and deputy general manager of our Company. Mr. Wang joined our Group in 1985, and was appointed as our Director in December 2008 and was re-elected on February 28, 2012. He was appointed as our deputy general manager in December 2008 and was re-appointed on February 28, 2012. Mr. Wang has held various positions at our Company and predecessor company, including serving as an engineer of the equipment division, the deputy plant manager of our sub-plant of machinery equipment, the deputy director of the production division and the head of corporate planning department of Zhengzhou Coal Mining Machinery Factory. Mr. Wang was previously the head of the corporate planning department, a director and the deputy general manager of ZCMM. Mr. Wang is also a director of ZMJ Comprehensive Equipment, ZMJ Longwall Machinery, ZMJ Shun Li Machinery, ZMJ Lu An Xinjiang and ZMJ Hong Kong. Mr. Wang obtained a degree in engineering in July 1985 from Chongqing University (重慶大學). He has a master's degree in engineering awarded by the China University of Mining and Technology in 2007 and is currently a doctoral candidate. Mr. Wang is a senior engineer.

Independent Non-executive Directors

Mr. Lin Zhijun (林志軍), aged 57, is an independent non-executive Director of our Company. Mr. Lin joined our Group in 2012, and was appointed as our Director on February 28, 2012. Mr. Lin has served various faculties in many academic institutes from 1982 to 1998, including Xiamen University, University of Lethbridge and the University of Hong Kong and was a visiting scholar at Stanford University and University of Illinois. He joined as an associate professor in 1998 and is now the head of the department of accountancy and law of the School of Business at the Hong Kong Baptist University. Mr. Lin is a qualified Certified Public Accountants in the State of Washington of the United States, Chinese Institute of Certified Public Accountants (中國註冊會計師協會), Certified Management Accountant of Australia, and the member of the American Accounting Association, International Association for Accounting Education & Research, and he is the current chairman of Hong Kong Accounting Professors Association. He is also an independent non-executive director of each of China Everbright Limited (中國光大控股有限公司) (listed on the Hong Kong Stock Exchange (stock code:165)), Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司) (listed on the Hong Kong Stock Exchange (stock code:3808)) and Springland International Holdings Limited (華地國際控股有限公司) (listed on the Hong Kong Stock Exchange (stock code:1700)). He obtained a master's degree in economics from Xiamen University in December 1982, a doctor's degree in economics from Xiamen University (廈門大學) in December 1985 and a master's degree of science in accounting from University of Saskatchewan in Canada in August 1991.

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Mr. Li Bin (李斌), aged 65, is an independent non-executive Director of our Company. Mr. Li joined our Group in 2008, and was appointed as our Director in December 2008 and was re-elected on February 28, 2012. Mr. Li was the accountant-in-charge of Zhengzhou Glass Fiber-reinforced Plastics Factory* (鄭州玻璃鋼廠) from 1967 to 1979 and a cadre of the finance division of Zhengzhou Heavy Industry Bureau (鄭州市重工業局) from 1979 to 1982. He has also served as the chief of the finance department as well as the deputy plant manager in charge of finance and sales of Zhengzhou Power Generation Equipment Factory* (鄭州發電設備廠) from 1982 to 1985, and as a deputy director, director and counsel to the Finance Bureau of Henan Province (河南省財政廳) from 1985 to 2007. He is also an independent non-executive director of each of Henan Dayou Energy Co., Ltd.* (河南大有能源股份有限公司) (listed on the Shanghai Stock Exchange (stock code: 600403)), Anyang Iron & Steel Co., Ltd.* (安陽鋼鐵股份有限公司) (listed on the Shanghai Stock Exchange (stock code: 600569)) and Henan Xinye Textile Co., Ltd.* (河南新野紡織股份有限公司) (listed on the Shenzhen Stock Exchange (stock code: 002087)). Mr. Li graduated in industrial accounting at Hubei Institute of Finance and Economics (湖北財經學院) (now known as Zhongnan University of Economics and Law (中南財經政法大學)) in September 1982, is qualified in Chinese Institute of Certified Public Accountants and is a senior accountant.

Mr. Gao Guoan (高國安), aged 70, is an independent non-executive Director of our Company. Mr. Gao joined our Group in 2008, and was appointed as our Director in December 2008 and was re-elected on February 28, 2012. Mr. Gao was a technician of the fourth mine of the Hebi Mining Bureau (鶴壁礦務局四礦) from 1968 to 1974, an engineer and the section chief of Henan Coal Mine Design Institute (河南省煤礦設計院) from 1974 to 1982 and 1982 to 1984 respectively, the secretary of the Party Committee of Henan Coal Mine Design Institute (河南省煤礦設計院) from 1984 to 1986, and worked as the member, the secretary of Party Committee, deputy director and director at Henan Coal Industrial Department (Bureau) (河南省煤炭工業廳(局)) during the period between 1985 to 2003. He also served as a member of Henan CPPCC Standing Committee (河南省政協常務委員會) from 2003 to 2008 and the deputy head of its Human Resources and Environment Committee (人口資源環境委員會) from 2003 to 2008. Mr. Gao was also the president of Henan Province Coal Industrial Association (河南省煤炭行業協會). Mr. Gao graduated in underground mining at Beijing Mining University (北京礦業學院) (now known as China University of Mining and Technology, Beijing (中國礦業大學(北京))) in August 1968. He is a senior engineer.

Mr. Luo Jiamang (駱家驍), aged 48, is an independent non-executive Director of our Company. Mr. Luo joined our Group in 2008, and was appointed as our Director in December 2008 and was re-elected on February 28, 2012. Mr. Luo has held various senior executive positions, including as the deputy general manager and the general manager of the finance department of China National Construction & Agricultural Machinery Import & Export Corporation* (中國工程與農業機械進出口總公司) from 1990 to 1999, the chairman of Beijing Hualong Import & Export Corporation* (北京華隆進出口公司) from 2000 to 2001, the chairman of Jiangsu Wallong-Hsin Import & Export Corporation* (江蘇華隆興進出口公司) from 2000 to 2001, the chief accountant and president of China National Construction & Agricultural Machinery Import & Export Corporation* (中國工程與農業機械進出口總公司) during the period between 1999 and 2002 and the assistant general manager of China National Machinery Equipment Corporation* (中國機械裝備集團公司) (now known as China National Machinery Industry Corporation* (中國機械工業集團公司)) from 2002 to 2004. He was the part-time chairman of China SINOMACH Finance Co., Ltd* (國機財務有限責任公司) from 2004 to 2010. Mr. Luo has been the chief accountant of China National Machinery Industry Corporation* (中國機械工業集團公司) since 2004 and is the chairman of the China Machinery Industry Accounting Society(中國機械工業會計學會). He is the standing director of the Accounting Society of China (中國會計學會). He is also a director of China CAMC Engineering Co., Ltd.* (中工國際工程股份有限公司) (listed on the Shenzhen Stock Exchange

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(stock code: 002051)), and an independent non-executive director of each of Hangzhou Advance Gearbox Group Co., Ltd.* (杭州前進齒輪箱集團股份有限公司) (listed on the Shanghai Stock Exchange (stock code: 601177)), Zhejiang Dun'an Artificial Environment Co., Ltd.* (浙江盾安人工環境股份有限公司) (listed on the Shenzhen Stock Exchange (stock code: 002011)) and Wanxiang Qianchao Co., Ltd.* (萬向錢潮股份有限公司) (listed on the Shenzhen Stock Exchange (stock code: 000559)). Mr. Luo obtained a bachelor's degree in accounting in July 1986 from Jiangxi Finance College (江西財經學院) and has been accredited by the PRC Machine-Building Ministry (now merged as part of the Ministry of Industry and Information Technology of the PRC) as a senior accountant.

SUPERVISORS

In accordance with the PRC Company Law and our Articles of Association, we have established a supervisory committee to monitor our financial matters and oversee the actions of our Board and our management personnel. Our supervisory committee consists of seven Supervisors, of whom four are appointed by our Shareholders and three are appointed by our employees. Our Supervisors are appointed for a term of three years, after which they may be re-elected. The power and duties of our supervisory committee include: (i) reviewing and verifying the periodic reports prepared by our Board and providing written examination reports; (ii) examining our financial affairs and information; (iii) overseeing the actions of our Board and our management personnel and proposing dismissal of the Directors and management personnel who have acted in violation of the law, administrative stipulations and the Articles of Association; (iv) requesting Directors and management personnel to rectify any actions that are damaging to the Company's interest; and (v) exercising other powers, functions and duties as conferred by our Articles of Association.

The following table sets forth certain information regarding our Supervisors:

Name	Age	Position	Date of Appointment/ Re-election
Mr. Wang Tiehan (王鐵漢)	58	Supervisor	February 28, 2012
Mr. Xu Yongen (徐永恩)	51	Supervisor	February 28, 2012
Mr. Ding Hui (丁輝)	56	Supervisor	February 28, 2012
Mr. Lv Yu (呂豫)	40	Supervisor	February 28, 2012
Mr. Ni Heping (倪和平)	47	Supervisor and Assistant Chief Engineer	February 28, 2012
Mr. Jia Jingcheng (賈景程)	50	Supervisor and Assistant Chief Engineer	February 28, 2012
Ms. Xu Mingkai (徐明凱)	48	Supervisor	February 28, 2012

Mr. Wang Tiehan (王鐵漢), aged 58, is a Supervisor of our Company. Mr. Wang joined our Group in 2011, and was appointed as our Supervisor on February 28, 2012. Mr. Wang previously worked as a worker at state-owned Jiang He Machinery Factory* (江河機械廠) from 1976 to 1978, a teacher at Henan University from 1982 to 1985, an officer of teaching and research department at Henan Economic and Management Cadre College (河南經濟管理幹部學院) from 1988 to 1997, the deputy head of the technology exchange station at Henan Economic and Trade Commission (河南省經濟貿易委員會) from 1997 to 2000, and a researcher of industry commission at enterprises of province committee from 2000 to 2003 and an officer at the Henan SASAC from 2003 to 2010. Currently, He is also the secretary to the

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disciplinary commission in our Group. He obtained a bachelor's degree in economics from Henan University in 1982 and a master's degree in economics from South China Normal University (華南師範大學) in 1988.

Mr. Xu Yongen (徐永恩), aged 51, is a Supervisor of our Company. Mr. Xu joined our Group in 2008, and was appointed as our Supervisor in April 2011 and was re-elected on February 28, 2012. Mr. Xu served as a committee member of the publicity division of Mi Cun Mine Party Committee of Bureau of Mines of Zhengzhou from 1978 to 1984 and the director of the Party Committee publicity division of Bureau of Mines of Zhengzhou from 1984 to 1986. Mr. Xu was a journalist of Henan reporters station of China Coal News (中國煤炭報) during the period between 1987 and 1991. Mr. Xu served as a senior section member of policy and regulation division of Industrial Department of Henan Province (河南省煤炭工業廳) from 1991 to 2000, the vice secretary of the Party Committee of Henan Coal Construction Group Limited Company* (河南煤炭建設集團有限責任公司) from 2000 to 2004, and the secretary of the Party Committee and vice chairman of Pingdingshan Coal Mine Machinery Corporation Limited* (平頂山煤礦機械有限責任公司) from 2004 to 2008. He serves as the chairman of labor union of our Company during the period between 2008 and 2012. Mr. Xu obtained a bachelor's degree in 1986 in Chinese language from the Chinese Department of Zhengzhou University (鄭州大學) and is a senior engineer.

Mr. Ding Hui (丁輝), aged 56, is a Supervisor of our Company. Mr. Ding joined our Group in 1979, and was appointed as our Supervisor in April 2011 and was re-elected on 28 February, 2012. He has held various positions with our predecessor companies, including as a lecturer of the Zhengzhou Coal Mining Machinery Factory Staff College (鄭州煤礦機械廠職工大學), a designer of the research center, the head of export office of the second sales division, the head of the planned sales division and the head of marketing division of Zhengzhou Coal Mining Machinery Factory. He is presently an assistant to the general manager of our Company and the head of marketing division. Mr. Ding graduated in mechanical manufacturing at Henan Radio and Television University (河南廣播電視大學) and in foreign language and foreign trade at China University of Mining and Technology (中國礦業大學) in February 1982 and December 1991, respectively. He is a senior engineer.

Mr. Lv Yu (呂豫), aged 40, is the Supervisor of our Company. Mr. Lv joined our Group in 2012, and was appointed as our Supervisor on February 28, 2012. During the period between 1995 and 2002, Mr. Lv served various posts at Bank of Zhengzhou* (鄭州市商業銀行). Mr. Lv worked as a senior investment manager and the secretary to the board of directors at Henan Venture Capital Co., Ltd* (河南創業投資股份有限公司) from 2002 to 2007, an assistant to the general manager and a senior investment manager at Zhengzhou Bairui Innovative Capital Venture Capital Limited Company* (鄭州百瑞創新資本創業投資有限公司) from 2007 to 2009, and the general manager at the Luoyang fund branch of the Shenzhen Capital Group Co., Ltd* (深圳創新投資集團有限公司洛陽基金) from 2009 to 2011. He is currently the head of Henan division of Shenzhen Capital Group Co., Ltd.* (深圳創新投資集團有限公司), the deputy general manager of Zhengzhou Bairui Innovative Capital Venture Capital Limited Company and the general manager of Luoyang Hong Tu Innovative Capital Venture Capital Limited Company* (洛陽紅土創新資本創業投資有限公司). He obtained a bachelor's degree in June 1995 from Henan Economics College (河南財經學院) (now known as Henan University of Economics and Law (河南財經政法大學)) in economics and information management and a master's degree in June 2004 from Zhengzhou University (鄭州大學) in business administration.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ni Heping (倪和平), aged 47, is a Supervisor of our Company. Mr. Ni joined our Group in 1987, and was appointed as our Supervisor in December 2008 and was re-elected on February 28, 2012. Mr. Ni has held various positions with our Company and our predecessor companies, including as a designer, the head of design office and the deputy director of the research institute of Zhengzhou Coal Mining Machinery Factory. He was also the deputy director, director and dean of the design and research institute of ZCMM. He is presently the dean of design and research institute of our Company. Mr. Ni obtained a master's degree in engineering in June 2007 from China University of Mining and Technology (中國礦業大學) and is a senior engineer.

Mr. Jia Jingcheng (賈景程), aged 50, is a Supervisor of our Company. Mr. Jia joined our Group in 1982, and was appointed as our Supervisor in December 2008 and was re-elected on February 28, 2012. Mr. Jia has held various positions with our Company and our predecessor companies, including as a machinery worker and a dispatcher of the No. 1 machinery sub-plant Zhengzhou Coal Mining Machinery Factory, an assistant to the plant manager and the deputy plant manager of its sub-plant of processing, the plant manager of its sub-plant of machinery maintenance, as well as the deputy general manager of ZMJ Comprehensive Equipment. He was previously the plant manager of the ZCMM's sub-plant of machinery processing and the head of production and manufacturing department of ZCMM. He is presently the plant manager of the sub-plant of fuel tank of our Company. Mr. Jia studied machinery manufacturing technology and design at Zhengzhou Coal Mining Machinery Factory Staff College (鄭州煤礦機械廠職工大學) (this institution has not been authorized by the relevant competent authorities to grant accreditations) from 1985 to 1988 and is an engineer.

Ms. Xu Mingkai (徐明凱), aged 48, is a Supervisor of our Company. Ms. Xu joined our Group in 1984, and was appointed as our Supervisor in April 2011 and was re-elected on February 28, 2012. She has held various positions with our Company and our predecessor companies, including as a section member of quality office, a senior section member of publicity division of Communist Youth League Committee, a senior section member of the office, the deputy head of family planning office, the deputy head of corporate planning department, the deputy director of the office of Zhengzhou Coal Mining Machinery Factory, as well as the deputy director and the director of the office of ZCMM. She is presently the director of the Human Resource Department of our Company. Ms. Xu graduated in economics and management through a correspondence course at the Correspondence Institute of the Party School of the Central Committee of C.P.C. (中共中央黨校函授學院) in December 2005.

Save as disclosed in this prospectus, there are no other matters that need to be brought to the attention of the Shareholders in connection with the appointment of our Directors and Supervisors and there is no other information relating to our Directors and Supervisors that should be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules. Further, each Director confirms that he is not interested in any business which competes or is likely to compete, either directly or indirectly, with that of our Company, and which would require disclosure under Rule 8.10(2) of the Hong Kong Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

According to our Articles of Association, members of our senior management include our general manager, deputy general managers, chief financial officer and Board secretary. Our general manager is appointed for a term of three years, after which he may be re-appointed.

The following table sets forth certain information regarding our senior management:

Name	Age	Position	Date to Appointment/ Re-appointment
Mr. Xiang Jiayu (向家雨)	47	Director and General Manager	February 28, 2012
Mr. Fu Zugang (付祖岡)	47	Director and Deputy General Manager	February 28, 2012
Mr. Wang Xinying (王新瑩)	47	Director and Deputy General Manager	February 28, 2012
Mr. Guo Haofeng (郭昊峰)	47	Deputy General Manager	February 28, 2012
Mr. Gao Youjin (高有進)	49	Deputy General Manager and Chief Engineer	February 28, 2012
Mr. Zhang Minglin (張命林)	49	Deputy General Manager	February 28, 2012
Mr. Bao Xueliang (鮑雪良)	49	Board Secretary and Company Secretary	February 28, 2012 (as Board Secretary)/ March 23, 2012 (as Company Secretary)
Mr. Guo Desheng (郭德生)	51	Chief Financial Officer	February 28, 2012
Mr. Fu Qi (付奇)	42	Deputy General Manager	February 28, 2012

Mr. Xiang Jiayu (向家雨), please refer to “— Board of Directors” of this section for Mr. Xiang’s biography.

Mr. Fu Zugang (付祖岡), please refer to “— Board of Directors” of this section for Mr. Fu’s biography.

Mr. Wang Xinying (王新瑩), please refer to “— Board of Directors” of this section for Mr. Wang’s biography.

Mr. Guo Haofeng (郭昊峰), aged 47, is a deputy general manager of our Company. He was appointed as our deputy general manager in December 2008 and was re-appointed on February 28, 2012. Mr. Guo joined our Group in 1987. He has held various positions at our Company and predecessor company, including as a technician, an engineer, the deputy plant manager and the plant manager of the sub-plant of casting of Zhengzhou Coal Mining Machinery Factory, as well as the head of the corporate planning department and the deputy plant manager of Zhengzhou Coal Mining Machinery Factory. Mr. Guo was previously the director and the deputy general manager of ZCMM. Mr. Guo is also a director of ZMJ Comprehensive Equipment, ZMJ Longwall Machinery and ZMJ Foundry. Mr. Guo obtained a bachelor’s degree in engineering at South China Institute of Technology (華南工學院) (now known as South China University of Technology (華南理工大學)) in July 1987. He has a master’s degree in engineering awarded by Huazhong University of Science and Technology (華中科技大學) in June 2007 and is currently a doctoral candidate. Mr. Guo is a senior engineer.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Gao Youjin (高有進), aged 49, is a deputy general manager and the chief engineer of the Company. He was appointed as our deputy general manager in December 2008 and was re-appointed on February 28, 2012. Mr. Gao joined our Group in 1985. Mr. Gao has held various positions with our Company and our predecessor companies, including as a technician of the sub-plant of installation, a designer, officer and the deputy director of the research institute of Zhengzhou Coal Mining Machinery Factory, as well as the deputy director of planned sales division, the deputy director and the director of sales development No. 1 division and subsequently the deputy plant manager and the chief engineer of Zhengzhou Coal Mining Machinery Factory. He was previously the deputy general manager and the chief engineer of ZCMM. He obtained a bachelor's degree in engineering from Jiaozuo Mining Institute (焦作礦業學院) in July 1985, and a doctoral degree in science in December 2008 from Huazhong University of Science and Technology (華科技大學). Mr. Gao is a professor-level senior engineer.

Mr. Zhang Minglin (張命林), aged 49, is a deputy general manager of the Company. He was appointed as our deputy general manager in December 2008 and was re-appointed on February 28, 2012. Mr. Zhang joined our Group in 2004. Before joining our Company, Mr. Zhang served as a senior section member of Coal Industrial Department of Henan Province (河南省煤礦工業廳) from 1987 to 1996, the general manager and the secretary of the Party Committee of Henan Coal Mine Supply Company* (河南省煤礦供應公司) from 1996 to 2004. He was previously a deputy general manager of ZCMM. He obtained a master's degree in senior management of commerce in December 2004 from Huazhong University of Science and Technology (華科技大學), and a doctorate degree in economics from the same university in December 2007. Mr. Zhang is a professor-level senior engineer.

Mr. Bao Xueliang (鮑雪良), aged 49, is the board secretary and Company Secretary of the Company. He was appointed as our board secretary in December 2008 and was re-appointed on February 28, 2012, and was appointed as our Company Secretary on March 23, 2012. Mr. Bao joined our Group in 2007. Before joining our Company, Mr. Bao served as the deputy plant manager of the sub-plant of Tianjin Coal Mine Specialized Equipment Factory* (天津煤礦專用設備廠) from 1994 to 1998, an investment manager and a deputy director of the project investment department of Tianjin Science and Technology Development Investment Corporation* (天津科技發展投資總公司) from 1998 to 2000, as well as the administrative director and standing deputy general manager of Tianjin Bohai Venture Capital Investment Management Company* (天津環渤海創業投資管理公司) from 2001 to 2007. He also serves as a director of Huaxuan Investment and a supervisor of ZMJ Shun Li Machinery. He was previously the assistant to the chairman of ZCMM and was the board secretary of ZCMM. Mr. Bao obtained a bachelor's degree in engineering in July 1985 from China Institute of Mining and Technology (中國礦業學院) (now known as China University of Mining and Technology (中國礦業大學)).

Mr. Guo Desheng (郭德生), aged 51, is the chief financial officer of the Company. He was appointed as our chief financial officer in December 2008 and was re-appointed on February 28, 2012. Mr. Guo joined our Group in 1981. Mr. Guo has held various positions with our Company and our predecessor companies from 1981 to 2008, including as a section member, a senior section member, the deputy division head and the division head of the finance division of Zhengzhou Coal Mining Machinery Factory. He was previously the head of the finance department of ZCMM. Mr. Guo is also a director of ZMJ Hong Kong. Mr. Guo graduated in industrial accounting from Henan Radio and Television University (河南廣播電視大學) in December 1986, and completed an online correspondence course in law at Central South University (中南大學) in January 2008. He is a senior accountant serving the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Fu Qi (付奇), aged 42, is a deputy general manager of our Company. He was appointed as our deputy general manager on February 28, 2012. Mr. Fu joined our Group in 1992. Mr. Fu has held various positions with our Company and our predecessor companies, including as a senior section member and the deputy head of the first development division, a section officer and the deputy head of the planned sales division, the deputy head of the marketing and sales department, the deputy head of the sub-plant of installation and the head of the production and manufactory department. He also served as a director of ZMJ Foundry and the chairman and the secretary to the office of the Party Committee of ZMJ Shun Li Machinery in our Group. He obtained a bachelor's degree in engineering from China University of Mining and Technology (中國礦業大學) in July 1992 and obtained a master's degree in machinery design and theory from the same university in June 2008. Mr. Fu is also an engineer.

Save as disclosed in this prospectus, during the Track Record Period, none of our Directors, Supervisors or other members of our senior management held other directorships in public companies, the securities of which are listed on a securities market.

COMPANY SECRETARY

Mr. Bao Xueliang (鮑雪良) is the Company Secretary. Please see “— Senior Management” of this section for his biography.

Ms. Chan Yin Wah (陳燕華), aged 37, is the assistant to the Company Secretary. Ms. Chan is an Associate Director of SW Corporate Services Group Limited. She has 15 years of professional experience in handling corporate secretarial, compliance and share registry matters for listed companies in Hong Kong. She has worked as Senior Manager of a leading corporate service firm. Ms. Chan has also previously worked in a leading share registry company, a reputable bank and an international professional accounting firm. Ms. Chan holds a bachelor's degree in economics and a master's degree in professional accounting. She is Member of The Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a member of the Association of Chartered Certified Accountants in the United Kingdom. She currently acts as the company secretary of CCID Consulting Company Limited (listed on the Growth Enterprise Market of the Hong Kong Stock Exchange (stock code: 8235)), Silverman Holdings Limited (listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1616)) and Zhengye International Holdings Company Limited (listed on the Main Board of the Hong Kong Stock Exchange (stock code: 3363)).

BOARD COMMITTEES

Strategy Committee

The Board has established the Strategy Committee. The primary responsibilities of the Strategy Committee are to study and comment on our long-term development plans and significant investment strategies, including: (i) reviewing the Company's long-term development strategies; (ii) reviewing and commenting on the Company's significant capital investment and financing proposals that require approval of the Board; (iii) reviewing and commenting on the significant capital expenditure and assets management projects that require approval of the Board; and (iv) exercising other functions and duties as authorized by the Board.

Our Strategy Committee currently consists of five members, namely, Mr. Jiao Chengyao, Mr. Shao Chunsheng, Mr. Xiang Jiayu, Mr. Luo Jiamang and Mr. Wang Xinying. Mr. Jiao Chengyao is the chairman of our Strategy Committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Audit Committee

The Board has established the Audit Committee, which operates under the implementation rules approved by the Board. The primary responsibilities of the Audit Committee are to review and supervise the Company's financial reporting and auditing work, including: (i) proposing appointment and replacement of the Company's independent auditors; (ii) supervising the Company's internal auditing policies and their implementation; (iii) coordinating the communication between our internal audit department and the independent auditors; (iv) reviewing the Company's financial information and disclosure of such information; (v) reviewing the Company's internal control systems and auditing on the material connected or related party transactions; and (vi) exercising other functions and duties as authorized by the Board.

Our Audit Committee currently consists of three members, namely, Mr. Li Bin, Mr. Lin Zhijun and Mr. Luo Jiamang, all of whom are independent non-executive Directors. Mr. Li Bin is the chairman of our Audit Committee.

Nomination Committee

The Board has established the Nomination Committee, which operates under the implementation rules approved by the Board. The primary responsibilities of the Nomination Committee are to: (i) advise on the size and structure of the Board in accordance with the development of the Company's business, scale of assets and shareholding structure; (ii) formulate the selection criteria and procedures for candidates of the Company's directors and management personnel; (iii) search for qualified candidates of directors and management personnel; (iv) review the qualifications and other credentials of the candidates of directors and management personnel; (v) assess the independence of independent non-executive directors; (vi) make recommendations on the appointment and re-appointment of the Company's directors; and (vii) exercise other functions and duties as authorized by the Board.

Our Nomination Committee currently consists of three members, namely, Mr. Gao Guoan, Mr. Luo Jiamang and Mr. Jiao Chengyao. Mr. Gao Guoan is the chairman of our Nomination Committee.

Remuneration and Assessment Committee

The Board has established the Remuneration and Assessment Committee, which operates under the implementation rules approved by the Board. The primary responsibilities of the Remuneration and Assessment Committee are to: (i) formulate the remuneration and compensation policies and schemes for the Company's directors and management personnel; (ii) evaluate the performance of the Company's directors and management personnel and assess the appropriate remuneration package for such directors and officers; (iii) supervise the implementation of remuneration policies and schemes; and (iv) exercise other functions and duties as authorized by the Board.

Our Remuneration and Assessment Committee currently consists of three members, namely, Mr. Luo Jiamang, Mr. Shao Chunsheng and Mr. Li Bin. Mr. Luo Jiamang is the chairman of our Remuneration and Assessment Committee.

PARTICULARS OF DIRECTORS' SERVICE CONTRACTS

We have not entered into any service contract (except for any contract expiring or determinable by us within one year without payment of compensation other than statutory compensation) with any of our Directors.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

REMUNERATION OF DIRECTORS AND SUPERVISORS

Our Directors receive remuneration in the form of salaries, allowances, benefits in kind, discretionary bonuses and retirement scheme contributions made on their behalf. The aggregate amount of remuneration paid to our Directors for the years ended December 31, 2009, 2010, 2011 and the six months ended June 30, 2012 was approximately RMB3,120,000, RMB3,263,000, RMB3,154,000 and RMB1,326,000, respectively.

The aggregate amount of remuneration paid to our Supervisors for the years ended December 31, 2009, 2010, 2011 and the six months ended June 30, 2012 was approximately RMB885,000, RMB1,182,000, RMB2,027,000 and RMB730,000, respectively.

We have not paid any remuneration to our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining us. We have not paid any compensation for loss of office to our Directors, past Directors, Supervisors, past Supervisors or the five highest paid individuals in 2009, 2010, 2011 and the six months ended June 30, 2012. Furthermore, none of our Directors or Supervisors had waived any remuneration during the same period.

The aggregate amount of salaries, allowances, benefits in kind, discretionary bonuses and retirement scheme contributions paid to our five highest paid individuals of our Company, including Directors, for the years ended December 31, 2009, 2010, 2011 and the six months ended June 30, 2012 was approximately RMB3,156,000, RMB3,052,000, RMB3,090,000 and RMB1,272,000, respectively.

Save as otherwise disclosed in this prospectus, no other payments have been paid or are payable in respect of the years ended December 31, 2009, 2010, 2011 and the six months ended June 30, 2012, by us to our Directors and Supervisors.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) and benefits in kind (including any retirement scheme contribution) payable by us to our Directors and Supervisors for the year ending December 31, 2012 is estimated to be approximately RMB4.0 million.

SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As disclosed in the section headed “History, Development and Corporate Structure — History and Development” of this prospectus, in 2006, in order to diversify ZCMM’s ownership and to improve its corporate governance structure, ZCMM was restructured to become a state-owned and -controlled company, which involved certain changes in its registered capital. As part of the restructuring process, certain ZCMM’s employees collectively established Zhengzhou Bai Si Te Coal Mining Company* (鄭州百斯特礦機有限公司) (“BST”) in the name of the labor union of ZCMM then formed to hold the equity interest on behalf of those employees. Immediately upon the completion of its restructuring, the registered capital of ZCMM was RMB80.7 million and the Henan Government and BST held 51% and 49%, respectively, of the equity interest in ZCMM. The initial capitalization of BST was provided by certain employees (including certain Directors, Supervisors, senior management and key personnel of the Company) from their personal funds. In June 2008, BST entered into an equity transfer agreement with certain enterprises and companies (which, save for their shareholding interest in our Company, are Independent Third Parties) and various ZCMM’s executives and employees (including certain Directors, Supervisors, senior management and key personnel of the Company), to transfer all of its equity interest

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

in ZCMM. On December 5, 2008, the shareholders of ZCMM passed a resolution to incorporate ZCMM as a joint stock limited company in preparation for the initial public offering and listing of our A Shares on the Shanghai Stock Exchange. ZCMM's then shareholders were the promoters of the joint stock limited company as required under PRC law. These promoters include Mr. Jiao Chengyao, Mr. Shao Chunsheng, Mr. Xiang Jiayu, Mr. Fu Zugang and Mr. Wang Xinying, being our executive Directors, and Mr. Ding Hui and Mr. Ni Heping, being two of our Supervisors. The following table sets forth the shareholding of our Directors, Supervisors and other members of our senior management as of the Latest Practicable Date:

Name	A Shares owned		Position
	Number	Approximate percentage of issued share capital	
Mr. Jiao Chengyao (焦承堯)	4,789,120	0.34	Chairman
Mr. Shao Chunsheng (邵春生)	4,789,120	0.34	Vice Chairman
Mr. Xiang Jiayu (向家雨)	3,368,960	0.24	Director and General Manager
Mr. Fu Zugang (付祖岡)	3,368,960	0.24	Director and Deputy General Manager
Mr. Wang Xinying (王新瑩)	3,368,960	0.24	Director and Deputy General Manager
Mr. Ding Hui (丁輝)	3,192,000	0.23	Supervisor
Mr. Ni Heping (倪和平)	3,192,000	0.23	Supervisor and Assistant Chief Engineer
Mr. Guo Haofeng (郭昊峰)	3,368,960	0.24	Deputy General Manager
Mr. Gao Youjin (高有進)	3,368,960	0.24	Deputy General Manager and Chief Engineer
Mr. Zhang Minglin (張命林)	3,368,960	0.24	Deputy General Manager
Mr. Bao Xueliang (鮑雪良)	3,297,280	0.24	Board Secretary and Company Secretary
Mr. Guo Desheng (郭德生)	3,192,000	0.23	Chief Financial Officer

COMPLIANCE ADVISER

Our Company intends to appoint Haitong International Capital Limited to be its compliance adviser upon Listing in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. Our Company expects to enter into a compliance adviser agreement with the compliance adviser by the Listing Date, certain material terms of which are expected to include the following terms:

- (a) our Company will appoint Haitong International Capital Limited as the compliance adviser for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Hong Kong Listing Rules in respect of the financial results of our Company for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (b) the compliance adviser will provide us with certain services, including providing us with guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines and provide advice to our Company on its continuing obligations under the Hong Kong Listing Rules and applicable laws and rules;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (c) the compliance adviser will on a timely basis inform us of any amendment or supplement to the Hong Kong Listing Rules, and of any new or amended law, rule, code or guideline in Hong Kong applicable to the Company;
- (d) the compliance adviser will act as one of our Company's additional channels of communication with the Hong Kong Stock Exchange; and
- (e) our Company will agree to indemnify the compliance adviser for certain actions against and losses incurred by the compliance adviser arising out of or in connection with the performance by the compliance adviser of its duties under the agreement, provided that the indemnity will not cover any action or loss which is caused by, resulted from or in connection with the wilful default, fraud or negligence on the part of the compliance adviser.

SUBSTANTIAL SHAREHOLDER

As of the Latest Practicable Date, our share capital was RMB1,400,000,000 comprising 1,400,000,000 A Shares of nominal value of RMB1.00 each. Henan SASAC is our Controlling Shareholder and a substantial shareholder of our Company interested in 10% or more of the voting power at any shareholders' meeting of our Company. Our registered shareholding structure as of the Latest Practicable Date is as follows:

Name of Shareholder	Number of A Shares	Percentage of issued share capital
Henan SASAC	543,200,000	38.80%
NSSF	28,000,000	2.00%
Other A Shareholders.....	828,800,000	59.20%
Total	<u>1,400,000,000</u>	<u>100%</u>

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), 1,377,887,800 A Shares and 243,234,200 H Shares (including 22,112,200 H Shares to be converted from A Shares and to be held by NSSF in accordance with the relevant PRC regulations relating to reduction of state-owned shares) will be in issue, representing approximately 85.00% and approximately 15.00%, respectively, of the then enlarged issued share capital of the Company. If the Over-allotment Option is exercised in full, 1,374,570,980 A Shares and 279,719,220 H Shares (including 3,316,820 additional H Shares to be converted from A Shares and to be held by NSSF in accordance with the relevant PRC regulations relating to reduction of state-owned shares) will be in issue, representing approximately 83.09% and approximately 16.91%, respectively, of the then enlarged issued share capital of the Company. Please see “Share Capital — Transfer of State-owned Shares to NSSF” for further information about the relevant PRC regulations on reduction of state-owned shares.

SUBSTANTIAL SHAREHOLDER

Immediately following completion of the Global Offering, we expect that Henan SASAC will remain as our Controlling Shareholder and a substantial shareholder interested in 10% or more of the voting power at any shareholders' meeting of our Company. Our shareholding structure immediately upon completion of the Global Offering is expected to be as follows:

Name of Shareholder	Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised)		Immediately after the completion of the Global Offering (assuming the Over-allotment Option is exercised in full)	
	Number of Shares	Approximate percentage of then enlarged issued share capital	Number of Shares	Approximate percentage of then enlarged issued share capital
<i>A Shareholders</i>				
Henan SASAC	521,087,800	32.14%	517,770,980	31.30%
	A Shares ⁽¹⁾		A Shares ⁽¹⁾	
NSSF	28,000,000	1.73%	28,000,000	1.69%
	A Shares ⁽²⁾		A Shares ⁽³⁾	
Other A Shareholders	828,800,000	51.13%	828,800,000	50.10%
	A Shares		A Shares	
<i>H Shareholders</i>				
NSSF	22,112,200	1.36%	25,429,020	1.54%
	H Shares ⁽²⁾		H Shares ⁽³⁾	
Other H Shareholders	221,122,000	13.64%	254,290,200	15.37%
	H Shares		H Shares	
Total	1,621,122,000	100%	1,654,290,200	100%
	Shares		Shares	

Notes:

- (1) Such A Shares are directly held by Henan SASAC.
- (2) Upon completion of the Global Offering and assuming that the Over-allotment Option is not exercised and that NSSF's shareholding interest in the A Shares remains unchanged since the Latest Practicable Date, NSSF is expected to: (i) directly hold 28,000,000 A Shares (which will represent approximately 1.73% of the Company's then enlarged issued share capital); and (ii) hold 22,112,200 H Shares (to be converted from A Shares which are to be transferred by Henan SASAC in accordance with the relevant PRC regulations on reduction of state-owned shares upon the Listing, and will represent approximately 1.36% of the Company's then enlarged issued share capital). Please see "Share Capital — Transfer of State-owned Shares to NSSF" for further information about the relevant PRC regulations on reduction of state-owned shares.
- (3) Upon completion of the Global Offering and assuming that the Over-allotment Option is exercised in full and that NSSF's shareholding interest in the A Shares remains unchanged since the Latest Practicable Date, NSSF is expected to: (i) directly hold 28,000,000 A Shares (which will represent approximately 1.69% of the Company's then enlarged issued share capital); and (ii) hold 25,429,020 H Shares (to be converted from A Shares which are to be transferred by Henan SASAC in accordance with the relevant PRC regulations on reduction of state-owned shares upon the Listing, and will represent approximately 1.54% of the Company's then enlarged issued share capital). Please see "Share Capital — Transfer of State-owned Shares to NSSF" for further information about the relevant PRC regulations on reduction of state-owned shares.

SHARE CAPITAL

This section presents certain information regarding our share capital prior to and immediately following the completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As of the Latest Practicable Date, our registered capital was RMB1,400,000,000, comprising 1,400,000,000 A Shares of nominal value RMB1.00 each, which are all listed on the Shanghai Stock Exchange.

	<u>Number of Shares</u>	<u>Percentage of issued share capital</u>
A Shares in issue	1,400,000,000	100%

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our share capital will be as follows:

	<u>Number of Shares</u>	<u>Approximate percentage of then enlarged issued share capital</u>
A Shares in issue	1,377,887,800	85.00%
H Shares in issue	<u>243,234,200⁽¹⁾</u>	15.00%
Total	<u><u>1,621,122,000</u></u>	<u><u>100%</u></u>

Note:

- (1) Such 243,234,200 H Shares comprise: (i) 221,122,000 H Shares to be issued pursuant to the Global Offering; and (ii) 22,112,200 H Shares to be converted from A Shares which are to be transferred by Henan SASAC to NSSF in accordance with the relevant PRC regulations on reduction of state-owned shares.

Immediately following completion of the Global Offering, assuming that the Over-allotment Option is exercised in full, our share capital will be as follows:

	<u>Number of Shares</u>	<u>Approximate percentage of then enlarged issued share capital</u>
A Shares in issue	1,374,570,980	83.09%
H Shares in issue	<u>279,719,220⁽¹⁾</u>	16.91%
Total	<u><u>1,654,290,200</u></u>	<u><u>100%</u></u>

Note:

- (1) Such 279,719,220 H Shares comprise: (i) 254,290,200 H Shares to be issued pursuant to the Global Offering (including upon exercise of the Over-allotment Option in full); and (ii) a total of 25,429,020 H Shares to be converted from A Shares which are to be transferred by Henan SASAC to NSSF in accordance with the relevant PRC regulations on reduction of state-owned shares.

SHARE CAPITAL

OUR SHARES

According to the Articles of Association, we have two classes of Shares: (i) domestic Shares, namely A Shares (PRC listed Shares issued and subscribed for in RMB within the PRC); and (ii) overseas listed Shares, namely H Shares (overseas listed foreign invested Shares listed in Hong Kong). A Shares and H Shares are all ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. On the other hand, A Shares can only be subscribed for by and traded between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors and must be subscribed for and traded in Renminbi.

A Shares and H Shares are regarded as different classes of shares under our Articles of Association. Under the Articles of Association, the rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by the holders of Shares of that class at a separate meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in “Appendix VII — Summary of the Articles of Association of the Company.” However, under the Articles of Association, the procedures for approval by separate classes of Shareholders shall not apply:

- (i) where the Company issues, upon the approval by special resolution of its Shareholders in general meeting, either separately or concurrently once every 12 months, not more than 20% of each of its existing issued A Shares and H Shares;
- (ii) where the Company completes, within 15 months from the date on which approval is given by the securities regulatory authorities of the PRC, its plan (made at the time of its establishment) to issue domestic Shares and foreign invested Shares;
- (iii) where Shares registered on our domestic share register may be transferred to overseas investors for listing and trading on an overseas stock exchange, subject to the approval of the securities regulatory authorities of the PRC.

The provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the method of Share transfer and appointment of dividend receiving agents are set out in the Articles of Association and summarized in “Appendix VII — Summary of the Articles of Association of the Company.”

Except for the differences described in this prospectus, A Shares and H Shares will however rank *pari passu* with each other and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of H Shares are to be calculated in RMB and paid by us in Hong Kong dollars whereas all dividends in respect of A Shares are to be paid by us in RMB. In addition to cash, dividends may be distributed in the form of Shares. For holders of H Shares, dividends in the form of Shares will be distributed in the form of additional H Shares. For holders of A Shares, dividends in the form of Shares will be distributed in the form of additional A Shares.

SHARE CAPITAL

TRANSFER OF OUR A SHARES FOR LISTING AND TRADING ON THE HONG KONG STOCK EXCHANGE AS H SHARES

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of our A Shares and H Shares may be different after the Global Offering. However, if any holder of our A Shares is to transfer its A Shares to overseas investors for listing and trading on the Hong Kong Stock Exchange as H Shares, such transfer and conversion will need to be approved by the relevant PRC regulatory authorities including the CSRC, and such listing and trading will need to be subject to approval by the Hong Kong Stock Exchange, as well as in compliance with the relevant methodology and procedures as summarized below:

- (1) The holder of A Shares is to obtain the requisite approval of the CSRC or the authorized securities approval authorities of the PRC State Council for the transfer and conversion of all or part of its A Shares into H Shares.
- (2) The holder of A Shares is to issue to us a removal request in respect of a specified number of the Shares, accompanied with the relevant document(s) of title.
- (3) Subject to obtaining the approval of the Board, and subject to the listing of and the permission to deal in the H Shares to be converted from those relevant A Shares being granted by the Hong Kong Stock Exchange, we would then issue a notice to the H Share Registrar with instructions that, with effect from a specified date, our H Share Registrar is to issue to relevant holder H Share certificate(s) for such specified number of H Shares.
- (4) Such specified number of A Shares to be converted into H Shares are then re-registered on the H Share register maintained in Hong Kong on the condition that:
 - (a) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificate(s); and
 - (b) the admission of the H Shares (converted from A Shares) to trade in Hong Kong will comply with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time.
- (5) Upon completion of the transfer and conversion, the shareholding of the relevant holder of A Shares in our A Share capital and registered on our A Share register will be reduced by such number of A Shares transferred and converted and the number of H Shares will correspondingly be increased by the same number of H Shares.
- (6) We will comply with the Hong Kong Listing Rules to inform our Shareholders and the public by way of an announcement of such fact before the proposed effective date.

SHARE CAPITAL

MORATORIUM ON HENAN SASAC

On February 18, 2009, in connection with the listing of our A Shares on the Shanghai Stock Exchange, Henan SASAC agreed that it would not transfer the A Shares it then held (including additional A Shares derived from such A Shares through corporate actions such as capitalisation issue) for a period of 36 months from August 3, 2010, being the date of registration of such A Shares in its name. Such moratorium will expire in August 2013, and does not apply to any transfer of Shares to NSSF to be made pursuant to the relevant PRC regulations on reduction of state-owned shares upon the Listing.

APPROVAL FROM HOLDERS OF A SHARES REGARDING THE GLOBAL OFFERING

We have obtained approval of our A Shareholders to issue H Shares and seek the listing of H Shares on the Hong Kong Stock Exchange. Such approval was obtained at the 2011 first extraordinary general meeting of our Company held on September 28, 2011 upon, among other things, the following major terms:

(1) Size of the offer

The proposed number of H Shares to be issued shall not exceed 20% of the total issued share capital as enlarged by the H Shares to be issued pursuant to the Global Offering, and the Over-allotment Option shall not exceed 15% of the total number of H Shares initially available under the Global Offering, if exercised.

(2) Method of listing

The method of listing shall be by way of a public offer for subscription in Hong Kong and an international offering to institutional, professional and private investors.

(3) Target investors

The H Shares shall be issued to professional, institutional, individual investors and the public.

(4) Price determination basis

The issue price of the H Shares will be determined after due consideration of the interests of existing Shareholders and the issuance risks, and in accordance with international practices through the demands for orders and bookbuilding process, subject to the domestic and overseas capital market conditions and by reference to the valuation level of comparable companies in domestic and overseas markets.

(5) Validity period

18 months from September 28, 2011.

Other than the Global Offering, our Shareholders have not approved any other Share issue plan of the Company.

SHARE CAPITAL

TRANSFER OF STATE-OWNED SHARES TO NSSF

According to the *Interim Measures of the State Council on the Management of Reducing State-owned Shares and Raising Social Security Funds* (國務院關於減持國有股籌集社會保障資金管理暫行辦法) promulgated on and effective from June 6, 2001, shareholders who hold state-owned shares in a PRC-incorporated company are generally required to reduce their shareholding in that company by transferring to NSSF their shares of a number representing 10% of the total shares offered under any initial public offering and secondary offering by the company. Pursuant to the approvals of the SASAC, NSSF and the Bureau of Property Right Management of SASAC respectively under the *Official Reply to Issues in relation to the Transfer of State-owned Shares of Zhengzhou Coal Mining Machinery Group Company Limited* (Guo Zi Chan Quan (2012) No. 77), the *Letter in relation to Issues on the Transfer of State-owned Shares upon the Listing of Zhengzhou Coal Mining Machinery Group Company Limited in Hong Kong* (She Bao Ji Jin Fa (2012) No. 31) and the *Reply Letter in relation to Confirmation of Issues on the Transfer of State-owned Shares upon the Overseas Listing of Zhengzhou Coal Mining Machinery Group Company Limited* (Chan Quan Han (2012) No. 42), Henan SASAC is to transfer to NSSF such number of A Shares as shall be equivalent to 10% of the number of the H Shares to be issued under the Global Offering. The A Shares to be transferred by Henan SASAC will be converted into H Shares on a one-for-one basis and will be held by NSSF.

Upon completion of the Global Offering, NSSF is expected to hold, in the event the Over-allotment Option is not exercised, 22,112,200 H Shares (representing approximately 1.36% of the then enlarged issued share capital of the Company) or in the event the Over-allotment Option is exercised, then not more than 25,429,020 H Shares (representing approximately 1.54% of the then enlarged issued share capital of the Company). These H Shares will not constitute any Share to be issued and available under the Global Offering, but will be considered part of the Shares held by the public for the purpose of Rule 8.08 of the Hong Kong Listing Rules. Henan SASAC will not receive any proceeds from the transfer to NSSF of any such Shares or any subsequent disposal of such H Shares by NSSF. NSSF will have no presence in the Board or our management team and have no influence over our normal business activities. There are no legal restrictions on NSSF to transfer or dispose of the H Shares following the Listing. NSSF has not entered or proposed to enter into any agreement, arrangement, understanding or undertaking with us or our connected persons.

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Framework Agreement with Huainan Mining

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

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

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

CONNECTED TRANSACTIONS

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

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

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

Historical Figures and Proposed Annual Caps

Supply of Coal Mining and Excavating Equipment

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

CONNECTED TRANSACTIONS

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

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

Purchase of Raw Materials and Accessories

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

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

CONNECTED TRANSACTIONS

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

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

Factors for Determining the Proposed Annual Caps

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

Hong Kong Listing Rules Implications and Waiver Application

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

CONNECTED TRANSACTIONS

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

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

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

Directors' and Joint Sponsors' View

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

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Transactions with Huainan Mining

Lease of Land from Huainan Mining

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

CONNECTED TRANSACTIONS

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

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

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

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

Transactions with the Lu Xin Coal Chemical Group

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

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

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

CONNECTED TRANSACTIONS

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

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

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

Guarantee Arrangements from Lu Xin Coal Chemical

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

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We and the Joint Global Coordinators have entered into cornerstone investment agreements with certain investors (the “Cornerstone Investors,” each a “Cornerstone Investor”), pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 200 H Shares) that may be purchased for an aggregate amount of US\$120 million (the “Cornerstone Placing”). Assuming an Offer Price of HK\$11.33 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for by the Cornerstone Investors (rounded down to the nearest whole board lot of 200 H Shares) would be 82,096,000 Offer Shares, representing approximately 37.13% of the total Offer Shares initially available under the Global Offering and approximately 5.06% of the enlarged issued share capital of the Company immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Each of the Cornerstone Investors is an Independent Third Party and is not our connected person, and is not an existing shareholder of our Company. Details of the actual number of Offer Shares to be allocated to each of the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around December 4, 2012.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank pari passu in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become our substantial shareholder. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering — The Hong Kong Public Offering”, nor by any exercise of the Over-allotment Option.

CORNERSTONE INVESTORS

We set forth below a brief description of our Cornerstone Investors (in alphabetical order):

China Huadian HongKong Company Limited

China Huadian HongKong Company Limited (“Huadian HongKong”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased for US\$30 million at the Offer Price. Assuming an Offer Price of HK\$11.33, being the mid-point of the Offer Price range set out in this prospectus, and an exchange rate of US\$1.00 to HK\$7.7513, the total number of H Shares that Huadian HongKong would subscribe for would be 20,524,000 Offer Shares, representing approximately 9.28% of the total Offer Shares initially available under the Global Offering and approximately 1.27% of the enlarged issued share capital of the Company immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Huadian HongKong is a wholly-owned subsidiary of China Huadian Corporation and was established for China Huadian Corporation’s overseas investment and expansion strategies. Huadian HongKong mainly engages in investing, constructing, operating and managing power plants, coal mining

CORNERSTONE INVESTORS

projects as well as related investing and financing activities. It focuses on investing in China's neighboring regions, such as Indonesia, Laos, Myanmar, Vietnam, Cambodia, other countries of the Association of Southeast Asian Nations and Russia during the period of Eleventh Five-Year Plan. At present, Huadian HongKong is actively developing power projects in jurisdictions such as Russia, the U.S. and Australia.

Eldon Development Ltd.

Eldon Development Ltd. has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased for US\$10 million at the Offer Price. Assuming an Offer Price of HK\$11.33, being the mid-point of the Offer Price range set out in this prospectus, and an exchange rate of US\$1.00 to HK\$7.7513, the total number of H Shares that Eldon Development Ltd. would subscribe for would be 6,841,200 Offer Shares, representing approximately 3.09% of the total Offer Shares initially available under the Global Offering and approximately 0.42% of the enlarged issued share capital of the Company immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Eldon Development Ltd. is a subsidiary of Shandong Laiwu Steel International Corp. which is in charge of all global trading of Laiwu Steel Group Ltd., as well as international cooperation, financing and investment activities. Laiwu Steel Group Ltd. was founded in 1970, is a wholly PRC state-owned enterprise, and is one of the largest steel companies in China with an annual steel production capacity of around 14 million tonnes. Following restructuring of the PRC iron and steel industry in 2008, Laiwu Steel Group Ltd. is currently owned by Shandong Iron and Steel Group Co., Ltd.

Topful Holdings Limited

Topful Holdings Limited has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased for US\$50 million at the Offer Price. Assuming an Offer Price of HK\$11.33, being the mid-point of the Offer Price range set out in this prospectus, and an exchange rate of US\$1.00 to HK\$7.7513, the total number of H Shares that Topful Holdings Limited would subscribe for would be 34,206,800 Offer Shares, representing approximately 15.47% of the total Offer Shares initially available under the Global Offering and approximately 2.11% of the enlarged issued share capital of the Company immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Topful Holdings Limited is a company incorporated in the British Virgin Islands and its principal business activity is investment holding. It is managed by Shikumen Capital Management (HK) Limited, a Hong Kong incorporated company licensed and regulated by the SFC.

Yitai (Group) HK Co., Ltd.

Yitai (Group) HK Co., Ltd. has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased for US\$30 million at the Offer Price. Assuming an Offer Price of HK\$11.33, being the mid-point of the Offer Price range set out in this prospectus, and an exchange rate of US\$1.00 to HK\$7.7513, the total number of H Shares that Yitai (Group) HK Co., Ltd. would subscribe for would be 20,524,000 Offer Shares, representing approximately 9.28% of the total Offer Shares initially available under the Global Offering and approximately 1.27% of the enlarged issued share capital of the Company immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

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Yitai (Group) HK Co., Ltd. is a wholly-owned subsidiary of Inner Mongolia Yitai Group Co., Ltd. (“Yitai Group”) and is incorporated in Hong Kong. Yitai Group’s core businesses include coal production and sales, technology development in relation to coal-based chemical products, and real estate development. Yitai Group is an Independent Third Party.

CONDITIONS PRECEDENT

Completion of the Cornerstone Placing is subject to, among other things, the following conditions precedent:

- (a) the Company and the Joint Global Coordinators and other parties entering into the underwriting agreement for the Hong Kong Public Offering and the underwriting agreement for the International Offering;
- (b) each of such underwriting agreements having become effective and unconditional and not having been terminated by the time and date as specified in those underwriting agreements (in accordance with their respective original terms or as subsequently varied by agreement of the relevant parties);
- (c) the Listing Committee of the Hong Kong Stock Exchange having granted the approval for the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors covenants with and undertakes to each of the Company and the Joint Global Coordinators that unless it has obtained the prior written consent of the Company and the Joint Global Coordinators, the Cornerstone Investor will not at any time during a period of six months starting from the Listing Date, directly or indirectly, dispose of (as defined in the relevant cornerstone investment agreement) any of the H Shares subscribed for by it pursuant to the relevant cornerstone investment agreement or any interest in any company or entity holding, directly or indirectly, any such H Shares, other than in certain limited circumstances such as intra-group transfers in the case of certain Cornerstone Investors, and, in the case of Topful Holdings Limited, using such H Shares as security (including a charge or a pledge) in favor of an authorized institution for a bona fide commercial loan.

EXCHANGE RATE CONVERSION

Solely for your convenience, this section contains translations of certain U.S. dollar amounts into Hong Kong dollars at specified rates. No representation is made that the U.S. dollar amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all.

According to the relevant cornerstone investment agreements, the HK dollars equivalents of the investment amounts agreed to by the Cornerstone Investors will be calculated using the HK dollar to US dollar exchange rate based on the spot rate quoted by Bloomberg (USD-HKD Spot Exchange Rate page) for US dollars at 9:00 a.m. Hong Kong time on the Price Determination Date.

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OVERVIEW

We are a leading comprehensive coal mining and excavating equipment manufacturer in the PRC in terms of total sales of coal mining and excavating equipment in 2011, according to the CMIA. We focus on the manufacturing and sale of hydraulic roof supports, and were the largest hydraulic roof support manufacturer in the PRC, with approximately 22.6% of the PRC market share for hydraulic roof supports based on production volume in 2011, according to the CMIA. We are also engaged in the trading of steel and other raw materials primarily through our wholly-owned subsidiary, ZMJ Material Trading, which we established in March 2008. We have commenced manufacturing and selling armored-face conveyors in recent years and intend to commence selling roadheaders by the end of 2012. We are one of the few coal mining and excavating equipment manufacturers in the PRC able to manufacture three of the four components that comprise a complete integrated coal mining and excavating system for underground coal mining, namely, hydraulic roof supports, armored-face conveyors and roadheaders. We currently do not manufacture the fourth component, shearers, but are in the process of developing the related manufacturing technology and capability. Our established operating history, high quality products, strong in-house research and development capabilities, advanced manufacturing processes and extensive sales and service network are the keys to our success and allow us to maintain our leading position in the PRC coal mining and excavating equipment market.

SELECTED FINANCIAL STATEMENT INFORMATION

The following tables present our selected historical financial information during the Track Record Period. The financial information as of and for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 is derived from and should be read in conjunction with our consolidated audited financial statements, including the accompanying notes, set forth in the accountants' report included as Appendix I of this prospectus. For purposes of comparison to the six months ended June 30, 2012, financial information for the comparative six months period for 2011 has also been presented. Our financial statements for each of these periods are prepared and presented in accordance with IFRS.

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	Year Ended December 31,			Six Months Ended June 30,	
	2009	2010	2011	2011	2012
(RMB in millions, except earnings per share) (unaudited)					
Consolidated Statements of Comprehensive Income					
Revenue	4,994.4	6,358.3	8,060.1	3,586.3	4,723.6
Cost of sales	(3,745.7)	(4,723.8)	(6,108.0)	(2,581.7)	(3,388.7)
Gross profit	1,248.8	1,634.5	1,952.1	1,004.5	1,334.9
Other income	25.6	41.7	91.3	35.7	59.9
Other gains and losses	(36.1)	(62.8)	(44.4)	(13.1)	(35.5)
Selling and distribution expenses	(156.3)	(153.6)	(223.7)	(90.5)	(176.4)
Administrative expenses	(291.6)	(385.5)	(359.5)	(152.7)	(199.9)
Share of profit of associates	0.4	8.4	11.6	3.4	8.2
Share of profit of jointly controlled entities	—	0.6	0.6	0.3	0.3
Finance costs	(17.5)	(19.1)	(6.9)	(4.6)	(2.0)
Profit before tax	773.2	1,064.4	1,421.0	783.1	989.6
Income tax expenses	(126.5)	(171.6)	(207.8)	(185.0)	(157.3)
Profit and total comprehensive income for the year/period	<u>646.8</u>	<u>892.8</u>	<u>1,213.3</u>	<u>598.2</u>	<u>832.3</u>
Attributable to:					
Owners of the Company	630.4	882.6	1,194.1	590.3	811.9
Non-controlling interests	16.3	10.2	19.2	7.9	20.4
Earnings per share ⁽¹⁾					
Basic and diluted (RMB)	0.56	0.71	0.85	0.42	0.58

Note:

- (1) The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been adjusted to reflect the effect of our capital increase on March 12, 2012. During the Track Record Period, the Company did not issue any convertible securities convertible into Shares.

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	As of December 31,			As of June 30,
	2009	2010	2011	2012
(RMB in millions)				
Consolidated Statements of Financial Position				
Non-current assets				
Property, plant and equipment	412.0	1,058.8	1,495.9	1,602.8
Other non-current assets	218.3	315.6	430.9	659.5
	<u>630.3</u>	<u>1,374.4</u>	<u>1,926.8</u>	<u>2,262.3</u>
Current assets				
Inventories	1,074.5	1,300.0	1,644.0	2,257.3
Trade and other receivables	1,797.6	2,344.8	2,904.1	3,515.3
Bank balances and cash	1,007.2	3,636.3	3,238.9	2,878.1
Other current assets	255.3	397.7	721.7	449.8
	<u>4,134.7</u>	<u>7,678.7</u>	<u>8,508.7</u>	<u>9,100.4</u>
Current liabilities				
Trade and other payables	1,243.1	2,058.5	2,503.8	3,060.2
Advances from customers	1,532.1	1,596.5	1,673.9	1,299.5
Tax liabilities	35.2	53.1	10.2	17.6
Borrowings	100.0	70.0	15.0	10.0
	<u>2,910.5</u>	<u>3,778.1</u>	<u>4,202.9</u>	<u>4,387.3</u>
Net current assets	<u>1,224.3</u>	<u>3,900.6</u>	<u>4,305.8</u>	<u>4,713.1</u>
Total assets less current liabilities	<u>1,854.6</u>	<u>5,275.0</u>	<u>6,232.6</u>	<u>6,975.4</u>
Non-current liabilities				
Borrowings	275.0	115.0	65.0	49.5
Other non-current liabilities	20.0	20.0	19.0	29.0
	<u>295.0</u>	<u>135.0</u>	<u>84.0</u>	<u>78.5</u>
Total equity	<u>1,559.6</u>	<u>5,140.1</u>	<u>6,148.6</u>	<u>6,896.9</u>

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

We were incorporated in the PRC on December 28, 2008 as a joint stock company with limited liability under the PRC Company Law. During the Track Record Period, we were the ultimate controlling shareholder of our subsidiaries, ZMJ Hydraulic Control, ZMJ Comprehensive Equipment, ZMJ Material Trading, ZMJ Longwall Machinery, ZMJ Lu An Xinjiang, ZMJ Shun Li Machinery, ZMJ Siberia, ZMJ Foundry and Huaxuan Investment. As of the date of this prospectus, Huaxuan Investment is no longer a subsidiary of our Company. See “Recent Developments — Developments Regarding Huaxuan Investment.”

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Our consolidated financial information has been prepared in accordance with IFRS. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flow reflect our performance throughout the Track Record Period, or since the respective dates of incorporation/establishment of the relevant entity where this is a shorter period. The consolidated statements of financial position as of December 31, 2009, 2010 and 2011 and June 30, 2012 present the assets and liabilities of the companies currently comprising the Group which had been acquired or incorporated/established as of the relevant dates of the consolidated statements of financial position.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and financial condition are affected by a number of factors, many of which are beyond our control, including those set forth below.

Conditions and Regulations Affecting the Coal Mining Industry

Our sales of coal mining and excavating equipment depend on a variety of factors, including the supply of and demand for coal as reflected in the market prices of coal, changes in general economic conditions, interest rates, mechanization rates, equipment procurement, demand for upgrade of equipment, our customers' replacement or repair cycles, overall product life cycles of coal mining and excavating equipment, consolidation in the PRC coal mining industry and competitive pressure. The supply of and demand for coal may be affected by factors such as the level of coal production and coal mining activities, the expected cost of developing new reserves and the cost of conducting coal mining operations. In particular, our business is affected by conditions in the PRC coal mining industry and the prices of coal, which are in turn affected by consumer demand, as substantially all of our sales have historically been derived from the PRC. The growth and structural transformation of the PRC coal mining industry, along with a developing emphasis on safety and efficiency, has resulted in increased market demand for high-end, integrated coal mining systems in the PRC, from which we have benefited. Any changes in demand for and prices of coal and demand for coal mining and excavating equipment in the PRC, could affect our business, results of operations and financial condition.

The majority of our customers are underground coal mining companies in the PRC, whose operations are subject to, or significantly affected by, a wide array of regulations, including developmental, environmental and health and safety laws and regulations. These PRC laws and regulations are expected to continue to evolve in ways we cannot predict and may have a material effect on our business, results of operations and financial condition. In addition, to improve the operating efficiency and safety and increase the mechanization rates of the coal mining industry, the PRC government has issued policies such as the *Twelfth Five-Year Plan* to encourage the consolidation of the PRC coal mining industry. PRC government policies affecting the coal mining industry may have a material effect on our business, results of operations and financial condition.

Our overseas sales are dependent on global coal mining trends. The global coal mining industry is particularly affected by a variety of macroeconomic factors, including: (i) demand for coal, electricity and coal-related energy resources; (ii) growth of industrial production which, in turn, is affected by global economic conditions; (iii) price fluctuations of oil, natural gas and other energy resources; and (iv) growth of the renewable energy industry, which in turn, affect the demand for and sales of coal mining and excavating equipment. See "Industry Overview." In addition, the development of our international business operations may also be affected by the relevant regulatory environment in the overseas markets where we operate or sell our products, or expect to do so in the future. In this regard, we may be affected by certain factors such as import and export regulations and licensing and approval requirements.

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Research and Development

According to Heading Century Consulting, we are a market leader in terms of research and development capabilities in the hydraulic roof support industry. We have developed several landmark products, such as the first hydraulic roof support and the first high-end hydraulic roof support in the PRC and the first top coal caving hydraulic roof support in the world. We believe our research and development capabilities have been and will continue to be critical to our business and competitiveness. See “Business — Research and Development.”

To enhance our competitiveness, we have invested substantially in research and development. Our total expenditures for research and development for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012 were RMB148.2 million, RMB206.8 million, RMB258.1 million and RMB89.4 million, respectively. See “— Description of Selected Items of Our Statements of Comprehensive Income — Cost of Sales” and “— Description of Selected Items of Our Statements of Comprehensive Income — Administrative Expenses.” We plan to invest approximately RMB320.0 million in research and development in 2012. We intend to continue to enhance our research and development capabilities and maintain our leadership in the industry by fully utilizing our domestic research and development facilities and resources and establishing research and development facilities in Germany and the United States in the future. Our ability to develop new products, improve existing products and enhance our production processes will have a material effect on our production and sales volumes and, consequently, our business, results of operations, financial condition and profitability.

Raw Material Costs

Our operations require significant amounts of raw materials, which primarily comprise steel, outsourced parts, hydraulic parts and other ancillary materials. Raw material costs constituted 89.9%, 86.8%, 88.3% and 89.7%, respectively, of our cost of sales for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012. The principal raw material used in our products is steel, which accounted for 66.7% of our raw material costs for the six months ended June 30, 2012. The pricing of our hydraulic roof supports is determined to a significant extent by the cost of raw materials, in particular, steel. Therefore, changes in raw material prices will affect the pricing of our products and, consequently, our revenue and gross profit. In general, if steel prices increase, the prices of our hydraulic roof supports will increase accordingly and, conversely, if steel prices decrease, the prices of our hydraulic roof supports will decrease accordingly.

In addition, we are currently engaged in the steel and other raw materials trading business, which enables us to better control our overall procurement costs through bulk purchases of steel. We primarily purchase our steel and steel-based parts and components in the PRC, where steel prices have fluctuated significantly in recent years. For example, medium and thick plate (20mm) steel and other steel products of higher thickness account for a large portion of our annual steel purchase volume. According to the China Iron & Steel Association, the domestic steel price of medium and thick plate (20mm) fluctuated between RMB3,311 and RMB4,928 per tonne from January 1, 2009 to June 30, 2012, and the average price of domestic medium and thick plate (20mm) in the PRC was RMB3,572 per tonne, RMB4,297 per tonne, RMB4,841 per tonne and RMB4,292 per tonne for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. As of the Latest Practicable Date, we entered into one strategic alliance agreement for a term of three years with Anyang Steel. We also entered into separate long-term supply contracts, each for a term of one year, with Anyang Steel and Bengang Steel. These contracts enable us to purchase high quality steel in bulk at favorable prices, which allows us to

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mitigate the impact of steel price fluctuations. From time to time, we work with selected steel producers to develop special steel materials for our products. While we believe these efforts have enabled us to secure raw material supplies and manage our steel inventory and related raw material procurement costs, our business and results of operations remain subject to steel price fluctuations and changes in customer demand. See “Risk Factors — Risks Relating to Our Business and Operations — We may experience fluctuations in steel and other raw material prices,” “Industry Overview — Coal Mining and Excavating Equipment Industry Overview — Recent Steel Price Trends” and “Business — Raw Materials, Suppliers and Inventory.”

In addition, our raw material costs also comprise the costs of hydraulic parts and other ancillary materials, which represented 9.2% and 11.2%, respectively, of our cost of sales for the six months ended June 30, 2012. While we have procurement plans, which we regularly review, to minimize the costs of these raw materials, the prices of these parts are also subject to market fluctuations beyond our control, which may affect the pricing of our products.

Competition

We operate in a highly competitive industry and our operations are subject to significant competitive pressure. We compete directly and indirectly with other domestic and international manufacturers of coal mining and excavating equipment. We believe our focus on high-end coal mining and excavating equipment allows us to compete against international manufacturers and distinguishes us from many domestic competitors that produce lower-end products. However, the level of competition could increase, which could result in pressure on our product pricing and, consequently, affect our business and results of operations.

In addition, the competitive dynamics and our competitiveness may vary significantly from product to product. For instance, we have a long track record of developing, manufacturing and marketing hydraulic roof supports in the PRC. In this product line, our revenue and gross profit have continued to grow, as we have an extensive customer base and well-developed market profile. However, we have a less developed customer base and market profile for our hydraulic roof supports sold in the overseas markets. In addition, we have a shorter track record of developing, manufacturing and marketing armored-face conveyors and roadheaders, with less developed customer bases and market profiles for these products. There are also significantly more competitors in these product lines, which may adversely affect our product pricing and profitability. See “Risk Factors — Risks Relating to Our Industry — We operate in a highly competitive industry” and “Business — Competition.”

Product Mix

Our products generally have different prices and gross profit margins. For example, our high-end hydraulic roof supports generally have higher gross profit margins than our medium-end hydraulic roof supports primarily because our high-end hydraulic roof supports incorporate more advanced technologies. Therefore, an increase in our sales from high-end hydraulic roof supports may result in increased revenues and gross profit, and vice versa.

Our products also include electronic hydraulic control systems, hydraulic valves, armored-face conveyors, roadheaders and other products. The gross profit margins and prices of these products also differ. For example, during the Track Record Period, we had limited sales of armored-face conveyors, which generally have lower gross profit margins than our other products. As we expect our sales of

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armored-face conveyors to increase, our overall gross profit margin could be adversely affected. Similarly, the future launch of new products, such as shearers and high-capacity coal washing equipment, will also affect our product mix and gross profit margin.

Change in Our Production Capacity

Our results of operations have been, and are expected to continue to be, affected by our production capacity. Our sales of hydraulic roof supports have been subject to production capacity limitations as our annual production capacity in 2009 and 2010 remained substantially stable, increasing from 10,200 units of hydraulic roof supports as of December 31, 2009 to 10,500 units of hydraulic roof supports as of December 31, 2010. We also outsource the production of certain non-critical parts and components, such as structural parts and rams to third-party manufacturers, which enables us to increase our overall production volume of hydraulic roof supports. In order to meet the increased demand for our coal mining and excavating equipment, we utilized the proceeds of our A Share Offering to establish a new manufacturing facility in Zhengzhou for the production of hydraulic roof supports. The new manufacturing facility commenced operations in September 2011 and increased our annual production capacity by 10,300 to 20,800 units of hydraulic roof supports as of December 31, 2011. As of June 30, 2012, we had an annual production capacity of 23,400 units of hydraulic roof supports. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, we sold 11,817, 13,027, 14,129 and 10,701 units of hydraulic roof supports, respectively, and the weighted average utilization rate for our hydraulic roof supports production lines for the same periods was 113.0%, 125.1%, 116.0% and 107.4%, respectively. The number of hydraulic roof support units sold increased from 2010 to 2011 and from the six months ended June 30, 2011 to the six months ended June 30, 2012, primarily as a result of increased demand, which we were able to meet with our increased production capacity. While we plan to maintain outsourced manufacturing to meet certain product delivery schedules, we expect our costs of, and reliance on, outsourced manufacturing to decrease as we increase our overall production capacity. We believe that the expansion of our production capacity will enable us to meet the growth in demand we anticipate for our products and increase our market share.

In addition, our future growth prospects depend primarily on our ability to successfully execute our international expansion plans. We plan to increase our production capacity of hydraulic roof supports and armored-face conveyors by establishing manufacturing facilities in Russia and India, which will enable us to establish closer relationships with, and better understand the needs of, our local customers, reduce transportation and logistics costs and provide more responsive aftermarket services. See “Business — Our Business Strategies — Strategically increase our global presence and market share.” We believe these efforts will enable us to increase our international sales and expand our market share in the targeted overseas markets. However, our ability to successfully expand our international production capacity will depend on certain factors including, but not limited to, our ability to obtain necessary capital and required approvals and permits. See “Risk Factors — Risks Relating to Our Business and Operations — We may not be able to successfully execute our international expansion plans.”

In addition, our results of operations are also affected by general factors, including, but not limited to, exchange rate fluctuations and changes in preferential tax treatment. For more information on these and other factors and developments that may affect us, see “Risk Factors” and “Industry Overview.”

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DESCRIPTION OF SELECTED ITEMS OF OUR STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Historically, we derived our revenue primarily from the sales of hydraulic roof supports, steel and other raw materials and spare parts for coal mining and excavating equipment. We expect revenue from the sales of armored-face conveyors, roadheaders, shearers and other coal mining equipment to increase in the future, as we plan to expand or commence the manufacturing of these products. The following table sets forth, by product and business, our revenue for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
(RMB in millions, except for %)										
(unaudited)										
Hydraulic roof supports	4,062.7	81.3%	4,593.4	72.2%	5,642.0	70.0%	2,675.2	74.6%	3,272.2	69.3%
Steel and other raw materials trading . . .	583.0	11.7%	1,247.9	19.6%	1,854.7	23.0%	613.8	17.1%	1,120.6	23.7%
Spare parts ⁽¹⁾	308.6	6.2%	450.1	7.1%	393.8	4.9%	213.7	6.0%	154.8	3.3%
Other coal mining equipment ⁽²⁾	29.9	0.6%	52.5	0.8%	122.4	1.5%	55.8	1.6%	145.4	3.1%
Others ⁽³⁾	10.2	0.2%	14.4	0.2%	47.2	0.6%	27.7	0.8%	30.6	0.6%
Total	4,994.4	100.0%	6,358.3	100.0%	8,060.1	100.0%	3,586.3	100.0%	4,723.6	100.0%

Notes:

- (1) Primarily include jacks, hydraulic valves and structural parts of hydraulic roof supports.
- (2) Primarily include armored-face conveyors and belt conveyors.
- (3) Primarily include provision of machining services for spare parts and overhaul services for hydraulic roof supports and leasing of equipment and rental properties.

Our revenue is affected by sales volumes and sales prices of our products. Average selling price per unit of hydraulic roof supports is calculated by dividing sales of hydraulic roof supports by sales volume of hydraulic roof supports for the periods indicated. The following table sets forth the average selling price per unit of our hydraulic roof supports for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2009	2010	2011	2011	2012
(RMB in thousands per unit)					
Hydraulic roof supports	343.8	352.6	399.3	361.2	305.8
High-end hydraulic roof supports . .	662.6	673.0	787.5	801.0	648.9
Medium-end hydraulic roof supports	238.9	243.5	264.7	230.0	216.1

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The following table sets forth the sales volumes of our hydraulic roof supports for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	Units	(%)	Units	(%)	Units	(%)	Units	(%)	Units	(%)
High-end hydraulic roof supports	2,925	24.8	3,309	25.4	3,638	25.7	1,702	23.0	2,217	20.7
Medium-end hydraulic roof supports	8,892	75.2	9,718	74.6	10,491	74.3	5,704	77.0	8,484	79.3
Total	11,817	100.0	13,027	100.0	14,129	100.0	7,406	100.0	10,701	100.0

For the years ended December 2009, 2010 and 2011 and the six months ended June 30, 2012, we manufactured 11,522, 12,943, 14,693 and 11,873 units of hydraulic roof supports, respectively. We sold 11,817, 13,027, 14,129, and 10,701 units of hydraulic roof supports, respectively, during the same periods. See “Business — Product Design and Manufacturing — Production Capacity.” The difference between production volume and sales volume of hydraulic roof supports is primarily due to our recognition of revenue from hydraulic roof supports sales upon completion of installation of our products at our customers’ mining sites, which generally differs from the time we complete the production of our products.

The following table sets forth a breakdown of our hydraulic roof support sales for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
(RMB in millions, except for %)										
Products										
High-end hydraulic roof supports	1,938.4	47.7%	2,227.1	48.5%	2,864.9	50.8%	1,363.2	51.0%	1,438.5	44.0%
Medium-end hydraulic roof supports	2,124.3	52.3%	2,366.3	51.5%	2,777.1	49.2%	1,312.0	49.0%	1,833.7	56.0%
Total	4,062.7	100.0%	4,593.4	100.0%	5,642.0	100.0%	2,675.2	100.0%	3,272.2	100.0%

During the Track Record Period, we sold the majority of our products to domestic customers in the PRC and entered into sales contracts with customers in major export markets, including Russia and Turkey. In line with our international business expansion plans, we intend to increase our sales to existing overseas customers in Russia, Turkey and India, and enter additional international markets, including

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coal-rich countries and countries with mining operations utilizing longwall mining techniques, such as the United States, Australia, Vietnam, Mexico, Colombia, South Africa, Brazil, Ukraine and Kazakhstan. The following table sets forth our revenue from domestic and international sales for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
(RMB in millions, except for %)										
Domestic sales	4,977.4	99.7	6,274.6	98.7	7,851.9	97.4	3,472.9	96.8	4,443.2	94.1
International sales ⁽¹⁾	17.0	0.3	83.7	1.3	208.2	2.6	113.4	3.2	280.4	5.9
Total	4,994.4	100.0	6,358.3	100.0	8,060.1	100.0	3,586.3	100.0	4,723.6	100.0

Note:

(1) Primarily includes revenue from customers located in Russia.

Cost of Sales

Our cost of sales comprises raw material costs, energy costs, direct labor costs and manufacturing expenses. Raw material costs primarily include our cost of steel, outsourced parts, hydraulic parts and other ancillary materials.

The following table sets forth a breakdown of our cost of sales for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	(RMB in millions, except for %)									
Steel	1,719.3	45.9%	2,415.2	51.1%	3,548.4	58.1%	1,472.8	57.1%	2,025.0	59.8%
Product manufacturing	1,267.5	33.8%	1,348.4	28.5%	1,960.2	32.1%	942.1	36.5%	1,048.7	31.0%
Steel trading	451.8	12.1%	1,066.8	22.6%	1,588.2	26.0%	530.7	20.6%	976.3	28.8%
Outsourced parts ⁽¹⁾	816.8	21.8%	686.5	14.5%	655.5	10.8%	271.6	10.5%	321.9	9.5%
Hydraulic parts ⁽²⁾	252.6	6.8%	314.7	6.7%	445.3	7.3%	222.0	8.6%	311.8	9.1%
Other ancillary materials ⁽³⁾	575.6	15.4%	683.1	14.5%	740.2	12.1%	315.7	12.2%	379.5	11.2%
Energy	95.1	2.5%	102.5	2.2%	127.7	2.1%	51.6	2.0%	66.4	2.0%
Direct labor cost and manufacturing expenses	260.3	6.9%	489.1	10.3%	552.3	9.0%	227.2	8.8%	260.9	7.7%
Sales tax	25.9	0.7%	32.7	0.7%	38.6	0.6%	20.7	0.8%	23.1	0.7%
Total	3,745.7	100.0%	4,723.8	100.0%	6,108.0	100.0%	2,581.7	100.0%	3,388.7	100.0%

Notes:

(1) Primarily include structural parts and rams of hydraulic roof supports, which are primarily made of steel.

(2) Primarily include electrical hydraulic control systems and hydraulic valves.

(3) Primarily include hoses and hydraulic seals.

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The primary components of a hydraulic roof support include the structural parts, support rams and hydraulic parts, the first two of which are primarily made of steel. See “Business — Our Products and Businesses — Hydraulic Roof Supports.” The outsourced parts that we procure are also primarily made of steel. The costs of steel that we use in our manufacturing operations depend primarily on market prices of steel. We are currently engaged in the steel and other raw materials trading business and our cost of steel for this business accounted for approximately 26.3%, 44.2%, 44.8%, 36.0% and 48.2% of our total cost of steel for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, respectively.

In addition, we include certain research and development expenditures in our cost of sales which primarily include costs that we incur for the design and production of prototype coal mining and excavating equipment sold to our customers. Such research and development expenditures are recognized as inventory before the products for which the research and development expenditures are incurred are sold and will be reflected in our cost of sales when the products are sold. The remaining amount of research and development expenditures, which comprise expenditures and costs relating to the improvement of manufacturing processes and other internal research and development programs and measures, are accounted for as administrative expenses. See “— Administrative Expenses” and “Business — Research and Development — Overview.” As confirmed by our independent auditors, our research and development expenditures charged as cost of sales/recognized as inventories for the sales and production of prototypes sold to our customers comply with the relevant accounting standards.

The following table sets forth, by product and business, our cost of sales for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
(RMB in millions, except for %)										
Hydraulic roof supports . . .	2,974.5	79.4%	3,203.2	67.8%	3,966.9	64.9%	1,772.6	68.7%	2,054.9	60.6%
Steel and other raw materials trading	484.7	12.9%	1,097.3	23.2%	1,671.8	27.4%	560.9	21.7%	1,046.8	30.9%
Spare parts ⁽¹⁾	227.0	6.1%	339.7	7.2%	289.5	4.7%	160.5	6.2%	114.8	3.4%
Other coal mining equipment ⁽²⁾	27.6	0.7%	42.5	0.9%	108.6	1.8%	48.3	1.9%	128.6	3.8%
Others ⁽³⁾	5.9	0.2%	8.4	0.2%	32.6	0.5%	18.7	0.7%	20.5	0.6%
Sales tax	25.9	0.7%	32.7	0.7%	38.6	0.7%	20.7	0.8%	23.1	0.7%
Total	3,745.7	100.0%	4,723.8	100.0%	6,108.0	100.0%	2,581.7	100.0%	3,388.7	100.0%

Notes:

- (1) Primarily include jacks, hydraulic valves and structural parts of hydraulic roof supports.
- (2) Primarily include armored-face conveyors and belt conveyors.
- (3) Primarily include provision of machining services for spare parts and overhaul services for hydraulic roof supports and leasing of equipment and rental properties.

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Gross Profit and Gross Profit Margin

Our gross profit is calculated as our revenue less cost of sales before deducting sales tax. The following table sets forth the gross profit and gross profit margin of our products and businesses.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB in millions, except for %)						(unaudited)			
Hydraulic roof supports	1,088.2	26.8%	1,390.2	30.3%	1,675.1	29.7%	902.6	33.7%	1,217.3	37.2%
High-end hydraulic roof supports	548.6	28.3%	786.3	35.3%	968.4	33.8%	572.6	42.0%	681.4	47.4%
Medium-end hydraulic roof supports	539.6	25.4%	603.9	25.5%	706.7	25.4%	330.0	25.2%	535.9	29.2%
Steel and other raw materials trading	98.3	16.9%	150.6	12.1%	182.9	9.9%	52.9	8.6%	73.8	6.6%
Spare parts ⁽¹⁾	81.6	26.4%	110.4	24.5%	104.3	26.5%	53.2	24.9%	40.0	25.8%
Other coal mining equipment ⁽²⁾	2.3	7.7%	10.0	19.0%	13.8	11.3%	7.5	13.4%	16.8	11.6%
Others ⁽³⁾	4.3	42.2%	6.0	41.7%	14.6	30.9%	9.1	32.7%	10.1	33.0%
Sales tax	(25.9)	—	(32.7)	—	(38.6)	—	(20.7)	—	(23.1)	—
Total	1,248.8	25.0%	1,634.5	25.7%	1,952.1	24.2%	1,004.5	28.0%	1,334.9	28.3%

Notes:

- (1) Primarily include jacks, hydraulic valves and structural parts of hydraulic roof supports.
- (2) Primarily include armored-face conveyors and belt conveyors.
- (3) Primarily include provision of machining services for spare parts and overhaul services for hydraulic roof supports and leasing of equipment and rental properties.

Other Income

Other income primarily comprises government subsidies received for research and development projects and construction projects, and interest income on bank deposits. Other income for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 was RMB25.6 million, RMB41.7 million, RMB91.3 million, RMB35.7 million and RMB59.9 million, respectively.

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Other Gains and Losses

Other gains and losses primarily comprise allowance for doubtful debts, net foreign exchange gains and losses, gains on disposal of property, plant and equipment, gains on disposal of prepaid lease payments, write-down of inventories, impairment loss recognized in respect of goodwill and gains on disposal of held-for-trading investments. We had net other losses for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 of RMB36.1 million, RMB62.8 million, RMB44.4 million, RMB13.1 million and RMB35.5 million, respectively.

Selling and Distribution Expenses

Selling and distribution expenses primarily comprise transportation and logistics costs, tender and bidding handling expenses and employee salaries and commissions for our sales employees. Other selling and distribution expenses primarily include packaging fees, travel expenses, business license and certification fees and general office expenses for sales and marketing purposes. Selling and distribution expenses for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 were RMB156.3 million, RMB153.6 million, RMB223.7 million, RMB90.5 million and RMB176.4 million, respectively.

The following table sets forth our selling and distribution expenses for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
	(RMB in millions, except for %)									
Transportation and logistics costs	85.4	54.6%	93.1	60.6%	121.6	54.4%	41.3	45.6%	94.0	53.3%
Tender and bidding handling expenses	38.4	24.6%	22.2	14.5%	40.6	18.1%	25.5	28.2%	51.1	29.0%
Employee salaries and commissions	11.3	7.2%	14.1	9.2%	18.1	8.1%	8.4	9.3%	11.3	6.4%
Others	21.3	13.6%	24.1	15.7%	43.4	19.4%	15.3	16.9%	20.0	11.3%
Total	156.3	100.0%	153.6	100.0%	223.7	100.0%	90.5	100.0%	176.4	100.0%

Administrative Expenses

Administrative expenses primarily comprise non-sales and non-manufacturing employee salaries, benefits and other remuneration, research and development expenses, depreciation and amortization and tax expenses. Other administrative expenses primarily include consultancy fees, travel expenses, selected research and development expenses, advertising and marketing expenses, rental fees and maintenance fees for administrative purposes. Administrative expenses for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 were RMB291.6 million, RMB385.5 million, RMB359.5 million, RMB152.7 million and RMB199.9 million, respectively.

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The following table sets forth our administrative expenses for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,			
	2009		2010		2011		2011		2012	
(RMB in millions, except for %)										
Employee salaries, benefits and other remuneration.	160.2	55.0%	198.0	51.4%	112.2	31.2%	50.2	32.9%	67.6	33.8%
Research and development expenses ⁽¹⁾	59.7	20.5%	87.0	22.6%	104.1	29.0%	55.8	36.5%	46.2	23.1%
Depreciation and amortization	11.8	4.0%	16.7	4.3%	33.6	9.3%	9.5	6.2%	28.3	14.2%
Tax expenses	8.3	2.8%	10.7	2.8%	17.7	4.9%	8.0	5.2%	12.0	6.0%
Others.	51.6	17.7%	73.1	18.9%	91.9	25.6%	29.2	19.2%	45.8	22.9%
Total	291.6	100.0%	385.5	100.0%	359.5	100.0%	152.7	100.0%	199.9	100.0%

Note:

- (1) Research and development expenses classified as administrative expenses primarily comprise expenditures and costs relating to the improvement of our manufacturing processes and other internal research and development programs and measures. Other research and development expenses are classified as cost of sales. See “— Cost of Sales.”

Share of Profit of Associates

During the Track Record Period, our share of results of associates comprised profit or loss from four associates, namely, ZMJ Suda, ZMJ Jiangxi, Datong Equipment and Xinjiang Coal. As of the Latest Practicable Date, we held 34% and 31%, respectively, of the equity interests of ZMJ Suda and Datong Equipment. Our subsidiary, ZMJ Comprehensive Equipment in which we held 68.89% of the equity interest, held 38% of the equity interest of ZMJ Jiangxi. Another subsidiary, ZMJ Lu An Xinjiang in which we held 54% of the equity interest, held 35% of the equity interest of Xinjiang Coal. These associate entities were incorporated in the PRC and are engaged primarily in manufacturing coal mining and excavating equipment or providing related maintenance services. Share of profit of associates for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 was RMB0.4 million, RMB8.4 million, RMB11.6 million, RMB3.4 million and RMB8.2 million, respectively.

Share of Profit of Jointly Controlled Entities

During the Track Record Period, our share of results of jointly controlled entities comprised profit or loss from three jointly controlled entities, namely Huainan Phillips, Huainan Allen West and Shun Li Machinery Maintenance. Our subsidiary, ZMJ Shun Li Machinery, in which we held 57.97% of the equity interest as of the Latest Practicable Date, held 40% of the equity interest in each of the three above mentioned entities as of the Latest Practicable Date. These jointly controlled entities were incorporated in the PRC and are engaged primarily in the manufacturing of coal mining and excavating equipment or electrical equipment, or providing related maintenance services. Share of profit of jointly controlled entities for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 was nil, RMB0.6 million, RMB0.6 million, RMB0.3 million and RMB0.3 million, respectively.

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Finance Costs

Finance costs primarily comprise interest on bank and other borrowings. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, our finance costs were RMB17.5 million, RMB19.1 million, RMB6.9 million, RMB4.6 million and RMB2.0 million, respectively.

Income Tax Expense

Income tax expense for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012 was RMB126.5 million, RMB171.6 million, RMB207.8 million, RMB185.0 million and RMB157.3 million, respectively.

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, our overall effective tax rates were 16.4%, 16.1%, 14.6% and 15.9%, respectively. On March 16, 2007, the EIT Law and related implementing regulations became effective. The statutory tax rate for our subsidiaries established in the PRC decreased from 33% to 25% from January 1, 2008. Our Company and certain subsidiaries have been designated “High and New Technology Enterprises” and are subject to a preferential tax rate of 15% for a period of three years starting from the year when such company received such designation. Our subsidiary established in Russia, ZMJ Siberia, is expected to be taxed at a rate of 20% under the relevant Russian tax regulations.

The following table sets forth the effective tax rates that apply to our Company and subsidiaries for the periods indicated:

	Year Ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
Our Company ⁽¹⁾	15%	15%	15%	15%
ZMJ Comprehensive Equipment ⁽²⁾	25%	15%	15%	15%
ZMJ Hydraulic Control ⁽³⁾	25%	15%	15%	15%
ZMJ Material Trading	25%	25%	25%	25%
ZMJ Longwall Machinery	25%	25%	25%	25%
ZMJ Lu An Xin Jiang	25%	25%	25%	25%
ZMJ Shun Li Machinery	N/A	25%	25%	25%
ZMJ Siberia	N/A	N/A	20%	20%
ZMJ Foundry	N/A	N/A	25%	25%
Huaxuan Investment ⁽⁴⁾	N/A	N/A	25%	25%

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Notes:

- (1) Our Company received the Technology Tax Certificate on October 28, 2011, which entitles our Company to a preferential tax rate of 15% from January 1, 2011 to December 31, 2013. Our Company was previously entitled to a preferential tax rate of 15% in 2009 and 2010 under a separate Technology Tax Certificate, which expired on December 31, 2010.
- (2) ZMJ Comprehensive Equipment received the Technology Tax Certificate on November 8, 2010 and is entitled to a preferential tax rate of 15% from January 1, 2010 to December 31, 2012. This preferential tax rate will expire on December 31, 2012. We expect to submit a renewal application for the Technology Tax Certificate within three months of expiration or the period of October 1, 2012 to December 31, 2012.
- (3) ZMJ Hydraulic Control received the Technology Tax Certificate on August 8, 2010 and is entitled to a preferential tax rate of 15% from January 1, 2010 to December 31, 2012. This preferential tax rate will expire on December 31, 2012. Pursuant to the relevant regulations, we are required to submit a renewal application for the Technology Tax Certificate within three months of expiration or the period of October 1, 2012 to December 31, 2012.
- (4) Huaxuan Investment is no longer a subsidiary of our Company as of the date of this prospectus. See “Recent Developments — Developments Regarding Huaxuan Investment.”

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are sensitive to accounting policies, assumptions and estimates that underlie the preparation of our consolidated financial statements. Our financial information is prepared in accordance with IFRS, which requires that certain assumptions and estimates be made which affect our financial information. Significant accounting policies are those that require our management to exercise judgment and make estimates that could result in significantly different results should future events affecting estimates differ from the management’s current judgments. These policies involve assumptions and estimates important to the portrayal and understanding of our results of operations and financial condition. These policies are fully set forth in the “Accountants Report — Significant Accounting Policies” of Appendix I to this prospectus. We have identified the following policies as critical to understand our results of operations and financial condition:

Revenue Recognition

We are required to install our hydraulic roof supports at our customers’ premises when selling such products to our customers. Therefore, we must take into consideration whether it is appropriate to recognize the revenue from these transactions when the hydraulic roof supports are delivered to the customers, or to recognize the revenue when the installations are completed.

In making the judgment, we consider the criteria for the recognition of revenue from the sale of goods set forth in IAS 18 Revenue and, in particular, whether we have transferred to the buyer the significant risks and rewards that are derived from the ownership of the goods. As the installation of hydraulic roof supports is an integral part of the transaction and the installation process is generally complicated, we believe that installation cannot be separated from the sales of hydraulic roof supports. As such, the significant risks and rewards of a transaction can only be transferred to our customers upon the completion of installation. Therefore, we believe that it is appropriate for the recognition of revenue from sales of hydraulic roof supports to occur upon the completion of installation.

Revenue from the sales of steel and other raw materials and spare parts is recognized when the goods are delivered and the title to the goods has passed to our customers.

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Revenue from the sales of other coal mining equipment in the ordinary course of business is recognized when the equipment has been delivered to, and accepted by, our customers upon completion of installation. Similar to hydraulic roof supports, deposits and installments received from the customers for other coal mining equipment prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Estimated Impairment of Trade Receivables

We take into consideration the estimation of future cash flows when there is objective evidence of an impairment loss. The amount of an impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate of the financial asset (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As of December 31, 2009, 2010 and 2011 and June 30, 2012, the carrying amounts of trade receivables were RMB1,009.2 million, RMB1,622.6 million, RMB1,715.0 million and RMB2,580.9 million, respectively.

Write-down of Inventories

Inventories are valued at the lower of cost and net realizable value. We inspect and review our inventories on a regular basis to identify slow-moving and obsolete inventories. When we identify inventory items whose market prices are lower than their carrying amounts, slow-moving or obsolete, we will write down the inventories as of the end of that year. As of December 31, 2009, 2010 and 2011 and June 30, 2012, the carrying amount of our inventories were RMB1,074.5 million, RMB1,300.0 million, RMB1,644.0 million and RMB2,257.3 million, respectively.

Estimated Useful Lives and Residual Values of Property, Plant and Equipment and Investment Properties

We estimate the useful lives and related depreciation charges for our property, plant and equipment. This estimate is based on our management's experience of the actual useful lives of property, plant and equipment of similar nature and function, and could change significantly as a result of technical innovations and actions of our competitors. Our management will increase the depreciation charge where useful lives are less than previously estimated. The carrying amounts of property, plant and equipment as of December 31, 2009, 2010 and 2011 and June 30, 2012 were RMB412.0 million, RMB1,058.8 million, RMB1,495.9 million and RMB1,602.8 million, respectively. The carrying amounts of investment properties as of December 31, 2009, 2010 and 2011 and June 30, 2012 were RMB12.1 million, RMB11.8 million, RMB11.4 million and RMB11.2 million, respectively.

RESULTS OF OPERATIONS

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2012

Revenue

Our revenue increased by 31.7% from RMB3,586.3 million for the six months ended June 30, 2011 to RMB4,723.6 million for the six months ended June 30, 2012.

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Hydraulic roof supports. Revenue from sales of our hydraulic roof supports increased by 22.3% from RMB2,675.2 million for the six months ended June 30, 2011 to RMB3,272.2 million for the six months ended June 30, 2012, primarily as a result of an increase in sales volume, partially offset by a decrease in average selling price. Sales volume of hydraulic roof supports increased by 44.5%, from 7,406 units for the six months ended June 30, 2011, comprising 1,702 units of high-end hydraulic roof supports and 5,704 units of medium-end hydraulic roof supports, to 10,701 units for the six months ended June 30, 2012, comprising 2,217 units of high-end hydraulic roof supports and 8,484 units of medium-end hydraulic roof supports. Our sales volume increased primarily as a result of increased mechanization rates of coal mining operations in the PRC which resulted in increased customer demand for these products, our continuing expansion into the international markets, as well as our expanded production capacity which enabled us to benefit from increased demand for our products.

The average selling price of our hydraulic roof supports decreased by 15.3% from RMB361,200 per unit for the six months ended June 30, 2011 to RMB305,800 per unit for the six months ended June 30, 2012, primarily as a result of a decrease in steel prices in the first half of 2012, and an increase in the proportion of the sales volume of our medium-end hydraulic roof supports in the total sales volume of hydraulic roof supports. The average selling price of our high-end hydraulic roof supports decreased by 23.4% from RMB801,000 per unit for the six months ended June 30, 2011 to RMB648,900 per unit for the six months ended June 30, 2012, primarily as a result of an increase in the sales of small-sized high-end hydraulic roof supports, which had lower prices than large-sized high-end hydraulic roof supports, and a general decrease in steel prices. The average selling price of our medium-end hydraulic roof supports decreased from RMB230,000 per unit for the six months ended June 30, 2011 to RMB216,100 per unit for the six months ended June 30, 2012, primarily due to decreased steel prices and increased market competition among sellers of these products.

Steel and other raw materials trading business. Revenue from our steel and other raw materials trading business increased by 82.6% from RMB613.8 million for the six months ended June 30, 2011 to RMB1,120.6 million for the six months ended June 30, 2012, primarily due to our increased marketing and sales efforts in order to better leverage on our manufacturing operations. In particular, we established a team focusing on the steel and other raw materials trading business in March 2011, and since then, have significantly expanded that business.

Spare parts. Revenue from sales of our spare parts decreased by 27.6% from RMB213.7 million for the six months ended June 30, 2011 to RMB154.8 million for the six months ended June 30, 2012, primarily as a result of a decrease in sales volume of spare parts as our subsidiary, ZMJ Comprehensive Equipment, reduced sales of spare parts in order to focus on manufacturing hydraulic roof supports to meet increased market demand.

Other coal mining equipment. Revenue from sales of our other coal mining equipment increased by 160.6% from RMB55.8 million for the six months ended June 30, 2011 to RMB145.4 million for the six months ended June 30, 2012, primarily as a result of an increase in sales of armored-face conveyors, belt conveyors and other coal mining equipment manufactured by both ZMJ Shun Li Machinery and ZMJ Longwall Machinery.

Other revenue. Other revenue primarily included the provision of machining services for spare parts, overhaul services for hydraulic roof supports and leasing of equipment and rental properties. Other revenue increased by 10.5% from RMB27.7 million for the six months ended June 30, 2011 to RMB30.6 million for the six months ended June 30, 2012.

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Cost of Sales

Our cost of sales increased by 31.3% from RMB2,581.7 million for the six months ended June 30, 2011 to RMB3,388.7 million for the six months ended June 30, 2012, primarily due to an increase in our sales.

Cost of raw materials. Cost of raw materials increased by 33.1% from RMB2,282.1 million for the six months ended June 30, 2011 to RMB3,038.2 million for the six months ended June 30, 2012, primarily as a result of an increase in the volume of steel used in our manufacturing operations, partially offset by a decrease in steel prices.

Direct labor costs and manufacturing expenses. Our direct labor costs and manufacturing expenses increased by 14.8% from RMB227.2 million for the six months ended June 30, 2011 to RMB260.9 million for the six months ended June 30, 2012, primarily as the result of the effects of inflation and an increase in depreciation as we commenced the operation of our newly-established manufacturing base in Zhengzhou in September 2011. According to the NBS, the monthly consumer price index in the PRC was 4.5%, 3.2%, 3.6%, 3.4%, 3.0% and 2.2% for the first six months of 2012.

Gross Profit and Gross Profit Margin

Our gross profit increased by 32.9% from RMB1,004.5 million for the six months ended June 30, 2011 to RMB1,334.9 million for the six months ended June 30, 2012 and our gross profit margin increased slightly from 28.0% for the six months ended June 30, 2011 to 28.3% for the six months ended June 30, 2012.

Hydraulic roof supports. Gross profit margin for our hydraulic roof supports increased from 33.7% for the six months ended June 30, 2011 to 37.2% for the six months ended June 30, 2012, primarily as a result of an increase in the gross profit margins of both our high-end hydraulic roof supports and medium-end hydraulic roof supports. The gross profit margin for our high-end hydraulic roof supports, which accounted for 44.0% of our total sales of hydraulic roof supports for the six months ended June 30, 2012, increased from 42.0% for the six months ended June 30, 2011 to 47.4% for the six months ended June 30, 2012, primarily as a result of our improved manufacturing technology and effective cost controls, as well as increased contribution of our international sales of high-end hydraulic roof supports, which generally have higher gross profit margins than our domestic sales. The gross profit margin for our medium-end hydraulic roof supports, which accounted for 56.0% of our total sales of hydraulic roof supports for the six months ended June 30, 2012, increased from 25.2% for the six months ended June 30, 2011 to 29.2% for the six months ended June 30, 2012, primarily due to our increased economies of scale and, to a lesser extent, our enhanced manufacturing technologies which enabled us to effectively control cost and increase efficiency.

Steel and other raw materials trading business. Gross profit margin for our steel and other raw materials trading business decreased from 8.6% for the six months ended June 30, 2011 to 6.6% for the six months ended June 30, 2012, primarily as a result of increased price competition as the high quality steel products that we sell became increasingly available in the market, as well as reduced contribution of scrap steel to our steel and other raw materials trading business, which accounted for 9.1% and 8.6% of the revenue of our steel and other raw materials trading business in the first half of 2011 and 2012, respectively. Our sales of scrap steel generally have higher gross profit margins than those of our steel products as the costs of such materials are recognized during the production process.

Spare parts. Gross profit margin for our spare parts slightly increased from 24.9% for the six months ended June 30, 2011 to 25.8% for the six months ended June 30, 2012.

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Other coal mining equipment. Gross profit margin for our other coal mining equipment decreased from 13.4% for the six months ended June 30, 2011 to 11.6% for the six months ended June 30, 2012.

Other Income

Other income primarily comprised government subsidies received and interest income on bank deposits. Our other income increased by 67.8% from RMB35.7 million for the six months ended June 30, 2011 to RMB59.9 million for the six months ended June 30, 2012, primarily as a result of an increase in interest income from our bank deposits due to increases in average interest rates and government grants received.

Other Gains and Losses

Our other net losses increased by 171.0% from RMB13.1 million for the six months ended June 30, 2011 to RMB35.5 million for the six months ended June 30, 2012, primarily as a result of an increase in our allowance for doubtful debts, which was consistent with the increase in our sales and trade receivables in the six months ended June 30, 2012, partially offset by gains of RMB17.3 million on disposal of our held-for-trading investments during the six months ended June 30, 2012, primarily as a result of our sales of equity securities listed on the PRC stock exchanges held by Huaxuan Investment.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 95.0% from RMB90.5 million for the six months ended June 30, 2011 to RMB176.4 million for the six months ended June 30, 2012, primarily as a result of an increase in transportation and logistics expenses as our sales volumes increased, an increase in tender and bidding costs associated with our international expansion plans, as well as an increase in employee salaries and commissions for our sales employees.

Administrative Expenses

Our administrative expenses increased by 30.9% from RMB152.7 million for the six months ended June 30, 2011 to RMB199.9 million for the six months ended June 30, 2012, primarily as a result of an increase in depreciation and amortization expenses after we commenced the operation of an administrative office at our newly-established manufacturing base in September 2011, as well as a general increase in employee salaries, benefits and other remuneration.

Share of Profits of Associates

Share of profits of associates increased by 141.2% from RMB3.4 million for the six months ended June 30, 2011 to RMB8.2 million for the six months ended June 30, 2012, primarily as a result of an increase in the profits of our associates, particularly ZMJ Suda.

Finance Costs

Our finance costs decreased by 56.5% from RMB4.6 million for the six months ended June 30, 2011 to RMB2.0 million for the six months ended June 30, 2012, primarily as a result of a decrease in interest expenses on our bank borrowings. Interest expenses decreased from the six months ended June 30, 2011 to the six months ended June 30, 2012 primarily a result of a decrease in the average balance of our bank

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borrowings, which was primarily due to the early repayment by ZMJ Lu An Xinjiang of a portion of its long-term project construction borrowings from China Construction Bank.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 26.4% from RMB783.1 million for the six months ended June 30, 2011 to RMB989.6 million for the six months ended June 30, 2012.

Income Tax Expense

Our income tax expense decreased by 15.0% from RMB185 million for the six months ended June 30, 2011 to RMB157.3 million for the six months ended June 30, 2012, primarily as a result of a decrease in the income tax rate applicable to our Company. Our Company, which accounted for the majority of the Group's income tax expenses, received the Technology Tax Certificate on October 28, 2011, which entitles our Company to a preferential tax rate of 15% from January 1, 2011 to December 31, 2013. Since our Company had not received the Technology Tax Certificate as of June 30, 2011, the income tax expense of our Company for the six months ended June 30, 2011 was calculated based on the statutory income tax rate of 25%, while the income tax expense of our Company for the six months ended June 30, 2012 was calculated based on the effective tax rate of 15%. See “ — Description of Selected Items of Our Statements of Comprehensive Income — Income Tax Expense.”

Profit and Total Comprehensive Income for the Period

As a result of the foregoing, our profit and total comprehensive income increased by 39.1% from RMB598.2 million for the six months ended June 30, 2011 to RMB832.3 million for the six months ended June 30, 2012.

Recently, some companies in the steel industry have experienced liquidity constraints, which may have a material impact on the general coal mining equipment manufacturing industry, as steel is the primary raw material for production. However, we have not been and do not expect to be materially affected as we: (i) procure steel from major domestic suppliers that are creditworthy and in good financial condition; and (ii) have long-term relationships with our key steel suppliers which supply steel materials to us on a priority basis. As a result, the payment terms of our supply agreements generally remain unchanged and we have not experienced any delivery delays or steel supply shortages.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2011

Revenue

Our revenue increased by 26.8% from RMB6,358.3 million in 2010 to RMB8,060.1 million in 2011, primarily as a result of a general increase in the sales of our products.

Hydraulic roof supports. Revenue from sales of our hydraulic roof supports increased by 22.8% from RMB4,593.4 million in 2010 to RMB5,642.0 million in 2011, primarily as a result of increases in sales volume and average selling price. Sales volume of hydraulic roof supports increased by 8.5%, from 13,027 units in 2010, comprising 3,309 units of high-end hydraulic roof supports and 9,718 units of medium-end hydraulic roof supports, to 14,129 units in 2011, comprising 3,638 units of high-end hydraulic roof supports and 10,491 units of medium-end hydraulic roof supports. Our sales volume

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increased primarily as a result of increased customer demand for these products resulting from PRC government policies promoting and requiring the use of mechanized coal mining equipment in coal mining operations, as well as our expanded production capacity which enabled us to benefit from increased demand for our products.

The average selling price of our hydraulic roof supports increased by 13.2% from RMB352,606 per unit in 2010 to RMB399,320 per unit in 2011, primarily as a result of an increase in the proportion of the sales of high-end hydraulic roof supports in our total sales of hydraulic roof supports, as high-end hydraulic roof supports generally have higher selling prices than medium-end hydraulic roof supports. The average selling price of our high-end hydraulic roof supports increased from RMB673,000 per unit in 2010 to RMB787,493 per unit in 2011, primarily as a result of increased demand for, and technological improvements to, our high-end products. We increased our research and development efforts, which enabled us to improve our products and enhance our manufacturing processes, resulting in the increase of the average selling price of our high-end hydraulic roof supports. The average selling price of our medium-end hydraulic roof supports increased from RMB243,500 per unit in 2010 to RMB264,713 per unit in 2011, primarily due to increases in market prices of the raw materials and labor cost.

Steel and other raw materials trading business. Revenue from our steel and other raw materials trading business increased by 48.6% from RMB1,247.9 million in 2010 to RMB1,854.7 million in 2011, primarily as a result of an increase in sales volume of steel due to the increased scale of our operations and, to a lesser extent, the general increase in the prices of steel in 2011. Benefiting from our increased operating scale in product manufacturing, we were able to procure high quality steel materials in bulk at favorable prices, which enabled us to capture increased market demand.

Spare parts. Revenue from sales of our spare parts decreased by 12.5% from RMB450.1 million in 2010 to RMB393.8 million in 2011, primarily as a result of a decrease in the sales volume of spare parts as we allocated manufacturing capacity of spare parts to hydraulic roof supports to meet the increased demand for our hydraulic roof supports.

Other coal mining equipment. Revenue from sales of our other coal mining equipment increased by 133.1% from RMB52.5 million in 2010 to RMB122.4 million in 2011, primarily as a result of an increase in sales of armored-face conveyors following our acquisition of ZMJ Shun Li Machinery in November 2010.

Other revenue. Other revenue increased by 227.8% from RMB14.4 million in 2010 to RMB47.2 million in 2011, primarily as a result of an increase in leases of hydraulic props to customers by ZMJ Shun Li Machinery.

Cost of Sales

Our cost of sales increased by 29.3% from RMB4,723.8 million in 2010 to RMB6,108.0 million in 2011, primarily as a result of an increase in our sales.

Cost of raw materials. Cost of raw materials increased by 31.5% from RMB4,099.5 million in 2010 to RMB5,389.4 million in 2011, primarily as a result of an increase in the volume of steel used in our manufacturing operations and sold in our steel and other raw materials trading business.

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Direct labor costs and manufacturing expenses. Our direct labor costs and manufacturing expenses increased by 12.9% from RMB489.1 million in 2010 to RMB552.3 million in 2011, primarily as a result of an increase in average employee compensation, which was consistent with rising labor costs in the PRC, as well as an increase in our headcount due to our increased scale of operations.

Gross Profit and Gross Profit Margin

Our gross profit increased by 19.4% from RMB1,634.5 million in 2010 to RMB1,952.1 million in 2011 and our gross profit margin decreased from 25.7% in 2010 to 24.2% in 2011.

Hydraulic roof supports. Gross profit margin for our hydraulic roof supports slightly decreased from 30.3% in 2010 to 29.7% in 2011, primarily as a result of a decrease in the gross profit margin of our high-end hydraulic roof supports. The gross profit margin for our high-end hydraulic roof supports, which accounted for 50.8% of our total sales of hydraulic roof supports in 2011, decreased from 35.3% in 2010 to 33.8% in 2011, primarily because the market prices of steel and other ancillary materials and labor costs increased at a faster rate than the prices of our high-end hydraulic roof supports, which reflected our inability to fully pass on these cost increases to our customers. The gross profit margin for our medium-end hydraulic roof supports, which accounted for 49.2% of our total sales of hydraulic roof supports in 2011, decreased slightly from 25.5% in 2010 to 25.4% in 2011.

Steel and other raw materials trading business. Gross profit margin for our steel and other raw materials trading business decreased from 12.1% in 2010 to 9.9% in 2011, primarily as a result of increased competition as the high quality steel products that we sell became increasingly available in the market as well as reduced contribution of scrap steel to our steel and other raw materials trading business. Sales of scrap steel accounted for 7.6% and 7.1% of the revenue of our steel and raw materials trading business in 2010 and 2011, respectively. Our sales of scrap steel generally have higher gross profit margins than those of our steel products as the costs of such materials are recognized during the production process.

Spare parts. Gross profit margin for our spare parts increased from 24.5% in 2010 to 26.5% in 2011, primarily as a result of an increase in sales volume of certain spare parts with relatively high gross profit margins.

Other coal mining equipment. Gross profit margin for our other coal mining equipment decreased from 19.0% in 2010 to 11.3% in 2011, primarily as a result of the diversification of our product mix to include additional coal mining equipment, such as belt conveyors, which had lower profit margins than other coal mining equipment, following our acquisition of ZMJ Shun Li Machinery in November 2010.

Other Income

Our other income increased by 118.9% from RMB41.7 million in 2010 to RMB91.3 million in 2011, primarily as a result of an increase in interest income on our average bank deposits due to increased interest rates and increased bank balances from the receipt of proceeds of the A Share Offering that were not utilized during the period.

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Other Gains and Losses

Our other net losses decreased by 29.3% from RMB62.8 million in 2010 to RMB44.4 million in 2011, primarily because we recognized one-off impairment losses of RMB10.0 million for a set of unsold hydraulic roof supports and RMB4.3 million in respect of goodwill arising from the acquisition of ZMJ Shun Li Machinery in 2010, whereas we did not recognize such impairment losses in 2011.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 45.6% from RMB153.6 million in 2010 to RMB223.7 million in 2011, primarily as a result of an increase in sales volume, which resulted in increased transportation and logistics expenses, as well as increased tender and bidding costs associated with our domestic and international sales expansion.

Administrative Expenses

Our administrative expenses decreased by 6.7% from RMB385.5 million in 2010 to RMB359.5 million in 2011, primarily as a result of the review and modification of our employee compensation scheme, which reduced employee salaries, benefits and other remuneration in 2011.

Share of Profits of Associates

Share of profits of associates increased by 38.1% from RMB8.4 million in 2010 to RMB11.6 million in 2011, primarily as a result of an increase in the profits of our associates, particularly ZMJ Suda.

Share of Profits of Jointly Controlled Entities

Share of profits of jointly controlled entities remained the same at RMB0.6 million in 2010 and in 2011.

Finance Costs

Our finance costs decreased by 63.9% from RMB19.1 million in 2010 to RMB6.9 million in 2011, primarily as a result of a decrease in interest expenses on our bank borrowings. Interest expenses decreased from 2010 to 2011 primarily as a result of a decrease in the average balance of our bank borrowings, primarily due to the early repayment of a portion of the long-term project construction borrowings from China Construction Bank by ZMJ Lu An Xinjiang.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 33.5% from RMB1,064.4 million in 2010 to RMB1,421.0 million in 2011.

Income Tax Expense

Our income tax expense increased by 21.1% from RMB171.6 million in 2010 to RMB207.8 million in 2011, primarily as a result of an increase in our taxable profit.

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Profit and Total Comprehensive Income for the Year

As a result of the foregoing, our profit and total comprehensive income for the year increased by 35.9% from RMB892.8 million in 2010 to RMB1,213.3 million in 2011.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2010

Revenue

Our revenue increased by 27.3% from RMB4,994.4 million in 2009 to RMB6,358.3 million in 2010, primarily as a result of increases in sales volume and average selling price of our hydraulic roof supports.

Hydraulic roof supports. Revenue from sales of hydraulic roof supports increased by 13.1% from RMB4,062.7 million in 2009 to RMB4,593.4 million in 2010, primarily as a result of increases in sales volume and average selling price. Sales volume of hydraulic roof supports increased by 10.2% from 11,817 units in 2009, comprising 2,925 units of high-end hydraulic roof supports and 8,892 units of medium-end hydraulic roof supports, to 13,027 units in 2010, comprising 3,309 units of high-end hydraulic roof supports and 9,718 units of medium-end hydraulic roof supports. Our sales volumes increased primarily as a result of increased customer demand for our hydraulic roof supports. To meet such increased demand, we enhanced our production process through technological improvements, installation of additional manufacturing equipment and increased outsourcing of non-critical parts and components to meet increased customer demand.

The average selling price of our hydraulic roof supports increased by 2.6% from RMB343,801 per unit in 2009 to RMB352,606 per unit in 2010, primarily as a result of an increase in the proportion of sales of high-end hydraulic roof supports in our total sales of hydraulic roof supports, as high-end hydraulic roof supports generally have higher selling prices than medium-end hydraulic roof supports. The average selling price of our high-end hydraulic roof supports increased from RMB662,600 per unit in 2009 to RMB673,000 per unit in 2010 due to increased demand for, and technological improvements to, our high-end products. We increased our research and development efforts, which enabled us to improve our products and enhance our manufacturing processes, resulting in the increase of the average selling price of our high-end hydraulic roof supports. The average selling price of our medium-end hydraulic roof supports increased from RMB238,900 per unit in 2009 to RMB243,500 per unit in 2010 for the same reason.

Steel and other raw materials trading business. Revenue from our steel and other raw materials trading business increased by 114.0% from RMB583.0 million in 2009 to RMB1,247.9 million in 2010, primarily as a result of an increase in sales volume of steel due to the increased scale of our operations and, to a lesser extent, the general increase of steel prices in 2010. Benefiting from our increased operating scale in product manufacturing, we were able to procure high quality steel materials in bulk at favorable prices, which enabled us to meet increased demand.

Spare parts. Revenue from sales of spare parts increased by 45.9% from RMB308.6 million in 2009 to RMB450.1 million in 2010, primarily as a result of an increase in sales of spare parts related to our aftermarket services due to an increase in installed bases of our hydraulic roof supports and our enhanced aftermarket services.

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Other coal mining equipment. Revenue from sales of other coal mining and excavating equipment increased by 75.6% from RMB29.9 million in 2009 to RMB52.5 million in 2010, primarily as a result of an increase in sales of armored-face conveyors manufactured by ZMJ Longwall Machinery which commenced operations in 2009. In addition, in November 2010, we acquired 57.97% of the equity interest in ZMJ Shun Li Machinery which manufactures armored-face conveyors, belt conveyors and other coal mining equipment. This acquisition also contributed to the increase in sales of other coal mining and excavating equipment in 2010.

Other revenue. Other revenue increased by 41.2% from RMB10.2 million in 2009 to RMB14.4 million in 2010, primarily as a result of an increase in rental payments from tenants of our properties and an increase in machining fees that we received for manufacturing outsourced parts that we sold to our customers.

Cost of Sales

Our cost of sales increased by 26.1% from RMB3,745.7 million in 2009 to RMB4,723.8 million in 2010, primarily as a result of an increase in our sales.

Cost of raw materials. Cost of raw materials increased by 21.9% from RMB3,364.3 million in 2009 to RMB4,099.5 million in 2010, primarily as a result of an increase in the costs of steel, hydraulic parts and other ancillary materials. Our steel costs increased primarily due to an increase in market prices of steel and an increase in the volume of steel used in our manufacturing process and sold in our steel trading business.

Direct labor costs and manufacturing expenses. Direct labor costs and manufacturing expenses increased by 87.9% from RMB260.3 million in 2009 to RMB489.1 million in 2010, primarily as a result of an increase in our employee headcount, as well as an increase in depreciation as we made fixed assets investments to enhance our manufacturing efficiency and increase our production capacity.

Gross Profit and Gross Profit Margin

Our gross profit increased by 30.9% from RMB1,248.8 million in 2009 to RMB1,634.5 million in 2010, and our gross profit margin increased from 25.0% in 2009 to 25.7% in 2010.

Hydraulic roof supports. Gross profit margin for our hydraulic roof supports increased from 26.8% in 2009 to 30.3% in 2010, primarily as a result of an increase in the percentage of gross profit derived from the sales of high-end hydraulic roof supports which had a higher gross profit margin than sales of medium-end hydraulic roof supports. The gross profit margin for our high-end hydraulic roof supports, which accounted for 48.5% of our total sales of hydraulic roof supports in 2010, increased from 28.3% in 2009 to 35.3% in 2010, primarily as a result of increased demand for our high-end hydraulic roof supports as we enhanced the performance of these products by incorporating more advanced technology. The gross profit margin for our medium-end hydraulic roof supports, which accounted for 51.5% of our total sales of hydraulic roof supports in 2010, increased slightly from 25.4% in 2009 to 25.5% in 2010.

Steel and other raw materials trading business. Gross profit margin for our steel and other raw materials trading business decreased from 16.9% in 2009 to 12.1% in 2010, primarily as a result of the reduced contribution of scrap steel to our steel and other raw materials trading business. Sales of scrap steel had a higher profit margin than sales of other products in the steel and other raw material trading

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business and accounted for 11.0% and 7.6% of our revenue from steel and materials trading in 2009 and 2010, respectively, as well as increased competition as the high-quality steel products that we sold became increasingly available in the market.

Spare parts. Gross profit margin for our spare parts decreased from 26.4% to 24.5%, primarily as a result of an increase in sales volumes of products with relatively low gross profit margins.

Other coal mining equipment. Gross profit margin for our other mining equipment increased from 7.7% in 2009 to 19.0% in 2010, primarily as a result of an increase in sales of our armored-face conveyors, following the establishment and commencement of operation of ZMJ Longwall Machinery in March 2009.

Other Income

Our other income increased by 62.9% from RMB25.6 million in 2009 to RMB41.7 million in 2010, primarily as a result of an increase in one-off subsidies received from the PRC government for our research and development projects, as well as an increase in the interest income from our bank deposits as a result of an increase in the average balance of our bank deposits as we received the proceeds of the A Share Offering during this period.

Other Gains and Losses

Our other net losses increased by 74.0% from RMB36.1 million in 2009 to RMB62.8 million in 2010, primarily as a result of an increase in allowance for doubtful debts, which was consistent with our increased sales. In addition, our impairment loss of inventory increased from nil in 2009 to RMB10.0 million in 2010, primarily as a result of the default of a hydraulic roof support customer on its obligations under our sales contract in 2010 due to its delay in obtaining the required mining licenses after its corporate restructuring. Accordingly, we recorded an impairment loss of RMB10.0 million in relation to the unsold hydraulic roof supports under this contract. See “Risk Factors — Risks Relating to Our Business and Operations — As our products are custom-made, any breach of contracts by our customers after we commence the manufacturing process may have a material adverse effect on us.” In addition, we recognized an impairment loss of RMB4.3 million in respect of goodwill arising from our acquisition of ZMJ Shun Li Machinery in 2010.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 1.7% from RMB156.3 million in 2009 to RMB153.6 million in 2010, primarily as a result of a decrease in tender and bidding costs, which varied on a case-by-case basis for the tenders and bids that we participated in.

Administrative Expenses

Our administrative expenses increased by 32.2% from RMB291.6 million in 2009 to RMB385.5 million in 2010, primarily as a result of increases in employee salaries, benefits and remuneration and research and development expenses. Employee salaries, benefits and remuneration increased by 23.6% from RMB160.2 million in 2009 to RMB198.0 million in 2010, primarily as a result of an increase in our employee headcount following the acquisition of ZMJ Shun Li Machinery in 2010. Research and development expenses increased by 45.7% from RMB59.7 million in 2009 to RMB87.0 million in 2010,

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primarily as a result of an increase in the headcount of our research and development staff and expenditures for developing new types of hydraulic roof supports.

Share of Profits of Associates

Share of profits of associates increased by 2,000% from RMB0.4 million in 2009 to RMB8.4 million in 2010, primarily as a result of the commencement of business operations of our newly-established associates and an increase in the profits of our associates, particularly ZMJ Suda. In July 2009, we established our associate, ZMJ Suda to provide coal mining equipment aftermarket services such as spare parts provision, storage and related services. As of the Latest Practicable Date, we held approximately 34.0% of the equity interest in ZMJ Suda. Since its establishment, ZMJ Suda has experienced significant growth in revenue. In addition, the commencement of business operations of ZMJ Jiangxi in 2009 also contributed to the increase of the profits of our associates. Our associate, ZMJ Comprehensive Equipment, in which we held 68.89% of the equity interest, has held 38% of the equity interest of ZMJ Jiangxi since December 2009.

Share of Profits of Jointly Controlled Entities

Share of profits of jointly controlled entities increased from nil in 2009 to RMB0.6 million in 2010, primarily as a result of our acquisition of 57.97% of the equity interest in ZMJ Shun Li Machinery in 2010 which held 40% of the equity interest in each of Huainan Philips, Huainan Allen West and Shun Li Machinery Maintenance.

Finance Costs

Our finance costs increased by 9.1% from RMB17.5 million in 2009 to RMB19.1 million in 2010, primarily as a result of an increase in interest expenses on our bank borrowings due to an increase in the average balance of our bank borrowings.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 37.7% from RMB773.2 million in 2009 to RMB1,064.4 million in 2010.

Income Tax Expense

Our income tax expense increased by 35.7% from RMB126.5 million in 2009 to RMB171.6 million in 2010, primarily due to an increase in our taxable profit.

Profit and Total Comprehensive Income for the Year

As a result of the foregoing, our profit and total comprehensive income for the year increased by 38.0% from RMB646.8 million in 2009 to RMB892.8 million in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Historically, our principal sources of funds have been cash generated from sales and operations, bank borrowings and the proceeds from the A Share Offering. Our cash needs have been related primarily to costs associated with production, sales and the expansion of our production capacity after the A Share Offering. We had net current assets of RMB1,224.3 million, RMB3,900.6 million, RMB4,305.8 million and RMB4,713.1 million as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively.

We plan to fund capital expenditures and related expenses and our working capital requirements described in this prospectus with cash from operating activities, the net proceeds from the Global Offering and short-term and long-term bank borrowings. Except as disclosed in the prospectus, we currently do not have any material external debt financing plan. As of the date of the prospectus, there are no material covenants relating to our outstanding borrowings.

We conduct our operations directly and through our operating subsidiaries, some of which we do not wholly own or are joint ventures. Therefore, we may not in all circumstances be able to allocate our free cash flow as we would like among our subsidiaries. In addition, certain PRC laws restrict the ability of our subsidiaries to transfer funds to us in the form of cash dividends or loans. PRC regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, under current PRC laws, regulations and accounting standards, each subsidiary is required to allocate at least 10% of its after-tax profit based on PRC accounting standards to its statutory common reserve fund each year until the cumulative amount of these reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. As of June 30, 2012, the required deductions attributable to these statutory common reserve funds amounted to approximately RMB42.1 million.

Furthermore, under certain regulations of the SAFE, the Renminbi is not convertible into foreign currencies for capital account items such as loans, repatriation of investments and investments outside of the PRC, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made. These restrictions have not historically had, and are not expected in the future to have, a material effect on our ability to meet our working capital requirements.

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Cash Flows

The following table presents selected cash flow data for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2009	2010	2011	2011	2012
	(RMB in millions)				
Net cash from/(used in)					
operating activities	576.8	850.9	537.1	371.0	(107.9)
Net cash from/(used in)					
investing activities	(248.1)	(2,628.2)	(223.2)	(188.2)	54.2
Net cash from/(used in)					
financing activities.....	(41.1)	2,456.4	(191.3)	(61.6)	(87.2)
Cash and cash equivalents at					
the beginning of year/period .	719.7	1,007.2	1,686.3	1,686.3	1,808.9
Cash and cash equivalents at					
the end of year/period					
represented by bank balances					
and cash	1,007.2	1,686.3	1,808.9	1,807.4	1,688.1

Net Cash From/(Used in) Operating Activities

Net cash from/(used in) operating activities reflects our profit before tax adjusted for: (i) non-cash items, which primarily comprise depreciation of property, plant and equipment, allowance for doubtful debt, finance costs, interest income and impairment loss recognized in respect of goodwill; and (ii) effects of changes in working capital, which primarily comprise changes in inventories, changes in trade and other receivables, changes in trade and other payables and advances from customers.

Net cash used in operating activities was RMB107.9 million for the six months ended June 30, 2012, comprising income tax paid of RMB135.0 million, subtracted by cash generated from operations of RMB27.1 million. Our cash generated from operations comprised operating cash flows before movements in working capital of RMB1,060.4 million and net negative adjustment for changes in working capital of RMB1,033.3 million. Net negative adjustments for changes in working capital primarily reflected: (i) an increase in trade and other receivables of RMB634.6 million primarily due to an increase in our sales; (ii) an increase in inventories of RMB613.5 million, primarily due to the increased scale of our product manufacturing operations after we commenced the operation of our newly-established manufacturing base in September 2011; and (iii) a decrease in advances from customers of RMB374.4 million, primarily as a result of reduced initial installment payments from certain long-term and/or large customers with positive credit profiles, or customers with whom we intend to develop strategic long-term relationships, as well as those strategic customers such as Henan Coal and Chemical Industry and Huainan Mining that may choose to directly order our products instead of utilizing the bidding process.

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Net cash from operating activities was RMB537.1 million for the year ended December 31, 2011, comprising cash generated from operations of RMB820.9 million, subtracted by income tax paid of RMB283.8 million. Our cash generated from operations comprised operating cash flows before movements in working capital of RMB1,494.8 million and net negative adjustment for changes in working capital of RMB673.9 million. Net negative adjustments for changes in working capital primarily reflected: (i) an increase in trade and other receivables of RMB614.7 million, primarily due to an increase in our sales; and (ii) an increase in inventories of RMB343.8 million, primarily due to an increase in our production volumes to meet the increased demand for our products, partially offset by an increase in trade and other payables of RMB207.2 million, primarily due to an increase in raw materials purchases as a result of an increase in product orders.

Net cash from operating activities was RMB850.9 million for the year ended December 31, 2010, comprising cash generated from operations of RMB1,023.3 million, subtracted by income tax paid of RMB172.4 million. Our cash generated from operations comprised operating cash flows before movements in working capital of RMB1,166.6 million and net negative adjustments for changes in working capital of RMB143.3 million. Net negative adjustments for changes in working capital primarily reflected: (i) an increase in trade and other receivables of RMB464.4 million, primarily due to an increase in our sales; and (ii) an increase in inventories of RMB120.7 million, primarily due to an increase in our production volumes to meet the increased demand for our products, partially offset by an increase in trade and other payables of RMB377.6 million, primarily due to an increase in raw materials purchases as a result of an increase in product orders.

Net cash from operating activities was RMB576.8 million for the year ended December 31, 2009, comprising cash generated from operations of RMB686.0 million, subtracted by income tax paid of RMB109.3 million. Our cash generated from operations comprised operating cash flows before movements in working capital of RMB852.1 million and net negative adjustments for changes in working capital of RMB166.0 million. Net negative adjustments for changes in working capital primarily reflected an increase in trade and other receivables of RMB631.5 million, primarily due to an increase in our sales, partially offset by: (i) a decrease in inventories of RMB312.7 million, primarily due to an increased demand for our products; and (ii) an increase in trade and other payables of RMB249.4 million, primarily due to an increase in raw materials purchases as a result of an increase in product orders.

Net Cash From/(Used in) Investing Activities

Net cash from/(used in) investing activities primarily comprise purchases of property, plant and equipment, payments for prepaid leases, interest received, other non-current liabilities and acquisition of interests in our associates.

Net cash from investing activities was RMB54.2 million for the six months ended June 30, 2012, comprising primarily: (i) withdrawal of pledged bank deposits of RMB557.7 million; (ii) withdrawal of bank deposits with an original maturity of over three months of RMB220.0 million; (iii) receipt of proceeds of RMB230.0 million from the disposal of short-term structured deposits with banks; (iv) interest received of RMB22.6 million; and (v) government grants of RMB10.5 million related to the construction of new manufacturing facilities of ZMJ Shun Li Machinery, partially offset by: (i) payments of pledged bank deposits of RMB421.7 million for the issuance of bank notes that we used to purchase raw materials; (ii) purchases of property, plant and equipment of RMB238.4 million; (iii) purchases of short-term structured deposits from PRC commercial banks of RMB118.9 million to enhance our cash management; (iv) remittance by Huaxuan Investment of RMB100 million to Huaruan Investment

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(Shanghai Co., Ltd.) as detailed in note ii to note 30 of the accountants' report included in Appendix I to this prospectus⁽¹⁾; and (v) purchases of available-for-sale investments of RMB40.0 million as we purchased securities of a private company to diversify the investment portfolio of Huaxuan Investment and mitigate the associated risks.

Net cash used in investing activities was RMB223.2 million for the year ended December 31, 2011, comprising primarily: (i) payment of pledged bank deposits of RMB1,102.8 million for the issuance of bank notes that we used to purchase raw materials; (ii) purchases of property, plant and equipment of RMB414.1 million; (iii) purchase of short-term structured deposits from Agricultural Bank of China of RMB110.0 million to enhance our cash management; (iv) payments for prepaid lease payments of RMB78.7 million; and (v) acquisition of investment in associates as we acquired the interests of Datong Equipment and Xinjiang Coal for an aggregate consideration of RMB21.5 million, partially offset by: (i) withdrawal of pledged bank deposits of RMB917.7 million; (ii) withdrawal of bank deposits with an original maturity of over three months of RMB520.0 million; and (iii) interest received of RMB66.0 million.

Net cash used in investing activities was RMB2,628.2 million for the year ended December 31, 2010, comprising primarily: (i) placement of bank deposits with an original maturity of over three months of RMB1,950.0 million; (ii) payment of pledged bank deposits of RMB649.4 million for the issuance of bank notes that we used to purchase raw materials; (iii) purchases of property, plant and equipment of RMB485.2 million; (iv) payments for prepaid lease payments of RMB62.0 million; and (v) the acquisition of a subsidiary, ZMJ Shun Li Machinery, of RMB9.5 million, partially offset by: (i) withdrawal of pledge bank deposits of RMB508.6 million; and (ii) interest received of RMB16.4 million.

Note:

- (1) In April 2012, Huaxuan Investment entered into an agreement (the "Huaxuan Investment Agreement") with Huaruan Investment (Shanghai) Co., Ltd. (the "Investment Manager"), an Associate of Hua Xin Venture Capital, for the Investment Manager to identify and initiate the appropriate investment opportunity to be jointly invested by Huaxuan Investment and the Investment Manager.

Both Hua Xin Venture Capital and the Investment Manager are currently Independent Third Parties, and as we understand, are principally engaged and specialized in investment holding and/or investment management in certain strategic emerging industries, such as information technology, pharmaceutical, environmental protection and advanced manufacturing industries, etc., in the PRC.

According to the Huaxuan Investment Agreement, the joint investment amount, should such a joint investment proceed, is capped at RMB300 million, to be contributed as to RMB200 million by Huaxuan Investment and RMB100 million by the Investment Manager. The exact investment amount and the respective contribution amounts by the two parties may be adjusted on a considered basis by mutual consent between them in writing, depending on factors such as the nature of such investment and all relevant circumstances. No such consent was made as of the Latest Practicable Date. The subject matter underlying any such investment, should it proceed, is expected to be compatible with the business operations or strategies of the Group and will be confirmed in accordance with its investment policies and parameters.

Pursuant to the Huaxuan Investment Agreement, in order to demonstrate our interest and to facilitate the Investment Manager to initiate and further discussions with its possible investment target, Huaxuan Investment has remitted into a designated account of the Investment Manager a total amount of RMB200 million (by way of two installments of RMB100 million each, one made by June 30, 2012 and the other after that date when Huaxuan Investment is no longer our subsidiary). Huaxuan Investment has the right to monitor, control and direct the funds deposited into that designated account. Such funds are being held effectively in escrow by the Investment Manager for use if and when an optimal investment opportunity is confirmed and pursued.

According to Huaxuan Investment, as of the Latest Practicable Date, no specific terms or arrangements regarding such opportunity were decided and finalized. According to the Huaxuan Investment Agreement, if within one year from the date when it was entered into, no formal investment contract regarding such opportunity is signed, then Huaxuan Investment may request the Investment Manager to repay the remitted sum to Huaxuan Investment.

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Net cash used in investing activities was RMB248.1 million for the year ended December 31, 2009, comprising primarily: (i) payments for prepaid lease payments of RMB143.0 million; (ii) purchases of property, plant and equipment of RMB119.1 million; (iii) the acquisition of a subsidiary, ZMJ Lu An Xinjiang, of RMB8.9 million; (iv) acquisition of investment in our associates as we acquired the interests of ZMJ Suda and ZMJ Jiangxi for an aggregate consideration of RMB7.0 million; (v) net cash outflow of RMB3.7 million arising from the disposal of our equity interest in Zhengzhou Coal Mining Machinery Property Management Co., Ltd. (“ZCMMPM”), partially offset by: (i) government grants of RMB20.0 million related to the construction of new manufacturing facilities of the Company and (ii) interest received of RMB11.4 million;.

ZCMMPM, previously our subsidiary, primarily conducted property management business and provided social welfare and ancillary service, which did not form part of our core business operations. In 2008, as approved by the relevant PRC governmental authorities, we underwent a corporate reorganization and divested our non-core business. Pursuant to this reorganization and as a part of certain capital changes relating to ZCMMPM in 2009, we disposed of our equity interest in ZCMMPM for *de minimis* consideration on March 25, 2009, which was determined primarily by the appraised net assets of ZCMMPM at that time. See Note 41 of the Accountants’ Report included in Appendix I to this prospectus. In accordance with the relevant accounting principles, this *de minimis* consideration was determined to be nil in amount.

Net Cash From/(Used in) Financing Activities

Net cash from/(used in) financing activities primarily comprise capital contributions, repayment of and proceeds from borrowings and interest and dividend payments.

Net cash used in financing activities was RMB87.2 million for the six months ended June 30, 2012, comprising primarily: (i) dividends paid to our shareholders of RMB54.5 million; and (ii) repayment of borrowings of RMB20.5 million.

Net cash used in financing activities was RMB191.3 million for the year ended December 31, 2011, comprising primarily: (i) dividends paid to our shareholders of RMB192.8 million; and (ii) repayment of borrowings of RMB120.0 million, partially offset by the capital contributions to Huaxuan Investment and ZMJ Foundry by their respective non-controlling shareholders in an aggregate amount of RMB113.4 million.

Net cash from financing activities was RMB2,456.4 million for the year ended December 31, 2010, comprising primarily: (i) a capital contribution of RMB2,700.4 million, representing the net proceeds we raised from the A Share Offering; and (ii) commercial bank borrowings of RMB140.0 million, partially offset by: (i) repayment of borrowings of RMB330.0 million; and (ii) dividends paid to our shareholders of RMB48.1 million.

Net cash used in financing activities was RMB41.1 million for the year ended December 31, 2009, comprising primarily: (i) repayment of borrowings of RMB304.9 million; (ii) dividends paid to our shareholders of RMB21.5 million; and (iii) interest paid of RMB17.5 million, partially offset by proceeds from borrowings of RMB302.0 million.

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Net Current Assets and Liabilities

Our net current assets as of December 31, 2009, 2010 and 2011 and June 30, 2012 were RMB1,224.3 million, RMB3,900.6 million, RMB4,305.8 million and RMB4,713.1 million, respectively. Our current assets primarily comprise bank balances and cash, trade and other receivables, inventories and pledged bank deposits. Our current liabilities primarily comprise trade and other payables, advances from customers, borrowings and tax liabilities. The following table sets forth our current assets and liabilities as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2009	2010	2011	2012	2012
	(RMB in millions)				
Current Assets					
Inventories.....	1,074.5	1,300.0	1,644.0	2,257.3	1,913.9
Trade and other receivables.....	1,797.6	2,344.8	2,904.1	3,515.3	3,645.7
Bank balances and cash.....	1,007.2	3,636.3	3,238.9	2,878.1	2,822.0
Other current assets	255.3	397.7	721.7	449.8	457.1
	<u>4,134.7</u>	<u>7,678.7</u>	<u>8,508.7</u>	<u>9,100.4</u>	<u>8,838.7</u>
Current Liabilities					
Trade and other payables.....	1,243.1	2,058.5	2,503.8	3,060.2	3,008.4
Advance from customers.....	1,532.1	1,596.5	1,673.9	1,299.5	1,077.7
Tax liabilities.....	35.2	53.1	10.2	17.6	9.8
Borrowings	100.0	70.0	15.0	10.0	—
Total	<u>2,910.5</u>	<u>3,778.1</u>	<u>4,202.9</u>	<u>4,387.3</u>	<u>4,095.8</u>
Net Current Assets	<u>1,224.3</u>	<u>3,900.6</u>	<u>4,305.8</u>	<u>4,713.1</u>	<u>4,742.8</u>

As of September 30, 2012, we had net current assets of approximately RMB4,742.8 million, which primarily resulted from increased inventories and trade and receivables due to our increased sales.

Trade and Other Receivables

Our trade and other receivables primarily comprise bills receivables from customers, trade receivables due from third parties and related parties, prepayments to suppliers, other tax recoverables, deposits, staff advances, other receivables and dividends receivable from a jointly controlled entity. Our trade and bills receivables represent receivables from the sales of our products. Bills receivable are similar to letters of credit in that payments made by bills receivables are guaranteed by banks, whereas our individual customers are responsible for the payment of trade receivables. Our trade and bills receivables are primarily related to a number of our customers that are large, state-owned coal mining enterprises and have generally positive credit profiles.

In our equipment sales, we generally require our customers to make installment payments based on certain production or delivery milestones. See “Business — Sales and Marketing — Material Sales Contracts.” The settlement term of our bills receivable is typically no more than six months. In our sales of steel and other raw materials, we generally collect payments from our customers before delivery. The

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following table sets forth our trade and other receivables as of the dates indicated, as well as turnover days for our trade and bills receivables for the periods indicated.

	As of/for the year ended December 31,			As of/for the six months ended June 30,
	2009	2010	2011	2012
(RMB in millions, except turnover days)				
Bills receivables	557.2	416.6	622.7	396.1
Trade receivables				
— due from third parties	1,091.6	1,704.2	1,867.7	2,763.4
— due from related parties	7.9	57.4	41.3	63.1
Less: allowance for doubtful debts.....	(90.3)	(138.9)	(194.0)	(245.7)
Total trade and bills receivables.....	1,566.4	2,039.2	2,337.7	2,976.9
Others ⁽¹⁾	231.2	305.6	566.4	538.3
Total	<u>1,797.6</u>	<u>2,344.8</u>	<u>2,904.1</u>	<u>3,515.3</u>
Turnover days of trade and bills receivables (in days) ⁽²⁾	89	104	100	102

Notes:

- (1) Primarily comprise prepayments to suppliers, other tax recoverables, deposits, staff advances, other receivables and dividends receivable from a jointly controlled entity. Staff advances in the amounts of RMB2.9 million, RMB3.8 million, RMB4.6 million and RMB9.1 million as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively, primarily comprised out-of-pocket and travel expenses incurred by our sales personnel that participated in bidding processes and related marketing activities. These expenses were funded by our working capital and were incurred during the ordinary course of business. These staff advances were interest-free and will not be settled upon the Listing.
- (2) Turnover days of trade and bills receivables for the relevant period/year is calculated by dividing the average of the opening and closing balances of trade and bills receivables for the relevant period/year by revenue and then multiplying this figure by the number of days in the relevant period/year.

Trade receivables that were past due but not impaired refer to trade receivables that have not been paid after the expiry of the credit period. As of December 31, 2009, 2010 and 2011 and June 30, 2012, we had RMB191.2 million, RMB374.5 million, RMB541.5 million and RMB622.6 million, respectively, of trade receivables that were past due but not impaired. From June 30, 2012 to the Latest Practicable Date, we collected RMB307.1 million of these trade receivables. The consistent increase in trade and bills receivables during the Track Record Period reflected the increase of our sales. Turnover days of trade and bills receivables generally increased during the Track Record Period, primarily as a result of an increase of the credit periods that we granted to certain key customers in an effort to develop our relationships with them and competition pressure, partially offset by our enhanced collection efforts.

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The following table sets forth an aging analysis of our trade and bills receivables, net of allowance for doubtful debts, as of the dates indicated.

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(RMB in millions)			
Within 90 days	513.3	903.6	667.7	1,435.9
91 days to 365 days.....	966.0	1,004.2	1,389.5	1,314.9
366 days to 2 years	79.9	108.7	256.5	179.2
2 years to 3 years	7.3	22.7	24.0	46.9
Total	<u>1,566.4</u>	<u>2,039.2</u>	<u>2,337.7</u>	<u>2,976.9</u>

The increase in trade and bills receivables, net of allowance for doubtful debt, was primarily due to increased sales during the Track Record Period.

We typically allow a credit period of 90 days to our customers. In the case of our related party customers, the credit period is normally shorter than 90 days. However, in an effort to develop long-term relationships with our customers, we seek to accommodate their requests and, as such, the payment schedules of our sales contracts may vary on a case-by-case basis. In determining the recoverability of the trade receivable, we consider any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. See "Business — Sales and Marketing — Material Sales Contracts."

In determining impairment losses, we conduct regular reviews of our aging analyzes and evaluate collectables on an individual basis. The impairment of trade receivables relates to receivables from customers that are experiencing financial difficulties or in default on their payments to us. We do not hold any collateral over these outstanding balances. We estimate that certain trade and bills receivables unsettled after the expiry of their respective credit periods may still be recoverable based on individual analyzes of the relevant customers' credit history and financial condition. However, such estimates involve inherent uncertainties and the actual uncollectable amounts may be higher or lower than the amounts estimated.

The following table sets forth the movement of doubtful debts on our trade and other receivables as of the dates indicated.

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(RMB in millions)			
Opening balance	56.2	93.2	142.4	198.4
Provided for the year	36.9	49.2	56.0	55.0
Write off	—	—	—	(1.6)
Closing balance	<u>93.2</u>	<u>142.4</u>	<u>198.4</u>	<u>251.9</u>

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Inventories

The following table sets forth our inventories and average inventory days as of the dates indicated.

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(RMB in millions, except turnover days)			
Raw materials and consumables	327.5	558.1	604.9	822.2
Work-in-progress	137.5	192.1	437.2	485.3
Finished goods	609.5	549.8	601.9	949.8
Total	<u>1,074.5</u>	<u>1,300.0</u>	<u>1,644.0</u>	<u>2,257.3</u>
Turnover days of inventory (in days) ⁽¹⁾	120	92	88	105

Note:

- (1) Turnover days of inventory for the relevant period/year is calculated by dividing the average of the opening and closing balances of inventories for the relevant period/year by cost of sales and then multiplying this figure by the number of days in the relevant period/year.

Our inventories gradually increased during the Track Record Period in line with the increase of our sales. In addition, the commencement of operations at our newly-established Zhengzhou manufacturing facility in 2011 affected inventory and raw materials levels. Our raw materials and consumables consistently increased during the Track Record Period primarily as a result of our internal raw material policies to ensure sufficient raw materials for our production schedules to meet increased market demand. Our work-in-progress and finished goods generally increased, primarily as a result of the increased orders we received from our customers and the commencement of operations of our new manufacturing facility in Zhengzhou in 2011. As of the Latest Practicable Date, approximately 79.7% of our inventories as of June 30, 2012 had been used or sold.

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Our turnover days of inventory decreased from 120 days in 2009 to 92 days in 2010 and further to 88 days in 2011, primarily as a result of improved inventory control policies to minimize the inventory levels of our parts, components and other ancillary materials used in our manufacturing operations. See “Business — Raw Materials, Suppliers and Inventory.” In addition, the increase in customer demand for our products also led to increased sales volume and less turnover days of inventory, as we were generally able to manufacture and deliver our products in accordance with our customers’ project schedules during the Track Record Period. Our turnover days of inventory increased to 105 days in the six months ended June 30, 2012, primarily as a result of an increase in the scale of our manufacturing operations after we commenced the operation of our newly-established manufacturing base in Zhengzhou in September 2011.

Bank Balances and Cash and Pledged Bank Deposits

To ensure we have sufficient working capital for general corporate purposes, we maintain bank balances and cash. The following table sets forth our bank balances and cash and pledged bank deposits as of the dates indicated.

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(RMB in millions)			
Bank deposits with original maturity within three months or less.	1,006.3	1,685.8	1,808.8	1,667.9
Bank deposits with original maturity over three months.....	—	1,950.0	1,430.0	1,210.0
Cash	0.9	0.5	0.1	0.2
Total bank balances and cash	1,007.2	3,636.3	3,238.9	2,878.1
Pledged bank deposits	251.7	392.5	577.6	441.6
Total.....	1,258.9	4,028.8	3,816.5	3,319.7

Our cash is deposited with licensed banks located in the PRC. We had bank balances and cash of RMB1,007.2 million, RMB3,636.3 million, RMB3,238.9 million and RMB2,878.1 million, with annual interest rates ranging from 0.36% to 2.25%, 0.36% to 2.75%, 0.50% to 3.50% and 0.44% to 3.50% as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively. Our pledged bank deposits represent deposits pledged to banks for the issuance of bank notes to purchase raw materials. We had pledged bank deposits of RMB251.7 million, RMB392.5 million, RMB577.6 million and RMB441.6 million, with annual interest rates ranging from 0.36% to 2.25%, 0.36% to 2.75%, 0.50% to 3.50% and 0.44% to 3.50% as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively.

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Trade and Other Payables

Our trade and other payables primarily comprise trade payables and bills payables. Our other payables primarily comprise salary and bonus payables, dividends payable, amount due to a non-controlling shareholder of a subsidiary, deposits, accruals and other payables and housing funds held on behalf of staff. The following table sets forth our trade and other payables outstanding as of the dates indicated, as well as our turnover days for our trade and bills payables for the periods indicated.

	As of/for the year ended December 31,			As of/for the six months ended June 30,
	2009	2010	2011	2012
(RMB in millions, except turnover days)				
Bills payable	327.3	561.2	966.7	793.9
Trade payables				
— due to third parties	629.8	941.6	1,005.0	1,666.1
— due to related parties	—	4.7	—	4.6
Total trade and bills payables	957.1	1,507.5	1,971.7	2,464.6
Other payables	286.0	550.9	532.0	595.6
Total	<u>1,243.1</u>	<u>2,058.5</u>	<u>2,503.8</u>	<u>3,060.2</u>
Turnover days of trade and bills payables (in days) ⁽¹⁾	83	96	104	119

Note:

- (1) Turnover days of trade and bills payables for the relevant period/year is calculated by dividing the average of the opening and closing balances of trade and bills payables for the relevant period/year by cost of sales and then multiplying this figure by the number of days in the relevant period/year.

The consistent increase in trade and bills payables during the Track Record Period was primarily due to an increase in raw materials purchases as a result of an increase in product sales orders. The turnover days of trade and bills payables increased from 83 days in 2009 to 96 days in 2010, and further to 104 days in 2011 and 119 days in the six months ended June 30, 2012, primarily as a result of our increased bargaining power in raw materials purchases due to the increased scale of our operations, which enabled us to secure longer payment periods and use bank notes for certain purchases.

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The following table sets forth an aging analysis of our trade and bills payables as of the dates indicated.

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(RMB in millions)			
Within 90 days	741.7	1,206.7	1,645.9	1,621.0
91 to 1 year	169.3	175.2	233.4	651.8
Over 1 year	46.1	125.6	92.4	191.8
Total	<u>957.1</u>	<u>1,507.5</u>	<u>1,971.7</u>	<u>2,464.6</u>

With respect to payment terms with our suppliers, we are generally granted a three-month credit period and are required to settle payments within three months of receipt of the goods from a supplier.

Advances from Customers

Advances from customers primarily comprise cash payments that we received from our customers in accordance with our standard payment terms. The following table sets forth advances from customers as of the dates indicated.

	As of December 31,			As of June 30,
	2009	2010	2011	2012
	(RMB in millions)			
Advances from customers	<u>1,532.1</u>	<u>1,596.5</u>	<u>1,673.9</u>	<u>1,299.5</u>

Advances from customers increased from 2009 to 2011 in line with our increased sales. For the six months ended June 30, 2012, advances from customers decreased primarily as a result of reduced initial installment payments from certain long-term and/or large customers with positive credit profiles, or customers with whom we intend to develop strategic long-term relationships, as well as those strategic customers such as Henan Coal and Chemical Industry that may choose to directly order our products instead of utilizing the bidding process.

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INDEBTEDNESS

As of September 30, 2012, being the latest practicable date for the purpose of the indebtedness statement, we had borrowings and amounts due to certain parties amounting to RMB158.0 million. The following table sets forth our borrowings and amounts due to such parties and their respective maturity profiles as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2009	2010	2011	2012	2012
					(Unaudited)
	(RMB in millions)				
Borrowings.....	375.0	185.0	80.0	59.5	49.5
Amount due to a non-controlling shareholder of a subsidiary ⁽¹⁾	—	128.4	59.3	105.2	105.5
Amount due to Henan SASAC ⁽²⁾	3.1	3.1	3.1	3.1	3.1
Total.....	<u>378.0</u>	<u>316.4</u>	<u>142.3</u>	<u>167.7</u>	<u>158.0</u>
Borrowings					
Secured	—	—	5.0 ⁽³⁾	—	—
Unsecured	375.0 ⁽⁴⁾	185.0 ⁽⁴⁾	75.0 ⁽⁴⁾	59.5	49.5
Borrowings					
Bank loans.....	373.0	183.0	70.0	49.5	49.5
Other loans	2.0	2.0	10.0	10.0	—
Borrowings repayable					
Within 1 year.....	100.0	70.0	15.0	10.0	—
More than 1 year but not exceeding 2 years.....	110.0	13.0	—	49.5	49.5
More than 2 years but not exceeding 5 years.....	148.0	95.0	65.0	—	—
More than 5 years	17.0	7.0	—	—	—

Notes:

- (1) The balance represents the amount due to the second largest shareholder of ZMJ Shun Li Machinery, Huainan Mining. The amount is unsecured, interest-free and repayable on demand.
- (2) The balance is unsecured, interest-free and repayable on demand.
- (3) These borrowings were secured by the land use rights of ZMJ Longwall Machinery. As of the Latest Practicable Date, such charges had been released due to our early repayment of the related bank loans.
- (4) A portion of these borrowings comprised bank loans guaranteed by the second largest shareholder of ZMJ Lu An Xinjiang, Lu Xin Coal Chemical, in the amount of RMB73.0 million, RMB73.0 million and RMB15.0 million, respectively, as of December 31, 2009, 2010 and 2011.

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On July 12, 2011, one of our subsidiaries, ZMJ Lu An Xinjiang obtained a one-year loan from its second largest shareholder, Lu Xin Coal Chemical, with a principal amount of RMB10.0 million commencing on August 1, 2011. The loan was unsecured, bore an interest rate of 6.56% per annum, and matured on July 31, 2012. Pursuant to the relevant PRC laws and regulations, including Rule 61 of the *General Rules on Loans* (貸款通則), no PRC corporation is allowed to make or accept any advancement of a loan to or from another corporation without the relevant approvals. According to our PRC Legal Advisers, such borrowing constituted a lending activity between enterprises, which is prohibited by law and was, therefore, void and not legally binding. As a result, ZMJ Lu An Xinjiang may be subject to a fine of an amount equal to the interest that it paid on the loan. However, given the amount of such borrowing which was due and repaid, our PRC Legal Advisers are of the opinion that it will not materially affect our operations or those of ZMJ Lu An Xinjiang, nor will it have material adverse effect on the Global Offering. This loan was repaid by ZMJ Lu An Xinjiang at the end of July 2012.

In order to ensure that we do not receive similar advances in the future, we will adhere to and monitor more closely our compliance with the relevant PRC laws and regulations.

The following table sets forth the principal amounts and interest rates of our fixed-rate and floating-rate borrowings for the periods indicated.

	Year Ended December 31,						Six Months Ended June 30,	
	2009		2010		2011		2012	
	Principal Amount	Interest rate	Principal Amount	Interest rate	Principal Amount	Interest rate	Principal Amount	Interest rate
	(RMB in millions, except for %)							
Borrowings								
Fixed-rate	22.0	4.8% to 7.2%	12.0	5.3% to 7.2%	15.0	6.6%	10.0	6.6%
Floating-rate	353.0	4.8% to 5.9%	173.0	5.0% to 6.1%	65.0	6.2% to 7.0%	49.5	6.0% to 6.2%
Total	<u>375.0</u>		<u>185.0</u>		<u>80.0</u>		<u>59.5</u>	

Contingent Liabilities

As of June 30, 2012 and September 30, 2012, we had contingent liabilities in the form of issued financial guarantees to commercial banks for banking facilities of a maximum amount of RMB22.0 million granted to an associate. As of September 30, 2012, being the latest practicable date for the purpose of the indebtedness statement, the aggregate amounts that had been utilized by this associate and that we could be required to pay if the guarantees were called upon amounted to RMB11.0 million.

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During the Track Record Period and as of September 30, 2012, we endorsed and derecognized certain bills receivables for the settlement of trade and other payables, which were issued and guaranteed by reputable banks in the PRC. The following table sets forth our maximum exposure from a default of these endorsed bills receivables as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2009	2010	2011	2012	2012
	(RMB in millions)				(Unaudited)
Outstanding endorsed bills receivables with recourse	<u>654.0</u>	<u>877.1</u>	<u>1,427.5</u>	<u>1,850.8</u>	<u>1,868.0</u>

Except as disclosed above, and apart from intra-group liabilities, we did not have, as of September 30, 2012, any outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts or liabilities under acceptance (other than normal trade bills) or other similar indebtedness, hire purchase or finance lease commitments, any guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures primarily relate to the purchase of plant and equipment, acquisition of land use rights and construction of plant and facilities, primarily in the PRC. In the past, we funded our capital expenditures primarily through: (i) proceeds raised from the A Share Offering; (ii) cash flows from operating activities; and (iii) bank borrowings. In line with our business expansion strategy, we expect our capital expenditures to be significant in 2012 and 2013. See “Future Plans and Use of Proceeds — Use of Proceeds.”

The following table sets forth a breakdown of our capital expenditures during the Track Record Period.

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	(RMB in millions)			
Capital expenditures				
Property, plant and equipment	119.1	485.2	414.1	238.4
Prepaid lease payments	143.0	62.0	78.7	33.4
Other intangible assets	<u>0.2</u>	<u>3.5</u>	<u>4.3</u>	<u>2.4</u>
Total.....	<u>262.3</u>	<u>550.7</u>	<u>497.1</u>	<u>274.2</u>

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In terms of accounting treatment, the proceeds raised from the A Share Offering have been or will be substantially applied towards the capital expenditures on property, plant and equipment and prepaid lease payments, which include: (i) construction of a high-end hydraulic roof supports production base of our Company; (ii) implementation of ancillary projects to complement the high-end hydraulic roof supports production base, which in turn involve the establishment of production facilities for electronic hydraulic control systems and a research and development center; and (iii) purchase of reserved land for industrial use. See “History, Development and Corporate Structure — History and Development — Listing on the Shanghai Stock Exchange in 2010.”

The status of the use of proceeds from the A Share Offering for the above purposes as of June 30, 2012 is summarized as follows:

	<u>Intended investment amount</u>	<u>Invested amount</u> (RMB in millions) (unaudited)	<u>Anticipated amount to be invested</u>
Construction of the high-end hydraulic roof supports production base	1,895	1,037	858
Implementation of ancillary projects to complement the high-end hydraulic roof supports production base	455	104	351
Purchase of reserved land for industrial use..	<u>120</u>	<u>75</u>	<u>45</u>
Total.....	<u><u>2,470</u></u>	<u><u>1,216</u></u>	<u><u>1,254</u></u>

As of June 30, 2012, out of the proceeds raised from the A Share Offering, around RMB230 million had not been allocated for any specific use. We will make the allocation at an appropriate time in accordance with applicable PRC laws and procedures. The above figures are unaudited.

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CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Contractual Obligations

We have entered into several contractual obligations that are generally related to operating lease and commitments for the acquisition of property, plant and equipment. The following table sets forth the payments and due dates for our contractual obligations as of June 30, 2012.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(RMB in millions)				
Operating lease obligations					
Land use rights	84.9	5.2	10.4	10.4	58.9
Total	<u>84.9</u>	<u>5.2</u>	<u>10.4</u>	<u>10.4</u>	<u>58.9</u>

Capital Commitments

We seek to effectively manage our capital commitments. The following table sets forth the total amount of our capital commitments as of the dates indicated.

	As of December 31,			As of June 30,	As of September 30,
	2009	2010	2011	2012	2012
(RMB in millions)					
(Unaudited)					
Contracted, but not provided for					
Property, plant and equipment .	118.3	348.6	124.8	59.2	117.7
Authorized, but not contracted					
Land use right	—	—	56.6	25.9	25.9
Total	<u>118.3</u>	<u>348.6</u>	<u>181.4</u>	<u>85.1</u>	<u>143.6</u>

Off-balance Sheet Arrangements

As of the Latest Practicable Date, we had no material off-balance sheet arrangements.

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ADDITIONAL FINANCIAL RATIOS

The following table sets forth certain additional financial ratios of the Group and our management's discussion on material fluctuations as of and for the dates indicated.

	As of/for the year ended December 31,			As of/ for the six months ended June 30,
	2009	2010	2011	2012
<u>Profitability ratios</u>				
<i>Return on equity</i>				
Return on equity ⁽¹⁾	41.5%	17.4%	19.7%	12.1%
Return on total assets ⁽²⁾	13.6%	9.9%	11.6%	7.3%
<u>Liquidity ratios</u>				
<i>Liquidity ratios</i>				
Current ratio ⁽³⁾	142.1%	203.2%	202.4%	207.4%
Quick ratio ⁽⁴⁾	105.1%	168.8%	163.3%	156.0%
<u>Capital adequacy ratio</u>				
Gearing ratio ⁽⁵⁾	24.0%	3.6%	1.3%	0.9%
<i>Debt to net worth ratio</i>				
Debt to equity ratio ⁽⁶⁾	(40.5%)	(67.1%)	(53.2%)	(40.9%)
Interest coverage ⁽⁷⁾	45.2	52.5	181.7	495.8

Notes:

- (1) Return on equity ratio is calculated by dividing net profit for the year/period by total equity at the end of the year/period and multiplying by 100%. Our return on equity ratio for the six months ended June 30, 2012 is calculated by dividing net profit for the six months ended June 30, 2012 by total equity as of June 30, 2012 and is therefore, not comparable as to the return on equity ratios for the years indicated above.
- (2) Return on total assets ratio is calculated by dividing net profit for the year/period by total assets at the end of the year/period and multiplying by 100%. Our return on total assets ratio for the six months ended June 30, 2012 is calculated by dividing net profit for the six months ended June 30, 2012 by total assets as of June 30, 2012 and is therefore, not comparable as to the return on total assets ratios for the years indicated above.
- (3) Current ratio is calculated by dividing total current assets at the end of the year/period by total current liabilities at the end of the year/period and multiplying by 100%.
- (4) Quick ratio is calculated by dividing the difference between total current assets and stock at the end of the year/period by total current liabilities at the end of the year/period and multiplying by 100%.
- (5) Gearing ratio is calculated by dividing the total interest-bearing liabilities at the end of the year/period by total equity at the end of the year/period and multiplying by 100%. In our case, interest-bearing liabilities include only our interest-bearing borrowings.

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- (6) Debt to equity ratio is calculated by dividing the interest-bearing liabilities net of cash and cash equivalents and financial assets at fair value through profit or loss at the end of the year/period by total equity at the end of the year/period and multiplying by 100%. In our case, interest-bearing liabilities include only our interest-bearing borrowings.
- (7) Interest coverage is calculated by dividing the net profit before interest and tax for the year/period by total interest expenses (including capitalized interest expenses) for the year/period.

Analysis of Selected Key Financial Ratios

Return on Equity

Our return on equity ratio decreased from 41.5% for the year ended December 31, 2009 to 17.4% for the year ended December 31, 2010, primarily as a result of the increase of our share capital in issue and share premium following the A Share Offering of our Company in August 2010, which was partially offset by an increase in net profit from increased product sales during the same period. See “History, Development and Corporate Structure — History and Development — Listing on the Shanghai Stock Exchange in 2010.”

Our return on equity ratio increased from 17.4% for the year ended December 31, 2010 to 19.7% for the year ended December 31, 2011, as a result of an increase in our net profit.

Our return on equity ratio was 12.1% for the six months ended June 30, 2012. Our net profit increased from the six months ended June 30, 2011 to the six months ended June 30, 2012, primarily due to an increase in our revenue and improved net profit margins.

Return on Total Assets

Our return on total assets ratio decreased from 13.6% for the year ended December 31, 2009 to 9.9% for the year ended December 31, 2010, primarily as a result of an increase in our total assets due to increased bank balances resulting from the proceeds received from the A Share Offering, partially offset by an increase in net profit.

Our return on total assets ratio increased from 9.9% for the year ended December 31, 2010 to 11.6% for the year ended December 31, 2011, primarily as a result of increased net profits.

Our return on total assets ratio was 7.3% for the six months ended June 30, 2012. Our net profit increased from the six months ended June 30, 2011 to the six months ended June 30, 2012, primarily as a result of an increase in our revenue and improved net profit margins.

Current Ratio

Our current ratio increased from 142.1% as of December 31, 2009 to 203.2% as of December 31, 2010, primarily as a result of an increase in current assets in the form of cash deposited with commercial banks following our A Share Offering.

Our current ratio decreased slightly from 203.2% as of December 31, 2010 to 202.4% as of December 31, 2011.

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Our current ratio increased from 202.4% as of December 31, 2011 to 207.4% as of June 30, 2012, primarily as a result of an increase in current assets in the form of inventories and trade and bills receivables, which was consistent with our increased production capacity.

Quick Ratio

Our quick ratio increased from 105.1% as of December 31, 2009 to 168.8% as of December 31, 2010, primarily as a result of an increase in current assets in the form of cash deposited with commercial banks following our A Share Offering.

Our quick ratio decreased slightly from 168.8% as of December 31, 2010 to 163.3% as of December 31, 2011 and decreased slightly to 156.0% as of June 30, 2012.

Gearing Ratio

Our gearing ratio decreased from 24.0% as of December 31, 2009 to 3.6% as of December 31, 2010, primarily as a result of an increase in our share capital in issue and share premium following our A Share Offering in August 2010, as well as a decrease in our indebtedness due to the early repayment of certain bank borrowings.

Our gearing ratio decreased from 3.6% as of December 31, 2010 to 1.3% as of December 31, 2011 and further to 0.9% as of June 30, 2012, primarily as a result of increases in retained earnings contributed by our net profit and decreases in indebtedness due to the early repayment of certain bank borrowings.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks, primarily including credit risk, interest rate risk, liquidity risk, foreign exchange risk and inflation risk in the ordinary course of our business.

Credit Risk

Our credit risk is primarily attributable to the outstanding balances of trade and other receivables and the concentration risk of certain large customers in the PRC. Our trade and other receivables amounted to RMB1,797.6 million, RMB2,344.8 million, RMB2,904.1 million and RMB3,515.3 million as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively, and the aggregate amount of our five largest trade receivables accounted for approximately 32.1%, 18.9%, 15.4% and 18.2%, respectively, of our total trade and bills receivables for the same periods. We are also exposed to credit risk arising from the default of our customers on their obligations to us. See Note 32 of Appendix I of the Accountants' Report to this prospectus.

Our Company is also exposed to concentration of credit risk arising from loan receivables from our subsidiaries. The balances of loan receivables of our Company from three of our subsidiaries, namely ZMJ Comprehensive Equipment, ZMJ Longwall Machinery and ZMJ Material Trading, was RMB20.0 million, RMB50.0 million, RMB90.0 million and RMB90.0 million as of December 31, 2009, 2010 and 2011 and June 30, 2012, respectively.

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To minimize our credit risk, our Directors have delegated a team responsible for determining credit limits and credit approvals and implementing other monitoring procedures to evaluate the solvency of certain customers on an ongoing basis and ensure that follow-up actions are taken to recover overdue debts. We also maintain provisions for potential credit losses. In addition, our Directors review the recoverability of receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. As such, our Directors are of the view that our credit risk has been significantly reduced.

We also have a concentration of credit risk with respect to liquidity funds that are deposited with several PRC commercial banks. However, our credit risk on bank balances and cash is limited because the majority, if not all, of our counter parties are large, state-owned banks or banks with good credit ratings assigned by international credit-rating agencies of good reputation.

Commodity Price Risk

We are exposed to price fluctuations of raw materials, particularly steel. For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and 2012, the cost of steel represented approximately 45.9%, 51.1%, 58.1%, 57.1% and 59.8%, respectively, of our cost of sales. Fluctuations in the prices of these raw materials may have a significant effect on our results of operations. We currently do not engage in any hedging transactions to mitigate the risks relating to fluctuations in the prices of raw materials because our steel price fluctuation risks are generally mitigated by our steel and other raw materials trading business. Furthermore, due to our short production and sales cycles, which generally range from four to six months, as well as our typical practice of purchasing raw materials immediately after we enter into sales contracts, steel price fluctuations did not have a material adverse effect on our business during the Track Record Period. However, our business, results of operations, financial condition and profitability may nevertheless be affected by fluctuations in steel prices. See “Risk Factors — Risks Relating to Our Business and Operations — We may experience fluctuations in steel and other raw material prices.”

Sensitivity Analysis

The sensitivity analysis below has been determined based on our exposure to steel price fluctuations during the Track Record Period and a hypothetical change in steel prices of 5% and 15%, as they reflect a common fluctuation range for steel prices, with all other variables remaining constant.

The analysis below shows the impact of a 5% fluctuation of steel prices on our hydraulic roof supports and steel and other raw materials trading business and, in particular, the effects on our average gross profit margin during the Track Record Period, with all other variables remaining constant.

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Hydraulic Roof Supports

	Track Record Period		
	Average monthly steel purchase price	Average gross profit margin	Movement in gross profit margin
	(RMB in thousands per tonne)		(bps)
Steel prices increase by 5%	4.6	31.8%	(80)
Steel prices decrease by 5%	4.2	33.4%	80

Steel and Other Raw Materials Trading

	Track Record Period		
	Average monthly steel purchase price	Average gross profit margin	Movement in gross profit margin
	(RMB in thousands per tonne)		(bps)
Steel prices increase by 5%	4.6	4.3%	(20)
Steel prices decrease by 5%	4.2	4.7%	20

The analysis below shows the impact of a 15% fluctuation of steel prices on our hydraulic roof supports and steel and other raw materials trading business, and in particular, the effects on our average gross profit margin during the Track Record Period, with all other variables remaining constant.

Hydraulic Roof Supports

	Track Record Period		
	Average monthly steel purchase price	Average gross profit margin	Movement in gross profit margin
	(RMB in thousands per tonne)		(bps)
Steel prices increase by 15%	5.1	30.3%	(230)
Steel prices decrease by 15%	3.7	35.1%	250

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Steel and Other Raw Materials Trading

	Track Record Period		
	Average monthly steel purchase price	Average gross profit margin	Movement in gross profit margin
	(RMB in thousands per tonne)		(bps)
Steel prices increase by 15%	5.1	4.0%	(50)
Steel prices decrease by 15%	3.7	5.2%	70

Interest Rate Risk

We are exposed to interest rate risks due to interest rate fluctuations on our variable-rate short-term bank borrowings, pledged bank deposits, bank balances and other variable-rate borrowings and fair value interest rate risk on our long-term fixed-rate and short-term fixed-rate bank borrowings. As of June 30, 2012, we had RMB49.5 million of borrowings that bore interest at floating rates in the range of 6.0% to 6.2% per year and RMB10.0 million of borrowings that bore interest at fixed rates at 6.6% per year. Historically, we have not been exposed to material interest rate risk. As such, we do not have an interest rate hedging policy and have not used any derivative financial instruments to manage this risk. However, our management monitors our interest rate exposure and will consider hedging significant interest rate exposures as necessary.

Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (including pledged bank deposits, bank balances and borrowings) at the end of each reporting period and the hypothetical changes in interest rates taking place at the beginning of the financial year being held constant throughout the reporting period in the case of pledged bank deposits, bank balances and borrowings.

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A 10 basis point increase or decrease in interest rates on variable-rate pledged bank deposits and bank balances, and a 100 basis point increase or decrease in interest rates on variable-rate borrowings are used when reporting interest rate risk internally to key management personnel, and represents management's assessment of reasonably possible changes in interest rates. If interest rates on variable-rate pledged bank deposits and bank balances had been 10 basis points higher and all other variables remained constant, the post-tax profit for the year would have increased by:

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	(RMB in millions)			
The Group				
Increase in post-tax profit for the year.....	<u>0.9</u>	<u>1.3</u>	<u>1.2</u>	<u>1.2</u>
The Company				
Increase in post-tax profit for the year.....	<u>0.8</u>	<u>1.3</u>	<u>0.7</u>	<u>0.9</u>

Post-tax profit for the year/period would have decreased by the same amount referenced above if interest rates on variable-rate pledged bank deposits and bank balances had been 10 basis points lower, with all other variables remaining constant.

If interest rates on variable-rate borrowings had been 100 basis points higher and all other variables remained constant, post-tax profit for the year after taking into consideration of capitalization the interest would have decreased by:

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	(RMB in millions)			
The Group				
Decrease in post-tax profit for the year.....	<u>(3.2)</u>	<u>(1.6)</u>	<u>(0.7)</u>	<u>(0.5)</u>
The Company				
Decrease in post-tax profit for the year.....	<u>(2.6)</u>	<u>(0.4)</u>	<u>—</u>	<u>—</u>

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Post-tax profit for the year/period, after taking into consideration the capitalization of interest, would have increased by the same amount as referenced above if interest rates on variable-rate borrowings had been 100 basis points lower, with all other variables remaining constant.

Liquidity Risk

Our liquidity risk is primarily dependent on our ability to maintain adequate cash inflows from our operations to meet our debt obligations as they become due, and our ability to obtain any required external financing to meet our committed future capital expenditures. We monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations on our cash flows. Our management also monitors the utilization of bank borrowings to ensure compliance with our loan covenants.

Foreign Exchange Risk

Currently, our business and operations are primarily located in the PRC, with certain overseas sales or operations in the United States, Russia, Turkey and India. Although most of our assets and liabilities are denominated in Renminbi, our Company and our overseas subsidiary engage in certain transactions including the sales of certain products and purchases of supplies and equipment that are primarily denominated in the US dollars and euros, which exposes us to foreign exchange risk. As we grow our international operations and increase overseas sales, we believe that our foreign exchange risk will continue to increase. We have entered into foreign exchange forward transactions to hedge our foreign currency exposure, and our net foreign exchange gains/(losses) were RMB0.9 million, RMB(0.8) million, RMB6.5 million and RMB(0.5) million for the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2012, respectively. While we currently do not have a foreign currency hedging policy, we will continue to monitor our currency exposure and may engage in hedging transactions as necessary.

In line with our international expansion plans, we may be required to convert a majority of the proceeds denominated in Hong Kong dollars into Russian rubles, Indian rupees, Euros, US dollars or other foreign currencies to establish overseas manufacturing facilities and expand our international sales and service network. We may also convert a portion of the proceeds denominated in Hong Kong dollars into Renminbi for our domestic expansion plans. The potential depreciation of the Hong Kong dollar against certain currencies, including the Renminbi, could reduce the amount of currency available for our use upon the conversion of proceeds. We intend to utilize forward currency contracts and establish a specific hedging policy to manage foreign currency risks associated with our international expansion. We expect to establish these internal policies after we receive the proceeds from this Offering, but before we establish our overseas manufacturing and related facilities.

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Sensitivity Analysis

The sensitivity analysis below utilizes a sensitivity rate of 5% and illustrates our sensitivity to a 5% appreciation and depreciation of the relevant currencies against the Renminbi, and is used when reporting foreign currency risk internally to our management. This sensitivity analysis represents our management's assessment of reasonably possible changes in foreign exchange rates, and only includes outstanding foreign currency denominated monetary items that are adjusted at the end of each reporting period for a 5% change in foreign currency rates, with all other variables remaining constant. A positive number below indicates an increase in post-tax profit for the year and a negative number below indicates a decrease in post-tax profit for the year.

	Year Ended December 31,			Six Months Ended June 30,
	2009	2010	2011	2012
	(RMB in millions)			
The Group				
US\$ impact				
— if US\$ strengthens				
against RMB.....	(0.9)	(<0.1)	(7.1)	2.0
— if US\$ weakens				
against RMB	<u>0.9</u>	<u><0.1</u>	<u>7.1</u>	<u>(2.0)</u>
Euro impact				
— if EUR strengthens				
against RMB.....	(1.7)	(1.6)	(1.5)	(1.2)
— if EUR weakens				
against RMB	<u>1.7</u>	<u>1.6</u>	<u>1.5</u>	<u>1.2</u>

Our Directors believe that the sensitivity analysis is not representative of the inherent foreign exchange risk as the year-end exposures do not completely reflect our exposure during the Track Record Period.

Inflation Risk

Inflationary factors, such as increases in the cost of our coal mining and excavating products and overhead expenses, could materially affect our results of operations and financial condition. Although we do not believe that inflation has had a material effect on our results of operations and financial condition to date, a high rate of inflation in the future may have a material adverse effect on our ability to maintain current levels of: (i) gross profit; (ii) selling and distribution expenses; and (iii) administrative expenses (as a percentage of our income), particularly, if the selling prices of our coal mining and excavating equipment do not increase with these increased costs and expenses.

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PROFIT FORECAST

On the bases and assumptions as set out in Appendix IV to this prospectus and in the absence of unforeseen circumstances, we believe that our forecasted consolidated profit attributable to owners of our Company for the year ending December 31, 2012 will be no less than RMB1,582 million under IFRS.

DIVIDEND POLICY

According to Article 245 of our Articles of Association, we may not make any dividend distribution except out of our accumulated distributable profits. We may distribute dividends in the form of cash or shares, and to the extent permitted by our cash flow position, we shall endeavor to distribute dividends in the form of cash as stipulated under our Articles of Association. Cash dividends declared out of our distributable profits after full allocations to statutory reserves for the three most recent years shall in aggregate account for at least 30% of our average annual distributable profits in respect of that three-year period. Our Directors may declare dividends, if any, after taking into account including, but not limited to:

- our results of operations;
- cash flows and financial condition;
- operating and capital requirements;
- amount of distributable profits based on IFRS, or PRC GAAP whichever is lower;
- our Articles of Association, the PRC Company Law and other applicable PRC laws and regulations; and
- other factors that our Directors consider relevant.

Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividend distribution will be subject to our Board's discretion which will be made in accordance with the relevant requirements under our Articles of Association, and the dividend distribution proposal by our Board and any changes to the dividend policy will be subject to Shareholders' approval as required by the Articles of Association.

During the years ended December 31, 2009 and 2010, we declared cash dividends in the aggregate amounts of approximately RMB16.2 million (being our 2008 final dividend) and of RMB84.0 million (being our 2009 final dividend), respectively. For further details regarding these dividends, please refer to note 17 to the accountants' report included as Appendix I to this prospectus. On September 28, 2011, we convened our 2011 first extraordinary general meeting, at which the proposal for distribution of accumulated profits prior to the Global Offering was approved, pursuant to which we declared an interim cash dividend of RMB0.45 per share (equivalent to an aggregate amount of RMB315.0 million). On February 28, 2012, we convened our 2011 annual general meeting. At that meeting, the proposal for distribution of profits in respect of the financial year of 2011 was approved, and we declared a cash dividend being our 2011 final dividend of RMB0.12 per share (equivalent to an aggregate amount of RMB84.0 million on the basis of the Company's then total issued share capital comprising 700,000,000 A Shares) for distribution to holders of our A Shares registered as of March 12, 2012.

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Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. Following completion of the Global Offering, our Shareholders of H Shares and A Shares will each have an equal right to the distributable profits of our Company for the year ending December 31, 2012 and thereafter.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of our Company, which has been prepared based on the audited consolidated net tangible assets of our Company attributable to the owners of our Company as of June 30, 2012 as extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus, adjusted as described below.

The unaudited pro forma statement of adjusted net tangible assets has been prepared to show the effect of the Global Offering as if it had taken place on June 30, 2012 assuming the Over-allotment Option is not exercised. The statement has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our financial position as of June 30, 2012 or at any future dates following the Global Offering.

	Adjusted consolidated net tangible assets attributable to owners of our Company as of June 30, 2012 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	
	(RMB in thousands)			RMB	HK\$
Based on the Offer Price of HK\$12.28 per Offer Share	6,594,421	2,093,653	8,688,074	5.36	6.60
Based on the Offer Price of HK\$10.38 per Offer Share	6,594,421	1,752,506	8,346,927	5.15	6.34

Notes:

- (1) The adjusted consolidated net tangible assets of the Group attributable to the owners of our Company as of June 30, 2012 was determined after deducting the intangible assets attributable to the owners of our Company as of June 30, 2012 as set out in the accountants' report in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price of HK\$10.38 or HK\$12.28 per Offer Share, being the low-end and high-end of the indicative Offer Price range, respectively, after deducting the underwriting fees and other related expenses, and does not take into account the related expenses already recognized in the income statement on or before June 30, 2012 and any H Shares that may be issued upon exercise of the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the translation of RMB into HK\$ was made at the rate of RMB0.8120 to HK\$1.00, the exchange rate prevailing on November 16 set by PBOC for foreign exchange transactions.
- (3) The unaudited pro forma net tangible assets per Share is calculated based on 1,621,122,000 Shares, being the number of shares in issue immediately following the completion of the Global Offering without taking into account any H Shares that may be issued upon exercise of the Over-allotment Option.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. See note 45 of the accountants' report included in Appendix I to this prospectus for more information on the related party transactions entered between us and our related parties.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors have confirmed that they are currently not aware of any circumstance subsisting as of the Latest Practicable Date that triggered disclosure obligations under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

As a company listed on the Shanghai Stock Exchange, we are required to publish our quarterly (for the first and third quarters of each year), interim (for the first six months of each year) and annual reports for release to the A Share market in accordance with the Shanghai Listing Rules. These reports will be prepared in conformity with PRC GAAP. We will disclose such information simultaneously in Hong Kong to the extent considered relevant to the H Share market.

WORKING CAPITAL CONFIRMATION

Taking into account our cash generated through operations, the net proceeds of the Global Offering and our bank balances and cash on hand, our Directors believe that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

As of September 30, 2012, we had RMB5,096.5 million of banking facilities available to us from commercial banks, of which approximately RMB4,456.8 million was not utilized, and cash and cash equivalents of RMB1,542.0 million.

DISTRIBUTABLE RESERVES

As of September 30, 2012, our reserves available for distribution to our owners amounted to approximately RMB3,395.0 million. The PRC Company Law provides that share premium account of a company incorporated in the PRC, such as our Company, may be applied in such manner as it may from time to time determine, subject to the provisions, if any, of Articles of Association. However, no distribution or dividend may be paid to its members out of the Share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, such company shall be able to pay its debts as they fall due in the ordinary course of business.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this prospectus, there has been no material adverse change to our financial or trading position or prospects since June 30, 2012, being the date to which our most recent audited consolidated financial statements were prepared, and since that date, there has been no event up to the date of this prospectus that would materially affect the information shown in our consolidated financial statements included in the accountants' report set out in Appendix I to this prospectus, in each case except as otherwise disclosed in this prospectus.

RECENT DEVELOPMENTS

The following discussion and analysis should be read in conjunction with our unaudited condensed consolidated financial statements included in “Appendix II — Unaudited Condensed Consolidated Financial Statements” to this prospectus, together with the accompanying notes, and “Financial Information” in this prospectus and our audited consolidated financial statements included in “Appendix I — Accountants’ Report” to this prospectus, together with the accompanying notes. Our unaudited condensed consolidated financial statements included in Appendix II to this prospectus have been prepared in accordance with IFRS and reviewed by our reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410. Our historical results of operations and financial condition as of and for the nine months ended September 30, 2012 do not necessarily indicate our results of operations or financial condition expected for any future periods, nor do they necessarily indicate our expected annual results of operations or year-end financial condition for 2012. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed and elsewhere in this prospectus.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As required by the Shanghai Listing Rules, we published our third quarter financial report on October 16, 2012 containing our unaudited consolidated financial statements as of and for the nine months ended September 30, 2012 prepared under PRC GAAP. As a result, we have included our unaudited condensed consolidated financial statements prepared in accordance with IAS 34 as of and for the nine months ended September 30, 2012 in Appendix II to this prospectus. Our unaudited condensed consolidated financial statements have been reviewed by our reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410.

RECENT DEVELOPMENTS

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2012

The following table sets forth our summary results of operations for the periods indicated:

	Nine Months Ended September 30,	
	2011	2012
	(RMB in millions, except earnings per share) (unaudited)	
Condensed Consolidated Statements of Comprehensive Income		
Revenue	5,787.7	7,306.6
Cost of sales	(4,307.6)	(5,348.6)
Gross profit	1,480.2	1,958.0
Other income	59.0	85.8
Other gains and losses.....	(22.4)	(32.2)
Selling and distribution expenses	(148.4)	(240.4)
Administrative expenses	(232.0)	(318.7)
Share of profit of associates	7.6	11.6
Share of profit of jointly controlled entities.....	0.5	0.4
Finance costs	(6.3)	(2.6)
Profit before tax	1,138.2	1,461.9
Income tax expense.....	(274.6)	(231.5)
Profit and total comprehensive income for the year/period .	<u>863.6</u>	<u>1,230.4</u>
Attributable to:		
Owners of the Company	850.6	1,207.0
Non-controlling interests	13.0	23.4
	<u>863.6</u>	<u>1,230.4</u>
Earnings per share		
Basic and diluted (RMB)	<u>0.61</u>	<u>0.86</u>

RECENT DEVELOPMENTS

The following discussion compares the major selected components of our results of operations for the nine months ended September 30, 2011 and 2012.

Revenue

Our revenue increased by 26.2% from RMB5,787.7 million for the nine months ended September 30, 2011 to RMB7,306.6 million for the nine months ended September 30, 2012. The following table sets forth our revenue, by product and business, and that information as a percentage of total revenue for the periods indicated.

	Nine Months Ended September 30,			
	2011		2012	
	(RMB in millions, except for %)			
	(unaudited)			
Hydraulic roof supports	4,114.2	71.1%	5,238.1	71.7%
Steel and other raw materials trading	1,233.2	21.3%	1,596.1	21.8%
Spare parts ⁽¹⁾	311.0	5.4%	234.1	3.2%
Other coal mining equipment ⁽²⁾	86.6	1.5%	190.4	2.6%
Others ⁽³⁾	42.7	0.7%	47.8	0.7%
Total	<u>5,787.7</u>	<u>100%</u>	<u>7,306.6</u>	<u>100%</u>

Notes:

- (1) Primarily include jacks, hydraulic valves and structural parts of hydraulic roof supports.
- (2) Primarily include armored-face conveyors and belt conveyors.
- (3) Primarily include provision of machining services for spare parts and overhaul services for hydraulic roof supports and leasing of equipment and rental properties.

Hydraulic roof supports. Revenue from sales of our hydraulic roof supports increased by 27.3% from RMB4,114.2 million for the nine months ended September 30, 2011 to RMB5,238.1 million for the nine months ended September 30, 2012, primarily as a result of an increase in sales volume, partially offset by a decrease in average selling price. Sales volume of hydraulic roof supports increased by 58.6%, from 10,573 units for the nine months ended September 30, 2011, comprising 2,680 units of high-end hydraulic roof supports and 7,893 units of medium-end hydraulic roof supports, to 16,766 units for the nine months ended September 30, 2012, comprising 3,191 units of high-end hydraulic roof supports and 13,575 units of medium-end hydraulic roof supports. Our sales volume increased primarily as a result of increased mechanization rates of coal mining operations in the PRC which resulted in increased customer demand for these products, our continuing expansion into the international markets, as well as our expanded production capacity which enabled us to benefit from increased demand for our products.

The average selling price of our hydraulic roof supports decreased by 19.7% from RMB389.1 thousand per unit for the nine months ended September 30, 2011 to RMB312.4 thousand per unit for the nine months ended September 30, 2012, primarily as a result of a decrease in steel prices in the first half of 2012, and an increase in the proportion of the sales volume of our medium-end hydraulic roof supports in the total sales volume of hydraulic roof supports. The average selling price of our high-end hydraulic roof supports decreased by 14.3% from RMB829.9 thousand per unit for the nine months ended

RECENT DEVELOPMENTS

September 30, 2011 to RMB711.6 thousand per unit for the nine months ended September 30, 2012, primarily as a result of an increase in the sales of small-sized high-end hydraulic roof supports, which had lower prices than large-sized high-end hydraulic roof supports, and a general decrease in steel prices. The average selling price of our medium-end hydraulic roof supports decreased from RMB239.5 thousand per unit for the nine months ended September 30, 2011 to RMB218.6 thousand per unit for the nine months ended September 30, 2012, primarily due to a general decrease in steel prices and increased market competition among sellers of these products.

Steel and other raw materials trading business. Revenue from our steel and other raw materials trading business increased by 29.4% from RMB1,233.2 million for the nine months ended September 30, 2011 to RMB1,596.1 million for the nine months ended September 30, 2012, primarily due to our increased marketing and sales efforts in order to better leverage on our manufacturing operations. In particular, we established a team focusing on the steel and other raw materials trading business in March 2011 and, since then, have significantly expanded that business.

Spare parts. Revenue from sales of our spare parts decreased by 24.7% from RMB311.0 million for the nine months ended September 30, 2011 to RMB234.1 million for the nine months ended September 30, 2012, primarily as a result of a decrease in sales volume of spare parts as our subsidiary, ZMJ Comprehensive Equipment, reduced sales of spare parts in order to focus on manufacturing hydraulic roof supports to meet increased market demand.

Other coal mining equipment. Revenue from sales of our other coal mining equipment increased by 119.9% from RMB86.6 million for the nine months ended September 30, 2011 to RMB190.4 million for the nine months ended September 30, 2012, primarily as a result of an increase in sales of armored-face conveyors, belt conveyors and other coal mining equipment manufactured by both ZMJ Shun Li Machinery and ZMJ Longwall Machinery.

Other revenue. Other revenue primarily included the provision of machining services for spare parts, overhaul services for hydraulic roof supports and leasing of equipment and rental properties. Other revenue increased by 11.9% from RMB42.7 million for the nine months ended September 30, 2011 to RMB47.8 million for the nine months ended September 30, 2012.

Cost of Sales

Our cost of sales increased by 24.2% from RMB4,307.6 million for the nine months ended September 30, 2011 to RMB5,348.6 million for the nine months ended September 30, 2012, primarily due to an increase in our sales.

Cost of raw materials. Cost of raw materials increased by 25.4% from RMB3,804.9 million for the nine months ended September 30, 2011 to RMB4,770.7 million for the nine months ended September 30, 2012, primarily as a result of an increase in the volume of steel used in our manufacturing operations, partially offset by a decrease in steel prices.

Direct labor costs and manufacturing expenses. Our direct labor costs and manufacturing expenses increased by 10.4% from RMB385.1 million for the nine months ended September 30, 2011 to RMB425.0 million for the nine months ended September 30, 2012, primarily as the result of the effects of inflation and an increase in depreciation as we commenced the operation of our newly-established manufacturing base in Zhengzhou in September 2011. According to the NBS, the national monthly consumer price index in the PRC was 4.5%, 3.2%, 3.6%, 3.4%, 3.0%, 2.0%, 1.8%, 2.0% and 1.9% for the first nine months of 2012.

RECENT DEVELOPMENTS

Gross Profit and Gross Profit Margin

Our gross profit increased by 32.3% from RMB1,480.2 million for the nine months ended September 30, 2011 to RMB1,958.0 million for the nine months ended September 30, 2012 and our gross profit margin increased slightly from 25.6% for the nine months ended September 30, 2011 to 26.8% for the nine months ended September 30, 2012.

Hydraulic roof supports. Gross profit margin for our hydraulic roof supports increased from 31.6% for the nine months ended September 30, 2011 to 34.2% for the nine months ended September 30, 2012, primarily as a result of an increase in the gross profit margins of both our high-end hydraulic roof supports and medium-end hydraulic roof supports. The gross profit margin for our high-end hydraulic roof supports, which accounted for 43.3% of our total sales of hydraulic roof supports for the nine months ended September 30, 2012, increased from 38.5% for the nine months ended September 30, 2011 to 44.2% for the nine months ended September 30, 2012, primarily as a result of our improved manufacturing technology and effective cost controls, as well as increased contribution of our international sales of high-end hydraulic roof supports, which generally have higher gross profit margins than our domestic sales. The gross profit margin for our medium-end hydraulic roof supports, which accounted for 56.7% of our total sales of hydraulic roof supports for the nine months ended September 30, 2012, increased from 23.5% for the nine months ended September 30, 2011 to 26.5% for the nine months ended September 30, 2012, primarily due to our increased economies of scale and, to a lesser extent, our enhanced manufacturing technologies which enabled us to effectively control cost and increase efficiency.

Steel and other raw materials trading business. Gross profit margin for our steel and other raw materials trading business decreased from 8.8% for the nine months ended September 30, 2011 to 7.1% for the nine months ended September 30, 2012, primarily as a result of increased price competition as the high quality steel products that we sell became increasingly available in the market, as well as reduced contribution of scrap steel to our steel and other raw materials trading business, which accounted for 7.3% and 8.8% of the revenue of our steel and other raw materials trading business in the first nine months of 2011 and 2012, respectively. Our sales of scrap steel generally have higher gross profit margins than those of our steel products as the costs of such materials are recognized during the production process.

Spare parts. Gross profit margin for our spare parts slightly increased from 24.6% for the nine months ended September 30, 2011 to 25.5% for the nine months ended September 30, 2012.

Other coal mining equipment. Gross profit margin for our other coal mining equipment slightly increased from 10.5% for the nine months ended September 30, 2011 to 10.6% for the nine months ended September 30, 2012.

Other Income

Other income primarily comprised government subsidies received and interest income on bank deposits. Our other income increased by 45.4% from RMB59.0 million for the nine months ended September 30, 2011 to RMB85.8 million for the nine months ended September 30, 2012, primarily as a result of an increase in interest income from our bank deposits due to increases in average interest rates and government grants received.

RECENT DEVELOPMENTS

Other Gains and Losses

Our other net losses increased by 43.8% from RMB22.4 million for the nine months ended September 30, 2011 to RMB32.2 million for the nine months ended September 30, 2012, primarily as a result of an increase in our allowance for doubtful debts, which was consistent with the increase in our sales and trade receivables, partially offset by fair value gains of RMB17.3 million on our held-for-trading investments during the nine months ended September 30, 2012, primarily as a result of the purchase of equity securities listed on the PRC stock exchanges by Huaxuan Investment following the establishment of Huaxuan Investment on December 5, 2011.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 62.0% from RMB148.4 million for the nine months ended September 30, 2011 to RMB240.4 million for the nine months ended September 30, 2012, primarily as a result of an increase in transportation and logistics expenses as our sales volumes increased, as well as an increase in tender and bidding costs associated with our international expansion plans.

Administrative Expenses

Our administrative expenses increased by 37.4% from RMB232.0 million for the nine months ended September 30, 2011 to RMB318.7 million for the nine months ended September 30, 2012, primarily as a result of an increase in the research and development expenses and a general increase in employee salaries, benefits and other remuneration, as well as an increase in depreciation and amortization expenses after we commenced the operation of an administrative office at our newly-established manufacturing base in September 2011.

Share of Profits of Associates

Share of profits of associates increased by 52.6% from RMB7.6 million for the nine months ended September 30, 2011 to RMB11.6 million for the nine months ended September 30, 2012, primarily as a result of an increase in the profits of our associates, particularly ZMJ Suda.

Finance Costs

Our finance costs decreased by 58.7% from RMB6.3 million for the nine months ended September 30, 2011 to RMB2.6 million for the nine months ended September 30, 2012, primarily as a result of a decrease in interest expenses on our bank borrowings. Interest expenses decreased from the nine months ended September 30, 2011 to the nine months ended September 30, 2012 primarily a result of a decrease in the average balance of our bank borrowings, which was primarily due to the early repayment by ZMJ Lu An Xinjiang of a portion of its long-term project construction borrowings from China Construction Bank.

Profit Before Tax

As a result of the foregoing, our profit before tax increased by 28.4% from RMB1,138.2 million for the nine months ended September 30, 2011 to RMB1,461.9 million for the nine months ended September 30, 2012.

RECENT DEVELOPMENTS

Income Tax Expense

Our income tax expense decreased by 15.7% from RMB274.6 million for the nine months ended September 30, 2011 to RMB231.5 million for the nine months ended September 30, 2012, primarily as a result of a decrease in the income tax rate applicable to our Company. Our Company, which accounted for the majority of the Group's income tax expenses, received the Technology Tax Certificate on October 28, 2011, which entitles our Company to a preferential tax rate of 15% from January 1, 2011 to December 31, 2013. Since our Company had not received the Technology Tax Certificate as of September 30, 2011, the income tax expense of our Company for the nine months ended September 30, 2011 was calculated based on the statutory income tax rate of 25%, while the income tax expense of our Company for the nine months ended September 30, 2012 was calculated based on the effective tax rate of 15%. See "Financial Information — Description of Selected Items of Our Statements of Comprehensive Income — Income Tax Expense."

Profit and Total Comprehensive Income for the Period

As a result of the foregoing, our profit and total comprehensive income for the year increased by 42.5% from RMB863.6 million for the nine months ended September 30, 2011 to RMB1,230.4 million for the nine months ended September 30, 2012.

Recently, some companies in the steel industry have experienced liquidity constraints, which may have a material impact on the general coal mining equipment manufacturing industry, as steel is the primary raw material for production. However, we have not been and do not expect to be materially affected as we: (i) procure steel from major domestic suppliers that are creditworthy and in good financial condition; and (ii) have long-term relationships with our key steel suppliers which supply steel materials to us on a priority basis. As a result, the payment terms of our supply agreements generally remain unchanged and we have not experienced any delivery delays or steel supply shortages.

ASSETS AND LIABILITIES

The following table sets forth selected information with respect to our assets and liabilities as of the dates indicated. For a detailed discussion of our assets and liabilities as of December 31, 2009, 2010 and 2011 and June 30, 2012, see "Financial Information — Liquidity and Capital Resources — Net Current Assets and Liabilities."

	As of December 31,	As of September 30,
	2011	2012
	(RMB in millions)	
	(unaudited)	
Key Financial Position Information		
Non-current assets.....	1,926.8	2,527.4
Current assets.....	8,508.7	8,838.7
Current liabilities.....	4,202.9	4,095.8
Net current assets.....	4,305.8	4,742.8
Total assets less current liabilities	6,232.6	7,270.2

RECENT DEVELOPMENTS

Non-current Assets and Liabilities

Our non-current assets increased from RMB1,926.8 million as of December 31, 2011 to RMB2,527.4 million as of September 30, 2012, primarily as a result of an increase in our property, plant and equipment after we completed construction of our newly-established manufacturing base in Zhengzhou in September 2011.

Current Assets and Liabilities

Our current assets increased from RMB8,508.7 million as of December 31, 2011 to RMB8,838.7 million as of September 30, 2012, primarily as a result of increases in our inventories and trade and other receivables due to the increased scale of our manufacturing operations after we commenced operations of our newly-established manufacturing base in Zhengzhou in September 2011, partially offset by decreases in our bank balances and cash.

Our current liabilities decreased from RMB4,202.9 million as of December 31, 2011 to RMB4,095.8 million as of September 30, 2012, primarily as a result of a decrease in our advances from customers, as we waived pre-payment requirements for certain of our long-term, strategic and/or large customers with positive credit profiles, partially offset by an increase in our trade and other payables.

ESTABLISHMENT OF JOINT VENTURE

On August 17, 2012, we established ZMJ Forging and Pressing with an Independent Third Party, in which we hold 49% of the equity interest. The business scope of ZMJ Forging and Pressing as stated in its business license is manufacture and sale of accessories and spare parts for coal mining machinery, automobiles, petroleum machinery and railway machinery. It is the mutual intention of the Company and the joint venture partner that ZMJ Forging and Pressing will generally focus and carry on the manufacture of accessories and spare parts for coal mining machinery and equipment through recycling of scrapped steel products. The registered capital of ZMJ Forging and Pressing is approximately RMB12.9 million, with approximately RMB6.3 million to be contributed by our Company and approximately RMB6.6 million to be contributed by the joint venture partner, respectively. As of the Latest Practicable Date, approximately RMB11.0 million was paid up, of which approximately RMB5.7 million was contributed by our Company. Each shareholder of ZMJ Forging and Pressing will be entitled to exercise its voting power at a shareholders meeting on a pro-rata basis in accordance with its respective percentage of the equity interest as stated in the articles of association of ZMJ Forging and Pressing, i.e., as to 49% by our Company and as to 51% by the joint venture partner.

Since we hold less than a majority of the voting rights in respect of ZMJ Forging and Pressing and its daily operation is managed by the joint venture partner, our Directors believe that ZMJ Forging and Pressing is and will be treated as an associate of our Company under the applicable accounting treatment principles.

RECENT DEVELOPMENTS

DEVELOPMENTS REGARDING HUAXUAN INVESTMENT

On July 27, 2012, the Company and Hua Xin Venture Capital, as shareholders of Huaxuan Investment, passed a shareholders' resolution at a meeting to approve the Proposed Capital Increase in Huaxuan Investment. According to that resolution, upon completion of the Proposed Capital Increase in Huaxuan Investment, the percentage of our equity interest in Huaxuan Investment will be diluted to 46.15%. The relevant parties are in the process of implementing the Proposed Capital Increase in Huaxuan Investment. As confirmed by our PRC Legal Advisers, since July 27, 2012: (i) the articles of association of Huaxuan Investment have been amended such that its board of directors now comprises seven directors, of whom four are nominated by Hua Xin Venture Capital and three by us; and (ii) our voting rights at general meetings of Huaxuan Investment have decreased from 60% to 46.15%, while Hua Xin Venture Capital has been entitled to exercise 53.85% of the voting rights. On this basis and in the opinion of the Directors, since July 27, 2012, Huaxuan Investment has ceased to be a subsidiary of the Company and a member of the Group, and since the third quarter of 2012, Huaxuan Investment has ceased to be accounted for, and consolidated in, our audited consolidated accounts as a subsidiary pursuant to IFRS. Huaxuan Investment is now accounted for as an investment in an associate of our Company.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For our future plans and strategy, please see “Business — Our Business Strategies”.

USE OF PROCEEDS

We currently estimate that the Offer Price will not be more than HK\$12.28 per Offer Share and not less than HK\$10.38 per Offer Share. Assuming an Offer Price of HK\$11.33 per Offer Share, which represents the mid-point of the indicative Offer Price range, we estimate that the proceeds from the Global Offering (after deducting underwriting commissions and other estimated offering expenses in the aggregate amount of approximately HK\$150 million payable by us) will total approximately HK\$2,355.31 million (equivalent to approximately US\$303.86 million), assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds for the following purposes:

- approximately HK\$471.06 million (equivalent to approximately RMB382.50 million), or 20%, will be used for establishing overseas manufacturing and related facilities in Russia and India to implement our international business expansion plans;
- approximately HK\$282.64 million (equivalent to approximately RMB229.50 million), or 12%, will be used for establishing overseas aftermarket service network and parts and components centers in Russia, the United States, India, Turkey and Australia;
- approximately HK\$282.64 million (equivalent to approximately RMB229.50 million), or 12%, will be used for establishing an international sales and marketing network;
- approximately HK\$235.53 million (equivalent to approximately RMB191.25 million), or 10%, will be used for establishing overseas coal mining transport equipment manufacturing facilities in Russia;
- approximately HK\$235.53 million (equivalent to approximately RMB191.25 million), or 10%, will be used for establishing international research and development platforms in Germany and the United States, and generally enhancing our research and development capabilities to support sustainable, long-term growth;
- approximately HK\$376.85 million (equivalent to approximately RMB306.00 million), or 16%, will be used to develop our coal washing equipment product segment and establish a related manufacturing facility;
- approximately HK\$235.53 million (equivalent to approximately RMB191.25 million), or 10%, will be used to procure raw materials and equipment necessary for our operations, particularly for the import of special purpose parts and components from overseas countries specifically for use in producing our high-end hydraulic roof supports, including electronic hydraulic control systems; and
- any remaining balance will be used to fund our working capital and other general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds of the Global Offering derived from unused capital are not immediately applied to the above purposes, we intend to deposit the proceeds in short-term interest-bearing and investment grade instruments with licensed commercial banks and/or authorized financial institutions in Hong Kong. We expect to utilize the proceeds from the Global Offering to finance the above purposes. However, to the extent that the proceeds from the Global Offering are unable to fully finance the above purposes, we will use our internal working capital.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive net proceeds from the issue of additional Offer Shares of approximately HK\$366.40 million, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the same Offer Price as stated above. We intend to allocate these net proceeds to the above purposes on a pro rata basis.

In the event that the Offer Price is set at the high end of the proposed Offer Price range and assuming the Over-allotment Option is not exercised at all, our Company will receive additional net proceeds of approximately HK\$210.07 million, which will be allocated to the above purposes on a pro rata basis.

In the event that the Offer Price is set at the low end of the proposed Offer Price range and assuming the Over-allotment Option is not exercised at all, the net proceeds we will receive will be reduced by approximately HK\$210.07 million. Under such circumstances, the net proceeds allocated to working capital and other general corporate purposes will be reduced.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Lead Managers

UBS AG, Hong Kong Branch
CITIC Securities Corporate Finance (HK) Limited
J.P. Morgan Securities (Asia Pacific) Limited
Deutsche Bank AG, Hong Kong Branch
ICBC International Securities Limited
BOCOM International Securities Limited

Co-Lead Managers

Guotai Junan Securities (Hong Kong) Limited
China Galaxy International Securities (Hong Kong) Co., Limited
Pacific Foundation Securities Limited
Shenyin Wanguo Capital (H.K.) Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 22,112,400 Hong Kong Offer Shares and the International Offering of initially 199,009,600 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price.

Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any H Shares to be converted from the state-owned A Shares pursuant to the relevant PRC regulations relating to reduction of state-owned shares, and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

UNDERWRITING

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by notice in writing to our Company to terminate this Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

- (i) there develops, occurs, exists or comes into effect:
 - (a) any event, or series of events, in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemics, pandemics, outbreaks of diseases, economic sanction, strikes, lock-outs, fire, explosion, flooding, civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member thereof) or any other jurisdiction in which any member of our Group conducts business (each a “**Relevant Jurisdiction**”); or
 - (b) any change or development involving a prospective change, or any event or series of events likely to result in any change, or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, any conditions affecting stock and bond markets, money and foreign exchange markets, investment markets and credit markets) in or affecting any Relevant Jurisdiction; or
 - (c) any moratorium, suspension or restriction on trading in securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ National Markets, the Shanghai Stock Exchange, or the Shenzhen Stock Exchange, or a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies; or
 - (d) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in any securities of our Company or of any other member of our Group listed or quoted on a stock exchange or an over-the-counter market; or
 - (e) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, the European Union, the PRC or any Relevant Jurisdiction, or there is a disruption in commercial banking, foreign exchange trading or securities settlement or clearance services in those places; or

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- (f) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
- (g) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollars or the Renminbi against any foreign currencies), or the implementation of any exchange control in any Relevant Jurisdiction, in each case adversely affecting an investment in the H Shares; or
- (h) any litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against any member of our Group, in each case save as in respect of ZMJ Siberia; or
- (i) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (j) the chairman or chief executive officer of our Company vacating his or her office; or
- (k) a contravention by any member of our Group of the Hong Kong Listing Rules or applicable laws, in each case save as in respect of ZMJ Siberia; or
- (l) a prohibition on our Company for whatever reason from allotting or selling any of the H Shares (including the H Shares allotted and issued under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (m) a non-compliance of this prospectus or any aspect of the Global Offering with the Hong Kong Listing Rules or any other applicable Hong Kong or PRC law; or
- (n) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group, in each case save as in respect of ZMJ Siberia,

which, individually or in the aggregate, in the sole opinion of the Joint Global Coordinators (after discussion/consultation with the management of our Company to the extent that is reasonably practicable) (1) has or will or may have a material adverse effect on the business, results of operations, financial or other condition or prospects of our Group as a whole, or (2) has or will or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering and the level of interest under the International Offering, or (3) makes it or will or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering, or (4) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of

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performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(ii) there has come to the notice of the Joint Global Coordinators:

- (a) that any statement contained in this prospectus, the Application Forms and the formal notice and/or any announcement or advertisement issued by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation expressed in the web proof information pack, the prospectus, the Application Forms and the formal notice and/or any announcements or advertisements issued by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was made, not honestly made in any material respect, when taken as a whole; or
- (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a misstatement in a material respect in this prospectus, the Application Forms and the formal notice or constitute a material omission therefrom; or
- (c) any material breach of any of the obligations of our Company under the Hong Kong Underwriting Agreement; or
- (d) any event, act or omission which gives or is likely to give rise to any liability of our Company pursuant to the indemnification provisions of the Hong Kong Underwriting Agreement; or
- (e) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, conditions, business affairs, prospects, profits, losses, results of operations or financial or trading position or performance of our Group as a whole; or
- (f) any breach of, or any event rendering untrue or incorrect or misleading, any of the representations, warranties and undertakings of our Company as set out in the Hong Kong Underwriting Agreement; or
- (g) our Company withdraws this prospectus (or any other documents used in connection with the contemplated offer of the H Shares) or the Global Offering; or
- (h) any expert whose consent is required for the issue of this prospectus with inclusion of its reports and/or letters (as the case may be) and references to its name in the form and context in which they appear has withdrawn its consent to the issue of this prospectus (other than the withdrawal of consent by any Joint Sponsor without a reason).

UNDERWRITING

Undertakings pursuant to the Hong Kong Listing Rules and Rule 10.07 Lock-Up

(A) Undertaking by our Company

Pursuant to Rule 10.08 of the Hong Kong Listing Rules, we have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules.

(B) Undertaking by the Controlling Shareholder

As required under Note 3 to Rule 10.07(2) of the Hong Kong Listing Rules, our Controlling Shareholder has issued an undertaking that until the date which is 12 months from the Listing Date: (i) when it, if and in circumstances permitted by relevant laws and rules including the Hong Kong Listing Rules, pledges or charges any Shares beneficially owned by it, it will immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of those Shares will be disposed of, it will immediately inform us of such indications.

(C) Rule 10.07 Lock-Up

Under Rule 10.07 of the Hong Kong Listing Rules, except as otherwise permitted under that rule, our Controlling Shareholder shall not: (a) in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and (b) in the period of six months commencing on the date on which the period referred to under (a) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder of our Company.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) or pursuant to the transfer of Shares to NSSF contemplated in this prospectus under the section headed “Share Capital — Transfer of State-owned Shares to NSSF”, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is six months after the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange (the “**First Six-Month Period**”), we will not, and will procure that our subsidiaries will not (except pursuant to any transaction contemplated in this prospectus), without the prior written consent of the

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Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules (and only after the consent of the relevant PRC authorities (if so required) has been obtained):

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any encumbrance or security interest of any kind over, or agree to transfer or dispose of or create an encumbrance or security interest of any kind over, either directly or indirectly, conditionally or unconditionally, any H Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any shares of such other member of our Group, as applicable); or
- (b) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of H Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any shares of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of H Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not such issue of H Shares or securities will be completed within such period), and in the event of our Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the First Six-Month Period, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any H Shares or other securities of our Company.

Commission and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 2.5% of the aggregate Offer Price in respect of all of the Hong Kong Offer Shares (excluding such Offer Shares reallocated to and from the Hong Kong Public Offering pursuant to the Hong Kong Underwriting Agreement).

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For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters). We may also pay at our discretion to any one or all of the Hong Kong Underwriters an incentive fee of up to an aggregate of no more than 1.0% of the Offer Price for each Hong Kong Offer Share, the payment and amount of which is expected to be determined by the Company at its sole discretion.

The aggregate commissions and the maximum incentive fee (if any), together with the listing fees, SFC transaction levy, the Hong Kong Stock Exchange trading fee and other expenses of us relating to the Global Offering are estimated to amount to HK\$150 million (assuming an Offer Price of HK\$11.33 per Offer Share, which is the mid-point of our indicative price range for the Global Offering, and the Over-allotment Option is not exercised) in total.

Hong Kong Underwriters' Interests in Our Company

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interest in our Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to procure subscribers to subscribe for, or failing which to subscribe for themselves, their respective applicable proportions of the International Offer Shares being offered pursuant to the International Offering which are not taken up under the International Offering.

Over-allotment Option

We will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters during the 30-day period from the last day for the lodging of applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 33,168,200 additional H Shares, representing approximately 15% of the H Shares initially available under the Global Offering, at the Offer Price, among other things, to cover over-allocations in the International Offering, if any.

UNDERWRITING

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 33,168,200 H Shares, which is approximately 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price;
- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;

UNDERWRITING

- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on December 27, 2012. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market share of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

INDEPENDENCE OF THE JOINT SPONSORS

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Hong Kong Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (a) the Hong Kong Public Offering of 22,112,400 H Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Hong Kong Public Offering”; and
- (b) the International Offering of an aggregate of 199,009,600 H Shares (subject to adjustment as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, and in the United States to QIBs in reliance on Rule 144A.

Investors may apply for the H Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the H Shares under the International Offering, but may not do both.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The number of H Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in the subsection headed “The Hong Kong Public Offering — Reallocation” below.

THE HONG KONG PUBLIC OFFERING

Number of H Shares initially offered

We are initially offering 22,112,400 H Shares at the Offer Price, representing approximately 10% of the H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the Hong Kong Public Offering will represent approximately 1.4% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection below headed “Conditions of the Global Offering.”

Allocation

Allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided into two pools for allocation purposes as follows:

- Pool A: The Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK\$5 million or less; and
- Pool B: The Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of more than HK\$5 million and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 11,056,200 Hong Kong Offer Shares (being 50% of the 22,112,400 Hong Kong Offer Shares initially available under the Hong Kong Public Offering) will be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of the Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached in the event of over-applications in the Hong Kong Public Offering, the Joint Global Coordinators shall apply a clawback mechanism following the closing of the application lists on the following basis:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 66,336,800 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Global Offering;
- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 88,448,800 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Global Offering; and

STRUCTURE OF THE GLOBAL OFFERING

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 110,561,200 Offer Shares, representing approximately 50% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. Subject to the foregoing paragraph, the Joint Global Coordinators may in their discretion reallocate H Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators will have the discretion (but shall not be under any obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Offer Shares in such amounts as they deem appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of H Shares initially offered

Subject to the reallocation as described above, the number of H Shares to be initially offered under the International Offering will be 199,009,600 H Shares, representing approximately 90% of the Offer Shares under the Global Offering. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the International Offering will represent approximately 12.3% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Offer Shares will be conditionally placed on behalf of our Company by the International Underwriters or through selling agents appointed by them. International Offer Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S and in the United States to QIBs as defined in Rule 144A. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, H Shares after the listing of the H Shares on the Hong

STRUCTURE OF THE GLOBAL OFFERING

Kong Stock Exchange. Such allocation is intended to result in a distribution of H Shares on a basis which would lead to the establishment of a solid shareholder base which would be to our benefit and to that of the shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 33,168,200 H Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if any. In the event that the Over-allotment Option is exercised, a public announcement will be published.

Over-allocation

Following any over-allocation of H Shares in connection with the Global Offering, the Joint Global Coordinators, their affiliates or any person acting for them may cover such over-allocation by (among other methods) using H Shares purchased by the Joint Global Coordinators, their affiliates or any person acting for them in the secondary market, exercising the Over-allotment Option in full or in part. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of H Shares which can be over-allocated will not exceed the number of H Shares which may be issued upon exercise of the Over-allotment Option, being 33,168,200 H Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering.

PRICING AND ALLOCATION

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the H Shares in the International Offering. Prospective investors will be required to specify the number of H Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around November 28, 2012 and in any event on or before December 3, 2012, by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

STRUCTURE OF THE GLOBAL OFFERING

Offer price range

The Offer Price will be not more than HK\$12.28 per H Share and is expected to be not less than HK\$10.38 per H Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$12.28 for each Hong Kong Offer Share (plus 1% brokerage, 0.003% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee). If the Offer Price is less than HK\$12.28, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company and the Joint Global Coordinators (on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before December 3, 2012, the Global Offering will not proceed and will lapse.

Reduction in indicative offer price range and/or number of Offer Shares

The Joint Global Coordinators, on behalf of the Underwriters, may where considered appropriate, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, reduce the indicative Offer Price range and/or the number of Offer Shares below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.zzmj.com) an announcement/a supplemental prospectus (as appropriate) in connection with the reduction. Upon issue of such announcement/supplemental prospectus (as appropriate), the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Company, will be fixed within such revised range. Such announcement/supplemental prospectus (as appropriate) will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. In the absence of any such announcement/supplemental prospectus (as appropriate) so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

Announcement of Offer Price and basis of allocations

The final Offer Price, the level of indications of interest in the Global Offering, the results of applications and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on December 4, 2012 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.zzmj.com).

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators, on behalf of the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, and the Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on:

- the Listing Committee granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);
- the Offer Price having been duly agreed between us and the Joint Global Coordinators (on behalf of the Underwriters);
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting

STRUCTURE OF THE GLOBAL OFFERING

Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before December 3, 2012, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection headed “How to Apply for the Hong Kong Offer Shares — Dispatch/Collection of H Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the *Banking Ordinance* (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on December 5, 2012, provided that (a) the Global Offering has become unconditional in all respects and (b) the right of termination as described in the subsection headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering” in this prospectus has not been exercised.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (a) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- (b) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

STRUCTURE OF THE GLOBAL OFFERING

- (c) agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Shares; and
- (d) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into the Central Clearing and Settlement System, or CCASS, established and operated by the Hong Kong Securities Clearing Company Limited, or HKSCC.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on December 5, 2012, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on December 5, 2012.

The H Shares will be traded in board lots of 200 H Shares each.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Bookrunners (or their respective agents and nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service (www.eipo.com.hk), you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may apply by means of the **White Form eIPO** service only if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

We, the Joint Global Coordinators and the designated **White Form eIPO** Service Provider, in their capacity as our agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the Directors, Supervisors or chief executive or their respective or any of our other connected persons or persons who will become our connected persons immediately upon completion of the Global Offering.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offering Shares under the International Offering, but may not do both.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are four channels to make an application for the Hong Kong Offer Shares:

- You may apply for the Hong Kong Offer Shares by using a **WHITE** Application Form. Use a **WHITE** Application Form if you want the H Shares to be issued in your own name;
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **White Form eIPO** by submitting applications online through the designated website of the **White Form eIPO** Service Provider at www.eipo.com.hk. Use **White Form eIPO** if you want the H Shares to be issued in your own name;
- You may apply for the Hong Kong Offer Shares by using a **YELLOW** Application Form. Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or
- Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

WHERE TO COLLECT THE PROSPECTUS AND APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, November 22, 2012 till 12:00 noon on Tuesday, November 27, 2012 from:

Any of the following addresses of the Hong Kong Underwriters:

UBS AG, Hong Kong Branch
52nd Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

CITIC Securities Corporate Finance (HK) Limited
26/F, CITIC Tower, 1 Tim Mei Avenue, Central
Hong Kong

J.P. Morgan Securities (Asia Pacific) Limited
28/F, Chater House
8 Connaught Road Central, Central
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Deutsche Bank AG, Hong Kong Branch
Level 52, International Commerce Centre
1 Austin Road West
Hong Kong

ICBC International Securities Limited
37/F, ICBC Tower
3 Garden Road, Central
Hong Kong

BOCOM International Securities Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

China Galaxy International Securities (Hong Kong) Co., Limited
Units 3501-7, 35/F, Cosco Tower, Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

Pacific Foundation Securities Limited
11/F, New World Tower Two
16-18 Queen's Road Central
Hong Kong

Shenyin Wanguo Capital (H.K.) Limited
28/F., Citibank Tower, Citibank Plaza
3 Garden Road, Central
Hong Kong

or any of the following branches of:

(a) Bank of China (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Aberdeen Branch	25 Wu Pak Street, Aberdeen
	Lee Chung Street Branch	29-31 Lee Chung Street, Chai Wan

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

	Branch Name	Address
Kowloon.....	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Mei Foo Mount Sterling Mall Branch	Shop N47-49 Mount Sterling Mall Mei Foo Sun Chuen
	Metro City Branch	Shop 209, Level 2 Metro City Phase 1 Tseung Kwan O
	Shanghai Street (Mong Kok) Branch	611-617 Shanghai Street Mong Kok
New Territories..	Tai Po Branch	68-70 Po Heung Street Tai Po Market
	Citywalk Branch	Shop 65, G/F, Citywalk 1 Yeung Uk Road Tsuen Wan

(b) Bank of Communications Co., Ltd. Hong Kong Branch

	Branch Name	Address
Hong Kong Island...	Hong Kong Branch	20 Pedder Street, Central
	Wanchai Sub-Branch	G/F., 32-34 Johnston Road
Kowloon.....	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza 833 Cheung Sha Wan Road
	Ngau Tau Kok Sub-Branch	Shop G1&G2, G/F., Phase I Amoy Plaza, 77 Ngau Tau Kok Road
New Territories.....	Sha Tsui Road Sub-Branch	122-124 Sha Tsui Road Tsuen Wan
	Tai Po Sub-Branch	Shop No. 1, G/F., Wing Fai Plaza, 29-35 Ting Kok Road

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, November 22, 2012 until 12:00 noon on Tuesday, November 27, 2012 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

Your stockbroker may also have Application Forms and this prospectus available.

HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain an Application Form as described in the subsection above headed “Where to Collect the Prospectus and Application Forms.”
- (b) Complete the Application Form in English using blue or black ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address given on the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one cheque or one banker’s cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the cheque or banker’s cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the special collection boxes by the time and at one of the locations as described in the subsection above headed “Where to Collect the Prospectus and Application Forms.”

You should note that by completing and submitting a **WHITE** or **YELLOW** Application Form, among other things:

- (a) you agree with our Company and each of the Shareholders, and our Company agrees with each of the Shareholders, to observe and comply with PRC laws, the Companies Ordinance and the Articles of Association;
- (b) you confirm that you have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (c) you agree that none of our Company, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not contained in this prospectus (and any supplement thereto);
- (d) you undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Share nor otherwise participated in the International Offering; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (e) you agree to disclose to our Company, and/or our H Share Registrar, receiving bankers, the Joint Global Coordinators, the Underwriters and their respective advisers and agents any personal data which they require about you and the person(s) for whose benefit you have made the application.

In order for an application made on a **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the Application Form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

(a) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

- (i) the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

(b) If the application is made by an individual CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's full name and Hong Kong Identity Card number; and
- (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(c) If the application is made by a joint individual CCASS Investor Participant:

- (i) the Application Form must contain all joint CCASS Investor Participants' full names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
- (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.

(d) If the application is made by a corporate CCASS Investor Participant:

- (i) the Application Form must contain your company name and the Hong Kong business registration number; and
- (ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing the Company name) or other similar matters may render your application invalid.

If your application is made through a duly authorized attorney, we and the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Underwriters and their respective agents or nominees as our agents may accept it at our discretion, and subject to any conditions we think

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

fit, including evidence of the authority of your attorney. We and the Joint Global Coordinators, in their capacity as our agents, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

APPLYING THROUGH WHITE FORM eIPO SERVICE

General

- (a) If you are an individual and meet the criteria set out above in the subsection headed “Who can apply for the Hong Kong Offer Shares,” you may apply through **White Form eIPO** service by submitting an application through designated website at www.eipo.com.hk. If you apply through **White Form eIPO** service, the H Shares will be issued in your own name.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.
- (c) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service (www.eipo.com.hk), you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our H Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 200 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (f) You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Thursday, November 22, 2012 until 11:30 a.m. on Tuesday, November 27, 2012 or such later time as described under the subsection headed “Effect of Bad Weather on the Opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, November 27, 2012 the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subsection headed “Effect of Bad Weather on the Opening of the Application Lists” below.
- (g) You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Tuesday, November 27, 2012, or such later time as described under the subsection headed “Effect of Bad Weather on the Opening of the Application Lists” below, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

- (h) Warning: The application for Hong Kong Offer Shares through the **White Form eIPO** service (www.eipo.com.hk) is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, the Directors, the Joint Global Coordinators, the Underwriters and the **White Form eIPO** Service Provider take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service (www.eipo.com.hk) will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited being the designated **White Form eIPO** Service Provider will contribute HK\$2.00 for each “Zhengzhou Coal Mining Machinery Group Company Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of Dongjiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service (www.eipo.com.hk), you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service (www.eipo.com.hk), you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please see the subsection headed “How many applications may be made” below.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at www.eipo.com.hk.

APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Counter
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and the H Share Registrar.

Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) HKSCC Nominees does the following things on behalf of each such person:

- agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- undertakes and confirms that person has not indicated an interest for, applied for or taken up or indicated an interest for, any Offer Shares under the International Offering nor otherwise participated in the International Offering;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that person has only given one set of **electronic application instructions** for the benefit of that other person and that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if he makes a false declaration;
- authorizes our Company to place the name of HKSCC Nominees on our register of members as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- confirms that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf save as set out in any supplement to this prospectus and that person agrees that none of our Company, the Directors and the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and any of the parties involved in the Global Offering will have any liability for any such offer information or representation;

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- agrees that our Company, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company, the H Share Registrar, the receiving banks, the Joint Sponsors, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners and/or their respective agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person cannot be revoked on or before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. Such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any public offer shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) except by means of one of the procedures referred to in this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- agrees with our Company, for ourselves and for the benefit of each of the Shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the PRC Company Law, the Companies Ordinance and the Articles of Association;

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- agrees with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- agrees with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H Shares in the Company are freely transferable by their holders;
- authorizes the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company; and
- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the offer price per H Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated in the **WHITE** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Minimum Subscription Amount and Permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 200 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the **WHITE** and **YELLOW** Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of the Hong Kong Offer Shares

For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Timing for Inputting electronic application instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, November 22, 2012	— 9:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, November 23, 2012	— 8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, November 24, 2012	— 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, November 26, 2012	— 8:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, November 27, 2012	— 8:00 a.m.⁽¹⁾ to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/ Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, November 22, 2012 until 12:00 noon on Tuesday, November 27, 2012 (24 hours daily, except the last application day).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The latest time for inputting **electronic application instructions** will be 12:00 noon on Tuesday, November 27, 2012, the last application day, or if the application lists are not open on that day, by the time and date stated in the subsection headed “Effect of Bad Weather on the Opening of the Application Lists” below.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by us, our H Share Registrar, the receiving banks, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, the Underwriters and any of our or their respective advisers or agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Joint Bookrunners, the Joint Global Coordinators, the Joint Lead Managers, the Joint Sponsors and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions**. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, November 27, 2012, or such later time as described under the subsection headed “Effect of Bad Weather on the Opening of the Application Lists” below.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

HOW MANY APPLICATIONS MAY BE MADE

You may make more than one application for the Hong Kong Offer Shares if and only if you are a nominee, in which case you may make an application as a nominee by (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant) or; (ii) using a **WHITE** or **YELLOW** Application Form, and lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

If you apply by means of the **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk);
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) and that you are duly authorized to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk); or
- apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk); or
- apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) for more than 11,056,200 H Shares, being 50% of the Offer Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the subsection headed "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Offering.

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All of your applications will also be rejected as multiple applications if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange.

Statutory control in relation to a company means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$12.28 per H Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 200 H Shares you will pay HK\$2,480.75. The Application Forms have tables showing the exact amount payable for numbers of H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the H Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange, the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

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REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, we will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of dispatch/collection of e-Refund payment instructions/refund cheques/share certificates will be retained for our benefit.

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$12.28 per H Share, appropriate refund payments, including the brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% attributable to the surplus application monies will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the subsection headed “Dispatch/Collection of H Share Certificates and Refund Monies” below.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Global Coordinators, cheques for applications for certain small denominations of Hong Kong Offer Shares on Application Forms (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on December 4, 2012 in accordance with the various arrangements as described in this section.

MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR HONG KONG OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Tuesday, November 27, 2012, or, if the application lists are not open on that day, then by the time and date stated in the subsection headed “Effect of Bad Weather on the Opening of the Application Lists” below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed under the section headed “Where to collect the Prospectus and Application Forms” above at the following times:

Thursday, November 22, 2012	— 9:00 a.m. to 5:00 p.m.
Friday, November 23, 2012	— 9:00 a.m. to 5:00 p.m.
Saturday, November 24, 2012	— 9:00 a.m. to 1:00 p.m.
Monday, November 26, 2012	— 9:00 a.m. to 5:00 p.m.
Tuesday, November 27, 2012	— 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, November 27, 2012.

No proceedings will be taken on applications for the Offer Shares and no allotment of any such Offer Shares will be made until the closing of the application lists. No allotment of any of the Offer Shares will be made earlier than Tuesday, November 27, 2012.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, November 27, 2012. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon on such day.

Business Day means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

PUBLICATION OF RESULTS

We expect to announce the Offer Price, the indication of the level of interest in the International Offering, the basis of allotment of the Hong Kong Offer Shares and the indication of the level of applications under the Hong Kong Public Offering on Tuesday, December 4, 2012 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese). The allotment results as published in the newspapers will also be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.zzmj.com) on Tuesday, December 4, 2012.

In addition, we expect to announce the results of applications and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering at the times and dates and in the manner specified below:

- (a) Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations websites at (www.iporesults.com.hk), (www.zzmj.com) and (www.hkexnews.hk) on a 24-hour basis from 8:00 a.m. on Tuesday, December 4, 2012 to 12:00 midnight on Monday, December 10, 2012. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- (b) Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, December 4, 2012 to Friday, December 7, 2012; and
- (c) Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Tuesday, December 4, 2012 to Thursday, December 6, 2012 at all the receiving bank branches and sub-branches at the addresses set out in the subsection headed “Where to collect the Prospectus and Application Forms” above.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the relevant Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you:

If your application is revoked:

By completing and submitting an Application Form or giving an **electronic application instruction**, you agree that your application or the application made by HKSCC Nominees or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) on your behalf cannot be revoked on or before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your **electronic application instruction** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may be revoked on or before the expiration of the fifth day after the time of the opening of the application lists, if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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Full discretion of our Company or our agents to reject or accept your application:

Our Company, the Joint Global Coordinators (as our agents) and the **White Form eIPO** Service Provider or the respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

Our Company, the Joint Global Coordinators, the Hong Kong Underwriters and the **White Form eIPO** Service Provider in their capacity as our agents, and the respective agents and nominees do not have to give any reason for any rejection or acceptance.

If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

You will not receive any allotment if:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and/or Offer Shares in the International Offering. By filling in any of the Application Forms or applying by giving **electronic application instructions** you agree not to apply for Hong Kong Offer Shares as well as the International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- the number of shares you have applied for is not one of the numbers as set out in the payment tables in the Application Forms;
- your application is not completed in accordance with the instructions as stated in the Application Forms (if you apply by an Application Form) or on the **White Form eIPO** website;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- the Underwriting Agreements are terminated in accordance with their respective terms;
- our Company or the Joint Global Coordinators believe that by accepting your application, they would violate the applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered for public subscription under the Hong Kong Public Offering.

DISPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$12.28 per H Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the subsection headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one H Share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course they will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application:

- (a) for applications on **WHITE** Application Forms or **White Form eIPO**:
 - (i) H Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or
 - (ii) H Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful; and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) will be crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per H Share paid on application in the event that the Offer Price is less than the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per H Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms; and H Share certificates for wholly and partially successful applicants under **WHITE** Application Forms and the **White Form eIPO** service are expected to be posted on or before Tuesday, December 4, 2012. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s).

H Share certificates will only become valid certificates of title at 8:00 a.m. on Wednesday, December 5, 2012 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the subsection headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering” in this prospectus has not been exercised.

(a) If you apply using a **WHITE** Application Form:

If you apply for 1,000,000 or more Hong Kong Offer Shares and have indicated your intention in your **WHITE** Application Form respectively to collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) in person and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and H Share certificate(s) (where applicable) from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, December 4, 2012 or such other date as notified by us in the newspapers as the date of collection/dispatch of e-Refund payment instructions/refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar. If you do not collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or H Share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or H Share certificate(s)

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(where applicable) will be sent to the address on your Application Form on Tuesday, December 4, 2012, by ordinary post and at your own risk.

(b) If you apply using a **YELLOW** Application Form:

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Tuesday, December 4, 2012, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the section headed "Publication of Results" above on Tuesday, December 4, 2012. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 4, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for 1,000,000 Hong Kong Offer Shares or more and have not indicated on your **YELLOW** Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, or if your application is rejected, nor accepted or accepted in part only, or if the conditions of the Hong Kong Public Offering as set out in the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus are not fulfilled, or if your application is revoked or any allotment pursuant thereto has become void your refund cheque(s) (if any) will be sent to the address on your **YELLOW** Application Form by ordinary post and at your own risk on Tuesday, December 4, 2012.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (c) If you apply through **White Form eIPO** service:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your H Share certificate(s) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, December 4, 2012, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of e-Refund payment instructions/refund cheque(s)/share certificate(s).

If you do not collect your H Share certificate(s) personally within the specified period for collection, they will be sent to the address specified in your instructions to the **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk on Tuesday, December 4, 2012, by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service (www.eipo.com.hk) by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the offer price initially paid on your application, e-refund payment instructions (if any) will be dispatched to the application payment account on Tuesday, December 4, 2012.

If you apply through the **White Form eIPO** service (www.eipo.com.hk) by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the offer price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on Tuesday, December 4, 2012, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in the subsection headed “Applying through **White Form eIPO** service — Additional Information” above.

- (d) If you apply by giving **electronic application instructions** to HKSCC:

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Deposit of H Share Certificates into CCASS and Refund of application monies

No temporary document of title will be issued. No receipt will be issued for application monies received.

If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Tuesday, December 4, 2012, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong Identity Card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner described in the subsection headed “Publication of Results” above on Tuesday, December 4, 2012. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, December 4, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Tuesday, December 4, 2012. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, December 4, 2012. No interest will be paid thereon.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisers for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.



德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

November 22, 2012

The Directors

鄭州煤礦機械集團股份有限公司

Zhengzhou Coal Mining Machinery Group Company Limited

UBS Securities Hong Kong Limited

J.P. Morgan Securities (Far East) Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of 鄭州煤礦機械集團股份有限公司 Zhengzhou Coal Mining Machinery Group Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended December 31, 2011 and the six months ended June 30, 2012 (the “Track Record Period”), for inclusion in the prospectus of the Company dated November 22, 2012 (the “Prospectus”) in connection with the initial public offering and listing of the H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the People’s Republic of China (the “PRC”) on December 28, 2008 as a joint stock company with limited liability under the Company Law of the PRC after a reorganization of 鄭州煤礦機械集團有限責任公司 Zhengzhou Coal Mining Machinery Company (“ZCMM”), a state owned enterprise in the PRC. The reorganization is more fully explained in the paragraphs headed “History and Development” in the section “History, Development and Corporate Structure” of the Prospectus. Since its incorporation, the Company has been the holding company of the Group.

Particulars of the Company's subsidiaries at the end of each reporting period and the date of this report are as follows:

Name of subsidiary	Place and date of establishment/ registration and operation	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company as at December 31,				as at June 30, 2012	as at the date of this report	Principal activities
			2009	2010	2011				
			%	%	%	%	%		
Directly held:									
鄭州煤機液壓電控有限公司 Zhengzhou Coal Mining Machinery Hydraulic Electrical Control Co., Ltd. ("ZMJ Hydraulic Control") (note a)	The PRC April 14, 1999	Registered capital RMB15,000,000	100.00	100.00	100.00	100.00	100.00	100.00	Manufacture of hydraulic products
鄭州煤機綜機設備有限公司 Zhengzhou Coal Mining Machinery Comprehensive Equipment Co., Ltd. ("ZMJ Comprehensive Equipment") (note a)	The PRC September 3, 2004	Registered capital RMB100,000,000	68.89	68.89	68.89	68.89	68.89	68.89	Manufacture of mining machinery
鄭州煤礦機械集團物資供銷有限公司 Zhengzhou Coal Mining Machinery Group Material Trading Co., Ltd. ("ZMJ Material Trading") (note a)	The PRC March 6, 2008	Registered capital RMB10,000,000	100.00	100.00	100.00	100.00	100.00	100.00	Trading of raw materials and products
鄭州煤機長壁機械有限公司 Zhengzhou Coal Mining Longwall Face Machinery Co., Ltd. ("ZMJ Longwall Machinery") (note a)	The PRC March 25, 2009	Registered capital RMB50,000,000	90.80	53.21	53.21	53.21	53.21	53.21	Manufacture of mining machinery
鄭煤機集團璐安新疆機械有限公司 Zhengzhou Coal Mining Machinery Group Lu An Xinjiang Co., Ltd. ("ZMJ Lu An Xinjiang") (notes a and b)	The PRC December 24, 2007	Registered capital RMB50,000,000	54.00	54.00	54.00	54.00	54.00	54.00	Manufacture of mining machinery
淮南鄭煤機舜立機械有限公司 Huainan ZMJ Shun Li Machinery Co., Ltd. ("ZMJ Shun Li Machinery") (notes a and c)	The PRC November 24, 1998	Registered capital RMB78,600,000	N/A	57.97	57.97	57.97	57.97	57.97	Manufacture of mining machinery

Name of subsidiary	Place and date of establishment/ registration and operation	Issued and fully paid up share capital/ registered capital	Attributable equity interest held by the Company as at December 31,			as at June 30, 2012	as at the date of this report	Principal activities
			2009	2010	2011			
			%	%	%	%	%	
Zhengzhou Coal Mining Machinery Siberia Co., Ltd. ("ZMJ Siberia") (note d) . . .	Russia June 2, 2011	Registered capital US\$100,000	N/A	N/A	100.00	100.00	100.00	Aftermarket services of mining machinery
華軒(上海)股權投資基金有限公司 Hua Xuan (Shanghai) Equity Investment Fund Co., Ltd. ("Huaxuan Investment") (notes a and e)	The PRC December 5, 2011	Registered capital RMB500,000,000	N/A	N/A	60.00	60.00	note e	Equity investments and financial management
鄭煤機國際貿易(香港)有限公司 ZMJ International Trading (Hong Kong) Co., Ltd. ("ZMJ Hong Kong") (note f).	Hong Kong November 8, 2012	Share capital US\$7,500,000 (note f)	N/A	N/A	N/A	N/A	100.00	Sale and purchase of industrial and mining machinery and equipment

Indirectly held:

鄭州煤機鑄鍛有限公司 Zhengzhou Coal Mining Zhu Duan Co., Ltd. ("ZMJ Foundry") (notes a and g)	The PRC November 25, 2011	Registered capital RMB30,000,000	N/A	N/A	49.72	49.72	49.72	Sale of molding and metal material

Notes:

- (a) All these subsidiaries are enterprises established in the PRC. The English names of these companies represent management's best efforts to translate the Chinese names of these companies as no English names have been registered.
- (b) ZMJ Lu An Xinjiang was acquired by the Company on November 16, 2009. Please refer to note 40 of Section I for details of the acquisition.
- (c) ZMJ Shun Li Machinery was acquired by the Company on November 10, 2010. Please refer to note 40 of Section I for details of the acquisition.
- (d) ZMJ Siberia was established by the Company on June 2, 2011 in Russia. The English name of this company represents management's best effort to translate the Russian name of this company as no English name has been registered.
- (e) Huaxuan Investment was established by the Company and a non-controlling interest Jin Ling Hua Xin Venture Capital Company Limited 金陵華新創業投資有限公司 ("Huaxin Investment") in 2011 in the PRC. Huaxuan Investment has ceased to be a subsidiary and become an associate of the Company since July 27, 2012 pursuant to shareholders' resolution of Huaxuan Investment on the same date. Please refer to note 47 of Section I for details.
- (f) ZMJ Hong Kong was established by the Company on November 8, 2012 with an issued share capital of US\$7,500,000, which has not been paid up as at the date of this report.
- (g) ZMJ Foundry was established by the Company (38.60%), ZMJ Comprehensive Equipment (13.33%), ZMJ Shun Li Machinery (3.33%) and other non-controlling interests in 2011 in the PRC.

The financial year-end date of the Company and its subsidiaries is December 31.

No audited financial statements have been prepared for ZMJ Siberia, ZMJ Foundry and Huaxuan Investment since their establishment as they have been established for less than one statutory year. For the purpose of this report, we have, however, reviewed all the relevant transactions of ZMJ Siberia, ZMJ Foundry and Huaxuan Investment since their establishment.

The statutory financial statements of the Company and its other subsidiaries for each of the three years ended December 31, 2011 were prepared in accordance with the relevant accounting principles and financial regulations in the PRC and were audited by BDO China Shu Lun Pan Certified Public Accountants LLP registered in the PRC.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) (the “Underlying Financial Statements”). We have carried out an independent audit on the Underlying Financial Statements in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

We have examined the Underlying Financial Statements and carried out additional audit procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 2 of Section I below. No adjustments are deemed necessary by us to the Underlying Financial Statements in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 2 of Section I below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as of December 31, 2009, 2010 and 2011 and June 30, 2012 and of the consolidated results and cash flows of the Group for the Track Record Period.

The comparative consolidated statements of comprehensive income, changes in equity and cash flows of the Group for the six months ended June 30, 2011 together with the notes thereon have been extracted from the Group’s unaudited consolidated financial statements for the same period (the “June 30, 2011 Financial Information”) which were prepared by the directors of Company solely for the purpose of this report. We have reviewed the June 30, 2011 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the June 30, 2011 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in

scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 30, 2011 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 30, 2011 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

I. FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

	NOTES	Year ended December 31,			Six months ended June 30,	
		2009	2010	2011	2011	2012
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	8	4,994,409	6,358,314	8,060,082	3,586,272	4,723,607
Cost of sales		(3,745,659)	(4,723,766)	(6,108,032)	(2,581,730)	(3,388,673)
Gross profit		1,248,750	1,634,548	1,952,050	1,004,542	1,334,934
Other income	10	25,574	41,741	91,251	35,738	59,937
Other gains and losses	11	(36,130)	(62,751)	(44,358)	(13,057)	(35,452)
Selling and distribution expenses		(156,279)	(153,621)	(223,725)	(90,461)	(176,411)
Administrative expenses		(291,641)	(385,525)	(359,534)	(152,746)	(199,877)
Share of profit of associates		449	8,428	11,640	3,430	8,238
Share of profit of jointly controlled entities		—	617	606	319	307
Finance costs	12	(17,503)	(19,078)	(6,904)	(4,639)	(2,039)
Profit before tax		773,220	1,064,359	1,421,026	783,126	989,637
Income tax expense	13	(126,467)	(171,568)	(207,776)	(184,970)	(157,349)
Profit and total comprehensive income for the year/period	14	<u>646,753</u>	<u>892,791</u>	<u>1,213,250</u>	<u>598,156</u>	<u>832,288</u>
Attributable to:						
Owners of the Company		630,414	882,570	1,194,058	590,283	811,915
Non-controlling interests		16,339	10,221	19,192	7,873	20,373
		<u>646,753</u>	<u>892,791</u>	<u>1,213,250</u>	<u>598,156</u>	<u>832,288</u>
EARNINGS PER SHARE						
— Basic and diluted (RMB) ...	18	<u>0.56</u>	<u>0.71</u>	<u>0.85</u>	<u>0.42</u>	<u>0.58</u>

Consolidated Statements of Financial Position

	NOTES	At December 31,			At
		2009	2010	2011	June 30,
		RMB'000	RMB'000	RMB'000	2012
					RMB'000
Non-current Assets					
Property, plant and equipment.....	19	412,024	1,058,807	1,495,868	1,602,846
Prepaid lease payments	20	160,591	217,412	284,320	313,860
Investment properties	21	12,106	11,751	11,392	11,193
Intangible assets	23	523	3,776	6,896	8,388
Investments in associates	25	8,249	16,677	58,001	66,239
Investments in jointly controlled					
entities	26	—	8,338	7,925	7,665
Available-for-sale investments	27	8,335	8,335	8,335	48,335
Deferred tax assets	29	28,511	49,320	54,019	65,780
Other non-current assets	30	—	—	—	138,000
		<u>630,339</u>	<u>1,374,416</u>	<u>1,926,756</u>	<u>2,262,306</u>
Current Assets					
Prepaid lease payments	20	3,319	4,559	5,047	5,929
Inventories	31	1,074,543	1,299,984	1,644,019	2,257,254
Trade and other receivables	32	1,797,599	2,344,807	2,904,096	3,515,254
Financial assets designated as at fair					
value through profit or loss	33	—	—	110,000	—
Tax recoverable.....		360	651	29,046	2,344
Pledged bank deposits	34	251,699	392,463	577,594	441,576
Bank balances and cash.....	34	1,007,203	3,636,274	3,238,928	2,878,059
		<u>4,134,723</u>	<u>7,678,738</u>	<u>8,508,730</u>	<u>9,100,416</u>
Current Liabilities					
Trade and other payables.....	35	1,243,134	2,058,476	2,503,750	3,060,233
Advances from customers.....		1,532,132	1,596,500	1,673,937	1,299,523
Tax liabilities.....		35,198	53,148	10,210	17,582
Borrowings.....	36	100,000	70,000	15,000	10,000
		<u>2,910,464</u>	<u>3,778,124</u>	<u>4,202,897</u>	<u>4,387,338</u>
Net Current Assets		<u>1,224,259</u>	<u>3,900,614</u>	<u>4,305,833</u>	<u>4,713,078</u>
Total Assets Less Current					
Liabilities		<u>1,854,598</u>	<u>5,275,030</u>	<u>6,232,589</u>	<u>6,975,384</u>
Capital and Reserves					
Share capital	38	560,000	700,000	700,000	1,400,000
Share premium		21,421	2,581,823	2,581,823	1,881,823
Reserves		914,625	1,713,195	2,592,253	3,320,168
Equity attributable to owners of					
the Company		1,496,046	4,995,018	5,874,076	6,601,991
Non-controlling interests		63,582	145,042	274,542	294,915
Total Equity		<u>1,559,628</u>	<u>5,140,060</u>	<u>6,148,618</u>	<u>6,896,906</u>
Non-current Liabilities					
Borrowings.....	36	275,000	115,000	65,000	49,500
Other non-current liabilities.....	37	19,970	19,970	18,971	28,978
		<u>294,970</u>	<u>134,970</u>	<u>83,971</u>	<u>78,478</u>

Company's Statements of Financial Position

	NOTES	At December 31,			At
		2009	2010	2011	June 30,
		RMB'000	RMB'000	RMB'000	2012
					RMB'000
Non-current Assets					
Property, plant and equipment	19	276,240	775,071	1,144,655	1,203,531
Prepaid lease payments	20	138,443	175,988	209,468	239,782
Investment properties	21	12,106	11,751	11,392	11,193
Intangible assets		255	3,503	5,391	6,654
Investments in subsidiaries	24	78,830	173,350	485,579	485,579
Investments in associates		4,449	11,987	38,641	46,758
Available-for-sale investments	27	8,335	8,335	8,335	8,335
Loan receivables from a subsidiary	28	20,000	50,000	50,000	50,000
Deferred tax assets	29	21,988	35,150	41,150	48,526
Other non-current assets	30	—	—	—	38,000
		<u>560,646</u>	<u>1,245,135</u>	<u>1,994,611</u>	<u>2,138,358</u>
Current Assets					
Prepaid lease payments	20	2,860	3,692	3,520	4,395
Inventories	31	957,545	978,758	1,148,054	1,767,519
Trade and other receivables	32	1,587,104	2,005,598	2,571,309	3,044,106
Loan receivables from subsidiaries	28	—	—	40,000	40,000
Financial assets designated as at fair value through profit or loss	33	—	—	110,000	—
Tax recoverable		—	—	28,027	2,343
Pledged bank deposits	34	251,699	379,038	520,480	410,907
Bank balances and cash	34	965,809	3,520,768	2,720,271	2,512,317
		<u>3,765,017</u>	<u>6,887,854</u>	<u>7,141,661</u>	<u>7,781,587</u>
Current Liabilities					
Trade and other payables	35	1,079,932	1,624,054	1,964,389	2,541,458
Advances from customers		1,498,324	1,542,025	1,528,786	1,135,508
Tax liabilities		30,451	44,335	—	—
Borrowings	36	100,000	50,000	—	—
		<u>2,708,707</u>	<u>3,260,414</u>	<u>3,493,175</u>	<u>3,676,966</u>
Net Current Assets		<u>1,056,310</u>	<u>3,627,440</u>	<u>3,648,486</u>	<u>4,104,621</u>
Total Assets Less Current Liabilities		<u>1,616,956</u>	<u>4,872,575</u>	<u>5,643,097</u>	<u>6,242,979</u>
Capital and Reserves					
Share capital	38	560,000	700,000	700,000	1,400,000
Share premium		21,421	2,581,823	2,581,823	1,881,823
Reserves	39	815,565	1,570,782	2,342,303	2,942,684
Equity attributable to owners of the Company		1,396,986	4,852,605	5,624,126	6,224,507
Total Equity		<u>1,396,986</u>	<u>4,852,605</u>	<u>5,624,126</u>	<u>6,224,507</u>
Non-current Liabilities					
Borrowings	36	200,000	—	—	—
Other non-current liabilities	37	19,970	19,970	18,971	18,472
		<u>219,970</u>	<u>19,970</u>	<u>18,971</u>	<u>18,472</u>

Consolidated Statements of Changes in Equity

	Share capital	Share premium	Statutory surplus reserve	Other reserves	Retained earnings	Attributable to owners of the Company	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2009	560,000	21,421	27,532	692	272,894	882,539	25,379	907,918
Capital contribution from a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	736	736
Acquisition of a subsidiary (note 40)	—	—	—	—	—	—	21,128	21,128
Profit and total comprehensive income for the year	—	—	—	—	630,414	630,414	16,339	646,753
Disposal of a subsidiary (note 41)	—	—	—	(692)	—	(692)	—	(692)
Transfer	—	—	57,244	—	(57,244)	—	—	—
Dividends (note 17)	—	—	—	—	(16,215)	(16,215)	—	(16,215)
Balance at December 31, 2009	560,000	21,421	84,776	—	829,849	1,496,046	63,582	1,559,628
Issue of A shares (note 38)	140,000	2,560,402	—	—	—	2,700,402	—	2,700,402
Capital contribution from a non-controlling shareholder of a subsidiary ..	—	—	—	—	—	—	22,660	22,660
Acquisition of a subsidiary (note 40)	—	—	—	—	—	—	51,379	51,379
Profit and total comprehensive income for the year	—	—	—	—	882,570	882,570	10,221	892,791
Transfer	—	—	83,922	—	(83,922)	—	—	—
Dividends (note 17)	—	—	—	—	(84,000)	(84,000)	—	(84,000)
Dividends declared to a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	(2,800)	(2,800)
Balance at December 31, 2010	700,000	2,581,823	168,698	—	1,544,497	4,995,018	145,042	5,140,060
Profit and total comprehensive income for the year .	—	—	—	—	1,194,058	1,194,058	19,192	1,213,250
Capital contribution from a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	113,420	113,420
Transfer	—	—	108,652	—	(108,652)	—	—	—
Dividends (note 17)	—	—	—	—	(315,000)	(315,000)	—	(315,000)
Dividends declared to a non-controlling shareholder of a subsidiary	—	—	—	—	—	—	(3,112)	(3,112)
Balance at December 31, 2011	700,000	2,581,823	277,350	—	2,314,903	5,874,076	274,542	6,148,618
Profit and total comprehensive income for the period	—	—	—	—	811,915	811,915	20,373	832,288
Capitalization of share premium	700,000	(700,000)	—	—	—	—	—	—
Dividends (note 17)	—	—	—	—	(84,000)	(84,000)	—	(84,000)
Balance at June 30, 2012	1,400,000	1,881,823	277,350	—	3,042,818	6,601,991	294,915	6,896,906
Balance at December 31, 2010	700,000	2,581,823	168,698	—	1,544,497	4,995,018	145,042	5,140,060
Profit and total comprehensive income for the period (Unaudited)	—	—	—	—	590,283	590,283	7,873	598,156
Balance at June 30, 2011 (Unaudited)	700,000	2,581,823	168,698	—	2,134,780	5,585,301	152,915	5,738,216

Note: In accordance with the relevant PRC laws and regulations and the Articles of Association of the relevant companies, the Company and its PRC subsidiaries are required to appropriate 10% of their profit after taxation as reported in their statutory financial statements prepared under the PRC generally accepted accounting principles to the statutory surplus reserve. The appropriation to the statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant companies.

The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalization issue. However, when converting the statutory surplus reserve of the Company and its subsidiaries into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant companies.

Consolidated Statements of Cash Flows

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES					
Profit before tax.....	773,220	1,064,359	1,421,026	783,126	989,637
Adjustments for:					
Finance costs	17,503	19,078	6,904	4,639	2,039
Interest income	(11,429)	(16,434)	(66,048)	(35,738)	(45,837)
Share of profit of associates.....	(449)	(8,428)	(11,640)	(3,430)	(8,238)
Share of profit of jointly controlled entities .	—	(617)	(606)	(319)	(307)
Depreciation of property, plant and equipment	33,295	43,111	86,866	23,144	67,346
Depreciation of investments properties.....	214	355	359	178	199
Amortization of intangible assets	140	359	1,179	475	942
Release of prepaid lease payments	1,831	3,938	4,992	2,567	2,965
Impairment loss recognized in respect of goodwill.....	2,197	4,319	—	—	—
Allowance provided for doubtful debts.....	36,948	49,207	56,052	14,011	55,025
Write-down (reversal of write-down) of inventories	—	10,017	(210)	—	264
Gain on disposal of property, plant and equipment	(713)	(2,712)	(2,206)	(458)	(3,632)
Gain on disposal of prepaid lease payments .	—	—	(1,890)	—	—
Gain on disposal of a subsidiary	(692)	—	—	—	—
Operating cash flows before movements in working capital	852,065	1,166,552	1,494,778	788,195	1,060,403
Decrease (increase) in inventories	312,734	(120,745)	(343,825)	(133,170)	(613,499)
Increase in trade and other receivables	(631,471)	(464,442)	(614,707)	(146,411)	(634,558)
Increase in trade and other payables	249,370	377,581	207,248	251,838	589,194
Increase (decrease) in advances from customers	(96,635)	64,368	77,437	(181,878)	(374,414)
Cash generated from operations	686,063	1,023,314	820,931	578,574	27,126
Income taxes paid	(109,250)	(172,380)	(283,808)	(207,620)	(135,036)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	576,813	850,934	537,123	370,954	(107,910)

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
INVESTING ACTIVITIES					
Interest received	11,429	16,434	66,048	13,800	22,562
Assets-related government grants received	19,970	—	—	—	10,506
Dividends received from jointly controlled entities	—	—	385	—	1,201
Proceeds on disposal of property, plant and equipment ..	2,330	6,367	4,113	3,214	4,990
Purchases of property, plant and equipment	(119,100)	(485,236)	(414,139)	(272,054)	(238,373)
Payments for prepaid lease payments	(143,024)	(61,999)	(78,682)	(28,693)	(33,387)
Purchases of other intangible assets	(219)	(3,539)	(4,299)	(1,460)	(2,434)
Purchase of financial assets designated as at fair value through profit or loss	—	—	(110,000)	—	(118,883)
Proceeds on disposal of financial assets designated as at fair value through profit or loss	—	—	—	—	230,040
Purchases of available-for-sale investments	—	—	—	—	(40,000)
Acquisition of investment in associates	(7,000)	—	(21,500)	(21,500)	—
Acquisition of a subsidiary (note 40)	(8,880)	(9,505)	—	—	—
Disposal of a subsidiary (note 41)	(3,652)	—	—	—	—
Placement of bank deposits with original maturity over three months	—	(1,950,000)	—	—	—
Withdrawal of bank deposits with original maturity over three months	—	—	520,000	300,000	220,000
Payment of pledged bank deposits	—	(649,401)	(1,102,804)	(573,340)	(421,701)
Withdrawal of pledged bank deposits	—	508,637	917,673	391,861	557,719
Prepayment for establishment of an associate (note 30)	—	—	—	—	(38,000)
Advance to a third party for potential investments (note 30)	—	—	—	—	(100,000)
NET CASH (USED IN) FROM					
INVESTING ACTIVITIES	(248,146)	(2,628,242)	(223,205)	(188,172)	54,240
FINANCING ACTIVITIES					
Issue of A shares	—	2,700,402	—	—	—
Listing expense	—	(9,478)	—	—	(10,141)
Capital contribution from a non-controlling shareholder of a subsidiary	736	22,660	113,420	—	—
Proceeds from new borrowings raised	302,000	140,000	15,000	3,000	—
Repayment of borrowings	(304,899)	(330,000)	(120,000)	(60,000)	(20,500)
Interest paid	(17,503)	(19,078)	(6,904)	(4,639)	(2,039)
Dividends paid	(21,466)	(48,127)	(192,780)	—	(54,519)
NET CASH FROM (USED IN) FINANCING					
ACTIVITIES	(41,132)	2,456,379	(191,264)	(61,639)	(87,199)
NET INCREASE (DECREASE) IN CASH AND CASH					
EQUIVALENTS	287,535	679,071	122,654	121,143	(140,869)
CASH AND CASH EQUIVALENTS AT BEGINNING					
OF YEAR/PERIOD	719,668	1,007,203	1,686,274	1,686,274	1,808,928
CASH AND CASH EQUIVALENTS AT END OF					
YEAR/PERIOD					
Represented by bank balances and cash (note 34)	1,007,203	1,686,274	1,808,928	1,807,417	1,668,059

NOTES TO FINANCIAL INFORMATION**1. GENERAL INFORMATION**

The Company was established in the PRC on December 28, 2008 as a joint stock company with limited liability under the Company Law of the PRC after a reorganization of ZCMM, a state owned enterprise in the PRC. In the opinion of the directors of the Company, the parent of the Company is the State-owned Assets Supervision and Administration Commission of Henan Provincial People's Government ("Henan SASAC") of the PRC Government.

On August 3, 2010, the Company completed its initial public offering and listing of 140,000,000 A shares on the Shanghai Stock Exchange under the stock code 601717.SS.

The respective addresses of the registered office and the principal place of business of the Company are disclosed in the section "Corporation Information" of the Prospectus. The Group is engaged in the manufacturing of coal mining machinery.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company and its principal subsidiaries.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

During the Track Record Period, the Company has been the holding company of its subsidiaries, namely ZMJ Hydraulic Control, ZMJ Comprehensive Equipment, ZMJ Material Trading, ZMJ Longwall Machinery, ZMJ Lu An Xinjiang, ZMJ Shun Li Machinery, ZMJ Siberia, ZMJ Foundry and Huaxuan Investment.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows reflect the Group's performance and cash flow throughout the Track Record Period, or since the date of establishment or acquisition of the relevant subsidiaries where this is a shorter period. The consolidated statements of financial position as at December 31, 2009, 2010, 2011 and June 30, 2012 present the assets and liabilities of the companies now comprising the Group, taking into account the subsidiaries which had been acquired or established as at the relevant dates during the Track Record Period.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, the Group has applied all IFRSs which are effective for the Group's financial year beginning on January 1, 2012 consistently throughout the Track Record Period.

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretations which are not yet effective:

IFRSs (Amendments)	Annual Improvements to IFRSs 2009-2011 Cycle ¹
IFRS 1 (Amendments)	Government Loans ¹
IFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities ¹
IFRS 9	Financial Instruments ²
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures ²
IFRS 10, IFRS 11 and IFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ⁴
IFRS 9	Financial Instruments ²
IFRS 10	Consolidated Financial Statements ¹
IFRS 11	Joint Arrangements ¹
IFRS 12	Disclosure of Interests in Other Entities ¹
IFRS 13	Fair Value Measurement ¹
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ³
IAS 19 (Revised 2011)	Employee Benefits ¹
IAS 27 (Revised 2011)	Separate Financial Statements ¹
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ¹
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ⁴
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after January 1, 2013

² Effective for annual periods beginning on or after January 1, 2015

³ Effective for annual periods beginning on or after July 1, 2012

⁴ Effective for annual periods beginning on or after January 1, 2014

The Group has not early adopted these new and revised standards, amendments or interpretations in the preparation of the Financial Information. The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no significant impact on the Financial Information except for the following:

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below:

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC 12 *Consolidation — Special Purpose Entities*. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its

power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the accounting policies set out below which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity attributable to the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognizes the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognizes the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognized as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace the share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from

interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interests were disposed of.

Changes in the value of the previously held equity interest recognized in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes

any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any

long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognized when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sales of coal mining machinery in the ordinary course of business is recognized when the respective machinery have been completed, delivered to and accepted by the buyers. Deposits and installments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from the sale of materials and spare parts is recognized when the goods are delivered and title has passed.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognized.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets*Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the standard cost method.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are financial assets designated as at FVTPL on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit

or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables and borrowings) are subsequently measured at amortized cost, using the effective interest method.

Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, canceled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to

settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

Revenue recognition

The Group sells hydraulic roof supports and is required to install them on the customers' premises. The directors of the Company were required to consider whether it is appropriate to recognize the revenue from these transactions when the hydraulic roof supports are delivered to the customers, or whether it is more appropriate to recognize the revenue upon completion of installation of hydraulic roof supports.

In making their judgment, the directors considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 Revenue and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the goods. As the installation is an integral part of the transaction and the installation process is not simple in nature, the directors consider the installation cannot be unbundled from the sales of hydraulic roof supports and the significant risks and rewards of the transaction could only be transferred to the customers upon the completion of installation. Thus, the directors are satisfied that recognition of the revenue from sales of hydraulic roof supports upon the completion of installation is appropriate.

Key sources of estimation uncertainty

The following are the 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 year.

Estimated useful lives and residual values of property, plant and equipment and investment properties

The Group estimates the useful lives residual values and related depreciation charges for its items of property, plant and equipment and investment properties. This estimate is based on the management's experience of the actual useful lives and residual values of items of property, plant and equipment and investment properties of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives and residual values are less than previously estimated. The carrying amounts of property, plant and equipment as at December 31, 2009, 2010, 2011 and June 30, 2012 were RMB412,024,000, RMB1,058,807,000, RMB1,495,868,000 and RMB1,602,846,000 respectively. The carrying amounts of investment properties as at December 31, 2009, 2010, 2011 and June 30, 2012 were RMB12,106,000, RMB11,751,000, RMB11,392,000 and RMB11,193,000 respectively.

Write-down of inventories

Inventories are carried at the lower of cost and net realizable value. The Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a market price lower than their carrying amount or are slow-moving or obsolete, the Group will write down inventories in the current year. As at December 31, 2009, 2010, 2011 and June 30, 2012 the carrying amounts of inventories were RMB1,074,543,000, RMB1,299,984,000, RMB1,644,019,000 and RMB2,257,254,000 respectively.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2009, 2010, 2011 and June 30, 2012 the carrying amount of trade receivables were RMB1,009,201,000, RMB1,622,589,000 and RMB1,714,978,000 and RMB2,580,885,000 respectively.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of debts, which includes the borrowings disclosed in note 36, and equity attributable to owners of the Company, comprising share capital, share premium and other reserves.

The management of the Company reviews the capital structure on an annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Financial assets				
Financial assets designated as at fair value through profit or loss	—	—	110,000	—
Loans and receivables (including cash and cash equivalents)	2,862,593	6,112,372	6,199,455	6,472,704
Available-for-sale investments	8,335	8,335	8,335	48,335
Total	<u>2,870,928</u>	<u>6,120,707</u>	<u>6,317,790</u>	<u>6,521,039</u>
Financial liabilities				
Amortized cost	<u>1,602,454</u>	<u>2,221,661</u>	<u>2,559,753</u>	<u>3,091,089</u>
The Company				
Financial assets				
Financial assets designated as at fair value through profit or loss	—	—	110,000	—
Loans and receivables (including cash and cash equivalents)	2,675,502	5,675,571	5,306,231	5,520,665
Available-for-sale investments	8,335	8,335	8,335	8,335
Total	<u>2,683,837</u>	<u>5,683,906</u>	<u>5,424,566</u>	<u>5,529,000</u>
Financial liabilities				
Amortized cost	<u>1,370,818</u>	<u>1,662,991</u>	<u>1,952,584</u>	<u>2,530,362</u>

Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, pledged bank deposits, cash and bank balances, trade and other payables, and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risks or the manner in which it manages and measures the risks for the Track Record Period.

(i) **Currency risk**

The primary economic environment in which the company and its principal subsidiaries operate is the PRC and their functional currency is RMB. However, certain transactions of the company and its principal subsidiaries including sales and purchases of goods are denominated in foreign currencies.

The Group and the Company currently do not have a foreign currency hedging policy but the management of the Group and the Company monitors foreign exchange exposure by closely monitoring the foreign exchange risk profile and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the group's and company's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group and the Company				
Assets:				
US\$	23,449	22,696	74,136	49,092
EUR.....	1,673	633	424	455
	<u>23,449</u>	<u>22,696</u>	<u>74,136</u>	<u>49,092</u>
Liabilities:				
US\$	42,060	22,812	215,807	3,012
EUR.....	34,922	31,843	29,514	28,460
	<u>34,922</u>	<u>31,843</u>	<u>29,514</u>	<u>28,460</u>

The Group and the Company are mainly exposed to the foreign currency risk between US\$/RMB and EUR/RMB.

Sensitivity analysis

The following table details the Group's and Company's sensitivity to a 5% appreciation and depreciation in each relevant against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year and a negative number below indicates a decrease in post-tax profit for the year where the relevant foreign currencies change 5% against RMB.

	Year ended at December 31,			Six months ended at June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group and the Company				
US\$ impact				
— if US\$ strengthens against RMB....	(930)	(5)	(7,084)	1,958
— if US\$ weakens against RMB	<u>930</u>	<u>5</u>	<u>7,084</u>	<u>(1,958)</u>
Euro impact				
— if EUR strengthens against RMB ...	(1,662)	(1,560)	(1,454)	(1,190)
— if EUR weakens against RMB	<u>1,662</u>	<u>1,560</u>	<u>1,454</u>	<u>1,190</u>

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the Track Record Period.

(ii) Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 36 for details of these borrowings). The Group and the Company are also exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposits, bank balances and variable-rate borrowings (see notes 34 and 36 for details of these pledged bank deposits, bank balances and borrowings, respectively). Currently, the Group does not have a specific policy to manage its interest rate risk, but the management will closely monitor interest rate exposures and consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial instruments (including pledged bank deposits, bank balances and borrowings) at the end of each reporting period and the expected changes in interest rates taking place at the beginning of the financial year and being held constant throughout the reporting period in the case of pledged bank deposits, bank balances and borrowings.

A 10 basis point increase or decrease in interest rates on variable-rate pledged bank deposits and bank balance, and a 100 basis-point increase or decrease in interest rate on variable-rate borrowings are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If the interest rates on variable-rate pledged bank deposits and bank balances had been 10 basis points higher and all other variables were held constant, the post-tax profit for the year would have increased by:

	Year ended at December 31,			Six months ended at June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Increase in post-tax profit for the year/period	<u>856</u>	<u>1,348</u>	<u>1,172</u>	<u>1,197</u>
The Company				
Increase in post-tax profit for the year/period	<u>821</u>	<u>1,250</u>	<u>731</u>	<u>886</u>

The post-tax profit for the year/period would have decreased by the same amount as mentioned above if the interest rates on variable-rate pledged bank deposits and bank balances had been 10 basis points lower and all other variables were held constant.

If the interest rates on variable-rate borrowings had been 100 basis points higher and all other variables were held constant, post-tax profit for the year/period after taking into consideration of capitalization of interest would have decreased by:

	Year ended at December 31,			Six months ended at June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Decrease in post-tax profit for the year/period	<u>(3,188)</u>	<u>(1,573)</u>	<u>(680)</u>	<u>(506)</u>
The Company				
Decrease in post-tax profit for the year/period	<u>(2,550)</u>	<u>(425)</u>	<u>—</u>	<u>—</u>

The post-tax profit for the year/period after taking into consideration the capitalization of interest would have increased by the same amount as mentioned above if the interest rates on variable-rate borrowings had been 100 basis points lower and all other variables were held constant.

Credit risk

As at December 31, 2009, 2010, 2011 and June 30, 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position.

In order to minimize the credit risk, the management of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the management of the Company reviews the recoverability of each trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Company considers that the Group's credit risk is significantly reduced.

The Group and the company have concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are state-owned banks with good reputation or banks with good credit rating assigned by international credit-rating agencies and with good reputation.

The Group and the Company have concentration of credit risk on the Group's and the Company's trade receivables and bills receivable. For trade receivables and bills receivable, most of the large customers are located in the PRC. The five largest trade receivables represented approximately 32.08%, 18.85%, 15.44% and 18.17% of the trade receivables and bills receivable of the Group and approximately 36.59%, 21.39%, 18.59% and 21.96% of the trade receivables and bills receivable of the Company as at December 31, 2009, 2010, 2011 and June 30, 2012 respectively.

The Company also has concentration of credit risk on its loan receivables from subsidiaries. The balances of loan receivables from three subsidiaries amounted to RMB20,000,000, RMB50,000,000, RMB90,000,000 and RMB90,000,000 as at December 31, 2009, 2010, 2011 and June 30, 2012, respectively. Please refer to note 28 of Section I for details.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand or less than 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Total undiscounted cashflows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group								
As at December 31, 2009								
Trade and other payables...	—	878,821	348,633	—	—	—	1,227,454	1,227,454
Borrowings	5.1	4,773	111,853	119,298	156,147	20,673	412,744	375,000
		<u>883,594</u>	<u>460,486</u>	<u>119,298</u>	<u>156,147</u>	<u>20,673</u>	<u>1,640,198</u>	<u>1,602,454</u>
As at December 31, 2010								
Trade and other payables...	—	1,302,426	734,235	—	—	—	2,036,661	2,036,661
Borrowings	5.6	51,969	25,451	19,364	100,788	9,889	207,461	185,000
		<u>1,354,395</u>	<u>759,686</u>	<u>19,364</u>	<u>100,788</u>	<u>9,889</u>	<u>2,244,122</u>	<u>2,221,661</u>
As at December 31, 2011								
Trade and other payables...	—	1,695,079	784,674	—	—	—	2,479,753	2,479,753
Borrowings	6.4	1,286	18,418	4,155	67,502	—	91,361	80,000
Financial guarantee contracts.....	—	5,246	—	—	—	—	5,246	—
		<u>1,701,611</u>	<u>803,092</u>	<u>4,155</u>	<u>67,502</u>	<u>—</u>	<u>2,576,360</u>	<u>2,559,753</u>
As at June 30, 2012								
Trade and other payables...	—	2,475,067	556,522	—	—	—	3,031,589	3,031,589
Borrowings	6.3	10,823	2,305	51,549	—	—	64,677	59,500
Financial guarantee contracts.....	—	11,900	—	—	—	—	11,900	—
		<u>2,497,790</u>	<u>558,827</u>	<u>51,549</u>	<u>—</u>	<u>—</u>	<u>3,108,166</u>	<u>3,091,089</u>

	Weighted average interest rate	On demand or less than 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Total undiscounted cashflows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Company								
As at December 31, 2009								
Trade and other payables. . . .	—	768,186	302,632	—	—	—	1,070,818	1,070,818
Borrowings	4.9	3,665	108,525	105,063	100,405	—	317,658	300,000
		<u>771,851</u>	<u>411,157</u>	<u>105,063</u>	<u>100,405</u>	<u>—</u>	<u>1,388,476</u>	<u>1,370,818</u>
As at December 31, 2010								
Trade and other payables. . . .	—	892,887	720,104	—	—	—	1,612,991	1,612,991
Borrowings	5.0	50,007	—	—	—	—	50,007	50,000
		<u>942,894</u>	<u>720,104</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,662,998</u>	<u>1,662,991</u>
As at December 31, 2011								
Trade and other payables. . . .	—	<u>1,282,078</u>	<u>670,506</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,952,584</u>	<u>1,952,584</u>
As at June 30, 2012								
Trade and other payables. . . .	—	<u>1,985,952</u>	<u>544,410</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,530,362</u>	<u>2,530,362</u>

The Group and the Company are also exposed to liquidity risk in relation to the endorsed and derecognized bills receivable (see note 46 of Section I for details). The following table details the Group's remaining contractual maturity in respect of the endorsed and derecognized bills receivable. The table has been drawn up based on the undiscounted cash flows maturity in respect of the endorsed and derecognized bills receivable based on the earliest date on which the Group may be required to pay. In the opinion of the directors of the Company, the risk of the default in payment of the endorsed and derecognized bills receivable is low because all endorsed and derecognized bills receivable are issued and guaranteed by the reputable PRC banks. The maximum exposure to the Group that may result from the default is the total undiscounted cash flows of the endorsed and derecognized bills receivable.

	Weighted average interest rate	On demand or less than 3 months	3 months to 1 year	1 year to 2 years	2 years to 5 years	Over 5 years	Total undiscounted cashflows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group								
As at December 31, 2009 . .	—	462,438	191,575	—	—	—	654,013	—
As at December 31, 2010 . .	—	461,546	415,526	—	—	—	877,072	—
As at December 31, 2011 . .	—	807,804	619,694	—	—	—	1,427,498	—
As at June 30, 2012	—	526,528	1,324,242	—	—	—	1,850,770	—
The Company								
As at December 31, 2009 . .	—	357,835	107,305	—	—	—	465,140	—
As at December 31, 2010 . .	—	209,921	178,465	—	—	—	388,386	—
As at December 31, 2011 . .	—	320,862	352,540	—	—	—	673,402	—
As at June 30, 2012	—	413,360	228,050	—	—	—	641,410	—

Fair value

The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets is determined with reference to quoted market bid prices and ask prices respectively.

The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

8. REVENUE

The Group is engaged in the manufacture and sale of coal mining machinery. The Group's revenue arises on sales of hydraulic roof supports, steel and other materials trading, the sales of spare parts and other coal mining equipment for the Track Record Period.

The following table sets forth a breakdown of the Group's revenue for the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of hydraulic roof supports ...	4,062,709	4,593,394	5,641,994	2,675,225	3,272,235
Revenue from steel and other materials trading.....	583,041	1,247,850	1,854,653	613,792	1,120,575
Sales of spare parts	308,634	450,132	393,797	213,748	154,773
Sales of other coal mining equipment.....	29,861	52,511	122,444	55,764	145,400
Other revenue	10,164	14,427	47,194	27,743	30,624
	<u>4,994,409</u>	<u>6,358,314</u>	<u>8,060,082</u>	<u>3,586,272</u>	<u>4,723,607</u>

9. SEGMENT INFORMATION

The Group identifies an operating segment which is a component of the Group (a) that engages in business activities from which it may earn revenues and incur expenses; and (b) whose operating results are reviewed regularly by the executive directors, the chief operating decision maker, to make decisions about resources allocation and performance assessment.

The Group has only one operating segment which is the manufacture of coal mining machinery and the Group's operating results before tax are reviewed regularly by the Group's chief operating decision maker to make decisions about resources allocation and performance assessment. As no other discretionary financial information is provided to the Group's chief operating decision maker, no segment information is presentation other than the entity-wide information.

Information about major customers

The following illustrates the revenue from customers contributing over 10% of the total revenue of the Group during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Customer A	1,045,805	N/A ¹	1,333,428	1,177,527	522,000
Customer B	N/A ¹	N/A ¹	935,058	N/A ¹	475,600

¹. The corresponding revenue did not contribute over 10% of the total sales of the Group.

Geographical information

The analysis of revenue by geographical location of customers for the Track Record Period is as follows:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
The PRC	4,977,369	6,274,596	7,851,914	3,472,895	4,443,208
Russia	16,988	82,756	202,359	109,908	280,399
Other countries	52	962	5,809	3,469	—
	<u>4,994,409</u>	<u>6,358,314</u>	<u>8,060,082</u>	<u>3,586,272</u>	<u>4,723,607</u>

No geographical segment information for assets is presented as the Group's non-current assets are mostly located in the PRC, which is considered to be one geographical location with similar risks and returns.

10. OTHER INCOME

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Government grants (Note)	14,145	25,307	25,203	—	14,100
Interest income on bank deposits ..	<u>11,429</u>	<u>16,434</u>	<u>66,048</u>	<u>35,738</u>	<u>45,837</u>
	<u>25,574</u>	<u>41,741</u>	<u>91,251</u>	<u>35,738</u>	<u>59,937</u>

Note: Government grants mainly represent unconditional government grants received from the local government for compensation of research and development expenses incurred.

11. OTHER GAINS AND LOSSES

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Gain on disposal of property, plant and equipment	713	2,712	2,206	458	3,632
Gain on disposal of prepaid lease payments	—	—	1,890	—	—
Gain on disposal of a subsidiary ...	692	—	—	—	—
Gain on disposal of held for trading investment	—	—	—	—	17,320
Net foreign exchange gains (losses)	890	(839)	6,546	(131)	(450)
Allowance for doubtful debts	(36,948)	(49,207)	(56,052)	(14,011)	(55,025)
Write-down of inventories	—	(10,017)	210	—	(264)
Impairment loss recognized in respect of goodwill	(2,197)	(4,319)	—	—	—
Others	720	(1,081)	842	627	(665)
	<u>(36,130)</u>	<u>(62,751)</u>	<u>(44,358)</u>	<u>(13,057)</u>	<u>(35,452)</u>

12. FINANCE COSTS

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on:					
Bank loans and other borrowings wholly repayable within five years	15,942	16,009	7,857	5,116	2,505
Bank loans and other borrowings not wholly repayable within five years	1,561	4,625	—	—	—
Less: Capitalization	—	(1,556)	(953)	(477)	(466)
	<u>17,503</u>	<u>19,078</u>	<u>6,904</u>	<u>4,639</u>	<u>2,039</u>

13. INCOME TAX EXPENSE

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax:					
— PRC enterprise income tax ...	140,383	192,584	223,184	198,909	168,252
Under (over) provision in prior years:					
— PRC enterprise income tax ...	—	(2,545)	(10,709)	(10,709)	858
Deferred tax:					
— Current year/period	(13,916)	(18,826)	(8,114)	(3,230)	(11,761)
— Attributable to change in applicable tax rate	—	355	3,415	—	—
	(13,916)	(18,471)	(4,699)	(3,230)	(11,761)
	<u>126,467</u>	<u>171,568</u>	<u>207,776</u>	<u>184,970</u>	<u>157,349</u>

The tax rates of the major group entities for the Track Record Period are as follows:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
The Company (Note 1)	15%	15%	15%	25%	15%
ZMJ Comprehensive Equipment (Note 2)	25%	15%	15%	15%	15%
ZMJ Hydraulic Control (Note 3) ...	25%	15%	15%	15%	15%
ZMJ Material Trading	25%	25%	25%	25%	25%
ZMJ Longwall Machinery	25%	25%	25%	25%	25%
ZMJ Lu An Xinjiang	25%	25%	25%	25%	25%
ZMJ Shun Li Machinery	N/A	25%	25%	25%	25%
ZMJ Siberia	N/A	N/A	20%	20%	20%
ZMJ Foundry	N/A	N/A	25%	N/A	25%
Huaxuan Investment	N/A	N/A	25%	N/A	25%

Note 1: The Company received the High and New Technology Enterprises Certificate on October 28, 2011, which entitles to a preferential tax rate of 15% from January 1, 2011 to December 31, 2013. The company previously was entitled to a preferential tax rate of 15% in 2009 and 2010 under a separate certificate, which expired on December 31, 2010. Since the Company had not yet received the renewed High and New Technology Enterprises Certificate by June 30, 2011 and the previous one was expired at that time, the income tax expense for the six months ended June 30, 2011 was calculated based on the statutory income tax rate of 25%.

Note 2: ZMJ Comprehensive Equipment received the High and New Technology Enterprises Certificate on November 8, 2010 and is entitled to a preferential tax rate of 15% from January 1, 2010 to December 31, 2012.

Note 3: ZMJ Hydraulic Control received the High and New Technology Enterprises Certificate on August 8, 2010 and is entitled to a preferential tax rate of 15% from January 1, 2010 to December 31, 2012.

The tax charge for the Track Record Period can be reconciled to the profit per the consolidated statements of comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax.....	773,220	1,064,359	1,421,026	783,126	989,637
Tax at the PRC enterprise income tax rate of 15% (June 30, 2011: 25%) (Note)	115,983	159,654	213,154	195,782	148,446
Tax effect of share of profit of associates and jointly control entities	(67)	(1,357)	(1,837)	(937)	(1,282)
Tax effect of expenses not deductible for tax purpose	2,438	2,562	2,630	2,498	1,698
Under/(over) provision in prior years	—	(2,545)	(10,709)	(10,709)	858
Tax effect of tax losses not recognized	1,504	2,654	1,646	839	1,896
Effect of different tax rate of subsidiaries	9,725	10,245	3,151	(2,503)	5,733
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate	—	355	3,415	—	—
Others — additional deduction of research and development expenses	(3,116)	—	(3,674)	—	—
	<u>126,467</u>	<u>171,568</u>	<u>207,776</u>	<u>184,970</u>	<u>157,349</u>

Note: Since the Company had not yet received the renewed High and New Technology Enterprises Certificate by June 30, 2011 and the previous certificate was expired at that time, the income tax expense for the six months ended June 30, 2011 was calculated based on the statutory income tax rate of 25%.

Details of deferred taxation for the Track Record Period are set out in note 29.

14. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period has been arrived at after charging (crediting):

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Depreciation for property, plant and equipment	33,295	43,111	86,866	23,144	67,346
Depreciation for investment properties	214	355	359	178	199
Amortization of intangible assets ..	140	359	1,179	475	942
Release of prepaid lease payments .	1,831	3,938	4,992	2,567	2,965
	<u>35,480</u>	<u>47,763</u>	<u>93,396</u>	<u>26,364</u>	<u>71,452</u>
Employee benefits expenses (including directors):					
— Salaries and other benefits....	289,140	353,524	367,795	190,756	191,511
— Retirement benefit scheme contributions	31,765	35,423	43,467	24,189	27,612
	<u>320,905</u>	<u>388,947</u>	<u>411,262</u>	<u>214,945</u>	<u>219,123</u>
Auditors' remuneration	<u>500</u>	<u>780</u>	<u>680</u>	<u>340</u>	<u>340</u>
Impairment loss on trade and other receivables	<u>36,948</u>	<u>49,207</u>	<u>56,052</u>	<u>14,011</u>	<u>55,025</u>
Cost of inventories recognized as an expense	<u>3,745,659</u>	<u>4,723,766</u>	<u>6,108,032</u>	<u>2,581,730</u>	<u>3,388,673</u>
Research and development expenses	<u>59,722</u>	<u>86,953</u>	<u>104,143</u>	<u>55,828</u>	<u>46,194</u>
Gross rental income from investment properties	(1,179)	(2,168)	(2,125)	(1,063)	(1,338)
Less: direct operating expenses from investment properties that generated rental income	<u>254</u>	<u>697</u>	<u>654</u>	<u>328</u>	<u>304</u>
	<u>(925)</u>	<u>(1,471)</u>	<u>(1,471)</u>	<u>(735)</u>	<u>(1,034)</u>
Operating lease rentals in respect of rented premises	<u>5,454</u>	<u>5,348</u>	<u>5,966</u>	<u>2,612</u>	<u>2,612</u>

15. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the emoluments paid and payable to directors and supervisors for the Track Record Period are as follows:

For the year ended December 31, 2009					
	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Directors' fee	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>					
Mr. Jiao Chengyao	167	350	85	—	602
Mr. Shao Chunsheng	159	333	84	—	576
Mr. Xiang Jiayu	159	333	69	—	561
Mr. Guo Haofeng	137	439	93	—	669
Mr. Wang Xinying	137	266	69	—	472
Sub-total	759	1,721	400	—	2,880
<i>Non-executive directors</i>					
Mr. Zhou Shuiwen	—	—	—	—	—
Sub-total	—	—	—	—	—
<i>Independent non-executive directors</i>					
Mr. Gao Guoan	—	—	—	80	80
Mr. Li Bin	—	—	—	80	80
Mr. Luo Jiamang	—	—	—	80	80
Sub-total	—	—	—	240	240
<i>Supervisors</i>					
Ms. Shi Aizhen	112	99	30	—	241
Mr. Ni Heping	165	182	58	—	405
Mr. Jia Jingcheng	108	101	30	—	239
Mr. Chen Fugang	—	—	—	—	—
Mr. Liu Xiaobing	—	—	—	—	—
Mr. Li Shouyu	—	—	—	—	—
Ms. Ren Na	—	—	—	—	—
Sub-total	385	382	118	—	885
Total	1,144	2,103	518	240	4,005

For the year ended December 31, 2010					
	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Directors' fee	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>					
Mr. Jiao Chengyao.....	271	248	94	—	613
Mr. Shao Chunsheng.....	271	223	94	—	588
Mr. Xiang Jiayu.....	271	223	80	—	574
Mr. Guo Haofeng	220	363	104	—	687
Mr. Wang Xinying	220	266	75	—	561
Sub-total	1,253	1,323	447	—	3,023
<i>Non-executive directors</i>					
Mr. Zhou Shuiwen	—	—	—	—	—
Sub-total	—	—	—	—	—
<i>Independent non-executive directors</i>					
Mr. Gao Guoan.....	—	—	—	80	80
Mr. Li Bin	—	—	—	80	80
Mr. Luo Jiamang.....	—	—	—	80	80
Sub-total	—	—	—	240	240
<i>Supervisors</i>					
Ms. Shi Aizhen.....	142	118	34	—	294
Mr. Ni Heping	220	302	68	—	590
Mr. Jia Jingcheng	148	116	34	—	298
Mr. Chen Fugang	—	—	—	—	—
Mr. Liu Xiaobing	—	—	—	—	—
Mr. Li Shouyu	—	—	—	—	—
Ms. Ren Na	—	—	—	—	—
Sub-total	510	536	136	—	1,182
Total.....	1,763	1,859	583	240	4,445

For the year ended December 31, 2011

	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Directors' fee	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>					
Mr. Jiao Chengyao.....	273	248	78	—	599
Mr. Shao Chunsheng.....	273	223	80	—	576
Mr. Xiang Jiayu.....	273	223	73	—	569
Mr. Guo Haofeng	297	192	94	—	583
Mr. Wang Xinying	222	301	64	—	587
Sub-total	<u>1,338</u>	<u>1,187</u>	<u>389</u>	<u>—</u>	<u>2,914</u>
<i>Non-executive directors</i>					
Mr. Zhou Shuiwen	—	—	—	—	—
Sub-total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Independent non-executive directors</i>					
Mr. Gao Guoan.....	—	—	—	80	80
Mr. Li Bin	—	—	—	80	80
Mr. Luo Jiamang.....	—	—	—	80	80
Sub-total	<u>—</u>	<u>—</u>	<u>—</u>	<u>240</u>	<u>240</u>
<i>Supervisors</i>					
Mr. Ni Heping	223	317	86	—	626
Mr. Jia Jingcheng	127	115	38	—	280
Mr. Xu Yongen	127	125	38	—	290
Ms. Xu Mingkai	106	105	38	—	249
Mr. Ding Hui.....	220	287	75	—	582
Mr. Li Shouyu	—	—	—	—	—
Ms. Ren Na	—	—	—	—	—
Sub-total	<u>803</u>	<u>949</u>	<u>275</u>	<u>—</u>	<u>2,027</u>
Total.....	<u>2,141</u>	<u>2,136</u>	<u>664</u>	<u>240</u>	<u>5,181</u>

For the six months ended June 30, 2011

	Salaries and other benefits	Retirement benefit scheme contributions	Directors' fee	Total
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
<i>Executive directors</i>				
Mr. Jiao Chengyao	136	40	—	176
Mr. Shao Chunsheng	136	40	—	176
Mr. Xiang Jiayu	136	36	—	172
Mr. Guo Haofeng	148	46	—	194
Mr. Wang Xinying	112	32	—	144
Sub-total	<u>668</u>	<u>194</u>	<u>—</u>	<u>862</u>
<i>Non-executive directors</i>				
Mr. Zhou Shuiwen	—	—	—	—
Sub-total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Independent non-executive directors</i>				
Mr. Gao Guoan	—	—	40	40
Mr. Li Bin	—	—	40	40
Mr. Luo Jiamang	—	—	40	40
Sub-total	<u>—</u>	<u>—</u>	<u>120</u>	<u>120</u>
<i>Supervisors</i>				
Mr. Ni Heping	112	44	—	156
Mr. Jia Jingcheng	64	20	—	84
Mr. Xu Yongen	64	20	—	84
Mr. Xu Mingkai	54	20	—	74
Mr. Ding Hui	110	36	—	146
Mr. Li Shouyu	—	—	—	—
Ms. Ren Na	—	—	—	—
Sub-total	<u>404</u>	<u>140</u>	<u>—</u>	<u>544</u>
Total	<u>1,072</u>	<u>334</u>	<u>120</u>	<u>1,526</u>

For the six months ended June 30, 2012

	Salaries and other benefits	Retirement benefit scheme contributions	Directors' fee	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Executive directors</i>				
Mr. Jiao Chengyao	138	34	—	172
Mr. Shao Chunsheng	138	34	—	172
Mr. Xiang Jiayu	262	32	—	294
Mr. Fu Zugang	212	44	—	256
Mr. Wang Xinying	212	28	—	240
Sub-total	962	172	—	1,134
<i>Independent non-executive directors</i>				
Mr. Lin Zhijun	—	—	72	72
Mr. Gao Guoan	—	—	40	40
Mr. Li Bin	—	—	40	40
Mr. Luo Jiamang	—	—	40	40
Sub-total	—	—	192	192
<i>Supervisors</i>				
Mr. Ni Heping	156	32	—	188
Mr. Jia Jingcheng	90	18	—	108
Mr. Xu Yongen	68	12	—	80
Mr. Xu Mingkai	74	14	—	88
Mr. Ding Hui	146	28	—	174
Mr. Wang Tiehan	78	14	—	92
Mr. Lv Yu	—	—	—	—
Sub-total	612	118	—	730
Total	1,574	290	192	2,056

During the Track Record Period, no remuneration was paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or supervisors has waived any remuneration during the Track Record Period.

16. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three were directors or supervisors of the Company for the year ended December 31, 2009 and December 31, 2011 and six months ended June 30, 2011 (unaudited) and June 30, 2012, respectively, whose emoluments are included in the disclosures in note 15 above. The five highest paid individuals for the year ended December 31, 2010 were all directors or supervisors of the Company and details of their emoluments are included in note 15 above.

The emoluments of the remaining two individuals for the year ended December 31, 2009 and December 31, 2011 and six months ended June 30, 2011 (unaudited) and June 30, 2012 were as follows:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other benefits	273	N/A	519	260	414
Performance related incentive payments.....	905	N/A	598	—	—
Retirement benefit scheme contributions.....	131	N/A	161	80	68
	<u>1,309</u>	<u>N/A</u>	<u>1,278</u>	<u>340</u>	<u>482</u>

The emoluments for each of the highest paid individuals (others than directors) during the Track Record Period were less than HKD1,000,000.

During the Track Record Period, no remuneration was paid by the Group to the five individuals with the highest emoluments in the Group (other than directors) as an inducement to join or upon joining the Group or as compensation for loss of office.

17. DIVIDENDS

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Dividends recognized as distribution during the year/period:					
— 2008 Final (RMB0.03 per share)	16,215	—	—	—	—
— 2009 Final (RMB0.15 per share)	—	84,000	—	—	—
— 2011 Interim (RMB0.45 per share)	—	—	315,000	—	—
— 2011 Final (RMB0.12 per share)	—	—	—	—	84,000
	<u>16,215</u>	<u>84,000</u>	<u>315,000</u>	<u>—</u>	<u>84,000</u>

18. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for each of the three years ended December 31, 2009, 2010, 2011 and the six months ended June 30, 2011 and 2012 is based on the following data:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Earning for the purpose of basic and diluted earnings per share (profit for the year/period attributable to owners of the Company)	630,414	882,570	1,194,058	590,283	811,915
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,120,000,000	1,236,666,666	1,400,000,000	1,400,000,000	1,400,000,000

The weighted average number of ordinary shares for the purpose of basic earnings per share has been retrospectively adjusted for the capitalization of share premium on March 12, 2012. Please refer to note 38 of Section I for details.

The Company did not have any dilutive potential ordinary shares in issue during the Track Record Period.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Group						
COST						
At January 1, 2009	72,196	207,707	30,096	7,105	5,649	322,753
Additions	—	—	5,326	807	110,998	117,131
Acquired on acquisition						
of a subsidiary	57,801	22,418	781	71	—	81,071
Transfer	23,834	37,175	—	—	(61,009)	—
Disposals	(416)	(1,149)	(2,487)	(68)	—	(4,120)
At December 31, 2009	153,415	266,151	33,716	7,915	55,638	516,835
Additions	4,603	1,538	5,163	3,057	591,910	606,271
Acquired on acquisition						
of a subsidiary	25,641	49,216	3,091	5,748	3,582	87,278
Transfer	12,123	34,659	—	1,019	(47,801)	—
Disposals	—	(691)	(6,961)	(20)	—	(7,672)
At December 31, 2010	195,782	350,873	35,009	17,719	603,329	1,202,712
Additions	1,753	33,426	14,536	865	475,254	525,834
Transfer	549,040	414,754	—	40,240	(1,004,034)	—
Disposals	—	(546)	(3,981)	(279)	—	(4,806)
At December 31, 2011	746,575	798,507	45,564	58,545	74,549	1,723,740
Additions	606	9,063	2,618	295	163,100	175,682
Transfer	50,348	74,542	—	2,282	(127,172)	—
Disposals	—	(2,330)	(3,375)	—	—	(5,705)
At June 30, 2012	797,529	879,782	44,807	61,122	110,477	1,893,717
DEPRECIATION						
At January 1, 2009	9,274	50,424	10,866	3,455	—	74,019
Provided for the year	3,779	22,850	5,490	1,176	—	33,295
Eliminated on disposals ...	(237)	(641)	(1,570)	(55)	—	(2,503)
At December 31, 2009	12,816	72,633	14,786	4,576	—	104,811
Provided for the year	5,063	31,314	5,649	1,085	—	43,111
Eliminated on disposals ...	—	(286)	(3,722)	(9)	—	(4,017)
At December 31, 2010	17,879	103,661	16,713	5,652	—	143,905
Provided for the year	16,565	52,395	6,165	11,741	—	86,866
Eliminated on disposals ...	—	(151)	(2,616)	(132)	—	(2,899)
At December 31, 2011	34,444	155,905	20,262	17,261	—	227,872
Provided for the period ...	10,953	47,755	3,477	5,161	—	67,346
Eliminated on disposals ...	—	(1,459)	(2,888)	—	—	(4,347)
At June 30, 2012	45,397	202,201	20,851	22,422	—	290,871
CARRYING VALUES						
At December 31, 2009	<u>140,599</u>	<u>193,518</u>	<u>18,930</u>	<u>3,339</u>	<u>55,638</u>	<u>412,024</u>
At December 31, 2010	<u>177,903</u>	<u>247,212</u>	<u>18,296</u>	<u>12,067</u>	<u>603,329</u>	<u>1,058,807</u>
At December 31, 2011	<u>712,131</u>	<u>642,602</u>	<u>25,302</u>	<u>41,284</u>	<u>74,549</u>	<u>1,495,868</u>
At June 30, 2012	<u>752,132</u>	<u>677,581</u>	<u>23,956</u>	<u>38,700</u>	<u>110,477</u>	<u>1,602,846</u>

All the buildings are located in the PRC. The Group was in process of obtaining the relevant property ownership certificates for buildings with a net book value of RMB30,838,000, RMB61,403,000, RMB582,671,000 and RMB73,787,000 as at December 31, 2009, 2010, 2011 and June 30, 2012, respectively. In the opinion of the directors of the Company, the relevant property ownership certificates can be obtained in due time without incurring significant costs.

	Buildings	Plant and machinery	Motor vehicles	Other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Company						
COST						
At January 1, 2009	44,277	177,012	25,762	5,803	5,642	258,496
Additions	—	—	4,433	569	102,905	107,907
Transfer	20,962	33,553	—	—	(54,515)	—
Disposals	(189)	(856)	(2,003)	(52)	—	(3,100)
At December 31, 2009	65,050	209,709	28,192	6,320	54,032	363,303
Additions	—	—	3,990	—	528,941	532,931
Transfer	10,880	31,619	—	680	(43,179)	—
Disposals	—	(199)	(6,529)	(2)	—	(6,730)
At December 31, 2010	75,930	241,129	25,653	6,998	539,794	889,504
Additions	—	10,482	11,627	—	408,355	430,464
Transfer	498,745	399,414	—	38,495	(936,654)	—
Disposals	—	(11,031)	(4,298)	(1,182)	—	(16,511)
At December 31, 2011	574,675	639,994	32,982	44,311	11,495	1,303,457
Additions	—	—	1,557	8	105,233	106,798
Transfer	7,897	66,645	—	2,272	(76,814)	—
Disposals	—	(1,431)	(3,134)	—	—	(4,565)
At June 30, 2012	582,572	705,208	31,405	46,591	39,914	1,405,690
DEPRECIATION						
At January 1, 2009	6,393	41,517	9,708	3,001	—	60,619
Provided for the year	2,805	19,554	4,793	983	—	28,135
Eliminated on disposals ...	(21)	(369)	(1,249)	(52)	—	(1,691)
At December 31, 2009	9,177	60,702	13,252	3,932	—	87,063
Provided for the year	3,301	22,341	4,423	714	—	30,779
Eliminated on disposals ...	—	(96)	(3,311)	(2)	—	(3,409)
At December 31, 2010	12,478	82,947	14,364	4,644	—	114,433
Provided for the year	9,306	31,713	4,475	8,055	—	53,549
Eliminated on disposals ...	—	(5,162)	(3,111)	(907)	—	(9,180)
At December 31, 2011	21,784	109,498	15,728	11,792	—	158,802
Provided for the period ...	7,502	32,896	2,366	4,310	—	47,074
Eliminated on disposals ...	—	(997)	(2,720)	—	—	(3,717)
At June 30, 2012	29,286	141,397	15,374	16,102	—	202,159
CARRYING VALUES						
At December 31, 2009	55,873	149,007	14,940	2,388	54,032	276,240
At December 31, 2010	63,452	158,182	11,289	2,354	539,794	775,071
At December 31, 2011	552,891	530,496	17,254	32,519	11,495	1,144,655
At June 30, 2012	553,286	563,811	16,031	30,489	39,914	1,203,531

All the buildings are located in the PRC. The Company was in process of obtaining the relevant ownership property certificates for the buildings with a net book value of RMB26,560,000, RMB36,341,000, RMB506,909,000 and RMB14,752,000 as at December 31, 2009, 2010, 2011 and June 30, 2012, respectively. In the opinion of the directors of the Company, the relevant property ownership certificates can be obtained in due time without incurring significant costs.

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis taking into account their residual value, at the following rates per annum:

Buildings	2.71%–3.17%
Plant and machinery	9.50%
Motor vehicles	19.00%
Other equipment	19.00%

20. PREPAID LEASE PAYMENTS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Analysed for reporting purpose as:				
Current asset	3,319	4,559	5,047	5,929
Non-current asset	<u>160,591</u>	<u>217,412</u>	<u>284,320</u>	<u>313,860</u>
	<u>163,910</u>	<u>221,971</u>	<u>289,367</u>	<u>319,789</u>

The prepaid lease payments are all in respect of land use rights located in the PRC held under a medium-term lease of 50 years.

The Group was in the process of obtaining the relevant land use right certificates for the leasehold land with a net book value of RMB2,019,000, RMB43,213,000, RMB55,547,000 and RMB67,680,000 as at December 31, 2009, 2010, 2011 and June 30, 2012, respectively. In the opinion of the directors of the Company, the relevant land use right certificates can be obtained in due time without significant costs.

The Group pledged leasehold land with a net book value of RMB19,695,000 as at December 31, 2011 (December 31, 2009, 2010 and June 30, 2012: Nil) to secure banking facilities granted to the Group.

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Analysed for reporting purpose as:				
Current asset	2,860	3,692	3,520	4,395
Non-current asset	138,443	175,988	209,468	239,782
	<u>141,303</u>	<u>179,680</u>	<u>212,988</u>	<u>244,177</u>

The prepaid lease payments are all in respect of land use rights located in the PRC held under a medium-term lease of 50 years.

The Company was in the process of obtaining the relevant land use right certificates for the leasehold land with a net book value of RMB41,237,000, RMB40,405,000 and RMB67,680,000 as at December 31, 2010, 2011 and June 30, 2012, respectively. In the opinion of the directors of the Company, the relevant land use right certificates can be obtained in due time without significant costs.

21. INVESTMENT PROPERTIES

	<u>Buildings</u>
	<u>RMB'000</u>
The Group and the Company	
COST	
At January 1, 2009.....	10,031
Additions.....	<u>2,560</u>
At December 31, 2009, 2010, 2011 and June 30, 2012	<u>12,591</u>
DEPRECIATION	
At January 1, 2009.....	271
Provided for the year	<u>214</u>
At December 31, 2009.....	485
Provided for the year	<u>355</u>
At December 31, 2010.....	840
Provided for the year	<u>359</u>
At December 31, 2011.....	1,199
Provided for the period.....	<u>199</u>
At June 30, 2012.....	<u>1,398</u>
CARRYING VALUES	
At December 31, 2009.....	<u>12,106</u>
At December 31, 2010.....	<u>11,751</u>
At December 31, 2011.....	<u>11,392</u>
At June 30, 2012.....	<u>11,193</u>

As at December 31, 2009, 2010, 2011 and June 30, 2012, the fair values of the Group's investment properties were RMB13,274,000, RMB14,285,000, RMB15,010,000 and RMB15,240,000, respectively. The fair values have been arrived at based on a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent qualified and professional valuers not connected with the Group, who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The address of Jones Lang LaSalle Corporate Appraisal and Advisory Limited is 6th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong. The valuation was determined by the depreciated replacement cost method, which the directors of the Company are of the view that it is the best estimate of the fair value of these investment properties.

The above investment properties are depreciated on a straight-line basis at, taking into account their residual value, the following rates per annum:

Buildings	2.71%-3.17%

All the buildings are located in the PRC. The Company had not obtained the relevant property certificates for buildings with a net book value of RMB10,949,000, RMB10,639,000, RMB10,325,000 and RMB10,126,000 as at December 31, 2009, 2010, 2011 and June 30, 2012, respectively.

22. GOODWILL

	RMB'000
COST	
At January 1, 2009.....	—
Arising on acquisition of a subsidiary	<u>2,197</u>
At December 31, 2009.....	2,197
Arising on acquisition of a subsidiary	<u>4,319</u>
At December 31, 2010, 2011 and June 30, 2012	<u>6,516</u>
IMPAIRMENT	
At January 1, 2009.....	—
Impairment loss recognized in the year.....	<u>2,197</u>
At December 31, 2009.....	2,197
Impairment loss recognized in the year.....	<u>4,319</u>
At December 31, 2010, 2011 and June 30, 2012	<u>6,516</u>
CARRYING VALUES	
At December 31, 2009, 2010, 2011 and June 30, 2012	<u>—</u>

23. INTANGIBLE ASSETS

	Software
	RMB'000
COST	
At January 1, 2009.....	1,736
Additions.....	219
Acquired on acquisition of a subsidiary	39
At December 31, 2009.....	1,994
Additions.....	3,539
Acquired on acquisition of a subsidiary	73
At December 31, 2010.....	5,606
Additions.....	4,299
At December 31, 2011.....	9,905
Additions	2,434
At June 30, 2012	<u>12,339</u>
AMORTIZATION	
At January 1, 2009.....	1,331
Provided for the year	140
At December 31, 2009.....	1,471
Provided for the year	359
At December 31, 2010.....	1,830
Provided for the year	1,179
At December 31, 2011.....	3,009
Provided for the period	942
At June 30, 2012.....	<u>3,951</u>
CARRYING VALUES	
At December 31, 2009.....	<u>523</u>
At December 31, 2010.....	<u>3,776</u>
At December 31, 2011.....	<u>6,896</u>
At June 30, 2012.....	<u>8,388</u>

Software has a definite useful life and is amortized on a straight-line basis over five years.

24. INVESTMENTS IN SUBSIDIARIES

	Year ended December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Unlisted investment in directly owned subsidiaries, at cost	<u>78,830</u>	<u>173,350</u>	<u>485,579</u>	<u>485,579</u>

25. INVESTMENTS IN ASSOCIATES

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of investment in unlisted associates	7,800	7,800	37,484	37,484
Share of post-acquisition profits and other comprehensive income, net of dividends received	<u>449</u>	<u>8,877</u>	<u>20,517</u>	<u>28,755</u>
	<u>8,249</u>	<u>16,677</u>	<u>58,001</u>	<u>66,239</u>

As at December 31, 2009, 2010, 2011 and June 30, 2012, the Group had interests in the following associates:

Name of entity	Place of registration	Proportion of nominal value of paid-in capital				Proportion of voting power held				Principal activities
		December 31,			June 30,	December 31,			June 30,	
		2009	2010	2011	2012	2009	2010	2011	2012	
鄭州煤機速達配件服務有限公司 ZMJ Suda Parts and Services Co., Ltd.	The PRC	40%	40%	40%	40%	40%	40%	40%	34%	Aftermarket services
鄭州煤機(江西)綜機設備有限公司 ZMJ (Jiangxi) Comprehensive Equipment Co., Ltd.	The PRC	38%	38%	38%	38%	38%	38%	38%	38%	Manufacture of parts

Name of entity	Place of registration	Proportion of nominal value of paid-in capital				Proportion of voting power held				Principal activities
		December 31,			June 30,	December 31,			June 30,	
		2009	2010	2011	2012	2009	2010	2011	2012	
大同煤礦集團機電裝備中北機械有限公司 Datong Coal Mining Group Zhongbei Electromechanical Equipment Machinery Co., Ltd.	The PRC	—	—	31%	31%	—	—	31%	31%	Manufacture of machinery
新疆克瑞鄭煤機重型機械股份有限公司 Xinjiang Kerui ZMJ Heavy Machinery Co., Ltd.	The PRC	—	—	35%	35%	—	—	35%	35%	Manufacture of machinery

The summarized financial information in respect of the Group's associates is set out below:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	43,650	160,277	381,646	550,443
Total liabilities	(22,394)	(116,628)	(238,673)	(374,148)
Net assets	<u>21,256</u>	<u>43,649</u>	<u>142,973</u>	<u>176,295</u>
Group's share of net assets of associates	<u>8,249</u>	<u>16,677</u>	<u>58,001</u>	<u>66,239</u>
	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<u>11,763</u>	<u>198,798</u>	<u>275,390</u>	<u>299,727</u>
Profit for the year/period	<u>1,256</u>	<u>22,393</u>	<u>29,107</u>	<u>28,637</u>
Group's share of profits and other comprehensive income of associates for the year/period ..	<u>449</u>	<u>8,428</u>	<u>11,640</u>	<u>8,238</u>

26. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of investment in unlisted jointly controlled entities	—	7,721	7,721	7,721
Share of post-acquisition profits and other comprehensive income, net of dividends received	—	617	204	(56)
	<u>—</u>	<u>8,338</u>	<u>7,925</u>	<u>7,665</u>

As at December 31, 2009, 2010, 2011 and June 30, 2012, the Group had interests in the following jointly controlled entities:

Name of entity	Place of registration	Proportion of nominal value of paid-in capital				Proportion of voting power held				Principal activities
		December 31,			June 30,	December 31,			June 30,	
		2009	2010	2011	2012	2009	2010	2011	2012	
淮南菲利普斯採礦機械製造有限公司 Huainan Phillips Mining Machinery Manufacturing Co., Ltd.	The PRC	—	40%	40%	40%	—	33%	33%	33%	Manufacture of machinery
淮南阿蘭維斯特電器有限公司 Huainan Allen West Electromechanical Equipment Co., Ltd.	The PRC	—	40%	40%	40%	—	33%	33%	33%	Manufacture of machinery
淮南舜立煤礦機械設備檢修有限公司 Huainan Shun Li Coal Mining Machinery Maintenance Co., Ltd.	The PRC	—	40%	40%	40%	—	33%	33%	33%	Maintenance of machinery

The summarized financial information in respect of the Group's interests in the jointly controlled entities which are accounted for using the equity method is set out below:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	<u>—</u>	<u>15,437</u>	<u>15,507</u>	<u>15,038</u>
Non-current assets	<u>—</u>	<u>1,790</u>	<u>1,611</u>	<u>1,693</u>
Current liabilities	<u>—</u>	<u>8,887</u>	<u>9,191</u>	<u>9,066</u>
Non-current liabilities	<u>—</u>	<u>2</u>	<u>2</u>	<u>—</u>
	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Income recognized in profit or loss	<u>—</u>	<u>5,262</u>	<u>15,873</u>	<u>5,630</u>
Expenses recognized in profit or loss	<u>—</u>	<u>4,645</u>	<u>15,267</u>	<u>5,323</u>

27. AVAILABLE-FOR-SALE INVESTMENTS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Unlisted equity securities (Note) .	<u>8,335</u>	<u>8,335</u>	<u>8,335</u>	<u>48,335</u>
The Company				
Unlisted equity securities	<u>8,335</u>	<u>8,335</u>	<u>8,335</u>	<u>8,335</u>

Note: Included in unlisted equity securities as at June 30, 2012 is the Group's investment in 無錫市盛力達機械工程有限公司 Wuxi Sheng Li Da Machinery Engineering Co., Ltd. ("Sheng Li Da"), a private company incorporated in the PRC, with a carrying amount of RMB40,000,000 (December 31, 2009, 2010 and 2011: Nil). The investment represents a 2% holding of the ordinary shares of Sheng Li Da.

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

28. LOAN RECEIVABLES FROM SUBSIDIARIES

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Current portion —				
ZMJ Comprehensive				
Equipment (Note 1)	—	—	20,000	20,000
ZMJ Longwall Machinery				
(Note 1).....	—	—	20,000	20,000
	<u>—</u>	<u>—</u>	<u>40,000</u>	<u>40,000</u>
Non-current portion —				
ZMJ Material Trading				
(Note 2).....	20,000	50,000	50,000	50,000
	<u>20,000</u>	<u>50,000</u>	<u>90,000</u>	<u>90,000</u>

Note 1: The amounts due from ZMJ Comprehensive Equipment and ZMJ Longwall Machinery were denominated in RMB, unsecured and will be repaid within twelve months. The balances carried interest at 6.6% per annum as at December 31, 2011 and June 30, 2012.

Note 2: The amount due from ZMJ Material Trading was denominated in RMB, unsecured, interest-free, and has no fixed repayment term. In the opinion of the directors of the Company, the amount will not be repaid within twelve months from the end of each reporting period and are therefore classified as a non-current asset.

29. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Deferred tax assets	<u>28,511</u>	<u>49,320</u>	<u>54,019</u>	<u>65,780</u>
The Company				
Deferred tax assets	<u>21,988</u>	<u>35,150</u>	<u>41,150</u>	<u>48,526</u>

The following are the major deferred tax assets recognized and movements thereon during the Track Record Period:

	<u>Bad debt provision</u>	<u>Write-down of inventory</u>	<u>Other provision</u>	<u>Accrued expense</u>	<u>Unrealized profit</u>	<u>Others</u>	<u>Total</u>
The Group							
At January 1, 2009	10,015	497	466	—	1,767	1,835	14,580
Credit (charge) to profit or loss.....	6,011	—	(19)	8,313	(840)	451	13,916
Acquisition of subsidiary..	15	—	—	—	—	—	15
At December 31, 2009	16,041	497	447	8,313	927	2,286	28,511
Credit (charge) to profit or loss.....	7,727	2,504	676	9,564	641	(2,286)	18,826
Acquisition of subsidiary..	2,338	—	—	—	—	—	2,338
Effect of change in tax rate.....	(355)	—	—	—	—	—	(355)
At December 31, 2010	25,751	3,001	1,123	17,877	1,568	—	49,320
Credit (charge) to profit or loss.....	8,441	(31)	24	73	(393)	—	8,114
Effect of change in tax rate.....	(2,276)	(1,002)	(137)	—	—	—	(3,415)
At December 31, 2011	31,916	1,968	1,010	17,950	1,175	—	54,019
Credit (charge) to profit or loss	10,774	40	—	2,122	(1,175)	—	11,761
At June 30, 2012	<u>42,690</u>	<u>2,008</u>	<u>1,010</u>	<u>20,072</u>	<u>—</u>	<u>—</u>	<u>65,780</u>

	<u>Bad debt provision</u>	<u>Write-down of inventory</u>	<u>Accrued expense</u>	<u>Others</u>	<u>Total</u>
The Company					
At January 1, 2009	6,850	497	—	1,835	9,182
Credit (charge) to profit or loss	4,042	—	8,313	451	12,806
At December 31, 2009	10,892	497	8,313	2,286	21,988
Credit (charge) to profit or loss	5,884	—	9,564	(2,286)	13,162
At December 31, 2010	16,776	497	17,877	—	35,150
Credit (charge) to profit or loss	5,927	—	73	—	6,000
At December 31, 2011	22,703	497	17,950	—	41,150
Credit (charge) to profit or loss	7,973	—	(597)	—	7,376
At June 30, 2012	<u>30,676</u>	<u>497</u>	<u>17,353</u>	<u>—</u>	<u>48,526</u>

At the end of each reporting period, the Group has the following unrecognized unused tax losses:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Unused tax losses	<u>7,648</u>	<u>18,264</u>	<u>24,847</u>	<u>32,433</u>

No deferred tax asset has been recognized in relation to the above tax losses due to the unpredictability of future profit streams.

The expiry dates of the above unrecognized tax losses are as follow:

Expiry dates	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2014	7,648	7,648	7,648	7,648
December 31, 2015	—	10,616	10,616	10,616
December 31, 2016	—	—	6,583	6,583
December 31, 2017	—	—	—	7,586
	<u>7,648</u>	<u>18,264</u>	<u>24,847</u>	<u>32,433</u>

30. OTHER NON-CURRENT ASSETS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Prepayment for establishment of an associate (Note i).....	—	—	—	38,000
Advance to a third party for potential investments (Note ii).	—	—	—	100,000
	<u>—</u>	<u>—</u>	<u>—</u>	<u>138,000</u>
The Company				
Prepayment for establishment of an associate (Note i).....	—	—	—	38,000
	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,000</u>

Note i: The amount represents the Group's prepayment for the establishment of 黑龍江鄭龍煤礦機械有限公司 (Heilongjiang Zhenglong Coal Mining Machinery Co., Ltd) ("Heilongjiang Zhenglong"). It was subsequently established on July 20, 2012 and the Group holds 47.5% of equity interest in Heilongjiang Zhenglong.

Note ii: In April 2012, Huaxuan Investment, then a subsidiary of the Company, entered into an agreement with 華軟投資(上海)有限公司 (Huaruan Investment (Shanghai) Co., Ltd) ("Huaruan Investment"), a subsidiary of Huaxin Investment, the then non-controlling shareholder of Huaxuan Investment, pursuant to which Huaruan Investment agrees to identify investment opportunities to be invested jointly by Huaxuan Investment and Huaruan Investment. Pursuant to such agreement, Huaxuan Investment has remitted to Huaruan Investment RMB100 million by June 30, 2012, to be held in escrow by Huaruan Investment for investment purpose. According to the agreement, if no formal investment contract is signed by April 2013, Huaxuan Investment may request Huaruan Investment to repay the remitted sum to Huaxuan Investment. As at June 30, 2012, no investment had been made.

31. INVENTORIES

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Raw materials and consumables..	327,524	558,102	604,915	822,208
Work in progress	137,504	192,072	437,207	485,260
Finished goods	609,515	549,810	601,897	949,786
	<u>1,074,543</u>	<u>1,299,984</u>	<u>1,644,019</u>	<u>2,257,254</u>
	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Raw materials and consumables..	293,004	404,020	385,553	554,516
Work in progress	102,782	123,855	254,998	363,305
Finished goods	561,759	450,883	507,503	849,698
	<u>957,545</u>	<u>978,758</u>	<u>1,148,054</u>	<u>1,767,519</u>

32. TRADE AND OTHER RECEIVABLES

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Bills receivable.....	557,232	416,588	622,673	396,062
Trade receivables				
— due from third parties	1,091,632	1,704,151	1,867,701	2,763,432
— due from related parties.....	7,911	57,384	41,265	63,114
Less: allowance for doubtful debts.....	(90,342)	(138,946)	(193,988)	(245,661)
	<u>1,566,433</u>	<u>2,039,177</u>	<u>2,337,651</u>	<u>2,976,947</u>
Prepayments to suppliers	182,154	235,275	435,230	326,424
Other taxes recoverable	11,754	25,897	85,933	135,761
Deposits	32,292	35,488	27,004	32,364
Staff advances	2,893	3,783	4,561	9,104
Interest receivable.....	—	—	—	22,960
Other receivables.....	4,883	8,600	17,506	17,916
Dividends receivable from a jointly controlled entity	—	—	634	—
Less: allowance for doubtful debts	(2,810)	(3,413)	(4,423)	(6,222)
	<u>231,166</u>	<u>305,630</u>	<u>566,445</u>	<u>538,307</u>
Total trade and other receivables .	<u><u>1,797,599</u></u>	<u><u>2,344,807</u></u>	<u><u>2,904,096</u></u>	<u><u>3,515,254</u></u>
The Company				
Bills receivable.....	542,258	372,328	561,010	337,017
Trade receivables				
— due from third parties	921,316	1,390,746	1,494,409	2,273,145
— due from related parties.....	7,911	36,090	22,481	27,972
Less: allowance for doubtful debts	(69,227)	(109,037)	(147,616)	(200,336)
	<u>1,402,258</u>	<u>1,690,127</u>	<u>1,930,284</u>	<u>2,437,798</u>
Prepayments to suppliers	125,300	111,992	296,112	182,690
Prepayments to subsidiaries for purchase of materials and spare parts	15,938	151,886	217,384	227,196
Other taxes recoverable	7,872	15,955	82,333	126,779
Deposits	31,992	34,547	24,090	30,290
Staff advances	2,282	535	1,877	5,952
Interest receivable.....	—	—	—	22,118
Other receivables.....	4,854	3,360	16,082	15,448
Dividends receivable from a subsidiary	—	—	6,888	—
Less: allowance for doubtful debts	(3,392)	(2,804)	(3,741)	(4,165)
	<u>184,846</u>	<u>315,471</u>	<u>641,025</u>	<u>606,308</u>
Total trade and other receivables .	<u><u>1,587,104</u></u>	<u><u>2,005,598</u></u>	<u><u>2,571,309</u></u>	<u><u>3,044,106</u></u>

The Group generally require its customers to make installment payments based on certain production or delivery milestones as follows:

At the signing of the sales contract	30% of the total contract price
Before volume production or delivery	30% of the total contract price
Upon completion of installation of our products at our customers' mining sites.....	30% of the total contract price
Upon expiration of warranty period (typically one year)	10% of the total contract price

However, as the Group seeks to develop long-term relationships with its customers, it attempts to accommodate the customers' requests and, as such, the payment schedule of sales contracts may vary on a case-by-case basis. For long-term and/or large customers with positive credit profiles, or selected customers with whom the Group intends to develop long-term relationships, it may reduce the percentage of the initial installment or extend their payment terms.

For the installment payments, the Group generally allows a credit period of up to 90 days to its third-party customers. The credit period provided to a customer can vary significantly based on a number of factors, including the Group's relationship with the customer, the customer's credit profile and payment history, total contract value and market conditions. The following is an aged analysis of bills receivables and trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of each reporting period:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Within 90 days	513,294	903,599	667,665	1,435,886
Over 90 days but within 1 year ...	966,009	1,004,160	1,389,537	1,314,946
Over 1 year but within 2 years ...	79,880	108,687	256,485	179,187
Over 2 years within 3 years.....	7,250	22,731	23,964	46,928
	<u>1,566,433</u>	<u>2,039,177</u>	<u>2,337,651</u>	<u>2,976,947</u>

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Within 90 days	471,740	751,882	531,590	1,128,860
Over 90 days but within 1 year ...	870,329	838,489	1,178,273	1,116,615
Over 1 year but within 2 years ...	56,259	83,055	203,113	153,242
Over 2 years within 3 years.....	3,930	16,701	17,308	39,081
	<u>1,402,258</u>	<u>1,690,127</u>	<u>1,930,284</u>	<u>2,437,798</u>

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The credit quality of the trade receivables that are neither past due nor impaired had not changed during the Track Record Period.

Most of the Group's customers are major coal mining enterprises in the PRC. The Group will monitor and review the credit conditions of the coal mining enterprises on a timely basis. In the opinion of the directors of the Company, the Group has no significant credit risks because those coal mining enterprises have good reputation and long term relationship with the Group.

Aging of trade receivables which are past due but not impaired

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Over 90 days but within 1 year ...	104,074	243,067	261,035	396,432
Over 1 year but within 2 years ...	79,880	108,687	256,485	179,187
Over 2 years but within 3 years ..	7,250	22,731	23,964	46,948
	<u>191,204</u>	<u>374,485</u>	<u>541,484</u>	<u>622,567</u>

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Over 90 days but within 1 year ...	33,922	131,657	142,827	275,207
Over 1 year but within 2 years ...	56,259	83,055	203,113	153,242
Over 2 years but within 3 years ..	3,930	16,701	17,308	39,081
	<u>94,111</u>	<u>231,413</u>	<u>363,248</u>	<u>467,530</u>

The Group has provided fully for all receivables over 3 years because historical experience is such that receivables are past due beyond 3 years are generally not recoverable.

The Group did not provide an allowance on the remaining past due receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience and subsequent settlement. The Group does not hold any collateral over these balances.

Movement of allowance for doubtful debts on trade and other receivables

	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Opening balance	56,204	93,152	142,359	198,411
Provided for the year/period	36,948	49,207	56,052	55,025
Write off	—	—	—	(1,553)
Closing balance	<u>93,152</u>	<u>142,359</u>	<u>198,411</u>	<u>251,883</u>

	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Opening balance	45,666	72,619	111,841	151,357
Provided for the year/period	26,953	39,222	39,516	54,697
Write off	—	—	—	(1,553)
Closing balance	<u>72,619</u>	<u>111,841</u>	<u>151,357</u>	<u>204,501</u>

The Group and the Company first assess whether objective evidence of impairment exists individually for trade and other receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group or the Company determine that no objective evidence of impairment exists for an individually assessed trade and other receivables, whether significant or not, it includes the trade and other receivables in a group with similar credit risk characteristics including industry, geographical location, collateral type, past-due status and other relevant factors and collectively assesses them for impairment. Trade and other receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Included in the allowance for doubtful debts of the Group are individually impaired trade receivables with an aggregate balance of RMB40,444,000, RMB53,079,000, and RMB150,161,000 and RMB151,971,000 as at December 31, 2009, 2010, 2011 and June 30, 2012 respectively, which have been placed in significant financial difficulties. The Group holds collateral of RMB35,355,000 over these balances as at December 31, 2011 and June 30, 2012 (December 31, 2009 and 2010: nil) and has provided fully for the balances that exceeds the amount of the collateral.

Included in the allowance for doubtful debts of the Company are individually impaired trade receivables with an aggregate balance of RMB34,900,000, RMB44,445,000, RMB133,148,000 and RMB137,038,000 as at December 31, 2009, 2010, 2011 and June 30, 2012 respectively, which have been placed in significant financial difficulties. The Company holds collateral of RMB35,355,000 over these balances as at December 31, 2011 and June 30, 2012 (December 31, 2009 and 2010: nil) and has provided fully for the balances that exceeds the amount of the collateral.

33. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group and the Company				
Financial assets designated as at fair value through profit or loss — structured deposit (Note).....	<u>—</u>	<u>—</u>	<u>110,000</u>	<u>—</u>

Note: The amounts represent short-term deposits with banks, which carry variable returns based on the return of portfolios of debt investments as invested by the banks. The deposit at the end of 2011 matured on January 15, 2012 and the principal of RMB110,000,000 and interest of RMB611,000 was received on the same date.

34. BANK BALANCES AND CASH / PLEDGED BANK DEPOSITS

Bank balances and cash of the Group and the Company comprise cash and short-term bank deposits. The bank balances carry interest at market rates which range from 0.36% to 2.25%, 0.36% to 2.75%, 0.50% to 3.50% and 0.44% to 3.50% per annum as at December 31, 2009, 2010, 2011, June 30, 2012, respectively.

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Cash	891	465	127	184
Bank deposits with original maturity within three months or less	<u>1,006,312</u>	<u>1,685,809</u>	<u>1,808,801</u>	<u>1,667,875</u>
Cash and cash equivalents	1,007,203	1,686,274	1,808,928	1,668,059
Bank deposits with original maturity over three months.....	<u>—</u>	<u>1,950,000</u>	<u>1,430,000</u>	<u>1,210,000</u>
Bank balances and cash.....	<u><u>1,007,203</u></u>	<u><u>3,636,274</u></u>	<u><u>3,238,928</u></u>	<u><u>2,878,059</u></u>
	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Cash	674	253	33	29
Bank deposits with original maturity within three months or less.	<u>965,135</u>	<u>1,570,515</u>	<u>1,290,238</u>	<u>1,302,288</u>
Cash and cash equivalents	965,809	1,570,768	1,290,271	1,302,317
Bank deposits with original maturity over three months.....	<u>—</u>	<u>1,950,000</u>	<u>1,430,000</u>	<u>1,210,000</u>
Bank balances and cash.....	<u><u>965,809</u></u>	<u><u>3,520,768</u></u>	<u><u>2,720,271</u></u>	<u><u>2,512,317</u></u>

Pledged bank deposits represent deposits pledged to banks to secure bank acceptance bills and letters of guarantee and are therefore classified as current assets. The pledged bank deposits carry interest at market rates which range from 0.36% to 2.25%, 0.36% to 2.75%, 0.50% to 3.50% and 0.44% to 3.50% per annum as at December 31, 2009, 2010, 2011, June 30, 2012, respectively.

35. TRADE AND OTHER PAYABLES

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Bills payable (Note i)	327,300	561,236	966,703	793,909
Trade payables (Note i)				
— due to third parties	629,813	941,560	1,005,013	1,666,072
— due to related parties	—	4,734	—	4,618
	<u>957,113</u>	<u>1,507,530</u>	<u>1,971,716</u>	<u>2,464,599</u>
Dividends payable.....	3,575	42,248	164,468	197,061
Dividends payable to a non-controlling shareholder of a subsidiary.....	—	—	3,112	—
Salary and bonus payables.....	126,381	191,896	181,013	179,191
Amount due to a non-controlling shareholder of a subsidiary (Note ii) ..	—	128,421	59,287	105,219
Deposits (Note iii)	7,449	26,096	10,412	17,254
Deferred income to be recognized				
within one year (Note iv).....	6,822	8,980	8,282	8,781
Other taxes payable	8,858	12,835	15,715	19,863
Accruals and other payables (Note v) ...	64,535	64,361	54,852	43,593
Housing funds held on behalf of staff (Note vi)	68,401	76,109	34,893	24,672
	<u>1,243,134</u>	<u>2,058,476</u>	<u>2,503,750</u>	<u>3,060,233</u>
	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Bills payable (Note i)	333,800	559,296	875,610	760,559
Trade payables (Note i)				
— due to third parties	434,273	600,401	593,358	1,079,922
— due to subsidiaries.....	37,920	66,561	61,953	244,527
	<u>805,993</u>	<u>1,226,258</u>	<u>1,530,921</u>	<u>2,085,008</u>
Dividends payable.....	3,575	42,248	164,468	197,061
Salary and bonus payables.....	123,122	185,056	173,087	170,699
Deposits (Note iii)	7,449	25,739	9,491	16,042
Deferred income to be recognized				
within one year (Note iv).....	6,822	6,980	6,329	6,828
Other taxes payable	2,292	4,083	5,476	4,268
Accruals and other payables (Note v) ...	62,278	57,581	39,724	36,883
Housing funds held on behalf of staff (Note vi)	68,401	76,109	34,893	24,669
	<u>1,079,932</u>	<u>1,624,054</u>	<u>1,964,389</u>	<u>2,541,458</u>

- (i) Trade payables and bills payable comprise amounts outstanding for trade purchase. Payment terms with suppliers are mainly on credit within 90 days from the time when the goods are received from suppliers. The following is an aged analysis of bills payables and trade payables presented based on invoice date at the end of each reporting period:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Within 90 days.....	741,677	1,206,717	1,645,921	1,621,045
Over 90 days but within				
1 year.....	169,291	175,226	233,354	651,799
Over 1 year	46,145	125,587	92,441	191,755
	<u>957,113</u>	<u>1,507,530</u>	<u>1,971,716</u>	<u>2,464,599</u>
The Company				
Within 90 days.....	688,157	1,084,400	1,392,475	1,490,376
Over 90 days but within				
1 year.....	88,012	68,167	92,199	442,875
Over 1 year	29,824	73,691	46,247	151,757
	<u>805,993</u>	<u>1,226,258</u>	<u>1,530,921</u>	<u>2,085,008</u>

- (ii) The balance represents the amount due to a non-controlling shareholder of ZMJ Shun Li Machinery. The amount is unsecured, interest-free and repayable on demand.
- (iii) Deposits represent the deposits received from suppliers for purchasing equipment, construction and other services.
- (iv) Deferred income to be recognized within one year represents the government subsidies received by the Group towards certain research projects. The amount has been treated as deferred income and will be transferred to income for the relevant projects.
- (v) Accruals and other payables mainly consist of payables for the acquisition of property, plant and equipment, rental payables and payables for other services.
- (vi) The balance represents the funds received from staff and held by the Company on their behalf for disbursement of the development costs of staff quarters.

36. BORROWINGS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Bank loans	373,000	183,000	70,000	49,500
Other loans.....	2,000	2,000	10,000	10,000
	<u>375,000</u>	<u>185,000</u>	<u>80,000</u>	<u>59,500</u>
Secured (Note 1).....	—	—	5,000	—
Unsecured (Note 2).....	<u>375,000</u>	<u>185,000</u>	<u>75,000</u>	<u>59,500</u>
	<u>375,000</u>	<u>185,000</u>	<u>80,000</u>	<u>59,500</u>
Fixed-rate borrowings	22,000	12,000	15,000	10,000
Variable-rate borrowings (Note 3)	<u>353,000</u>	<u>173,000</u>	<u>65,000</u>	<u>49,500</u>
	<u>375,000</u>	<u>185,000</u>	<u>80,000</u>	<u>59,500</u>
	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Bank loans	<u>300,000</u>	<u>50,000</u>	—	—
Unsecured.....	<u>300,000</u>	<u>50,000</u>	—	—
Fixed-rate borrowings	20,000	—	—	—
Variable-rate borrowings (Note 3).....	<u>280,000</u>	<u>50,000</u>	—	—
	<u>300,000</u>	<u>50,000</u>	—	—

Note 1: The balance represented the bank loan pledged by the land use right of a subsidiary as at December 31, 2011.

Note 2: The balances included the bank loans guaranteed by Lu An Xinjiang Coal Chemical (Group) Co., Ltd., the non-controlling shareholder of ZMJ Lu An Xinjiang amounting to RMB73,000,000, RMB73,000,000, RMB15,000,000 and nil as at December 31, 2009, 2010, 2011 and June 30, 2012 respectively.

Note 3: Variable-rate borrowings carry interest range from the People's Bank of China Benchmark Rate ("PBOCBR") minus a discount of 10% to PBOCBR.

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Carrying amount repayable:				
Within one year	100,000	70,000	15,000	10,000
More than one year, but not exceeding two years	110,000	13,000	—	49,500
More than two year, but not exceeding five years	148,000	95,000	65,000	—
More than five years	17,000	7,000	—	—
	375,000	185,000	80,000	59,500
Less: Amounts shown under current liabilities	(100,000)	(70,000)	(15,000)	(10,000)
Amounts shown under non-current liabilities	275,000	115,000	65,000	49,500
	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Company				
Carrying amount repayable:				
Within one year	100,000	50,000	—	—
More than one year, but not exceeding two years	100,000	—	—	—
More than two year, but not exceeding five years	100,000	—	—	—
	300,000	50,000	—	—
Less: Amounts shown under current liabilities	(100,000)	(50,000)	—	—
Amounts shown under non-current liabilities	200,000	—	—	—

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group and the Company's borrowings are as follows:

	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
Effective interest rate: — The Group				
Fixed-rate borrowings.....	4.8% to 7.2%	5.3% to 7.2%	6.6%	6.6%
Variable-rate borrowings	4.8% to 5.9%	5.0% to 6.1%	6.2% to 7.0%	6.0% to 6.2%
Effective interest rate: — The Company				
Fixed-rate borrowings.....	4.8% to 5.3%	N/A	N/A	N/A
Variable-rate borrowings	4.8% to 4.9%	5.0%	N/A	N/A

37. OTHER NON-CURRENT LIABILITIES

	The Group			
	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income over one year	<u>19,970</u>	<u>19,970</u>	<u>18,971</u>	<u>28,978</u>

In 2009, the Group received a government subsidy of RMB19,970,000 in respect of construction of its new plant. In March 2012, ZMJ Shun Li Machinery received a government subsidy of RMB10,506,000 in respect of construction of its new plant. The amounts have been treated as deferred income and will be transferred to income in the form of reduced depreciation charges over the useful lives of the relevant assets.

38. SHARE CAPITAL OF THE COMPANY

Details of issued and fully paid share capital of the Company are as follows:

	Year ended December 31,			Six months ended June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
A shares of RMB1.00 each				
At beginning of year/period	560,000	560,000	700,000	700,000
Issued upon listing on the Shanghai				
Stock Exchange (Note i)	—	140,000	—	—
Capitalization of the share premium				
(Note ii)	—	—	—	700,000
At end of year/period (Note iii)	<u>560,000</u>	<u>700,000</u>	<u>700,000</u>	<u>1,400,000</u>

Note i: On August 3, 2010, the Company issued and allotted a total of 140,000,000 A shares of RMB1.00 each in the Company at a consideration of RMB20.00 per share, representing share capital of RMB140,000,000 and share premium after deducting listing related costs of RMB2,560,402,000 upon completion of its initial public offering and listing on the Shanghai Stock Exchange.

Note ii: Pursuant to the shareholders' resolutions passed at the 2011 General Meeting of the Company held on February 28, 2012, the Company declared a final cash dividend of RMB0.12 per share in respect of the year ended December 31, 2011 and by way of capitalization of share premium, issued 700,000,000 new A Shares (on the basis of the Company's total issued share capital comprising 700,000,000 A Shares as of December 31, 2011) to all holders of A Shares whose names appeared on the Company's register of members as at the closing of trading on the Shanghai Stock Exchange on March 12, 2012, on the basis of 10 new A Shares for every 10 then issued A Shares.

Note iii: 560,000,000, 285,600,000 and 571,200,000 A Shares were subject to a lock-up periods of 7 to 31 months, 19 months and 13 months as at December 31, 2010, 2011 and June 30, 2012 respectively.

39. RESERVES

The Company

	Statutory surplus earnings	Retained earnings	Total
	RMB'000	RMB'000	RMB'000
Balance at January 1, 2009.....	27,532	231,814	259,346
Profit and total comprehensive income for the year	—	572,434	572,434
Transfer	57,244	(57,244)	—
Dividends	—	(16,215)	(16,215)
Balance at December 31, 2009.....	84,776	730,789	815,565
Profit and total comprehensive income for the year	—	839,217	839,217
Transfer	83,922	(83,922)	—
Dividends	—	(84,000)	(84,000)
Balance at December 31, 2010.....	168,698	1,402,084	1,570,782
Profit and total comprehensive income for the year	—	1,086,521	1,086,521
Transfer	108,652	(108,652)	—
Dividends	—	(315,000)	(315,000)
Balance at December 31, 2011.....	277,350	2,064,953	2,342,303
Profit and total comprehensive income for the period.....	—	684,381	684,381
Dividends	—	(84,000)	(84,000)
Balance at June 30, 2012.....	<u>277,350</u>	<u>2,665,334</u>	<u>2,942,684</u>

40. ACQUISITION OF SUBSIDIARIES**Acquisition of ZMJ Lu An Xinjiang**

On November 16, 2009, the Company acquired 54% equity interest in ZMJ Lu An Xinjiang from an independent third party for a cash consideration of RMB27,000,000. The acquisition has been accounted for using acquisition method. ZMJ Lu An Xinjiang is engaged in the manufacture of mining machinery. ZMJ Lu An Xinjiang was acquired so as to continue the expansion of the Group's manufacture of mining machinery.

Assets acquired and liabilities recognized at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment.....	81,071
Prepaid lease payments.....	17,351
Intangible assets	39
Deferred tax assets.....	15
Inventories	7,682
Trade and other receivables	3,439
Bank balances and cash.....	18,120
Trade and other payables	(8,786)
Borrowings.....	(73,000)
	<u>45,931</u>
Goodwill arising on acquisition:	
Consideration transferred — cash.....	27,000
Plus: Non-controlling interests.....	21,128
Less: Net assets acquired.....	(45,931)
Goodwill arising on acquisition.....	<u>2,197</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(27,000)
Less: Bank balances and cash acquired.....	18,120
	<u>(8,880)</u>

The fair value of trade and other receivables at the date of acquisition amounted to RMB3,439,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB3,500,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB61,000.

The non-controlling interests in ZMJ Lu An Xinjiang recognized at the acquisition date was measured at the non-controlling interests' proportionate share of the recognized amounts of ZMJ Lu An Xinjiang's identifiable net assets and amounted to RMB21,128,000.

Acquisition-related costs amounting to RMB360,000 have been excluded from the consideration transferred and have been recognized as an expense in the current year, within the administrative expenses line item in the consolidated statement of comprehensive income.

Included in the profit for 2009 is a loss of RMB3,579,000 attributable to the additional business generated by ZMJ Lu An Xinjiang. Revenue for 2009 includes RMB2,466,000 generated from ZMJ Lu An Xinjiang.

Had the acquisition been completed on January 1, 2009, total group revenue for the year would have been RMB5,000,974,000, and profit for the year would have been RMB642,789,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2009, nor is it intended to be a projection of future results.

Acquisition of ZMJ Shun Li Machinery

On November 10, 2010, the Company acquired 57.97% equity interest in ZMJ Shun Li Machinery from an independent third party for a cash consideration of RMB75,180,000. The acquisition has been accounted for using the acquisition method. ZMJ Shun Li Machinery is engaged in the manufacture of mining machinery. ZMJ Shun Li Machinery was acquired so as to continue the expansion of the Group's manufacture of mining machinery.

Assets acquired and liabilities recognized at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment.....	87,278
Intangible assets	73
Interests in jointly controlled entities.....	7,721
Deferred tax assets.....	2,338
Inventories	114,713
Trade and other receivables	131,973
Bank balances and cash.....	65,675
Trade and other payables	(287,531)
	<u>122,240</u>
Goodwill arising on acquisition:	
Consideration transferred — cash.....	75,180
Plus: Non-controlling interests.....	51,379
Less: net assets acquired	(122,240)
Goodwill arising on acquisition.....	<u>4,319</u>
Net cash outflow arising on acquisition:	
Cash consideration paid	(75,180)
Less: Bank balances and cash acquired.....	65,675
	<u>(9,505)</u>

The fair value of trade and other receivables at the date of acquisition amounted to RMB131,973,000. The gross contractual amounts of those trade and other receivables acquired amounted to RMB138,622,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB6,649,000.

The non-controlling interests in ZMJ Shun Li Machinery recognized at the acquisition date was measured at the non-controlling interest's proportionate share of the recognized amounts of ZMJ Shun Li Machinery's identifiable net assets and amounted to RMB51,379,000.

Acquisition-related costs amounting to RMB200,000 have been excluded from the consideration transferred and have been recognized as an expense in the current year, within the administrative expenses line item in the consolidated statement of comprehensive income.

Included in the profit for 2010 is loss of RMB1,359,000 attributable to the additional business generated by ZMJ Shun Li Machinery. Revenue for 2010 includes RMB40,196,000 generated from ZMJ Shun Li Machinery.

Had the acquisition been completed on January 1, 2010, total group revenue for the year would have been RMB6,779,837,000, and profit for the year would have been RMB896,892,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2010, nor is it intended to be a projection of future results.

41. DISPOSAL OF A SUBSIDIARY

On March 25, 2009, the Group disposed of its subsidiary, Zhengzhou Coal Mining Machinery Property Management Co., Ltd. (鄭州煤機物業管理有限公司) to an independent third party. The net assets of Zhengzhou Coal Mining Machinery Property Management Co., Ltd. at the date of disposal were as follows:

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Trade and other receivables	691
Bank balances and cash	3,652
Trade and other payables	(4,343)
Net assets disposed of	—
Consideration receive:	—
Gain on disposal of a subsidiary:	
Consideration received and receivable	—
Net assets disposed	—
Cumulative other comprehensive income	692
Gain on disposal	692
Net cash outflow arising on disposal:	
Cash consideration received	—
Less: Bank balances and cash disposed of	(3,652)
	(3,652)

42. OPERATING LEASES**The Group as lessee**

	At December 31,			At June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Minimum lease payments paid under operating leases during the report period:					
Land	5,454	5,348	5,966	2,612	2,612

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	5,224	5,224	5,224	5,224
In the second to fifth years inclusive.....	20,894	20,894	20,894	20,894
Over five years	73,129	67,906	62,682	58,764
	<u>99,247</u>	<u>94,024</u>	<u>88,800</u>	<u>84,882</u>

Operating lease payments represent rentals payable by the Group for certain parcels of land that it occupies. The leases are negotiated for terms of 20 years.

The Group as lessor

Property rental incomes earned were RMB1,179,000, RMB2,168,000, RMB2,125,000 and RMB1,338,000 for the three years ended December 31, 2009, 2010, 2011 and six months ended June 30, 2012, respectively. The leases are negotiated for terms of 1 year to 8 years.

Equipment rental incomes earned were Nil, RMB2,087,000, RMB26,549,000 and RMB14,414,000 for the three years ended December 31, 2009, 2010, 2011 and six months ended June 30, 2012, respectively. The equipment rental lease was negotiated for a term of 2 years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year.....	1,758	1,819	1,754	1,945
In the second to fifth years inclusive	5,646	4,011	2,272	1,468
	<u>7,404</u>	<u>5,830</u>	<u>4,026</u>	<u>3,413</u>

43. CAPITAL COMMITMENTS

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for in the Financial Information.....	118,261	348,643	124,833	59,158
Capital expenditure in respect of the acquisition of land use right authorized but not contracted for.....	—	—	56,591	25,911
	<u>118,261</u>	<u>348,643</u>	<u>181,424</u>	<u>85,069</u>

44. RETIREMENT BENEFIT PLANS

The Group's full-time employees in the PRC are covered by a government-operated defined contribution pension scheme, and are entitled to a monthly pension from their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement scheme at a rate of 20% of employees' basic salaries, which are charged as an expense when the employees have rendered services entitling them to the contributions and the contributions are due.

During the Track Record Period, the total amounts contributed by the Group to the scheme in the PRC and charged to the profit or loss:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts contributed and charged to the profit or loss.....	<u>31,765</u>	<u>35,423</u>	<u>43,467</u>	<u>24,189</u>	<u>27,612</u>

45. RELATED PARTY TRANSACTIONS

As defined in note 1 of Section I, in the opinion of the directors of the Company, the parent of the Company is Henan SASAC of the PRC government and that the Group is subject to the control of the PRC government. In accordance with IAS 24, entities that are controlled, jointly controlled or significantly influenced by the PRC government ("PRC government related entities") are regarded as related parties of the Group. Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect

interests, be controlling interests which may not be known to the Group. Nevertheless, the Group represented that the following captures the material related parties taking into account the exemption under IAS 24.

(1) The Group and Henan SASAC

The Group has transactions with entities controlled, jointly controlled or significantly influenced by Henan SASAC (“Henan SASAC related entities”) and the transactions details are as follow:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Sales of finished goods	<u>179,873</u>	<u>171,935</u>	<u>567,847</u>	<u>104,403</u>	<u>102,136</u>
Purchase of raw materials	<u>317,791</u>	<u>507,144</u>	<u>554,925</u>	<u>250,806</u>	<u>401,001</u>

For the years ended December 31, 2009, 2010 and 2011 and the six months ended June 30, 2011 and June 30, 2012, revenue from Henan SASAC related entities accounted for 3.6%, 2.7%, 7.0%, 2.9% and 2.2%, respectively, of total revenue. Purchases from Henan SASAC related entities for the same periods accounted for 8.5%, 10.7%, 9.1%, 9.7% and 11.8% respectively, of total cost of sales.

The directors are of the opinion that the above transactions with Henan SASAC related entities were conducted in the ordinary course of business.

The details of outstanding balances with Henan SASAC and Henan SASAC related entities are set as follow:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from Henan SASAC related entities	<u>153,598</u>	<u>143,025</u>	<u>147,892</u>	<u>165,565</u>
Amount due to Henan SASAC.....	<u>3,050</u>	<u>3,050</u>	<u>3,050</u>	<u>3,050</u>

Except for the amount due to Henan SASAC which is unsecured, interest-free and repayable on demand, all the amounts due from Henan SASAC related entities are from trade sales or purchases.

(2) The Group and other PRC government related entities

Apart from the significant transactions with Henan SASAC related entities set out above, during the Track Record Period, the Group's transactions with other PRC government related entities are collectively significant as a large portion of its sales of goods, purchases of materials, most of bank deposits, borrowings, other general banking facilities and the relevant interest income earned and expenses incurred during the Track Record Period are transacted with banks owned/controlled by the PRC government.

In the opinion of the directors of the Company, the transactions with PRC government related entities are activities in the ordinary course of the Group's business and entered into under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established its approval process for sales of goods and purchases of materials and its financing policy for borrowings, such approval process and financing policy do not depend on whether the counterparties are government related entities or not.

(3) The Group and its associates and jointly controlled entities

The Group had the following significant transactions with its associates and jointly controlled entities during the Track Record Period:

	Year ended December 31,			Six months ended June 30,	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Trade sales					
Associates.....	6,761	61,397	60,711	18,298	52,957
Jointly controlled entities	—	—	10,369	5,092	4,891
	<u>6,761</u>	<u>61,397</u>	<u>71,080</u>	<u>23,390</u>	<u>57,848</u>
Trade purchases					
An associate	—	2,934	—	—	1,099
Jointly controlled entities	—	—	11,400	5,094	5,449
	<u>—</u>	<u>2,934</u>	<u>11,400</u>	<u>5,094</u>	<u>6,548</u>

The Group had the following outstanding balances with its associates and jointly controlled entities at the end of each reporting period:

	At December 31,			At
	2009	2010	2011	June 30,
	RMB'000	RMB'000	RMB'000	2012
				RMB'000
Amounts due from other related parties				
Associates	7,911	53,648	38,841	61,050
Jointly controlled entities.....	—	3,736	2,424	2,064
	<u>7,911</u>	<u>57,384</u>	<u>41,265</u>	<u>63,114</u>
Amounts due to other related parties				
An associate	—	4,734	—	4,618
	<u>—</u>	<u>4,734</u>	<u>—</u>	<u>4,618</u>

Except dividends receivable from a jointly controlled entity of RMB634,000 as at December 31, 2011 and June 30, 2012, all the other amounts due from or to other related parties are from trade sales or purchases.

(4) Remuneration of key management personnel

The remuneration of directors and other members of key management during the Track Record Period were as follows:

	Year ended December 31,			Six months ended	
	2009	2010	2011	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term benefits	5,329	5,188	5,229	1,495	2,429
Post-employment benefits.....	758	852	760	380	340
	<u>6,087</u>	<u>6,040</u>	<u>5,989</u>	<u>1,875</u>	<u>2,769</u>

Key management represents the directors and other senior management personnel disclosed in the Prospectus. The remuneration of key management personnel is determined with reference of the performance to individuals and market trends.

46. CONTINGENT LIABILITIES

As at December 31, 2011 and June 30, 2012, the Group issued financial guarantees of RMB22,000,000 and RMB22,000,000, respectively, to banks in respect of banking facilities granted to an associate, of which RMB5,246,000 and RMB11,900,000, respectively have been utilized by the associate as at December 31, 2011 and June 30, 2012, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant.

During the Track Record Period, the Group has endorsed and derecognized certain bills receivable for the settlement of trade and other payables. In the opinion of the directors of the Company, the risk of the default in payment of the endorsed and derecognized bills receivable is low because all endorsed and derecognized bills receivable are issued and guaranteed by the reputable PRC banks. The maximum exposure to the Group that may result from the default of these endorsed and derecognized bills receivable at the end of each of reporting period are as follows:

	At December 31,			At June 30,
	2009	2010	2011	2012
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Outstanding endorsed bills receivable				
with recourse	<u>654,013</u>	<u>877,072</u>	<u>1,427,498</u>	<u>1,850,770</u>
The Company				
Outstanding endorsed bills receivable with				
recourse.....	<u>465,140</u>	<u>388,386</u>	<u>673,402</u>	<u>641,410</u>

47. EVENT AFTER THE REPORTING PERIOD

Pursuant to a shareholders' resolution of Huaxuan Investment, then a subsidiary of the Company, which was passed at the shareholders' meeting of Huaxuan Investment held on July 27, 2012, the registered capital of Huaxuan Investment will increase from RMB500,000,000 to RMB650,000,000. Upon the completion of the capital increase, the previous non-controlling shareholder, Huaxin Investment will own 53.85% of the equity interest of Huaxuan Investment. Also, pursuant to such resolution, effective from July 27, 2012, Huaxin Investment is entitled to exercise 53.85% voting power at shareholders' meetings and has the power to appoint the majority of the members of the board of directors of Huaxuan Investment.

In the opinion of the directors of the Company, the Company has ceased to control, but has significant influence over, Huaxuan Investment since July 27, 2012. Therefore, as at July 27, 2012, Huaxuan Investment was deemed to be disposed and ceased to be a subsidiary and became an associate of the Company. The transaction did not result in any gain or loss on deemed disposal of Huaxuan Investment.

II. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Under the arrangements presently in force, the aggregate remuneration payable to the Company's directors and supervisors for the year ending December 31, 2012, excluding discretionary bonus, is estimated to be approximately RMB4.0 million.

Saved as disclosed in this report, no other remuneration has been paid or is payable by the Company or any of its subsidiaries to the Company's directors and supervisors in respect of the Track Record Period.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of the companies comprising the Group in respect of any period subsequent to June 30, 2012.

Yours faithfully,

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

The information set out below is the condensed consolidated financial statements of the Group for the nine months ended September 30, 2012 and does not form part of the Accountants' Report prepared by the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong as set out in Appendix I to this prospectus, and is included herein for information purposes only.



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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of Zhengzhou Coal Mining Machinery Group Company Limited

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Zhengzhou Coal Mining Machinery Group Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages II-3 to II-24, which comprises the condensed consolidated statement of financial position as of September 30, 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the nine-month period then ended, and certain explanatory notes.

The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standards on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

November 22, 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	Nine months ended September 30,	
		2012	2011
		RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue		7,306,590	5,787,725
Cost of sales		(5,348,565)	(4,307,572)
Gross profit		1,958,025	1,480,153
Other income	4	85,847	59,021
Other gains and losses	5	(32,176)	(22,372)
Selling and distribution expenses		(240,375)	(148,430)
Administrative expenses		(318,740)	(231,975)
Share of profit of associates		11,556	7,634
Share of profit of jointly controlled entities		408	467
Finance costs	6	(2,612)	(6,344)
Profit before tax		1,461,933	1,138,154
Income tax expense	7	(231,517)	(274,600)
Profit and total comprehensive income for the period	8	<u>1,230,416</u>	<u>863,554</u>
Attributable to:			
Owners of the Company		1,207,029	850,596
Non-controlling interests		<u>23,387</u>	<u>12,958</u>
		<u>1,230,416</u>	<u>863,554</u>
EARNINGS PER SHARE			
— Basic and diluted (RMB)	10	<u>0.86</u>	<u>0.61</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At September 30,	At December 31,
	NOTES	2012	2011
		RMB'000 (unaudited)	RMB'000 (audited)
Non-current Assets			
Property, plant and equipment.....	11	1,693,625	1,495,868
Prepaid lease payments	12	312,202	284,320
Investment properties		11,093	11,392
Intangible assets.....		7,914	6,896
Investments in associates	13	419,101	58,001
Investments in jointly controlled entities		7,766	7,925
Available-for-sale investments.....		8,335	8,335
Deferred tax assets		67,330	54,019
		<u>2,527,366</u>	<u>1,926,756</u>
Current Assets			
Prepaid lease payments	12	5,929	5,047
Inventories.....		1,913,862	1,644,019
Trade and other receivables.....	14	3,645,732	2,904,096
Financial assets designated as at fair value through profit or loss		—	110,000
Tax recoverable		754	29,046
Pledged bank deposits	15	450,426	577,594
Bank balances and cash.....	15	2,821,964	3,238,928
		<u>8,838,667</u>	<u>8,508,730</u>
Current Liabilities			
Trade and other payables	16	3,008,389	2,503,750
Advances from customers		1,077,674	1,673,937
Tax liabilities.....		9,780	10,210
Borrowings		—	15,000
		<u>4,095,843</u>	<u>4,202,897</u>
Net Current Assets		<u>4,742,824</u>	<u>4,305,833</u>
Total Assets Less Current Liabilities		<u><u>7,270,190</u></u>	<u><u>6,232,589</u></u>

		At September 30,	At December 31,
	NOTE	2012	2011
		RMB'000 (unaudited)	RMB'000 (audited)
Capital and Reserves			
Share capital.....	17	1,400,000	700,000
Share premium		1,881,823	2,581,823
Reserves		3,715,282	2,592,253
Equity attributable to owners of the Company		6,997,105	5,874,076
Non-controlling interests		194,857	274,542
Total Equity		7,191,962	6,148,618
Non-current Liabilities			
Borrowings		49,500	65,000
Other non-current liabilities		28,728	18,971
		78,228	83,971

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory surplus reserve	Retained earnings	Attributable to owners of the Company	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note)	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2012 (audited)	700,000	2,581,823	277,350	2,314,903	5,874,076	274,542	6,148,618
Profit and total comprehensive income for the period (unaudited)	—	—	—	1,207,029	1,207,029	23,387	1,230,416
Capitalization of share premium (unaudited)	700,000	(700,000)	—	—	—	—	—
Dividends (note 9) (unaudited)	—	—	—	(84,000)	(84,000)	—	(84,000)
Deemed disposal of a subsidiary (note 18) (unaudited)	—	—	—	—	—	(103,072)	(103,072)
Balance at September 30, 2012 (unaudited)	<u>1,400,000</u>	<u>1,881,823</u>	<u>277,350</u>	<u>3,437,932</u>	<u>6,997,105</u>	<u>194,857</u>	<u>7,191,962</u>
Balance at January 1, 2011 (audited)	700,000	2,581,823	168,698	1,544,497	4,995,018	145,042	5,140,060
Profit and total comprehensive income for the period	—	—	—	850,596	850,596	12,958	863,554
Dividends (note 9)	—	—	—	(315,000)	(315,000)	—	(315,000)
Balance at September 30, 2011 (unaudited)	<u>700,000</u>	<u>2,581,823</u>	<u>168,698</u>	<u>2,080,093</u>	<u>5,530,614</u>	<u>158,000</u>	<u>5,688,614</u>

Note: In accordance with the relevant PRC laws and regulations and the Articles of Association of the relevant companies, the Company and its PRC subsidiaries are required to appropriate 10% of their profit after taxation as reported in their statutory financial statements prepared under the PRC generally accepted accounting principles to the statutory surplus reserve. The appropriation to the statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant companies.

The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of a capitalization issue. However, when converting the statutory surplus reserve of the Company and its subsidiaries into capital, the remaining balance of such reserve must not be less than 25% of the registered capital of the relevant companies.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
OPERATING ACTIVITIES		
Profit before tax	1,461,933	1,138,154
Adjustments for:		
Finance costs	2,612	6,344
Interest income	(71,747)	(50,011)
Share of profit of associates	(11,556)	(7,634)
Share of profit of jointly controlled entities	(408)	(467)
Depreciation of property, plant and equipment	99,043	52,931
Depreciation of investments properties	299	267
Amortization of intangible assets	1,504	745
Release of prepaid lease payments	4,623	3,686
Allowance provided for doubtful debts	53,477	25,370
Write-down of inventories	264	—
Gain on disposal of property, plant and equipment	(4,616)	(2,446)
Operating cash flows before movements in working capital	1,535,428	1,166,939
Increase in inventories	(270,107)	(190,274)
Increase in trade and other receivables	(785,153)	(445,512)
Increase in trade and other payables	438,070	468,121
Decrease in advances from customers	(596,263)	(260,924)
Cash generated from operations	321,975	738,350
Income taxes paid	(215,936)	(282,624)
NET CASH FROM OPERATING ACTIVITIES	106,039	455,726

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
INVESTING ACTIVITIES		
Interest received.....	70,590	50,011
Assets-related government grants received	10,506	—
Dividends received from associates	3,364	—
Dividends received from jointly controlled entities	1,201	—
Proceeds on disposal of property, plant and equipment	6,330	3,348
Purchases of property, plant and equipment	(262,171)	(405,490)
Payments for prepaid lease payments	(33,387)	(35,388)
Purchases of other intangible assets	(2,522)	(1,460)
Purchase of financial assets designated as at fair value through profit or loss	(118,883)	—
Proceeds on disposal of financial assets designated as at fair value through profit or loss	230,040	—
Purchases of available-for-sale investments	(40,000)	—
Acquisition of investment in associates	(43,693)	(21,500)
Net cash outflow on deemed disposal of a subsidiary	(69,321)	—
Placement of bank deposits with original maturity over three months	(100,000)	—
Withdrawal of bank deposits with original maturity over three months	250,000	300,000
Payment of pledged bank deposits.	(594,283)	(821,473)
Withdrawal of pledged bank deposits	721,451	642,897
Advance to third parties for potential investments	(300,000)	—
NET CASH USED IN INVESTING ACTIVITIES	<u>(270,778)</u>	<u>(289,055)</u>
FINANCING ACTIVITIES		
Listing expenses paid	(14,594)	—
Proceeds from new borrowings raised	—	15,000
Repayment of borrowings	(30,500)	(115,000)
Interest paid	(2,612)	(6,344)
Dividends paid	(54,519)	—
NET CASH USED IN FINANCING ACTIVITIES	<u>(102,225)</u>	<u>(106,344)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(266,964)	60,327
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>1,808,928</u>	<u>1,686,274</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Represented by bank balances and cash (note 15)	<u>1,541,964</u>	<u>1,746,601</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting issued by the International Accounting Standards Board.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The accounting policies and methods of computation used in the condensed consolidated financial statements are consistent with those followed in the preparation of the financial information of the Group for each of three years ended December 31, 2011 and the six months ended June 30, 2012 (“Financial Information”) included in the accountants’ report as set out in Appendix I to this Prospectus.

3. SEGMENT INFORMATION

The Group has only one operating segment which is the manufacture of coal mining machinery and the Group’s operating results before tax are reviewed regularly by the Group’s chief operating decision maker to make decisions about resources allocation and performance assessment.

4. OTHER INCOME

	Nine months ended September 30,	
	2012	2011
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Government grants (Note).....	14,100	9,010
Interest income on bank deposits	71,747	50,011
	<u>85,847</u>	<u>59,021</u>

Note: Government grants mainly represent unconditional government grants received from the local government for compensation of research and development expenses incurred.

5. OTHER GAINS AND LOSSES

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Gain on disposal of property, plant and equipment	4,616	2,446
Net foreign exchange losses	(652)	(101)
Allowance for doubtful debts	(53,477)	(25,370)
Write-down of inventories	(264)	—
Fair value gain on held for trading investment	17,320	—
Others	281	653
	<u>(32,176)</u>	<u>(22,372)</u>

6. FINANCE COSTS

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Interest on:		
Bank loans and other borrowings wholly repayable within five years	3,078	7,059
Less: Capitalization	(466)	(715)
	<u>2,612</u>	<u>6,344</u>

7. INCOME TAX EXPENSE

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Current tax:		
— PRC enterprise income tax	243,970	284,321
Under(over) provision in prior years:		
— PRC enterprise income tax	858	(10,709)
Deferred tax:		
— Current period	(13,311)	988
	<u>231,517</u>	<u>274,600</u>

The tax rates of the major group entities for the nine months ended September 30, 2012 and September 30, 2011 are as follows:

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
The Company (Note 1)	15%	25%
ZMJ Comprehensive Equipment (Note 2)	15%	15%
ZMJ Hydraulic Control (Note 3).....	15%	15%
ZMJ Material Trading	25%	25%
ZMJ Longwall Machinery	25%	25%
ZMJ Lu An Xinjiang	25%	25%
ZMJ Shun Li Machinery	25%	25%
ZMJ Siberia	20%	20%
ZMJ Foundry	25%	N/A

Note 1: The Company received the High and New Technology Enterprises Certificate on October 28, 2011, which entitles to a preferential tax rate of 15% from January 1, 2011 to December 31, 2013. The standard tax rate of 25% was used for the nine months ended September 30, 2011 as the High and New Technology Enterprises Certificate was only obtained subsequent to September 30, 2011.

Note 2: ZMJ Comprehensive Equipment received the High and New Technology Enterprises Certificate on November 8, 2010 and is entitled to a preferential tax rate of 15% from January 1, 2010 to December 31, 2012.

Note 3: ZMJ Hydraulic Control received the High and New Technology Enterprises Certificate on August 8, 2010 and is entitled to a preferential tax rate of 15% from January 1, 2010 to December 31, 2012.

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Nine months ended September 30,	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation for property, plant and equipment	99,043	52,931
Depreciation for investment properties	299	267
Amortization of intangible assets	1,504	745
Release of prepaid lease payments	4,623	3,686
	<u>105,469</u>	<u>57,629</u>
Employee benefits expenses (including directors):		
— Salaries and other benefits	289,510	269,682
— Retirement benefit scheme contributions	44,906	40,599
	<u>334,416</u>	<u>310,281</u>
Impairment loss on trade and other receivables	<u>53,477</u>	<u>25,370</u>
Cost of inventories recognized as an expense	<u>5,348,565</u>	<u>4,307,572</u>
Research and development expenses	<u>92,324</u>	<u>60,131</u>

9. DIVIDENDS

	Nine months ended September 30,	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Dividends recognized as distribution during the period:		
— 2011 Interim (RMB0.45 per share)	—	315,000
— 2011 Final (RMB0.12 per share)	84,000	—
	<u>84,000</u>	<u>315,000</u>

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for each of the nine months ended September 30, 2012 and September 30, 2011 is based on the following data:

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Earning for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	<u>1,207,029</u>	<u>850,596</u>
Number of ordinary shares for the purpose of basic earnings per share	<u>1,400,000,000</u>	<u>1,400,000,000</u>

The number of ordinary shares for the purpose of basic earnings per share has been retrospectively adjusted for the capitalization of share premium on March 12, 2012. Please refer to note 17 for details.

The Company did not have any dilutive potential ordinary shares in issue during each of the nine months ended September 30, 2012 and September 30, 2011.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u>	<u>Plant and machinery</u>	<u>Motor vehicles</u>	<u>Other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
COST						
At January 1, 2011 (audited) ..	195,782	350,873	35,009	17,719	603,329	1,202,712
Additions	1,753	33,426	14,536	865	475,254	525,834
Transfer	549,040	414,754	—	40,240	(1,004,034)	—
Disposals	—	(546)	(3,981)	(279)	—	(4,806)
At December 31, 2011						
(audited)	746,575	798,507	45,564	58,545	74,549	1,723,740
Additions (unaudited)	606	10,906	5,252	3,602	278,148	298,514
Transfer (unaudited)	115,934	75,414	—	22,532	(213,880)	—
Disposals (unaudited)	—	(7,114)	(4,557)	(3)	—	(11,674)
At September 30, 2012						
(unaudited)	863,115	877,713	46,259	84,676	138,817	2,010,580
DEPRECIATION						
At January 1, 2011 (audited) ..	17,879	103,661	16,713	5,652	—	143,905
Provided for the year	16,565	52,395	6,165	11,741	—	86,866
Eliminated on disposals	—	(151)	(2,616)	(132)	—	(2,899)
At December 31, 2011						
(audited)	34,444	155,905	20,262	17,261	—	227,872
Provided for the period						
(unaudited)	16,404	66,511	5,260	10,868	—	99,043
Eliminated on disposals						
(unaudited)	—	(6,358)	(3,599)	(3)	—	(9,960)
At September 30, 2012						
(unaudited)	50,848	216,058	21,923	28,126	—	316,955
CARRYING VALUES						
At December 31, 2011						
(audited)	<u>712,131</u>	<u>642,602</u>	<u>25,302</u>	<u>41,284</u>	<u>74,549</u>	<u>1,495,868</u>
At September 30, 2012						
(unaudited)	<u>812,267</u>	<u>661,655</u>	<u>24,336</u>	<u>56,550</u>	<u>138,817</u>	<u>1,693,625</u>

All the buildings are located in the PRC. The Group was in process of obtaining the relevant property ownership certificates for buildings with a net book value of RMB582,671,000 and RMB73,377,000 as at December 31, 2011 and September 30, 2012, respectively. In the opinion of the directors of the Company, the relevant property ownership certificates can be obtained in due time without incurring significant costs.

12. PREPAID LEASE PAYMENTS

	At September 30,	At December 31,
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Analysed for reporting purpose as:		
Current asset	5,929	5,047
Non-current asset	312,202	284,320
	<u>318,131</u>	<u>289,367</u>

The prepaid lease payments are all in respect of land use rights located in the PRC held under a medium-term lease of 50 years.

The Group was in the process of obtaining the relevant land use right certificates for the leasehold land with a net book value of RMB55,547,000 and RMB67,680,000 as at December 31, 2011 and September 30, 2012, respectively. In the opinion of the directors of the Company, the relevant land use right certificates can be obtained in due time without significant costs.

The Group pledged leasehold land with a net book value of RMB19,695,000 as at December 31, 2011 to secure banking facilities granted to the Group and the pledge has been released as at 30 September 2012.

13. INVESTMENTS IN ASSOCIATES

	At September 30,	At December 31,
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Cost of investments in unlisted associates (Note).....	390,392	37,484
Share of post-acquisition profits and other comprehensive income, net of dividends received.....	<u>28,709</u>	<u>20,517</u>
	<u>419,101</u>	<u>58,001</u>

Note: Details of major associates as at September 30, 2012 are as follows:

The amount of RMB38,000,000 represents the Group's investment to 黑龍江鄭龍煤礦機械有限公司 (Heilongjiang Zhenglong Coal Mining Machinery Co., Ltd.), in which the Group holds 47.5% equity interest;

The amount of RMB309,215,000 represents the investment retained in the former subsidiary 華軒(上海)股權投資基金有限公司 Hua Xuan (Shanghai) Equity Investment Fund Co., Ltd. ("Huaxuan Investment") at its fair value at the date when control is lost. Please refer to note 18 for details.

14. TRADE AND OTHER RECEIVABLES

	At September 30,	At December 31,
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Bills receivable	590,654	622,673
Trade receivables		
— due from third parties	2,911,709	1,867,701
— due from related parties	56,073	41,265
Less: allowance for doubtful debts	(248,583)	(193,988)
	<u>3,309,853</u>	<u>2,337,651</u>
Prepayments to suppliers.....	241,608	435,230
Other taxes recoverable	35,241	85,933
Deposits.....	36,360	27,004
Staff advances	8,989	4,561
Other receivables	18,803	17,506
Dividends receivable from a jointly controlled entity	—	634
Less: allowance for doubtful debts	(5,122)	(4,423)
	<u>335,879</u>	<u>566,445</u>
Total trade and other receivables	<u><u>3,645,732</u></u>	<u><u>2,904,096</u></u>

The following is an aged analysis of bills receivables and trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of each reporting period:

	At September 30,	At December 31,
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Within 90 days.....	1,847,937	667,665
Over 90 days but within 1 year	1,239,140	1,389,537
Over 1 year but within 2 years	179,541	256,485
Over 2 years within 3 years	43,235	23,964
	<u><u>3,309,853</u></u>	<u><u>2,337,651</u></u>

15. BANK BALANCES AND CASH / PLEDGED BANK DEPOSITS

Bank balances and cash of the Group comprise cash and short-term bank deposits. The bank balances carry interest at market rates which range from 0.50% to 3.50% and 0.35% to 3.25% per annum (unaudited) as at December 31, 2011 and September 30, 2012 respectively.

	<u>At September 30,</u>	<u>At December 31,</u>
	<u>2012</u>	<u>2011</u>
	<u>RMB'000</u>	<u>RMB'000</u>
	<u>(unaudited)</u>	<u>(audited)</u>
Cash.....	231	127
Bank deposits with original		
maturity within three months or less	<u>1,541,733</u>	<u>1,808,801</u>
Cash and cash equivalents.....	1,541,964	1,808,928
Bank deposits with original		
maturity over three months	<u>1,280,000</u>	<u>1,430,000</u>
Bank balances and cash	<u><u>2,821,964</u></u>	<u><u>3,238,928</u></u>

Pledged bank deposits represent deposits pledged to banks to secure bank acceptance bills and letters of guarantee and are therefore classified as current assets. The pledged bank deposits carry interest at market rates which range from 0.50% to 3.50% and 0.35% to 3.25% per annum (unaudited) as at December 31, 2011 and September 30, 2012 respectively.

16. TRADE AND OTHER PAYABLES

	At September 30,	At December 31,
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Bills payable (Note i)	789,981	966,703
Trade payables (Note i)		
— due to third parties.....	1,603,947	1,005,013
— due to related parties	5,203	—
	<u>2,399,131</u>	<u>1,971,716</u>
Dividends payable	197,061	164,468
Dividends payable to a non-controlling shareholder of a subsidiary	—	3,112
Salary and bonus payables	178,008	181,013
Amount due to a non-controlling shareholder of a subsidiary (Note ii)	105,542	59,287
Deposits (Note iii).....	17,887	10,412
Deferred income to be recognized within one year (Note iv).....	9,561	8,282
Other taxes payable	8,225	15,715
Accruals and other payables (Note v)	68,364	54,852
Housing funds held on behalf of staff (Note vi).....	24,610	34,893
	<u>3,008,389</u>	<u>2,503,750</u>

- (i) The following is an aged analysis of bills payables and trade payables presented based on invoice date at the end of each reporting period:

	At September 30,	At December 31,
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Within 90 days	1,563,031	1,645,921
Over 90 days but within 1 year.....	754,967	233,354
Over 1 year.....	81,133	92,441
	<u>2,399,131</u>	<u>1,971,716</u>

- (ii) The balance represents the amount due to a non-controlling shareholder of ZMJ Shun Li Machinery. The amount was unsecured, interest-free and repayable on demand.

- (iii) Deposits represent the deposits received from suppliers for purchasing equipment, construction and other services.
- (iv) Deferred income to be recognized within one year represents the government subsidies received by the Group towards certain research projects. The amount has been treated as deferred income and will be transferred to income for the relevant projects.
- (v) Accruals and other payables mainly consist of payables for the acquisition of property, plant and equipment, rental payables and payables for other services.
- (vi) The balance represents the funds received from staff and held by the Company on their behalf for disbursement of the development costs of staff quarters.

17. SHARE CAPITAL

Details of issued and fully paid share capital of the Company are as follows:

	Nine months ended September 30,	Year ended December 31,
	2012	2011
	RMB'000 (unaudited)	RMB'000 (audited)
A shares of RMB1.00 each		
At beginning of period/year	700,000	700,000
Capitalization of the share premium		
(Note i)	700,000	—
At end of period/year (Note ii)	<u>1,400,000</u>	<u>700,000</u>

Note i: Pursuant to the shareholders' resolutions passed at the 2011 General Meeting of the Company held on February 28, 2012, the Company declared a final cash dividend of RMB0.12 per share in respect of the year ended December 31, 2011 and by way of capitalization of share premium, issued 700,000,000 new A Shares (on the basis of the Company's total issued share capital comprising 700,000,000 A Shares as of December 31, 2011) to all holders of A Shares whose names appeared on the Company's register of members as at the closing of trading on the Shanghai Stock Exchange on March 12, 2012, on the basis of 10 new A Shares for every 10 then issued A Shares.

Note ii: 285,600,000 and 571,200,000 A Shares were subject to a lock-up periods of 19 months and 10 months as at December 31, 2011 and September 30, 2012 respectively.

18. DEEMED DISPOSAL OF A SUBSIDIARY

Pursuant to a shareholders' resolution of Huaxuan Investment, then a subsidiary of the Company, which was passed at the shareholders' meeting of Huaxuan Investment held on July 27, 2012, the registered capital of Huaxuan Investment will increase from RMB500,000,000 to RMB650,000,000. Upon the completion of the capital increase, the previous non-controlling shareholder, Jin Ling Hua Xin Venture Capital Company Limited 金陵華新創業投資有限公司 ("Huaxin Investment") will own 53.85% of the equity interest of Huaxuan Investment. Also, pursuant to such resolution, effective from July 27, 2012, Huaxin Investment is entitled to exercise 53.85% voting power at shareholders' meetings and has the power to appoint the majority of the members of the board of directors of Huaxuan Investment.

In the opinion of the directors of the Company, the Company has ceased to control, but has significant influence over, Huaxuan Investment since July 27, 2012. Therefore, as at July 27, 2012, Huaxuan Investment was deemed to be disposed and ceased to be a subsidiary and became an associate of the Company. The net assets of Huaxuan Investment at the date of disposal were as follows:

	RMB' 000
Analysis of assets and liabilities over which control was lost:	
Trade and other receivables	4,000
Bank balances and cash	69,321
Available-for-sale investments	40,000
Advance to third parties for potential investment	300,000
Trade and other payables	(4)
Tax liabilities	(1,030)
Net assets disposed of	<u>412,287</u>
Gain on disposal of a subsidiary:	
Investment retained in the former subsidiary	309,215
Net assets disposed of	(412,287)
Non-controlling interests	<u>103,072</u>
Gain/(loss) on deemed disposal	<u>—</u>
Net cash outflow arising on deemed disposal:	
Cash consideration	—
Less: bank balances and cash disposed of	69,321
	<u>(69,321)</u>

19. CAPITAL COMMITMENTS

	At September 30, 2012	At December 31, 2011
	RMB'000 (unaudited)	RMB'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for	117,726	124,833
Capital expenditure in respect of the acquisition of land use right authorized but not contracted for	25,911	56,591
	<u>143,637</u>	<u>181,424</u>

20. RELATED PARTY TRANSACTIONS

In the opinion of the directors of the Company, the parent of the Company is Henan SASAC of the PRC government and that the Group is subject to the control of the PRC government. In accordance with IAS 24, entities that are controlled, jointly controlled or significantly influenced by the PRC government (“PRC government related entities”) are regarded as related parties of the Group. Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group. Nevertheless, the Group represented that the following captures the material related parties taking into account the exemption under IAS 24.

(1) The Group and Henan SASAC

The Group has transactions with entities controlled, jointly controlled or significantly influenced by Henan SASAC (“Henan SASAC related entities”) and the transactions details are as follow:

	Nine months ended September 30, 2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Sales of finished goods.....	124,438	344,705
Purchase of raw materials	528,359	442,291

For the nine months ended September 30, 2012 and September 30, 2011, revenue from Henan SASAC related entities accounted for 1.7% and 5.7%, respectively, of total revenue. Purchases from Henan SASAC related entities for the same periods accounted for 9.3% and 9.6% respectively, of total cost of sales.

The directors are of the opinion that the above transactions with Henan SASAC related entities were conducted in the ordinary course of business.

The details of outstanding balances with Henan SASAC and Henan SASAC related entities are set as follow:

	At September 30,	At December 31,
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(audited)
Amount due from Henan SASAC related entities	<u>82,524</u>	<u>147,892</u>
Amount due to Henan SASAC	<u>3,050</u>	<u>3,050</u>

Except for the amount due to Henan SASAC which is unsecured, interest-free and repayable on demand, all the amounts due from Henan SASAC related entities are from trade sales or purchases.

(2) The Group and other PRC government related entities

Apart from the significant transactions with Henan SASAC related entities set out above, during the nine months ended September 30, 2012 and September 30, 2011, the Group's transactions with other PRC government related entities are collectively significant as a large portion of its sales of goods, purchases of materials, most of bank deposits, borrowings, other general banking facilities and the relevant interest income earned and expenses incurred during the nine months ended September 30, 2012 and September 30, 2011 are transacted with banks owned/controlled by the PRC government.

In the opinion of the directors of the Company, the transactions with PRC government related entities are activities in the ordinary course of the Group's business and entered into under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established its approval process for sales of goods and purchases of materials and its financing policy for borrowings, such approval process and financing policy do not depend on whether the counterparties are government related entities or not.

(3) The Group and its associates and jointly controlled entities

The Group had the following significant transactions with its associates and jointly controlled entities during the nine months ended September 30, 2012 and September 30, 2011:

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Trade sales		
Associates.....	81,849	32,822
Jointly controlled entities	7,649	8,434
	<u>89,498</u>	<u>41,256</u>
Trade purchases		
An associate	1,735	1,598
Jointly controlled entities	8,174	7,281
	<u>9,909</u>	<u>8,879</u>

The Group had the following outstanding balances with its associates and jointly controlled entities at the end of each reporting period:

	At September 30,	At December 31,
	2012	2011
	RMB'000 (unaudited)	RMB'000 (audited)
Amounts due from other related parties		
Associates.....	54,056	38,841
Jointly controlled entities	2,017	2,424
	<u>56,073</u>	<u>41,265</u>
Amounts due to other related parties		
Associates.....	5,203	—
	<u>5,203</u>	<u>—</u>

Except dividends receivable from a jointly controlled entity of RMB634,000 as at December 31, 2011, all the other amounts due from or to other related parties are from trade sales or purchases.

(4) Remuneration of key management personnel

The remuneration of directors and other members of key management during the nine months ended September 30, 2012 and September 30, 2011 were as follows:

	Nine months ended September 30,	
	2012	2011
	RMB'000 (unaudited)	RMB'000 (unaudited)
Short-term benefits	3,644	2,242
Post-employment benefits	510	570
	<u>4,154</u>	<u>2,812</u>

Key management represents the directors and other senior management personnel disclosed in the Prospectus. The remuneration of key management personnel is determined with reference of the performance to individuals and market trends.

21. CONTINGENT LIABILITIES

As at December 31, 2011 and September 30, 2012, the Group issued financial guarantees of RMB22,000,000 and RMB22,000,000 (unaudited), respectively, to banks in respect of banking facilities granted to an associate, of which RMB5,246,000 and RMB11,015,000 (unaudited) have been utilized by the associate as at December 31, 2011 and September 30, 2012, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant.

During the nine months ended September 30, 2012, the Group has endorsed and derecognized certain bills receivable for the settlement of trade and other payables. In the opinion of the directors of the Company, the risk of the default in payment of the endorsed bills receivable is low because all endorsed bills receivable are issued and guaranteed by the reputable PRC banks. The maximum exposure to the Group that may result from the default of these endorsed bills receivable at the end of each reporting period is as follows:

	At September 30,	At December 31,
	2012	2011
	RMB'000 (unaudited)	RMB'000 (audited)
Outstanding endorsed bills receivable		
with recourse	<u>1,867,973</u>	<u>1,427,498</u>

The following information does not form part of the Accountants' Report prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the "Accountants' Report" set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company which has been prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is included here to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to owners of the Company as of June 30, 2012 as if it had taken place on June 30, 2012.

Our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as of June 30, 2012 or any future date. It is prepared based on our audited consolidated net assets as of June 30, 2012 as set forth in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. Our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company does not form part of the Accountants' Report in Appendix I to this prospectus.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as of June 30, 2012 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share ⁽⁴⁾	
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)	(RMB) ⁽³⁾	(HK\$) ⁽³⁾
Based on the Offer Price					
HK\$12.28	6,594,421	2,093,653	8,688,074	5.36	6.60
Based on the Offer Price					
HK\$10.38	6,594,421	1,752,506	8,346,927	5.15	6.34

Notes:

- (1) Our audited consolidated net tangible assets attributable to owners of the Company as of June 30, 2012 is extracted from the Accountants' Report in Appendix I to this prospectus, which is based on our audited consolidated equity attributable to owners of the Company as of June 30, 2012 of RMB6,602.0 million with an adjustment for intangible assets attributable to owners of the Company as of June 30, 2012.
- (2) The estimated net proceeds from the Global Offering are based on 221,122,000 H Shares and the Offer Price of HK\$10.38 or HK\$12.28 per Offer Share, being the low-end and high-end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and other related expenses, and does not take into account the related expenses already recognized in the income statement on or before June 30, 2012 and any H Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering is converted to Renminbi at the rate of HK\$1.00:RMB0.8120. No representation is made that the Renminbi amounts have been, could have been or could be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates at all.

- (3) Our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that 1,621,122,000 H Shares were in issue assuming that the Global Offering has been completed on June 30, 2012 based on the Offer Price, taking no account of any H Shares which may be issued upon the exercise of the Over-allotment Option. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted to Hong Kong dollars at the rate of HK\$1.00:RMB0.8120. No representation is made that the Renminbi amounts have been, could have been or could be converted into Hong Kong dollars, or vice versa, at that rate or at any other rates at all.
- (4) No adjustment has been made to reflect any of our trading results or other transactions entered into subsequent to June 30, 2012.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the year ending December 31, 2012 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2012. This unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial results of the Group for the year ending December 31, 2012 or any future periods.

Forecasted consolidated profit attributable to owners of the Company for the year ending December 31, 2012 ⁽¹⁾⁽³⁾	Not less than RMB1,582 million (approximately HK\$1,948 million)
Unaudited pro forma forecast earnings per Share ⁽²⁾⁽³⁾	Not less than RMB97 cents (approximately HK\$1.20)

Notes:

- (1) The bases and assumptions on which the forecasted consolidated profit attributable to owners of the Company for the year ending December 31, 2012 are presented in Appendix IV to this prospectus. The profit forecast prepared by the directors of the Company is based on the audited results of the Group for the six months ended June 30, 2012, the results shown in the unaudited management accounts of the Group for the three months ended September 30, 2012 and a forecast of the results of the Group for the remaining three months of the financial year ending December 31, 2012.
- (2) The unaudited pro forma forecast earnings per Share is based on the forecasted consolidated profit attributable to owners of the Company for the year ending December 31, 2012 and assuming the Global Offering had been completed on January 1, 2012 and a total of 1,621,122,000 Shares has been in issue throughout the year ending December 31, 2012. The 1,621,122,000 shares is calculated based on the 1,400,000,000 shares in issued and outstanding at the date of the Prospectus, and 221,122,000 shares to be issued pursuant to the Global Offering. The calculation assumes that the Over-allotment Option had not been exercised.
- (3) For the purpose of this unaudited pro forma forecast earnings per Share, the amounts stated in RMB are converted into Hong Kong dollars at exchange rate of HK\$1.00:RMB0.8120. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates at all.

C. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of incorporation in this prospectus.

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Zhengzhou Coal Mining Machinery Group Company Limited

We report on the unaudited pro forma financial information of Zhengzhou Coal Mining Machinery Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed global offering might have affected the financial information presented, for inclusion in Appendix III to the prospectus dated November 22, 2012 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in sections A and B of Appendix III to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at June 30, 2012 or any future date; or
- the earnings per share of the Group for the year ending December 31, 2012 or any future period.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

November 22, 2012

Our forecast consolidated profit attributable to owners of the Company for the year ending December 31, 2012 is set out in the section headed “Financial Information — Profit Forecast” in this prospectus.

A. BASES AND ASSUMPTIONS

The Directors have prepared the forecast consolidated profit attributable to owners of the Company for the year ending December 31, 2012 (the “Profit Forecast Period”) based on the audited results of the Group for the six months ended June 30, 2012, the results shown in the unaudited management accounts of the Group for the three months ended September 30, 2012 and a forecast of the results of the Group for the remaining three months of the financial year ending December 31, 2012.

The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as set out in the accountants’ report on the financial information of the Group for the three years ended December 31, 2011 and the six months ended June 30, 2012 as set out in Appendix I to this prospectus and is based on the following principal assumptions:

1. There will be no material changes in existing political, legal, fiscal, market or economic conditions in China or any other countries or territories in which we currently operate or are established, where the Group’s customers carry out business, to which the Group exports our products or from which the Group import our raw materials, or which are otherwise material to our business.
2. There will be no material changes in the existing legislations, regulations or rules governing the coal mining industry or government policies (economic, political or legal) in China or any other countries or jurisdiction where we currently operate or are established, where the Group’s customers carry out business, to which the Group exports our products or from which the Group import our raw materials, or where we have arrangements or agreements, which may materially adversely affect our business (including but not limited to the sales of hydraulic roof supports).
3. There will be no material changes in the bases or rates of taxation or duties in China or any other countries or territories in which we operate or are established, except as otherwise disclosed in this prospectus.
4. There will be no material changes in global macroeconomic conditions. There will be no material changes in the inflation rate, interest rates or exchange rates in China or any other countries or jurisdiction where we operate or are established, or which is otherwise material to the Group’s revenue during the Profit Forecast Period.
5. There will be no wars, military incidents, natural disasters, pandemic diseases, or other force majeure events that may have a material impact on our business during the Profit Forecast Period.

6. The Group's production and operation will not be significantly affected by interruptions of the supplies of raw materials and spare parts, which mainly include but not limited to steel.
7. There will be no adverse impact on the operations of the Group resulting from labor shortages, industrial disputes, technical barriers and any other factors outside the control of the management. In addition, the Group will be able to recruit sufficient employees to meet the operation requirements during the Profit Forecast Period.
8. There will be no material changes in the existing regulations and calculation method applicable to staff welfare and social insurance of the Group during the Profit Forecast Period.
9. The operation licenses and qualification certificates currently held by the Group will not be revoked and will be renewed upon expiry without incurring significant costs, if applicable.
10. There will be no material litigation or contract dispute threatened or pending against the Group, and other contingent liability, which may adversely affect the operating results, financial positions and cash flow from operating activities of the Group.
11. The Group's operations and business will not be materially affected or interrupted by competition and any events or unforeseeable factors that are beyond the control of the management.
12. It is assumed that there will be no government action, or any other unforeseen circumstances beyond the control of the management which will have material adverse effect on the operations and results of the Group.
13. There will be no material changes in technology, industry, safety standards, and environmental protection regulations in connection with manufacture and sales of hydraulic roof supports that would have a significant negative impact on the Group's operation in the PRC.
14. The Group's operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed "Risk Factors" in this prospectus.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter, prepared for inclusion in this prospectus, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the forecast of the consolidated profit attributable to the owners of the Company for the year ending December 31, 2012

Deloitte.
德勤

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香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

November 22, 2012

The Directors
Zhengzhou Coal Mining Machinery Group Company Limited
UBS Securities Hong Kong Limited
J.P. Morgan Securities (Far East) Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of Zhengzhou Coal Mining Machinery Group Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ending December 31, 2012 attributable to owners of the Company (the “Forecast”), for which the directors of the Company are solely responsible, as set out in the prospectus dated November 22, 2012 issued by the Company (the “Prospectus”). The Forecast is prepared based on the audited results of the Group for the six months ended June 30, 2012, the results shown in the unaudited management accounts of the Group for the three months ended September 30, 2012 and a forecast of the results of the Group for the remaining three months of the financial year ending December 31, 2012.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in part A of Appendix IV to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report on the financial information of the Group for the three years ended December 31, 2011 and the six months ended June 30, 2012 as set out in Appendix I to the Prospectus.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

C. LETTER FROM THE JOINT SPONSORS

The following is the text of a letter prepared by the Joint Sponsors for the purpose of incorporation in this prospectus, in connection with the forecast of the consolidated profit attributable to owners of the Company for the year ending December 31, 2012.

**J.P.Morgan**

November 22, 2012

To: The Directors

Zhengzhou Coal Mining Machinery Group Company Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to owners of Zhengzhou Coal Mining Machinery Group Company Limited (the “**Company**”) for the year ending December 31, 2012 (the “**Profit Forecast**”) as set out in the prospectus issued by the Company dated November 22, 2012 (the “**Prospectus**”).

We understand that the Profit Forecast has been prepared based on the audited results of the Group for the six months ended June 30, 2012, the results shown in the unaudited management accounts of the Group for the three months ended September 30, 2012 and a forecast of the results of the Group for the remaining three months of the financial year ending December 31, 2012.

We have discussed with you the bases and assumptions made by the directors of the Company (the “**Directors**”) as set out in Appendix IV to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated November 22, 2012 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu, regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,

For and on behalf of
UBS Securities Hong Kong Limited

Michael Ngai
Managing Director
Yao Liu
Director

For and on behalf of
J.P. Morgan Securities (Far East) Limited

David Pak Wai Lau
Managing Director
Jianhong Liang
Executive Director

The following is a summary of certain laws and regulations in respect of taxation and foreign exchange in the PRC and Hong Kong.

TAXATION OF SECURITY HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors. This summary is based on the tax laws of the PRC as in effect on the date hereof which are subject to change (or changes in interpretation), possibly with retroactive effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp duty and estate taxation. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

PRC TAXATION

Taxation of Dividends

Individuals

Pursuant to the *Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法) which was amended on June 30, 2011 and became effective from September 1, 2011 (the “New Individual Income Tax Law”), dividends paid by PRC companies are generally subject to a PRC withholding tax levied at a rate of 20%. For a foreign individual who is not resident of the PRC, the receipt of dividends from a company in the PRC is subject to a withholding tax of 20% unless reduced by an applicable tax treaty or specially exempted by the tax authority of the State Council.

On July 21, 1993, SAT issued a *Notice of the PRC State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals* (國家稅務總局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) (the “Tax Notice”) which states that dividends paid by a PRC company to foreign individuals with respect to shares listed on an overseas stock exchange are temporarily not subject to PRC withholding tax. In the letter dated July 26, 1994 to the former State Commission for Restructuring the Economic Systems of the PRC, the former Securities Commission of the State Council and CSRC, the SAT reiterated the temporary tax exemption set out in the Tax Notice for dividends received from a PRC company listed overseas.

The Tax Notice was abolished by SAT on January 4, 2011. On June 28, 2011, the SAT issued a *Notice of the PRC State Administration of Taxation Concerning the Collection and Management of Individual Income Tax after the Abolition of the Circular SAT No.[1993]045* (國家稅務總局關於國稅發[1993] 045 號文件廢止後有關個人所得稅徵管問題的通知) (the “New Tax Notice”). Pursuant to the New Tax Notice, after the abolition of the Tax Notice, dividends paid by a PRC company listed in Hong Kong to foreign individuals are subject to PRC withholding tax according to the Individual Income Tax

Law of the PRC and its implementation rules, and such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty. Generally, a convenient tax rate of 10% will apply to the dividends paid by the company listed in Hong Kong to foreign individuals without application according to the applicable treaties. When a tax rate of 10% is not applicable, our Company will: (1) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%, (2) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%, or (3) withhold such foreign individual income tax at a rate of 20% if no double taxation treaty is applicable.

Enterprise

Pursuant to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on August 21, 2006, the PRC government may impose tax on dividends paid to a Hong Kong resident including natural person and legal entity from a PRC company, but such tax shall not exceed 10% of the total sum of the dividends payable. If a Hong Kong resident holds 25% or more of equity interest in a PRC company at any time within the 12-month period prior to distribution of dividends, such tax shall not exceed 5% of the total sum of dividends payable by that PRC company.

Pursuant to the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法) enforced from January 1, 2008 (the “New Enterprise Income Tax Law”) and *Regulation on the Implementation of the Enterprise Income Tax Law of PRC* (中華人民共和國企業所得稅法實施條例), a non-resident enterprise, which did not establish representative office or other facilities or its established representative office or facility has no actual connections with the dividends and bonus received, shall be subject to a 10% enterprise income tax on its revenues sourced in the PRC. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

Pursuant to the *Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Which are Overseas Non-resident Enterprises* (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (GuoShuiHan [2008] No. 897) which was promulgated by the SAT on and became effective from November 6, 2008, a PRC resident enterprise, when distributing dividends to H share holders which are overseas non-resident enterprises for 2008 and for the years afterwards, shall be subject to the enterprise income tax withheld at a uniform rate of 10%. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

Tax Treaties

Investors who are not PRC residents but either reside in countries which have entered into double-taxation treaties with the PRC or reside in Hong Kong SAR or Macau SAR, may be entitled to a reduction of the withholding tax imposed on the dividends paid to such investors by a PRC company. The PRC currently has signed double-taxation avoidance arrangements with Hong Kong SAR and Macau SAR respectively, and has double-taxation avoidance treaties with a number of other countries, which include but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom, the United States and etc. Under each of such double taxation avoidance treaties or arrangements, the rate of withholding tax imposed by PRC’s taxation authorities may be generally reduced.

Taxation of Capital Gains*Individual Investors*

According to the *New Individual Tax Law and the Implementation Rules of the Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法實施條例) as amended on February 18, 2008, gains realized on the sale of equity interests shall be subject to individual income tax at a rate of 20%.

Pursuant to the *Notice on Continuing the Income Tax-Free Policy on the Share Transfer of Individual Holders* (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) jointly issued by the Ministry of Finance and the SAT dated March 30, 1998, in respect of suspending the enforcement of the collection of the individual income tax on gains realized in connection with sales of shares, gains on sales of shares by individuals are temporarily exempted from individual income tax. Individual holders of H shares shall be subject to income tax at a rate of 20% on capital gains, unless such tax is reduced or eliminated by an applicable double taxation treaty.

Enterprise

Pursuant to the *New Enterprise Income Tax Law and Regulation on the Implementation of the Enterprise Income Tax Law of PRC* (中華人民共和國企業所得稅法實施條例), a non-resident enterprise, which did not establish representative office or other facilities or its established representative office or facility has no actual connections with the dividends and bonus received, shall be subject to a 10% enterprise income tax on its revenues sourced in the PRC. Such withholding tax may be reduced or exempted pursuant to an applicable double taxation treaty.

Stamp Duty

PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies should not apply to the acquisition and disposal by non-PRC investors of H shares outside of the PRC by virtue of the *Provisional Regulations of PRC Concerning Stamp Duty* (中華人民共和國印花稅暫行條例), which became effective from October 1, 1988 and was amended on January 8, 2011 and which provide that PRC stamp duty is imposed only on documents, executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Duty

No liability for estate tax under PRC law will arise from non-PRC national holding H shares.

Income Tax*On the Company*

Pursuant to the New Enterprise Income Tax Law, enterprises incorporated in the PRC will pay enterprise income tax at a rate of 25% on income earned from production and operations, and on other income, with tax concessions available where laws and regulations have provided for tax exemption or reduction.

Business Tax

Pursuant to the *PRC Provisional Regulations on Business Tax* (中華人民共和國營業稅暫行條例) that became effective from January 1, 1994 and was amended in November 2008 and the relevant rules for implementation of this law, the enterprises (including foreign investment enterprises) and individuals that provide various labor services and that assign intangible assets or sell immovable property in the PRC shall be subject to the business tax. The tax rate on the provision of taxable labor services, assignment of intangible assets or sale of immovable property shall be 3%-20%.

HONG KONG TAXATION**Tax on Dividends**

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H Shares. Trading gains from the sale of the H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a rate of 15.0%. Gains from sales of the H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required). Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and the stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the stamp duty otherwise chargeable thereon, and the transferee shall be liable to pay the stamp duty on the instrument.

Estate Duty

The *Revenue (Abolition of Estate Duty) Ordinance 2005* came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was used in the PRC for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap center first had to obtain the approval from the SAFE.

On December 28, 1993, the PBOC, under the authority of the State Council, promulgated the *Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System* (中國人民銀行關於進一步改革外匯管理體制的公告) (the "Notice"), effective from January 1, 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On March 26, 1994, the PBOC promulgated the *Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯暫行管理規定) (the "Provisional Regulations"). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-US Dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi-US Dollar in the interbank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

On January 29, 1996, the State Council promulgated new *Regulations of the People's Republic of China for the Control of Foreign Exchange* (中華人民共和國外匯管理條例) ("Control of Foreign Exchange Regulations") which became effective from April 1, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997 and on August 1, 2008 respectively, and became effective from August 5, 2008. The latest amendments affirmatively states that the state shall not restrict international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理暫行規定) (the “Settlement Regulations”) which became effective from July 1, 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the *Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprises* (關於對外商投資企業實行銀行結售匯的公告) (the “Announcement”). The Announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On October 25, 1998, the PBOC and the SAFE promulgated the *Notice Concerning the Discontinuance of Foreign Exchange Swapping Business* (關於停辦外匯調劑業務的通知) which became effective from December 1, 1998. According to the Notice, all foreign exchange swapping business in the PRC targeted on the foreign-invested enterprises shall be discontinued, while the trading of foreign exchanges by foreign-invested enterprises shall be carried out under the banking system for the settlement and sale of foreign exchange.

On July 21, 2005 the PBOC announced that, beginning from that date, it would implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies in the PRC. The Renminbi exchange rate is no longer pegged to the US Dollar. The PBOC will announce the closing price of a foreign currency such as the US Dollar traded against the Renminbi in the interbank foreign exchange market after the closing of the market on each business day, setting the central parity of Renminbi exchange rates on the following business day.

Starting from January 4, 2006, the PBOC introduced over-the-counter transactions into the interbank spot foreign exchange market for the purpose of improving the formation mechanism of the central parity of Renminbi exchange rates, and the way of matching shall be kept at the same time. In addition to the above, the PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. After the introduction of over-the-counter transactions, the formation mechanism of the central parity of Renminbi exchange rates is improved to be a mechanism where the China Foreign Exchange Trade Center would determine the central parity of Renminbi exchange rates based on the Over-the-counter transactions and announce the central parity of Renminbi against US Dollar at 9:15 AM on each business day under the authorization of the PBOC.

Receipts over the current account items may be retained or sold to financial institutions in the business of foreign exchange sale and purchase in accordance with the relevant PRC regulations. Unless otherwise provided by the PRC regulations, approvals by the foreign exchange regulatory authorities shall be obtained for retaining or selling of receipts over the capital account items to financial institutions in the business of foreign exchange sale and purchase.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like our Company), may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE and/or the relevant branch must be sought.

Dividends to holders of H shares are declared in Renminbi but must be paid in Hong Kong dollars.

This appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to the Company's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix V to this prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions which are currently in force, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional summary of provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

1. PRC LAWS AND REGULATIONS

The PRC Legal System

The PRC legal system is based on the *PRC Constitution* (中華人民共和國憲法) and is made up of written laws, administrative regulations, local regulations, autonomy regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC government is a signatory. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (中華人民共和國全國人民代表大會) ("NPC") and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil and criminal matters and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of State administration and has the power to formulate administrative regulations based on the constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, subject to the constitution, laws and administrative regulations. The people's congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities and enact the same after submitting to the standing committee of the people's congresses of provinces or autonomous regions for approval. The standing committee of the people's congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules of the People's Government of the province or autonomous region concerned are identified in the examination of local regulations of larger cities by the standing committee of the people's congresses of provinces or autonomous regions, a decision should be made. "Larger cities" refer to cities where the people's governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

People's congresses of national autonomous areas have the power to enact autonomy regulations and separate regulations in the light of the political, economic and cultural characteristics of the nationality or nationalities in the areas concerned. The autonomy regulations and separate regulations of autonomous regions shall be submitted to the Standing Committee of the NPC for approval before taking effect. The autonomy regulations and separate regulations of autonomous prefectures and counties shall be submitted to the standing committees of the national people's congresses of provinces, autonomous regions or municipalities for approval before taking effect. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate regulations according to the cultural characteristics of the nationality so long as they do not contravene the basic principles of the laws or administrative regulations, provided that no adaptations shall be made to specific provisions on national autonomous areas contained in the constitution, autonomy law of national areas and other relevant laws and administrative regulations.

The ministries, commissions, People's Bank of China, National Audit Office of the State Council and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations should relate to the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and larger cities may formulate administrative rules based on the laws, administrative regulations and local regulations of such provinces and autonomous regions and municipalities.

According to the *PRC Constitution*, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such regulations and rules.

The PRC Judicial System

Under the *PRC Constitution* and the *Law of Organisation of the People's Courts of the PRC* (中華人民共和國法院組織法), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division). These two levels of people's courts are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's court shall apply the system whereby the second instance is final, i.e., the judgment or ruling of the second instance at a people's court is final. A party to the case concerned may appeal to the people's court at the next higher level against the judgment or ruling of the first instance. The people's procuratorate may appeal to the people's court at the next higher level in accordance with procedures stipulated by the laws. In the absence of any appeal by any parties to the case and any appeal by the people's procuratorate within the stipulated period, the judgment or ruling of the people's court shall be the final judgment or rulings. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the president of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the adjudication supervision procedures.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the "Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 2007 prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The competent court may also be selected by express agreement amongst the parties to a contract provided that the court selected is located at the plaintiff's or the defendant's place of domicile, the place of performing the contract or the place of executing the contract or the object of the action, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a juridical system of a foreign country limit the litigation rights of PRC citizens and enterprises, subject to the principle of reciprocity, the PRC courts may apply the same limitations to the citizens and enterprises (in the PRC) of that foreign country. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within a stipulated period. Should anyone be unable to execute the judgment of the people's court within a stipulated period, as a result of any party's application, the people's court shall enforce such a judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Similarly, if the PRC has entered into a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by a PRC court based on the equity principle unless the people's court considers that the recognition or enforcement of a judgment or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or social and public interest.

The PRC Company Law, Special Regulations and Mandatory Provisions

The PRC Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Meeting on December 29, 1993 and came into effect on July 1, 1994. It was amended thrice on 25 December, 1999 and on August 28, 2004 and revised on October 27, 2005. The latest revised PRC Company Law came into effect on January 1, 2006.

The Special Regulations were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations are formulated in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions promulgated by Securities Commission of the State Council and the State Restructuring Commission on August 27, 1994 prescribe provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a “company” made in this Appendix are to a joint stock limited company established under the PRC Company Law with H shares.

Set out below is a summary of the major provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions.

General

A “company” is a corporate legal person incorporated under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the full amount of its assets and the liability of its shareholders is limited to the extent of the shares held by them. Companies can be divided into two different categories: limited liability companies and joint stock limited companies.

Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than two hundred promoters. At least half of the promoters must have residence within the PRC.

Joint stock limited companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. The initial capital contribution by all promoters of the joint stock limited company shall not be less than 20% of the registered capital. The remainder shall be paid up within two years from the date of incorporation of the joint stock limited company by the promoters. For investment joint stock limited companies, the remainder may be paid up within five years. Shares in the company shall not be offered to other persons unless the registered capital has been paid up. For joint stock limited companies incorporated by public subscription, the registered capital is the amount of its total paid up capital as registered with the registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher.

For joint stock limited companies incorporated by way of promotion, the promoters shall subscribe in full in writing for shares required to be subscribed by them by the articles of association. The full amount of capital contribution shall be paid up if payments are made in one lump sum and the first installment shall be paid forthwith if payments are made in installments. Procedures relating to the transfer of title for nonmonetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provision shall be liable for breach of contract in accordance with the covenants laid down in the promoters' agreement. After the promoters have completed the initial capital contribution, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authorities, together with a capital verification certificate issued by a capital verification institution established by law and other documents required by the law or administrative regulations.

Where joint stock limited companies are incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder can be subscribed for by the public or particular persons, unless otherwise provided for by the law or administrative regulations. A promoter who offers shares to the public must publish a shareholder prospectus and draft a share subscription form to be signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and their addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities firms established by law, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also sign an agreement with a bank in relation to the receipt of subscription amounts. The receiving bank shall receive and keep in custody the subscription amounts, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to the relevant authorities. After the subscription amounts for the share issuance have been paid in full, a capital verification institution established by law must be engaged to conduct capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within thirty days since the date on which all the shares have been fully subscribed and notify each subscriber of or publicly announce the date of the inaugural meeting no less than fifteen days in advance of the meeting. The inauguration meeting shall be formed by the promoters and the subscribers. Where shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within thirty days after subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter return the subscription amounts so paid up together with interest at bank rates payable for a deposit of an equivalent amount for the same term. Within thirty days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A joint stock limited company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A joint stock limited company's promoter shall individually and collectively be liable for:

- (i) the payment of all expenses and liabilities incurred in the incorporation process if the joint stock limited company cannot be incorporated;
- (ii) the repayment of subscription moneys to the subscribers together with interest at bank rates for a deposit of an equivalent amount for the same term if the joint stock limited company cannot be incorporated; and
- (iii) damages suffered by the joint stock limited company as a result of the default of the promoters in the course of incorporation of the joint stock limited company.

Share capital

The promoter of a joint stock limited company may make capital contribution in currencies, or in kind or by way of injection of assets, intellectual property rights or land use rights based on their appraised value, and may also convert lawfully transferred non-monetary assets into capital contribution with a monetary value, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made other than in cash, a valuation and verification of the asset contributed must be carried out without any over-valuation or under-valuation, subject to any provisions of the law or administrative regulations on valuation. The amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

A joint stock limited company may issue registered or bearer share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of H shares proposed to be issued after accounting for the number of underwritten shares. The share offering price may be equal to or greater than the par value, but may not be less than the par value.

Increase in share capital

According to the PRC Company Law, the issuance of shares shall be conducted in a fair and equitable manner. Shares in the same class shall rank pari passu with one another. Shares of the same class in the same offer shall be issued on the same terms and at the same price. The same price per share shall be paid by any units or individuals subscribing for shares.

When a joint stock limited company is issuing new shares, resolutions shall be passed by a shareholders' general meeting, approving/setting the issue price of the new shares, the commencement and end of the new share issue and the class and amount of new shares to be issued to existing shareholders. When a joint stock limited company launches a public issue of new shares with the approval of the securities regulatory authorities under the State Council, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new

share issuance of the Company has been paid up, the change must be registered with the company registration authorities and an announcement must be made. Where a joint stock limited company is issuing new shares to increase its registered capital, the subscription of new shares by shareholders shall be conducted in accordance with provisions on the payment of subscription amounts in relation to the incorporation of the company.

Besides the PRC Company Law's provision that the issue of new shares shall be approved by a shareholders' general meeting, the PRC Securities Law also stipulates that any company that makes an initial public offer (IPO) of its stock shall: (i) have a sound corporate governance structure and be well-operated; (ii) have a profitable outlook and be of sound financial status; (iii) have no record of having filed any false financial accounting documents in the previous three years or any other major legal irregularity; and (iv) meet any other State Council-approved requirement prescribed by the securities regulatory authority under the State Council.

Reduction of share capital

Subject to the minimum registered capital requirements, a joint stock limited company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the joint stock limited company shall prepare a balance sheet and a list of assets;
- (ii) the reduction of registered capital must be approved by shareholders in a shareholders' general meeting;
- (iii) the joint stock limited company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within thirty days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commence the registration of the reduction in registered capital.

Repurchase of shares

A Company may not purchase its own shares other than for one of the following purposes:

- (i) to reduce its registered share capital;
- (ii) to merge with another company that holds its shares;
- (iii) to grant shares to its employees as incentives;
- (iv) to purchase its own shares from its shareholders who vote against the resolution regarding the merger or demerger with other company in a shareholders' general meeting; and
- (v) such other purposes permitted by law and administrative regulations.

The company's acquisition of its own shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution passed by a shareholders' general meeting. Following the company's acquisition of its shares in accordance with the foregoing, such shares shall be canceled within ten days from the date of acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

Shares acquired by the company in accordance with (iii) under paragraph one of this section shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the employees of the company within one year.

Transfer of shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other ways as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name of the transferee and its address into the share register. The transfer of bearer's share certificate shall become effective upon the delivery of such share certificate to the transferee by the shareholder. Subject to the PRC Company Law, no changes of registration in the share register provided in the foregoing shall be effected during a period of twenty days prior to the convening of the shareholders' general meeting or five days prior to the record day for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. Subject to the Mandatory Provisions, the shareholders' register may not be modified within the thirty days preceding the shareholders' general meeting or within the five days preceding any ex-dividend date fixed by the company.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue of shares shall not be transferred within one year from the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in the company and any changes in such shareholdings. During their term of office, they shall transfer no more than 25% of the shares they hold in the company. They shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they have resigned from their positions with the company. The articles of association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the Directors, supervisors and the senior management of the company.

Shareholders

A shareholder's rights and duties are all stipulated in the company's articles of association, which is binding on all shareholders.

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend shareholders' general meetings and exercise the voting rights on the basis of the number of the shares held by such shareholder personally or appoint an agent to attend such meetings and exercise the rights referred to hereinabove;

- (ii) to transfer the shares held by such shareholder subject to the applicable laws, regulations and the company's article;
- (iii) to bring an action in the people's court to rescind the resolution when any law or administrative regulation or any legal right or interest of any shareholder is violated by a resolution passed by the shareholders' general meeting or the board of directors;
- (iv) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory committee and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (vii) any other shareholders' rights provided for in the articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

Shareholders' general meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors (that are not staff representatives) and to decide on matters relating to the remuneration of directors and supervisors;
- (iii) to examine and approve reports of the board of directors;
- (iv) to examine and approve reports of the supervisory committee or supervisor;
- (v) to examine and approve the company's proposed annual financial budget and final accounts;
- (vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;

- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to amend the company's articles of association; and
- (xi) other powers as provided for in the articles of association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the PRC Company Law or less than two-thirds of the number specified in the articles of association;
- (ii) the aggregate losses of the company which are not recovered reach one third of the company's total paid-in share capital;
- (iii) when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- (iv) whenever the board of directors deems necessary;
- (v) when the supervisory committee so requests; or
- (vi) other circumstances as provided for in the articles of associations.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for ninety days consecutively may unilaterally convene and preside over such meeting.

Subject to the PRC Company Law, notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders twenty days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders fifteen days prior to the meeting. Notice of the issuance of bearer's share shall be announced thirty days before the meeting. Subject to the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the shareholders forty-five days in advance, and the matters to be considered at the meeting shall be

specified. Subject to the Special Regulations and the Mandatory Provisions, the confirmation letter of the shareholders planning to attend the meeting shall be delivered to the company twenty days in advance of the meeting. Moreover, subject to the Special Regulations, shareholders holding more than 5% of the company's shares carrying voting rights may put forward a new proposal in writing for the meeting to discuss at the shareholders' annual meeting, and if the proposal falls within the purview of the meeting, it shall be placed on the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division, dissolution, change of category, increasing or reduction of registered capital of a company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by a company must be approved by way of resolution of the shareholders' general meeting, the directors shall convene a shareholders' general meeting promptly to vote on the above matters. The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Minutes shall be prepared in respect of matters considered at the shareholders' general meeting and the president of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of shares of any class, warrants or other similar securities, and corporate bonds, the liquidation, merger, division, dissolution of the company and any other matters in respect of which may affect the Company in material respects if the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received twenty days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holder of H shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to 19 members. Members of the board of directors may include staff representatives of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed in general meetings;
- (iii) to decide on the company's business plans and investment proposals;
- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's profit distribution proposals and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- (vii) to prepare plans for the merger, division, dissolution or change of category of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to decide the appointment or dismissal and the remuneration of the company's general manager and based on the general manager's nomination, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other power under the articles of association.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors ten days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the directors or the supervisory committee. The chairman shall convene and preside over such meeting within ten days after receiving such proposal. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors. Meetings of the board of directors shall be held only if half or more of the directors are present.

Resolutions of the board of directors require the approval of more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked, ordered to stop operating due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license; and
- (v) persons who have a relatively large amount of debts due and outstanding.

The election, appointment or engagement of directors elected or appointed by the company in violation of the aforesaid provisions shall be null and void. If one of these restrictions becomes applicable to a director during his term of office, such director shall be released of his duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall perform his duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third of the Directors and officers may not act concurrently as supervisors. Representatives of the company's staff and workers at the supervisory committee shall be democratically elected at the staff representative assembly, general staff meeting or otherwise. The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of supervisors shall convene and preside over supervisory committee meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if reelected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and officers in their performance of their duties and to propose the removal of directors and officers who have violated laws, regulations, the articles of association or shareholders' resolution;
- (iii) when the acts of directors and managers are harmful to the company's interests, to require correction of these acts;
- (iv) to propose the convening of shareholders' general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under this law;
- (v) to propose resolutions in a general shareholders' meeting;
- (vi) to initiate proceedings against directors and officers; and
- (vii) other powers specified in the articles of association.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work at the company's expense.

Managers and officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- (i) manage the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) organize for the implementation of the company's annual business and investment plans;
- (iii) propose plans for the establishment of the company's internal management structure;
- (iv) propose the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officer;
- (vii) appoint or dismiss other responsible officers (other than those required to be appointed or dismissed by the board of directors); and
- (viii) other powers conferred by the board of directors or the articles of association.

Other provisions of the articles of association concerning the general manager's powers shall also be complied with. The general manager shall be in attendance at board meetings.

According to the Company Law, officers shall mean the general manager, deputy general manager(s), financial officer, board secretaries (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

Duties of the directors, supervisors, general managers and other officers

Directors, supervisors, managers and officers of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties honestly and diligently. Directors, supervisors, managers and officers are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and officers are prohibited from:

- (i) misappropriation of company funds;
- (ii) deposit of company funds into accounts under his own name or the name of other individuals;

- (iii) loaning company funds to others or providing guarantees in favor of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (iv) entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (v) using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' meeting or the shareholders' general meeting;
- (vi) accepting for their own benefit commissions from a third party dealing with the company;
- (vii) unauthorized divulgence of confidential business information of the company; or
- (viii) other acts in violation of their fiduciary duty to the company.

Income generated by directors or officers in violation of the foregoing provisions shall revert to the company.

A director, supervisor or officer who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where the attendance of a director, supervisor or officer is requested by the shareholders' general meeting, such director, supervisor or officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and officers should furnish with relevant information to the supervisory committee or the supervisor (for companies with limited liability that do not have supervisory committees) without obstructing the discharge of duties by the supervisory committee or the supervisors.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other officers shall have fiduciary duties towards the company. They are required to faithfully perform their duties, protect the interests of the company and not use their positions for their own benefit. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited by an accountant as provided by law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

The financial report of a liability limited company shall be delivered to all the shareholders within the time limit stipulated in the company's articles. A joint stock limited company shall deposit its financial statements at the company for inspection by the shareholders at least twenty days before the convening of an annual general meeting of shareholders. A joint stock limited company issuing its shares in public must publish its financial statements. When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus common reserve fund (except where the fund has reached 50% of the company's registered capital). When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, or in other manner. Profit distributed to shareholders by the shareholders' meeting or shareholders' general meeting or the board of directors before losses have been made good and appropriations have been made to the statutory common reserve fund in violation of the foregoing provisions must be returned to the company. Company shares held by the company shall not be entitled to any distribution of profit.

The premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve shall be accounted for as capital common reserve. The capital common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital. The capital common reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the statutory common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and retirement of auditors

Pursuant to the PRC Company Law, the appointment or dismissal of accountants responsible for the company's auditing shall be determined by the shareholders' meeting, the shareholders' general meeting or the board of directors in accordance with the articles of association. The accountant should be allowed to make representations when the shareholders' meeting, the shareholders' general meeting or board of directors is going to conduct a vote on the dismissal of the accountant. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant it hires without any refusal, withholding and false information.

The Special Regulations require a company to employ an independent qualified firm of accountants to audit the company's annual report and review and check other financial reports. The accountant's term of office shall commence from the end of the annual general meeting of the company's shareholders and it shall expire on the end of the next annual general meeting of the company's shareholders.

Distribution of profits

According to the PRC Company Law, the company shall not distribute profits before losses are covered and the statutory common reserve is drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of H shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of articles of association

Any amendments to the articles of association must be made in accordance with the procedures set forth in applicable laws, regulations and the articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the company's approval department authorized by the CSRC and the State Council. If the amendment to the articles of association fails to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

Dissolve and liquidation

According to the PRC Company Law, a company shall be dissolved by reason of the following:

- (i) the term of its operations set down in the company's articles of association has expired or other events of dissolution specified in the company's articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the business license is revoked, or the operation is ordered to stop; or
- (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation of the company experiences serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a source of significant losses for shareholders.

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out in the previous paragraph shall require approval of shareholders holding more than two-thirds of voting rights in the case of companies with limited liability and more than two-thirds of voting rights of shareholders attending a shareholders' general meeting in the case of a joint stock limited company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee shall be established and liquidation within fifteen days after the occurrence of an event of dissolution. Members of the liquidation committee of a joint stock limited company shall be composed of its directors or the person appointed by the shareholders' general meeting. If a liquidation

committee is not established within the stipulated period, the company's creditors can apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation committee. The people's court should accept such application and form a liquidation committee to conduct a liquidation in a timely manner.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to dispose the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify, announce to creditors;
- (iii) to deal with and settle any outstanding businesses of the company;
- (iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- (v) to settle the company's claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue public notices in the newspapers within sixty days. A creditor shall lodge his claim with the liquidation committee within thirty days after receiving notification, or within forty-five days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' meeting, shareholders' general meeting or people's court for confirmation.

The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debt shall be distributed to shareholders according to their proportion of capital contribution in the case of companies with limited liability and according to shareholding proportion in the case of joint stock limited companies. The company shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayment are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy.

Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' meeting, shareholders' general meeting or the people's court for verification. Thereafter, the report shall be submitted to the company's registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation committee shall be prohibited from making of their powers to accept bribes or other unlawful income and from appropriating the company's properties. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas listing

The shares of a company shall only be listed overseas after obtaining approval from CSRC and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue H shares and domestic invested shares which has been approved by CSRC may be implemented respectively by way of separate issues, within fifteen months after approval is obtained from the CSRC.

Loss of share certificates

A shareholder may apply, in accordance with the announcement and notice procedures set out in the *PRC Civil Procedure Law*, to a people's court in the event that share certificates in registered form are either stolen, lost or destroyed, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

Suspension and termination of the listing

The PRC Company Law's provisions about suspension and termination of the listing have been canceled, and the following amendments have been made by the PRC Securities Law:

In any of the following circumstances, the stock exchange shall suspend the listing of the relevant stock in it:

- (i) where the total share capital or share ownership structure of the company changes, thus causing the company to cease to be qualified for listing;
- (ii) where the company fails to make a public disclosure on its financial status in accordance with the relevant provisions, or includes any false information in its financial statements that may mislead investors;
- (iii) where the company is responsible for any major legal irregularity;
- (iv) where the company has been operating at a loss for the last three consecutive years; or
- (v) under any other circumstances prescribed in the listing rules of the stock exchange.

According to the PRC Securities Law, the relevant stock exchange shall terminate the listing of the relevant stock where the company subsequently fails to meet listing requirements within the period of time prescribed by the stock exchange under the circumstance referred in (i) above or refuses to take any remedial steps under the circumstance referred in (ii) above or fails to make a profit in the following year under the circumstance referred in (iv) above.

Merger and demerger

When companies merge, the creditor rights and debts of the merging parties shall be assumed by the surviving company or the new company. When a company demerges, its assets must be divided accordingly and a balance sheet and inventory of assets must be drawn up. Unless otherwise agreed with a creditor, obligations in respect of the liabilities before the demerger of the company shall be jointly and severally borne by the demerged companies.

Changes in registrable particulars of the companies caused by merger or demerger must be registered with company's registration authorities. Cancellation of a company should be registered in accordance with the law when a company is dissolved. Incorporation of a company shall be registered when a new company is incorporated.

Securities Law and Regulations and Regulatory Regimes

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of relevant laws and regulations on securities, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis. In 1998, the State Council decided to cancel the Securities Commission of the State Council and the functions of the Securities Commission was assumed by the CSRC.

On December 25, 1995, the State Council promulgated the *Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies* (國務院關於股份有限公司境內上市外資股的規定). These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited companies having domestic listed foreign shares.

On December 29, 1998, the Standing Committee of the NPC promulgated the PRC Securities Law which came into effect on July 1, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On August 28, 2004 and October 27, 2005, the PRC Securities Law was respectively revised twice. The PRC Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law, and provisions of the issuance and transaction of securities, acquisitions of listed companies, stock exchanges, security companies and the duties and responsibilities of securities regulatory authority under the State Council, etc. Where the PRC Securities

Law does not apply, the provisions of the PRC Company Law and other applicable laws and administrative regulations will apply.

Arbitration Laws

The *Arbitration Law of the People's Republic of China* (中華人民共和國仲裁法) (the “Arbitration Law”) was passed by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to, among other matters, contract disputes or other property disputes where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court, unless the arbitration agreement has lapsed.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Hong Kong Listing Rules, also in a contract between the company and each director or supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of H shares and the company; (ii) a holder of H shares and a holder of domestic shares; or (iii) a holder of H shares and the directors, supervisors or other officers of the company; such parties shall submit that dispute or claim for arbitration before either the China International Economic and Trade Arbitration Commission (“CIETAC”) or the Hong Kong International Arbitration Centre (“HKIAC”) for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC.

CIETAC is an economic and trade arbitration organ in the PRC. In accordance with *CIETAC Arbitration Rules* (中國國際經濟貿易仲裁委員會仲裁規則) as amended on January 11, 2005 (which amendment became effective from May 1, 2005), the jurisdiction of CIETAC covers disputes involving Hong Kong. CIETAC is located in Beijing with South China branch office in Shenzhen as well as the other branch office in Shanghai. Under the Arbitration Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including irregularity in the composition of the arbitration committee or the giving of an award beyond the scope of the arbitration agreement or the jurisdiction of the arbitration commission).

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (承認及執行外國仲裁判決的公約) (“New York Convention”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC

passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity; and (2) the PRC will only apply the New York Convention to disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. An arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China was signed on June 18, 1999. This new arrangement has been approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective from February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention, allowing awards made by PRC arbitral authorities to be enforceable in Hong Kong in accordance with law and awards by Hong Kong arbitral authorities to be enforceable in the PRC.

Foreign Exchange Control

Foreign exchange control is implemented in the PRC. The *PRC Foreign Exchange Control Regulations* (中華人民共和國外匯管理條例) promulgated by the State Council on January 29, 1996 and came into effect on April 1, 1996 (as amended on January 14, 1997 and August 5, 2008) stipulates the principles and the punishment of the country's control of foreign exchange revenue and spending. The PBOC stipulates the basic regulation of the foreign exchange control and the SAFE and its lower organs take the responsibility of the execution of the detail regulations and the foreign exchange control. Besides the *PRC Foreign Exchange Control Regulations*, the *Regulations on the Foreign Exchange Settlement, Sale and Payments* which were promulgated on June 20, 1996 by PBOC and took effect on July 1, 1996 and which contain detailed provisions regulating the holding, sale and purchase of foreign exchange by enterprises, individuals, economic organizations and social institutions in the PRC. The *Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime* issued by the PBOC on July 21, 2005 stipulated that starting from July 21, 2005, the PRC will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The People's Bank of China will announce the closing price of a foreign currency such as the US dollar traded against the RMB in the interbank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day.

Control of revenue and spending of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities, import activities and repayment of foreign debts may purchase foreign exchange from designated banks if the application is supported by relevant documents. Furthermore, foreign investment enterprises that require foreign exchange for dividend payments, such as profit distribution to foreign investors, may draw funds in their foreign exchange bank accounts kept with designated banks after paying due dividend taxes. Should such foreign exchange be insufficient, foreign investment enterprises may purchase foreign exchange from designated banks. While foreign exchange control on current account transactions has been relaxed, the direct investment by foreign investors, the drawdown of foreign currency loans by onshore companies, the provision of foreign exchange guarantees, overseas investments and any other types of capital account transactions that involve the purchase of foreign exchange remain subject to the approval of the State Administration of Foreign Exchange or the registration in accordance with the laws. When conducting

foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

Regulations of overseas investment

According to the *Measures for the Administration of Overseas Investment* (境外投資管理辦法) promulgated by Ministry of Commerce on March 16, 2009 and came into effect on May 1, 2009, the enterprises' overseas investment stipulation in such measures shall require the ratification of the departments in charge of commerce. If there is any change to be made to the application items of the original overseas investment after ratification, the enterprise concerned shall apply to the original ratifying organ for going through the procedure of alteration ratification.

According to the *Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions* (境內機構境外直接投資外匯管理規定) stipulated by the State Administration of Foreign Exchange on July 13, 2009 and came into effect on August 1, 2009, Chinese enterprises that have been permitted to make investment abroad shall handle with the department for control of foreign exchange the procedures of registration about the foreign exchange for investment abroad.

According to the *Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects* (境外投資項目核准暫行管理辦法) promulgated by the National Development and Reform Commission and come into effect on October 9, 2004, the direct or indirect overseas investment by all kinds of juridical persons within the territory of the PRC shall be subject to the examination and approval of the State Council or the relevant Development and Reform Commission authority or the State Council. The investors should apply to the National Development and Reform Commission for alteration in case the alteration of the investors or their stock rights occurs to the approved projects.

2. HONG KONG LAWS AND REGULATIONS

(a) Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the PRC Company Law

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by common law. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the PRC Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain of the material differences between the PRC company law and Hong Kong company law which is currently in force are summarized below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the PRC Company Law and that the summary and the information in it is current only as of the date of this prospectus.

(i) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have been guilty of a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name.

Although the PRC Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court against the directors of the company when such directors are in violation of the law or the articles of association of the company, there is no form of proceedings which is the same as a derivative action under the PRC Company Law.

(ii) Remedies of the Company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company, resulting in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Hong Kong Listing Rules and the Mandatory Provisions, the Articles of Association set out remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer).

(iii) Directors, officers and supervisors

The PRC Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorized benefits, but contain no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders' approval. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in Appendix VII.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers. Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(iv) Minority protection

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

There is no specific provision in the PRC Company Law to guard against oppression by the majority shareholders of minority shareholders but the Company, as required by the Mandatory Provisions and the Hong Kong Listing Rules, has adopted in the Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not act in a manner prejudicial to the interests of other shareholders to achieve certain objectives.

(v) *Receiving agent*

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. In accordance with the requirements of the Mandatory Provisions and the Hong Kong Listing Rules, the Articles of Association provide for the appointment of an agent in Hong Kong, which is a trust corporation registered under the *Trustee Ordinance* (Chapter 29 of the Laws of Hong Kong) in Hong Kong to receive all dividends and all other monies payable to H Share holders on behalf of such shareholders as required by the Hong Kong Listing Rules. The Articles of Association also contain provisions which provide that unclaimed dividends may only be forfeited by the Company after the time period as prescribed under the PRC law.

(vi) *Variation of class rights*

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix VII. Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question.

The Company (as required by the Hong Kong Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where the Company issues and allots, in any 12-month period pursuant to a shareholders' mandate (obtained by way of a special resolution in general meeting), not more than 20% of each of the issued overseas listed foreign invested shares and the domestic invested shares existing as at the date of the shareholders' mandate.

(vii) *Share capital*

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a joint stock limited company formed under the PRC Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new

shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After completion of an approved new issue, the company has to register the increase in share capital with the relevant State Administration for Industry and Commerce or its competent local counterpart.

The minimum registered capital of a company which has applied for the listing of its shares on a stock exchange is RMB30 million under the PRC Company Law. Hong Kong law does not effectively prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the shares subscribed for in the form of intangible assets (excluding land use rights) may not exceed 20% of a joint stock limited company's registered capital if the concerned joint stock limited company is not one of those hi-tech companies specified by the State Council. There is no such restriction under Hong Kong law on a Hong Kong company.

(viii) Restriction on shareholding and transfer of shares

The PRC Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to below. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality. Under the PRC Company Law, shares in a joint stock limited company held by its promoters, directors or managers may not be transferred within certain periods of time. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the "six-month lock up period" on our Company's issue of shares ending on the date which is six months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange, and the "12-month lock up period" on the Controlling Shareholder's disposal of shares ending on the date which is 12 months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange.

(ix) Notice of meetings

Under the PRC Company Law, shareholders of a joint stock limited company must be given 20 days' notice of an annual general meeting or 15 day's notice of an extraordinary general meeting or, in the case of bearer shares, such notice should be published 30 days before the meeting. Under the Special Regulations and the Mandatory Provisions (which apply to the Company) written notice of 45 days must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions is 21 days. The notice period for an annual general meeting is also 21 days.

(x) Quorum

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise. For one member companies, one member will be a quorum. The PRC Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions provide that a

company's annual general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent 50% of the voting rights in the Company at least 20 days before the proposed date, or if that 50% level is not achieved, that the Company shall within five days notify shareholders in a public announcement and the annual general meeting may be held thereafter.

(xi) Voting

Under Hong Kong company law, ordinary resolutions are passed by more than one half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three quarters of such votes. Under the PRC Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company where the approval of a two-thirds majority is required.

(xii) Dividends

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws the relevant limitation period is two years.

(xiii) Financial disclosure

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial situation and other relevant annexures 20 days before the annual general meeting of shareholders. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under the Articles of Association (as required by the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. The Articles of Association also provides that the Company is required to publish its annual accounts within 4 months from the end of a financial year, to publish its interim accounts within 2 months from the end of the first six months of a financial year and to publish its quarterly accounts within 1 month from the end of the first three months and the first nine months of a financial year respectively. The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

The PRC Company Law gives shareholders the right to inspect the Company's Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on Directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) Corporate reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under the PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting and the relevant governmental authorities.

(xvi) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors, managers and other senior officers can be resolved through the courts. The Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, supervisors, managers or other senior officers or a holder of A Shares, arising from the Articles of Association, the PRC Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions, be referred to arbitration at either the Hong Kong International Arbitration Centre or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

(xvii) Mandatory deductions

Under the PRC Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory common welfare fund of the company before they can be distributed to shareholders. There are prescribed limits under the PRC Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

(b) Hong Kong Listing Rules

The Hong Kong Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

(i) Compliance adviser

The Company is required to retain, for at least the period from the Listing Date to the date on which our Company has sent the annual report to its Shareholders in respect of its first full financial year commencing immediately after the Listing, the services of a compliance adviser that is acceptable to the Hong Kong Stock Exchange, to provide us with professional advice on continuous compliance with Hong Kong Listing Rules, and to act at all times, in addition to our two authorized representatives, as our channel of communication with the Hong Kong Stock Exchange.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require us to terminate the compliance adviser's appointment and appoint a replacement as soon as possible.

The compliance adviser must keep the Company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company.

(ii) Accountants' reports

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to Hong Kong accounting standards, or International Financial Reporting Standards, or China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

(iii) Process agent

We are required to appoint and maintain a person authorized to accept service of process and notices on our behalf in Hong Kong throughout the period during which our securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalisation at the time of listing of not less than HK\$50 million.

The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalisation at the time of listing of over HK\$10 billion.

(v) Restrictions on purchase and subscription

Subject to governmental approval and the Articles of Association, we may repurchase our own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approvals by way of a special resolution of holders of domestic shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, we are required to provide information on any proposed or actual purchases of any or all of its equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. We must also state the consequences of any purchases which will arise under either or both of the Takeovers Code and any similar PRC law of which the Directors are aware, if any. Any special approval or general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

(vi) Supervisors

We are required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

We are required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his/her Associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or our subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires our Company or the relevant subsidiary of our Company to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments.

The remuneration committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders' approval and advise Shareholders (other than Shareholders with a material interest in the service contracts and their Associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and the Shareholders as a whole and advise Shareholders on how to vote.

(vii) Amendment to articles of association

We may not permit or cause any amendment to our Article of Association which would cause them to cease to comply with the mandatory provisions of the PRC Company Law, the Mandatory Provisions or the Hong Kong Listing Rules.

(viii) Documents for inspection

We are required to make available at a place in Hong Kong for inspection by the public and our Shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

- (i) a complete duplicate register of shareholders;
- (ii) a report showing the state of the issued share capital of the Company;

- (iii) our latest audited financial statements and the Directors', auditors' and (if any) Supervisors' reports thereon;
 - (iv) special resolutions;
 - (v) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between each class of shares);
 - (vi) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and
 - (vii) for shareholders only, copies of the minutes of meetings of shareholders.
- (ix) *Receiving agents*
- We are required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.
- (x) *Statements in share certificates*

We are required to ensure that all our listing documents and H Share certificates include the statement stipulated below and to instruct and cause our H Share Registrar not to register the subscription, purchase or transfer of any of our H Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those H Shares bearing statements to the following effect, that the holder of H Shares:

- agrees with us and each of our Shareholders, and we agree with each of our Shareholders, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- agrees with us, each of our Shareholders, Directors, Supervisors, managers and other officers, and we acting both for ourselves and for each of our Directors, Supervisors, managers and other officers, agree with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the *PRC Company Law* or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- agrees with us and each of our Shareholders that our H Shares are freely transferable by the holders of our H Share; and

- authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors and officers whereby such Directors, Supervisors and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

(xi) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

We are required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(xii) English translation

All notices or other documents required under the Hong Kong Listing Rules to be sent by our Company to the Hong Kong Stock Exchange or to holders of the H Shares are required to be in the English language, or accompanied by a certified English translation.

(xiii) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the H Share Listing.

(xiv) Other Legal and Regulatory Provisions

Upon the H Share Listing, the provisions of the SFO, the Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

This appendix contains a summary of the principal provisions of the Articles of Association, which was adopted at the 2011 first extraordinary general meeting of our Company on September 28, 2011 and will become effective from the date on which our H Shares are listed on the Hong Kong Stock Exchange. The principal objective of this appendix is to provide potential investors with an overview of the Articles of Association. As the information contained below is a summary, it does not contain all the information that may be important to potential investors. A copy of the full Chinese text of the Articles of Association is available for inspection as mentioned in the paragraph headed “Documents Available for Inspection” in Appendix IX to this prospectus.

1. DIRECTORS AND BOARD OF DIRECTORS

(a) Power to allot and issue shares

There is no provision in the Articles of Association empowering the Board to allot or issue shares. In order to allot or issue shares, the Board shall prepare a proposal for approval by shareholders in general meeting by way of special resolution. The plan of overseas listings of foreign shares and domestic shares which is approved by the CSRC can be arranged by the Board to be listed separately.

Any such allotment or issue must be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

(b) Power to dispose of the Company’s or any of its subsidiaries’ assets

The Board shall be responsible to the General Meeting.

The Board shall not, without the approval of shareholders in general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of: (i) the value of the consideration for the proposed disposition; and (ii) where any fixed assets of the Company have been disposed of in the period of four months immediately preceding the proposed disposition, the amount or value of the consideration for any such disposition, exceeds 33% of the value of the Company’s fixed assets as shown in the last audited balance sheet placed before the shareholders in general meeting. For the purposes of this provision, disposition includes an act involving a transfer of an interest in property other than by way of security.

The validity of a transaction for the disposition of fixed assets by the Company shall not be affected by a breach of the above-mentioned restriction contained in the Articles of Association.

(c) Compensation or payments for loss of office

In the contract for emoluments entered into by the Company with a Director or Supervisor, when the Company is acquired, provisions shall be made for the right of the Director or Supervisor to receive, after obtaining the prior consent of shareholders in general meeting, compensation or other payments for loss of office or for his retirement from office. A takeover of the Company means:

- (i) an offer made to all shareholders of the Company; or
- (ii) an offer is made such that the offeror will become the controlling shareholder of the Company (as defined in the Articles of Association).

If the relevant Director or Supervisor does not comply with above provisions, any sum received by the Director or Supervisor on account of the payment shall belong to those persons who have sold their shares as a result of the offer, and the expenses incurred by the Director or Supervisor in distributing that sum pro rata among those persons shall be borne by him and not deducted from the sum distributed.

(d) Loans to Directors, Supervisors and other officers

The Company is prohibited from directly or indirectly making any loan or guarantee in connection with a loan to its Directors, Supervisors, general manager and other senior officers. The Company is also prohibited from providing any loan or guarantee in connection with a loan made by any connected person to such a Director, Supervisor, general manager or other senior officer.

The Company shall not accept any pledge with its own stocks as the subject matter. The Company may not, in any way, pay tax for any of its Directors, Supervisors, managers and other senior management personnel.

A loan made by the Company in breach of the prohibition described above shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan. A guarantee for a loan provided by the Company in breach of the prohibition referred to above shall be unenforceable against the Company unless:

- (i) the guarantee was provided in connection with a loan to a person connected with a Director, Supervisor, general manager or other senior officer of the Company or its holding company and at the time the loan was advanced the lender did not know of the relevant circumstances or
- (ii) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

The following transactions are not subject to the foregoing prohibition:

- (i) the provision of a loan or a guarantee for a loan by the Company to a company which is a subsidiary of the Company;
- (ii) the provision of a loan or a guarantee for a loan or any other funds by the Company to any of its Directors, Supervisors, general manager or other senior officer to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform properly, in accordance with the terms of an employment contract approved by the shareholders' general meeting his duties; and
- (iii) if the normal business scope of the Company includes providing loans or guarantee, the Company may make a loan to or provide a guarantee in connection with a loan by another person to any of its Directors, Supervisors, general manager or other senior officers or other connected persons on normal commercial terms.

(e) Giving of financial assistance to purchase the shares of the Company or any of its subsidiaries

Subject to the Articles of Association:

- (i) neither the Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to a person who is proposing to acquire shares in the Company. The said person includes any person who has directly or indirectly incurred a liability as a result of the acquisition of shares in the Company; and
- (ii) neither the Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to the person mentioned in the foregoing paragraph for the purposes of reducing or discharging his liabilities.

The following transactions are not prohibited:

- (i) the provision of financial assistance where the Company's principal purpose for giving that assistance is genuinely for the Company's interests and not for the purpose of acquiring the Company's shares or the provision of such assistance is incidental to some broader objective of the Company;
- (ii) a distribution of the Company's assets by way of dividend lawfully declared;
- (iii) a distribution of dividends by way of bonus shares;
- (iv) a reduction of share capital, repurchase of shares of the Company or a reorganization of the share capital effected in compliance with the Articles of Association;
- (v) the provision of loans by the Company in the ordinary course of its business, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are reduced, the assistance is provided out of distributable profits; and
- (vi) the Company's contribution to employees' share schemes provided that the Company's net assets are not thereby reduced or to the extent that those assets are thereby reduced, the assistance is provided out of distributable profits.

For these purposes,

- (i) "financial assistance" includes, without limitation to:
 - (aa) assistance given by way of gift;
 - (bb) assistance given by way of guarantee (including the provision of any undertaking or property to secure the performance of obligations by the obligor) or indemnity, (other than an indemnity in respect of the Company's own default) or by way of release or waiver;

- (cc) assistance given by way of a loan; or entering into an agreement under which the Company needs to perform its obligations ahead of the other contracting parties; or entering into an agreement for the change of contracting parties or the assignment of rights arising under such loan or such agreement; or
 - (dd) assistance given by the Company in any other manner when the Company is insolvent or has no net assets or where its net assets would thereby be reduced to a material extent; and
 - (ii) “incurring a liability” includes incurring a liability by making an agreement or arrangement or by changing one’s financial position by any other means, whether enforceable or unenforceable, and whether made on one’s own account or on the account of any other person.
- (f) Disclosure of interests in and voting on contracts with the Company or any of its subsidiaries**

Where a Director, Supervisor, general manager or other senior officer is, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company other than his contract of service, he shall declare the nature and extent of his interest to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal is otherwise subject to the approval of the Board under normal circumstances.

A Director shall not vote on any resolution in relation to contracts or arrangements or any other proposed resolution of the Board which involves material interests held by himself or his Associates, except special situations (if any) where the Articles of Association specifying approved by the Hong Kong Stock Exchange; himself shall not be included when counting whether there is a quorum at the Board meeting.

Unless the interested Director, Supervisor, general manager or other senior officer has disclosed his interest to the Board in accordance with the Articles of Association and the contract, transaction or arrangement has been approved by the Board at a meeting at which the interested Director, Supervisor, general manager or other senior officer is not counted in the quorum and has refrained from voting, such contract, transaction or arrangement in which a Director, Supervisor, general manager or other senior officer is materially interested can be rescinded at the Company’s option. For these purposes, a Director, Supervisor general manager or other senior officer is deemed to be interested in a contract, transaction or arrangement in which a person connected to him is interested.

Where a Director, Supervisor, general manager or other senior officer of the Company gives the Board a general notice in writing stating that, by reason of the facts stated in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be entered into by the Company, then he shall be deemed to have made a disclosure for the purposes of the relevant provisions in the Articles of Association so far as the content stated in such notice is concerned, if such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

(g) Remuneration

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with each Director or Supervisor for emoluments in respect of their services. The Directors or Supervisors have no power under the Articles of Association to determine the remuneration for themselves. The said emoluments include:

- (i) emoluments in respect of their services as Director, Supervisor or senior officer of the Company;
- (ii) emoluments in respect of their services as Director, Supervisor or senior officer of any subsidiary of the Company;
- (iii) emoluments otherwise in connection with services for the management of the Company or any subsidiary thereof; and
- (iv) payments by way of compensation for loss of office, or in connection with their retirement from office.

Except under a contract entered into in relation to the above, no proceedings shall be brought by a Director or Supervisor against the Company for anything due to him in respect of the matters specified above.

(h) Retirement, appointment and removal

Under any of the following circumstances, the following persons may not serve as a Director, Supervisor, general manager or other senior officer of the Company:

- (i) an individual who has no civil capacity or has restricted civil capacity;
- (ii) persons who have committed the offences of corruption, bribery, trespass of property, misappropriation of property or damaging the social economic order, and have been penalized due to the above offences, where less than five years have elapsed since the date of the completion of implementation of the penalty or persons who have committed crimes and have been deprived of their political rights due to such crimes, where less than five years have elapsed since the date of the completion of the implementation of such deprivation;
- (iii) persons who were former directors, factory chiefs or managers of a company or enterprise which has become insolvent and has been liquidated as a result of mismanagement and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to a violation of the law and who were personally liable, where less than three years have elapsed since the date of the revocation of such business license;

- (v) persons who have failed to pay a relatively large debt when due and outstanding;
- (vi) persons who is being investigated by prosecutor for violating the criminal law, and the file has not been closed;
- (vii) persons who is prohibited to undertake the leadership for enterprises by laws and administrative regulations;
- (viii) persons who is not a natural person;
- (ix) persons who is sanctioned by the CSRC and prohibited to engage in the securities market, and the sanction is in force;
- (x) persons who is ruled as having violated the relevant regulations of securities by the relevant authorities in relation to fraud or dishonest conduct in the past five years.

The validity of the conduct of Directors, general manager or other senior officers who have acted on behalf of the Company with respect to third parties who have acted in good faith shall not be affected due to any irregularity in the employment, election or qualification of such Directors, general manager or other senior officers.

The Board shall be composed of nine Directors including one board chairman and one vice chairman. The general manager or other senior officers may serve concurrently as a Director (except the independent Director) of the Company, provided, however, the number of the Directors that serve concurrently as the general manager or other senior officers of the Company and Directors who are representatives of employees shall not exceed half of the total number of the Directors of the Company.

The chairman and the vice chairman of the Board shall be elected by more than one half of all of the Directors. A Director (without prejudice to any claim for damages under any contract) may be removed by ordinary resolution at a shareholders' general meeting under the premise of in compliance with the laws, administrative regulations and department regulations.

The term of office of the chairman and other Directors shall be three years commencing from their accession and ending on the expiry of the term of the current session of the Board and is renewable upon re-election, except for independent non-executive Directors, who are limited to a maximum term of two consecutive terms. Directors shall not be dismissed by the Shareholders' general meeting without fair reasons prior to expiration of the term of office.

The candidates of Directors should undertake in writing to accept their nomination prior to the Shareholders' general meeting. The minimum length of the period for giving written notice of the intention to nominate a person for election as a Director and of his willingness to be elected shall be at least seven days.

The list of Directors' and Supervisors' candidates shall be proposed in form of a motion to the shareholders' general meeting for resolution.

At the time of voting for the election of Directors or Supervisors at a shareholders' general meeting, the cumulative voting system may be implemented when the largest shareholder holds more than 30% of the total shares of the company or the proposed election includes two or more Directors or Supervisors.

For the purposes of the preceding paragraph, the term "cumulative voting system" means that at the time of voting for the election of Directors or Supervisors at a shareholders' general meeting, each share shall carry the same number of voting rights as the number of Director's or Supervisor's candidates. The voting rights of a shareholder may be exercised on a collective basis. The Board shall make a public announcement on the biographies and general information of the Directors' and Supervisors' candidates.

(i) Borrowing powers

The Articles of Association do not contain provisions of methods of borrowing or any amending provision in relation to this, save for the following:

- (i) authorizing the Board to formulate plans of listing and issuance of bonds or other securities;
- (ii) issuing bonds, any kind of shares, warrants or other similar securities subject to special resolutions at the general meeting of the shareholders.

(j) Liabilities

The Directors, Supervisors, general manager and other senior officers of the Company owe fiduciary duties and duties of diligence to the Company. In addition to any rights and remedies provided for in relevant laws and administrative regulations, the Company is entitled to adopt the following measures where a Director, Supervisor, general manager or other senior officer is in breach of his duties owed to the Company:

- (i) to claim against such a Director, Supervisor, general manager or other senior officer for losses incurred by the Company as a result of his breach;
- (ii) to rescind any contract or transaction entered into between the Company and the Director, Supervisor, general manager or other senior officer and a third party where such third party has knowledge or should have had knowledge of the breach of duty;
- (iii) to account for the profits made by the Director, Supervisor, general manager or other senior officer as a result of his breach;
- (iv) to recover any monies received by the Director, Supervisor, general manager or other senior officer which should have been received by the Company, including, without limitation, commissions; and
- (v) to demand the return of the interest earned or which may have been earned on any monies by the Director, Supervisor, general manager or other senior officer which should have been received by the Company.

The Board shall carry out its duties in compliance with the laws and administrative regulations, the Articles of Association and resolutions of the shareholders' general meetings. Each Director, Supervisor, general manager and other senior officer of the Company should abide by his fiduciary principles in the discharge of his duties, and not to place himself in a position where his duties and his own interests may conflict. Such principles include (but are not limited to) the performance of the following:

- (i) to act honestly in what he considers to be in the best interest of the Company;
- (ii) to exercise his powers within the scope specified and not to act ultra vires;
- (iii) to exercise the discretion vested in him personally and not allow himself to act under the direction of another and, unless and to the extent permitted by laws and administrative regulations or by the shareholders, having been informed of the relevant facts, at a general meeting, not to delegate the exercise of his discretion;
- (iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (v) except in accordance with the Articles of Association or with the informed consent of shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (vi) not without the approval of the shareholders, having been informed of the relevant facts, at a general meeting, to use the Company's assets in any way for his personal benefit;
- (vii) not to use his position to accept bribes or other illegal income and not to expropriate in any manner the Company's assets, including (without limitation) opportunities beneficial to the Company;
- (viii) not without the informed consent of shareholders in general meeting, to accept commissions in connection with the Company's transactions;
- (ix) to abide by the Articles of Association, faithfully perform his duties and protect the interests of the Company, and not to use his position and powers in the Company to seek personal gain;
- (x) not to compete with the Company in any way except with the informed consent of shareholders given in general meeting;
- (xi) not to misappropriate the Company's funds or to lend the Company's funds to any person in violation of the provisions, not to open any bank account in his own name or other names for the deposit of the Company's assets, not to provide security for debt of a shareholder of the Company or any other individuals in violation of the provisions; and

- (xii) without the informed consent of shareholders in general meeting, not to disclose confidential information of the Company acquired while in office and not to use such information other than in furtherance of the interests of the Company, save and except that disclosure of information to a court or a governmental authority is permitted where (i) the disclosure is made under law; (ii) there is a requirement to the public interests to disclose; or (iii) the personal interests of the Director, Supervisor, general manager or other senior officer require disclosure.

A Director, Supervisor, general manager or other senior officer of the Company shall not direct persons connected to him to do what he is not permitted to do. A person is connected to a Director, Supervisor, general manager or other senior officer if he is:

- (i) the spouse or minor child of such a Director, Supervisor, general manager or other senior officer;
- (ii) a trustee for such a Director, Supervisor, general manager or other senior officer or any person referred to in (i) above;
- (iii) a partner of such a Director, Supervisor, general manager or other senior officer or of any person referred to in (i) and (ii);
- (iv) a company in which that a Director, Supervisor, general manager or other senior officer, alone or jointly with the persons referred to in above (i), (ii) and (iii) or with any of other Directors, Supervisors, general manager or other senior officers of the Company, have de facto control; or
- (v) a Director, Supervisor, general manager or other senior officer of a company referred to in (iv) above.

The fiduciary duties of a Director, Supervisor, general manager and other senior officer of the Company do not necessarily cease with the termination of his tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of his term of office. Other duties may continue for such period as fairness may require depending on the time lapse between the termination of his term of office and the occurrence of the matter in question and the circumstances and the terms under which the relationships between him and the Company are terminated.

Except in circumstances referred to in the Articles of Association, liabilities of a Director, Supervisor, general manager or other senior officer arising from the violation of a specified duty may be released by informed shareholders in general meeting.

Each of the Directors, Supervisors, general manager and other senior officers of the Company owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise under the similar circumstances.

Where the Company incurs losses as a result of a Director or senior officer having violated any provision of law, administrative regulation or the Articles of Association in the course of performing their duties with the Company, shareholders alone or in aggregate holding 1% or more of the Company's shares for one hundred and eighty (180) consecutive days or more shall be entitled to request in writing the supervisory committee to initiate proceedings in the People's Court; where the Company incurs losses as a result of the supervisory committee having violated any provision of law, administrative regulation or the Articles of Association in the course of performing its duties with the Company, shareholders may request the Board in writing to initiate proceedings in the People's Court.

If the supervisory committee or the Board refuses to initiate proceedings upon receipt of the written request of shareholders set forth in the preceding paragraph, or fails to initiate such proceedings within thirty (30) days from the date on which such request is received, or in case of emergency where failure to initiate such proceedings will immediately result in irreparable damage to the Company's interests, shareholders described in the preceding paragraph shall have the right to initiate proceedings in the People's Court directly in their own name in the interests of the Company.

Shareholders provided above may also initiate proceedings in the People's Court in accordance with the preceding two paragraphs in the event that the lawful interests of the Company is infringed upon by a third party and that the Company suffers from losses accordingly.

Shareholders may initiate proceedings in the People's Court if a Director or senior officer has breached the laws, administrative regulations or these Articles of Association resulting in impairing the interests of shareholders.

2. ALTERATIONS TO CONSTITUTIONAL DOCUMENTS

The Company may, in accordance with provisions contained in relevant laws, administrative regulations and the Articles of Association, amend its Articles of Association.

The Articles of Association shall be amended at the general meeting of shareholders by way of special resolutions. The amendments which are required to be approved by the supervising authority shall be approved by the original approval authority; and registration shall be made by the Company in accordance with the law if required.

3. VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

The Company may not vary or abrogate rights attached to any class of shares ("Class Rights") unless approved by a special resolution of shareholders in shareholders' general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association. The following circumstances shall be deemed to be a variation or abrogation of the Class Rights of a class:

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or distribution rights or other privileges equal or superior to the shares of such class;

- (ii) to convert all or part of the shares of such class into another class, or to convert all or part of the shares of another class into such class or to grant the conversion rights;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends of such class;
- (iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (v) to add, remove or reduce conversion, options, voting, transfer or pre-emptive rights or rights to acquire securities of the Company of such class;
- (vi) to remove or reduce rights of such class to receive payments from the Company in any particular currency;
- (vii) to create a new class of shares having voting or distribution rights or privileges equal or superior to the shares of such class;
- (viii) to restrict the transfer of ownership of the shares of such class or to increase any such restrictions;
- (ix) to issue rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) to increase the rights or privileges of another class;
- (xi) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and
- (xii) to vary or abrogate the provisions about special procedures of voting rights of shares of a class in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall require the approval of shareholders present representing more than two thirds of the voting rights of that class voting in favor of such resolutions.

Written notice of a class meeting shall be given by the Company 45 days prior to the date of the meeting to notify all the registered shareholders holding shares of that class of the matters to be considered at the meeting and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver a written reply confirming his attendance at the class meeting to the Company 20 days prior to the date of the meeting.

The Company can convene a class shareholders' meeting, if the number of shares of the class carrying voting rights represented by shareholders intending to attend represents more than one half of the total number of such shares of the Company. If not, the Company shall make an announcement or give notice by other ways provided in the Articles of Association (if necessary), within five days, once again notifying the shareholders of the matters proposed to be considered and the place and date of the meeting. Once an announcement and other notices provided in the Articles of Association (if necessary) have been so made, the Company may convene the class shareholders' meeting.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Except in circumstances referred to in the Articles of Association, meetings of any class of shareholders shall be conducted in a similar way as closely as possible to the provisions for general meetings of shareholders set out in the Articles of Association. The provisions of the Articles of Association relating to the conduct of any meeting of shareholders shall apply to any class meeting.

In addition to holders of other class shares, holders of domestic shares and overseas-listed foreign shares are deemed to be shareholders of different classes.

Voting by holders of different classes of Shares is not applicable to the following situations:

- (i) where the Company issues, upon the approval by special resolution of its Shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued A Shares and H Shares;
- (ii) where the Company completes, within 15 months from the date on which approval is given by the securities regulatory authorities of the PRC, its plan (made at the time of its establishment) to issue domestic Shares and foreign invested Shares; and
- (iii) where shares of our Company registered on our domestic share register may be transferred to overseas investors for listing and trading on an overseas stock exchange, subject to the approval of the securities regulatory authorities of the PRC.

For the purposes of the class rights provisions of the Articles of Association, an "Interested Shareholder" is:

- (i) in the case of a repurchase of shares by offers to all shareholders by the same proportion pursuant to the Articles of Association or public dealing on a stock exchange, a controlling shareholder within the meaning of the Articles of Association;
- (ii) in the case of a repurchase of shares by an off-market contract under the Articles of Association, a shareholder to whom the proposed contract is related; and
- (iii) in the case of a restructure of the Company, a shareholder within a class who bears less than a proportionate amount of obligations imposed on the shareholders of that class or who has an interest different from the interest of the other shareholders of that class.

4. SPECIAL RESOLUTIONS — MAJORITY REQUIRED

Resolutions of general meetings are divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, more than the one-half votes represented by shareholders (including proxies) present at the meeting must be exercised in favor of the resolution.

To adopt a special resolution, more than the two-thirds votes represented by the shareholders (including proxies) present at the shareholders' general meeting must be exercised in favor of the resolution.

5. VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)**Voting Rights**

According to our Articles of Association, the ordinary shareholders of our Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote. Shareholders (including proxies), when voting at a shareholders' general meeting, may exercise voting rights in accordance with the number of shares carrying the right to vote. Each share is entitled to have one vote.

Votes at the general meeting of the shareholders will be taken at the meeting, and specifically provided by the securities regulatory body where shares of our Company are listed or other securities laws and regulations, votes on the general meeting must be taken by show of hands, unless the following persons require voting by poll before or after voting by show of hands:

- (i) chairman of the meeting;
- (ii) at least two shareholders or proxies thereof having the right to vote; or
- (iii) one or several shareholders (including proxies) holding, separately or collectively, 10% or more of the shares carrying the voting right at the meeting.

Unless voting by poll is proposed or unless specifically provided by the securities regulatory body where shares of our Company is listed or other securities laws and regulations, the chairman of the meeting must declare whether a proposal has been adopted according to the results of voting by show of hands, and record the same in the minutes of the meeting as the final basis. We are not required to prove the number or proportion of the votes for or against a given resolution adopted at the meeting.

The demand for voting by poll may be withdrawn by the person who requested the same. On a poll taken at a meeting, a shareholder (including his proxy) entitled to two or more votes need not cast all his votes in the same way. The chairman of the meeting will be entitled to an additional vote in the case of a tie.

In addition to the cumulative voting system, voting for all motions proposed at a shareholders' general meeting will be conducted on an item-by-item basis. If different motions have been proposed for the same matter, voting related thereto will be conducted based on the chronological order of the proposed the motions. Unless a shareholders' general meeting is suspended or no resolution can be adopted due to *force majeure* or other special reasons, no motion will be set aside or rejected for voting at the shareholders' general meeting.

The same right to vote can only be exercised once by electing to physically vote at the meeting, via the Internet or otherwise. If the same right to vote has been exercised twice, the result of the first vote will prevail.

6. REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

A general meeting shall either be an annual general meeting or an extraordinary general meeting. Annual general meetings are held once every year within six months after the financial year end.

7. ACCOUNTS AND AUDIT

(a) Financial and accounting system

The Company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and the provisions of relevant department.

The Board of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by the laws, administrative regulations or department regulations to be prepared by the Company.

The financial statements of the Company shall, in addition to being prepared in accordance with the PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the aforesaid accounting standards, such difference shall be stated and explained in the financial statements. For the purposes of distribution of the Company's after-tax profits in a financial year, the lower of the after-tax profits as shown in the different set of financial statements shall be adopted.

The financial reports of the Company shall be made available at the Company for inspection by shareholders 20 days before the annual general meeting. Every shareholder of the Company is entitled to have the copy of the financial reports.

Unless otherwise provided in Articles of Associations of the Company, a copy of either (i) the aforementioned report, or (ii) the Directors' report, accompanied by the balance sheet (including every document required by law to be annexed thereto) and profit and loss account or income and expenditure account, or (iii) the summary financial report shall, at least 21 days before the date of the general meeting, be delivered to each holder of H Shares by way of post with postage prepaid or other ways provided in the Articles of Association; the address of the addressee shall be the same as in the register of shareholders if the delivery is made by way of post.

The interim results or financial information that the Company announces or discloses shall be compiled according to both PRC accounting standards, rules and regulations, and international accounting standards or accounting standards of the place at which shares of the Company are listed.

The Company shall submit the annual financial report to the CSRC and the Shanghai Stock Exchange within four months from the date of ending of a financial year; and shall submit the interim financial report to the representative authority of the CSRC and the Shanghai Stock Exchange within two months from the date of ending of the first six months of a financial year; and shall submit quarterly financial reports to the representative authority of the CSRC and the Shanghai Stock Exchange within one month from the date of the ending of the first three months and the first nine months of a financial year respectively.

The Company shall not keep any other books of accounts other than those provided by law.

(b) Appointment and removal of accountants

The Company shall engage an accounting firm which has obtained qualifications in relation to engagement in securities-related business to audit its annual reports and other financial reports, provide net assets' assessment and other relevant consulting services. The accounting firm appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholder until the conclusion of the next annual general meeting of shareholders and may be renewed.

The shareholders in general meeting may by ordinary resolution remove an accounting firm before the expiry of its term of office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of an accounting firm or the manner in which such remuneration is determined shall be decided by the shareholders in general meeting. The remuneration of an accountant firm appointed by the Board shall be decided by the Board.

The Company's appointment of, removal of and non-reappointment of an accounting firm shall be resolved upon by the shareholders in general meeting and reported to the competent securities department of the State Council for record-filing.

Prior to the removal or the non-renewal of the appointment of the accounting firm, an advance notice of such removal or non-renewal shall be given to the accounting firm and such firm shall have the right to attend and to make representation to the shareholders' general meeting.

Where the accounting firm resigns its post, it shall make clear to the shareholders' general meeting whether there is any impropriety on the part of the Company.

The accounting firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective from the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or

- (ii) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority. If the notice contains a statement under circumstance (ii) of the preceding paragraph where the statement is made by the accounting firm and is required by the accounting firm to notify the Shareholders, a copy of such statement shall be placed at the Company for shareholders' inspection. Unless otherwise provided in Articles of Associations of the Company, the Company shall also send a copy of such statement by prepaid mail to every holder of H shares entitled to obtain a copy of the issuer's financial statements at the address registered in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstance which should be brought to the notice of the shareholders or creditors of the Company, it may require the Board to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

8. NOTICE OF MEETING AND BUSINESS TO BE CONDUCTED THEREAT

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law.

Except for under unusual circumstances such as crisis and otherwise, the Company shall not enter into any contract with any person other than a Director, Supervisor, general manager or other senior officer whereby such person is entrusted with the management of the whole or a material part of any business of the Company without the prior approval of shareholders in general meeting.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- (i) when the number of Directors is less than 6;
- (ii) when the unaccounted losses of the Company amount to one third of its paid-up share capital;
- (iii) when shareholders holding 10% (excludes proxy) or more of the Company's issued and outstanding shares carrying voting rights requests in writing the convening of an extraordinary general meeting;
- (iv) when the Board considers necessary;
- (v) upon the request of the supervisory committee; and
- (vi) other situations stipulated by laws, administrative regulations and the Articles of Association.

To convene a shareholders' general meeting, the Company shall give written notices 45 days before the date of the meeting, informing all registered shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who will attend the meeting shall return the written replies of attendance to the Company to be received by the Company 20 days before the date of the meeting.

When the Company is to convene an annual shareholders' general meeting, the Board, supervisory committee, shareholders holding 3 percent or more of shares shall have the right to put forward proposals to the Company.

The Company shall calculate, according to the written replies received 20 days before the date of the meeting, the number of shares carry voting rights that the shareholders attending the meeting represent. If the number of shares carrying voting rights represented by shareholders intending to attend has attained more of the one half of total number of shares carrying voting rights, the Company may convene a general meeting; and if not so attained, the Company shall publish an announcement or deliver a notice by other means (if necessary) provided by the Articles of Association to the shareholders in respect of the proposed resolutions, the time and place of the meeting. Once an announcement has been so made or a notice has been so delivered, the Company may convene the general meeting. An extraordinary general meeting may not decide on matters not specified in the notice.

A notice of meeting of shareholders shall:

- (i) be in written form;
- (ii) specify the time, place and the date of the meeting;
- (iii) state the matters to be discussed at the meeting;
- (iv) provide such information and explanation as are necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another company, to repurchase shares of the Company, to reorganize the share capital or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the reasons for and consequences of such proposal must be properly explained;
- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, general manager or other senior officer in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of other shareholders of the same class;
- (vi) contain the text of any special resolution proposed to be passed at the meeting;
- (vii) specify the time and place for lodging proxy forms for the relevant meeting;
- (viii) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder;

- (ix) specify the date of the share register listing the shareholders that have the right to attend and vote at the shareholders' meeting;
- (x) specify the name and contact number of the contact person for the meeting; and

where a listed company uses the network or any other means to hold meetings of the general meeting of shareholders, it shall clearly state the time of voting and the procedures for the shareholders to vote through network or by other means.

Unless otherwise provided in Articles of Associations of the Company, notices of shareholders' general meetings shall be served on the holders of H shares (whether or not they are entitled to vote at the meeting) by personal delivery or prepaid mail to their addresses registered in the register of shareholders. For holders of domestic shares, notice of shareholders' general meeting may be made by way of public announcement.

Public announcement of notices of shareholders' general meetings shall be published in one or more newspapers designated by the securities regulatory authority of the State Council during 45 days to 50 days prior to the date of the meeting. Upon the publication of announcement, all holders of Domestic Shares shall be deemed to have received notice of the relevant shareholders' meeting. The Company may deliver notice of general meeting by way of publishing on the website of the Company and the website prescribed by the Hong Kong Stock Exchange or other ways permitted under the Hong Kong Listing Rules and the Articles of Association to shareholders of H shares instead of delivery by hand or post with postage prepaid, provided that such arrangement is in compliance with laws, administrative regulations, regulatory documents and relevant regulations of the securities regulator of which the securities of the Company is listed and complies with the relevant procedures.

The accidental omission to give notice of a meeting to, or the non receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

Upon issuance of the notice of the shareholders' general meeting, the general meeting shall neither be delayed nor canceled without proper reasons. Motions listed in such notice shall not be revoked. Once the general meeting is delayed or canceled, the convenor shall make a public announcement stating the reasons therefor at least two working days prior to the date originally scheduled for convening the meeting.

Shareholders requisitioning an extraordinary general meeting of shareholders shall abide by the following procedures:

Shareholder(s) alone or in aggregate holding in aggregate 10% or more of the shares have the right to require the Board to convene a shareholders' extraordinary meeting by a written requisition. Within ten days after receipt the requisition, the Board shall, in accordance with laws, regulations and this Articles of Association, gives a written response in respect of whether or not it agrees to convene a shareholders' extraordinary meeting.

If the Board agrees to convene a shareholders' extraordinary meeting, a notice of shareholders' meeting shall be issued within five days after the Board reaches such a resolution. Where the notice alters the original proposal, the approval of the relevant shareholders shall be required.

If the Board refuses to convene a shareholders' extraordinary meeting, or fails to respond within ten days after receipt of the requisition, the shareholder(s) alone or in aggregate holding 10% or more of the shares have the right to propose to the supervisory committee by a written requisition that the supervisory committee convene a shareholders' extraordinary meeting.

If the supervisory committee agrees to convene a shareholders' extraordinary meeting, a notice of shareholders' meeting shall be issued within five days after receipt of the requisition. Failure of the supervisory committee to issue a notice of general meeting within the stipulated period shall be deemed as failure of the supervisory committee to convene and preside over a general meeting, and shareholder(s) alone or in aggregate holding 10% or more of the Company's shares for ninety consecutive days or more shall be entitled to convene and preside over the meeting.

The supervisory committee shall have the right to propose the Board to convene an extraordinary shareholders' general meeting and shall submit its proposal thereof to the Board in writing.

If the supervisory committee or shareholders determine to convene a shareholders' general meeting by themselves, they shall give a written notice to the Board and file the same with the local office of the CSRC at the place where the Company is located and the stock exchange for record.

Prior to the announcement of the resolutions of the shareholders' general meeting, the shareholding proportion of the convening shareholders shall not be lower than 10%.

The convening shareholder shall submit relevant evidence to the local office of the CSRC at the place where the Company is located and the stock exchange where the securities of the Company are listed upon the issuance of the notice of shareholders' general meeting and the announcement of the resolutions adopted thereat.

The matters which require the sanction of an ordinary resolution at a shareholders' general meeting shall include:

- (i) working reports of the Board and the supervisory committee;
- (ii) plans made by the Board on profit distribution and losses make-up;
- (iii) the nomination and removal of the members of the Board and supervisory committee, their remunerations and methods of payment;
- (iv) the annual budget, final accounts plans, the balance sheet, income statement and other financial statements;
- (v) the approval of the annual report of the Company; and

- (vi) matters other than those which shall be passed by special resolution as stipulated by laws, administrative regulations, the Articles of Association or the listing rules of the stock exchange where the securities of the Company is listed.

The matters which require the sanction of a special resolution at a shareholders' general meeting include:

- (i) increasing or decreasing the registered capital of the Company;
- (ii) issuing any kinds of shares, warrants or other similar securities;
- (iii) issuing corporate bonds;
- (iv) separation, merger, dissolving and liquidation of the Company;
- (v) amending the Articles of Association;
- (vi) the Company acquiring, disposing of material assets or providing guarantee during a year which exceeds 30% of the latest audited total assets of the Company;
- (vii) share option scheme; and
- (viii) other matters provided by laws, administrative regulations, the Articles of Association or the listing rules of the stock exchange where the securities of the Company are listed, or matters which will affect the Company in material respects shall be passed by special resolutions instead of ordinary resolutions.

The Company shall be subject to the approval of the shareholders' general meeting upon consideration in the event of providing any of the following security:

- (i) any security that is provided after the total amount of security provided by the Company and its controlling subsidiaries has reached or exceeded 50% of the latest audited net asset value;
- (ii) any security that is provided after the total amount of security provided by the Company has reached or exceeded 30% of the latest audited total asset value;
- (iii) security to be provided in favor of an entity which has a gearing ratio of over 70%;
- (iv) the amount of a single security exceeding 10% of the latest audited net asset value;
- (v) the aggregate amount of guarantees over the period of consecutive twelve months has exceeded 50% of the latest audited assets of the Company and the amount of the relevant guarantee exceeds RMB50 million;
- (vi) guarantees to be provided in favor of shareholders, the actual controllers and their related parties; and

(vii) other situations provided by the Shanghai Stock Exchange, the Hong Kong Stock Exchange or other relevant regulations.

Where any shareholder is required to abstain from voting on certain resolutions or restricted to vote for or against certain resolutions pursuant to the applicable laws, regulations and the listing rules of the stock exchange where the securities of the Company are listed, the votes casted by such shareholders or the proxies shall not be counted if there is any violation of the relevant provisions or restrictions.

If a resolution of a shareholders' general meeting or the Board of the Company is in breach of any law or administrative regulation, the shareholders shall have the right to petition to a court to render the same as invalid.

If the procedures for convening a meeting of, or the method of voting at, a general meeting or the Board are in breach of any law, administrative regulation or these Articles of Association, or the content of a resolution is in breach of the Articles of Association, shareholders may petition to a court to rescind such resolutions within sixty (60) days from the date on which such resolution is passed.

9. TRANSFER OF SHARES

Unless otherwise provided by laws and administrative regulations, shares of the Company shall be free from any restriction on the right of transfer and shall also be free from all liens.

Shares of the Company held by the promoter are not transferable within one year commencing from the date of establishment of the Company. Shares of the Company that are already in issue prior to its public offering are not transferable within one year commencing from the date on which the shares of the Company were listed and traded on a stock exchange.

The Directors, Supervisors and senior officers of the Company shall report to the Company the number of shares held by them in the Company and the subsequent changes in their shareholdings. The number of shares which a Director, Supervisor or senior officer may transfer every year during his term of office shall not exceed 25% of the total number of the Company's shares in his or her possession; and shares of the Company in his or her possession are not transferable within one year commencing from the date on which the shares of the Company were listed and traded on a stock exchange. Such personnel shall not transfer the Company's shares in their possession within half a year after they have terminated their employment with the Company.

Any gains from the sale of shares of the Company by any Company's Director, Supervisor, senior officer or shareholders holding 5% or more of the shares in the Company within six months after purchasing such shares, or thereafter any gains from repurchasing such shares in the Company within six (6) months after the sale thereof, shall be vested in by the Company. The Board of the Company shall forfeit such gains from the above mentioned parties. However, where a securities company holds more than five percent of the shares of a listed company, which are the residing stocks purchased thereby after sale by proxy, the sale of the foregoing stocks may not be subject to the limit of a term of six months.

If the Board of the Company fails to comply with the provision set forth in the preceding paragraph, a shareholder shall have the right to require the Board to effect the same within 30 days. If the Board fails to do so within the said time limit, a shareholder shall have the right to initiate proceedings in a court directly in his own name in the interests of the Company. If the Board of the Company fails to comply with the provision set forth in this paragraph, the responsible Director(s) shall be jointly and severally liable therefor in accordance with the law.

All the fully paid-up H Shares can be freely transferred and shall also be free from all liens in accordance with the Articles of Association. However, the Board may refuse to recognize any instrument of transfer without giving any reason, unless:

- (i) a fee (for each instrument of transfer) in accordance with the cost standard specified by the Hong Kong Listing Rules has been paid to the Company for registration of any transfer or any other document which is related to or will affect ownership of or change of ownership of the shares;
- (ii) the instrument of transfer only involves H Shares;
- (iii) the stamp duty chargeable on the instrument of transfer has been paid in accordance with the law of Hong Kong;
- (iv) the relevant share certificate and, upon the reasonable request of the Board, any evidence in relation to the right of the transferor to transfer the shares has been submitted;
- (v) if it is intended to transfer the shares to joint owners, then the maximum number of joint owners shall not exceed four; and
- (vi) the Company does not have any lien on the relevant shares.

The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

No changes in the shareholders' register due to the transfer of shares may be made within 30 days before the date of a general meeting or within five days before the record date for the Company's distribution of dividends. If any requirements of the laws of the place of the stock exchange on which shares of the Company are listed or the provisions of such a stock exchange specify otherwise, such requirements or provisions shall prevail.

10. POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

The Company may, with the approval in accordance with the procedures provided in the Articles of Association, repurchase its issued shares in the following circumstances:

- (i) cancelation of its shares for the purpose of reducing its share capital;
- (ii) merging with another company which holds Shares;
- (iii) granting shares as incentive compensation to the staff of the Company;

- (iv) acquiring the shares of shareholders who vote against any resolution adopted at the shareholders' general meeting on the merger or division of the Company; or
- (v) other situations permitted by laws and administrative regulations.

If the Company repurchases its own shares due to items (i) through (iii) of the preceding paragraph, resolutions related thereto shall be adopted at a general meeting of shareholders. If the Company repurchases its own shares in accordance with the preceding paragraph under the circumstances set forth in item (i), the shares so repurchased shall be canceled within 10 days of the repurchase. In the event of the circumstances set forth in items (ii) and (iv), the shares so repurchased shall be transferred or canceled within six months.

If the Company repurchases its own shares in accordance with item (iii) of the preceding paragraph, the shares so repurchased shall not exceed 5% of the total number of shares issued by the Company. The repurchase shall be funded with the post-tax profit of the Company, and the shares so repurchased shall be transferred to the employees within one year.

The Company may, upon the approval of the relevant state governing authorities, repurchase its shares in one of the following ways:

- (i) making a pro rata general offer of repurchase to all its shareholders;
- (ii) repurchasing Shares through public dealing on a stock exchange;
- (iii) repurchasing by an off-market agreement outside a stock exchange; or
- (iv) other form approved by the laws, administrative regulations and the competent authorities.

The Company may, with the prior sanction of shareholders obtained at a shareholder's meeting in accordance with the Articles of Association, repurchase its shares by an off-market contract but the Company may rescind or vary such contract or waive any or part of its rights under a contract so entered into by the Company with the prior approval of shareholders obtained at a shareholder's meeting in the same manner. A contract to repurchase Shares as mentioned above includes but is not limited to an agreement to become obliged to repurchase or acquire rights to repurchase Shares.

The Company shall not assign a contract to repurchase its shares or any of its rights thereunder.

Unless the Company is in the course of liquidation, it shall comply with the following provisions in relation to repurchase of its issued shares:

- (i) where the Company repurchases its shares at par value, payment shall be made out of the book surplus distributable profits of the Company and out of the proceeds from any issue of new shares made for the purpose of the repurchase;

- (ii) where the Company repurchases its shares at a premium to the par value, payment up to their par value may be made out of the book surplus distributable profits of the Company and the proceeds from any issue of new shares made for the purpose of the repurchase. Payment of the portion in excess of the par value shall be effected as follows:
 - (a) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company;
 - (b) if the Shares being repurchased were issued at a premium to the par value, payment shall be made out of the book surplus distributable profits of the Company and the proceeds from any issue of new shares made for the purpose of the repurchase, provided that the amount paid out of such proceeds shall neither exceed the aggregate of the premiums received by the Company on the issue of the Shares repurchased nor the current amount of the share premium account or the capital reserve fund account of the Company (including the premiums on the new issues) at the time of the repurchase;
- (iii) payment by the Company for the following purposes shall be made out of the Company's distributable profits:
 - (a) acquisition of rights to repurchase Shares;
 - (b) variation of any contract to repurchase Shares;
 - (c) release of any of the Company's obligations under a contract to repurchase Shares; and
- (iv) After the Company's registered capital has been reduced by the aggregate par value of the canceled shares in accordance with the relevant regulations, the amount deducted from the distributable profits for paying up the par value portion of the repurchased shares shall be transferred to the Company's share premium account or capital reserve fund account.

Where the Company has the power to purchase for redemption a redeemable share:

- (i) purchase not made through the market or by tender shall be limited to a maximum price; and
- (ii) if purchases are by tender, tenders shall be available to all shareholders alike.

After having repurchased shares pursuant to the law, the Company shall, within the time limit specified by laws and administrative regulations, cancel the shares repurchased and apply to the original company registration organ for registering the change(s) in the registered capital. The aggregate par value of the shares canceled shall be deducted, upon verification, from the amount of the registered capital of the Company.

11. POWER OF ANY SUBSIDIARY OF THE COMPANY TO OWN SHARES IN ITS PARENT COMPANY

The Articles of Association contains no restrictions preventing any subsidiary of the Company from holding Shares.

12. DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

The Company may distribute dividends by way of cash or bonus shares. Any amount paid up in advance of calls on any share may carry interest but shall not entitle the holder of the share to participate in respect thereof in a dividend subsequently declared.

The Company shall appoint on behalf of holders of foreign shares receiving agents to receive on behalf of such shareholders dividends and other monies payable by the Company in respect of their Shares.

The receiving agent appointed on behalf of holders of foreign shares listed in Hong Kong shall be a company registered as a trust company under the *Trustee Ordinance* of Hong Kong.

After the resolution in respect of profit distribution has been adopted at the shareholders' general meeting, the Board of the Company is required to complete the distribution of dividends (or shares) within two months after such meeting is convened.

13. PROXIES

Any shareholder entitled to attend and vote at a shareholders' general meeting shall be entitled to appoint one or more persons (whether or not a shareholder) as his proxy to attend and vote on his behalf. A proxy so appointed shall be entitled to exercise the following rights in accordance with the authorization from that shareholder:

- (i) the shareholder's right to speak at the meeting;
- (ii) the right to demand, whether on his own or together with others, a poll; and
- (iii) voting by way of either show of hand or poll, unless otherwise provided by the applicable listing rules or other security laws and regulations; however, where the proxies appointed by shareholders are more than one person, such proxies of shareholders may only vote by poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorized in writing, or if the appointor is a legal person or other organization either under seal or under the hand of a Director, legal representative or attorney duly authorized. The instrument appointing a voting proxy shall be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting not less than 24 hours prior to the time for holding the meeting at which the proxy propose to vote or the time specified for the passing of the resolution. If such instrument is signed by another person under a power of attorney or other authorization documents given by the appointor, such power of attorney or other authorization documents shall be notarized. The notarized power of

attorney or other authorization documents shall, together with the instrument appointing the voting proxy, be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting.

If the appointor is a legal person, its legal representative or any person authorized by its legal representative, the Board or other governing body shall attend the shareholders' meeting as the appointor's representative.

Any form issued to a shareholder by the Board for the purpose of appointing a proxy shall be such as to enable the shareholder, according to his free will, to instruct his proxy to vote in favor of or against the motions proposed and in respect of each individual matters to be voted on at the meeting. Such a form shall contain a statement that in the absence of instructions from the appointor, the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting at which the proxy is used.

14. INSPECTION OF REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

The Company shall keep a register of shareholders.

The Company may, in accordance with the understanding or agreements between the securities regulatory authority of the State Council and the overseas securities regulatory organizations, maintain the register of shareholders of foreign shares overseas and appoint overseas agent(s) to manage such share register.

Duplicates of the share register for holders of foreign shares shall be maintained at the Company's residence. The appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the share register. The original register of overseas-listed foreign shares listed in Hong Kong shall be maintained at Hong Kong.

If there is any inconsistency between the original and the duplicate of share register for holders of foreign shares, the original shall prevail.

The Company shall keep a complete register of shareholders.

The register of shareholders shall comprise of the following parts:

- (i) register(s) of shareholders other than those specified in items (ii) and (iii) below kept at the domicile of the Company;
- (ii) register(s) of holders of the Company's Overseas-listed foreign shares kept in the place of the stock exchange(s) where those foreign-investment shares are traded; and

- (iii) register(s) of shareholders kept at other places as the Board thinks necessary for the purpose of listing.

Different parts of the register of shareholders shall not overlap. No transfer of Shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

The alteration or rectification of any part of the register of shareholders shall be carried out in accordance with the laws of the place where such part of the register is maintained.

When the Company decides to convene a shareholders' general meeting, distribute dividends, liquidate or carry out other activities which require the determination of shareholdings, the Board shall fix a record date for the purpose of determining the shareholding. A person who is registered in the register as shareholders of the Company at the end of the record date shall be a shareholder of the Company.

Any person who objects to what is contained in the register of shareholders and wishes to register his name on, or delete his name from, the register may apply to the court which jurisdiction to amend the register.

The right of the Shareholders to information includes, but without limitation, the following:

- (i) the right to a copy of the Articles of Association after payment of costs;
- (ii) the right to inspect and copy, subject to payment of a reasonable fee:
 - (a) all parts of the register of members;
 - (b) personal particulars of each of the Company's Directors, Supervisors, general manager, and other senior officers, including: (a) current and previous names, other names; (b) main address (residence); (c) nationality; (d) full time job and all the other part time jobs, titles; and (e) identification document and its number;
 - (c) reports on the status of the Company's share capital;
 - (d) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;
 - (e) receipt of bonds issued by the Company;
 - (f) financial report; and
 - (g) general meeting minutes, Board meeting minutes and Supervisors Committee meeting minutes.

Shareholders demanding inspection of the relevant information or copies of the materials mentioned in the preceding paragraph shall provide to the Company written documents indicating the class and number of shares they hold. After confirmation of the shareholder's identity, the Company shall provide such information based on the shareholder's request.

15. RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

In addition to the obligations imposed by laws and administrative regulations or relevant provisions of the securities regulatory authority on which Shares are listed, a controlling shareholder, when exercising his rights as a shareholder, shall not exercise his voting rights to make a decision which is prejudicial to the interests of the shareholders generally or of some of the shareholders of the Company in respect of the following matters:

- (i) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including (without limitation) opportunities beneficial to the Company; or
- (iii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights, but not including a restructuring of the Company submitted to and approved by shareholders' general meeting in accordance with the Articles of Association.

16. PROCEDURE ON LIQUIDATION

The Company shall be dissolved and liquidated in accordance with law upon occurrence of any of the following events:

- (i) the termination of business term or any other situations of dissolution that regulated by the Articles of Association;
- (ii) a resolution for dissolution is passed by a shareholders' general meeting;
- (iii) dissolution is necessary due to a merger or division of the Company;
- (iv) the Company is legally declared insolvent due to its failure to repay debts due;
- (v) the Company is ordered to close down because of its violation of laws or administrative regulations;
- (vi) where the Company's operation encounters serious difficulty, continuing operation will cause substantial loss to shareholders and such difficulty cannot be solved some other way, shareholders holding more than 10% of the voting rights of all shareholders may make requisition to the People's Court to liquidate the Company; or

(vii) where the terms of operation expires.

A liquidation group shall be set up within 15 days when the events under (i), (ii), (v), (vi) and (vii) take place. The liquidation group of the Company shall comprise persons appointed by the shareholders' meeting or the Board. If the liquidation group is not set up within the stipulated period of time, creditors may request the People's Court to designate the relevant personnel to form a liquidation group to conduct the liquidation. The company may be dissolved after being approved by CSRC. Where the Company is to be dissolved pursuant to Item (iv) of the preceding Article, a people's court shall, in accordance with the provisions of relevant laws, organize the shareholders, relevant bodies and professionals to establish a liquidation team for the liquidation process. Where the Board proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay all its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

The liquidation group shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the group's receipts and payments, the business of the Company and the progress of the liquidation, and to present a final report to the shareholders general meeting on completion of the liquidation.

The liquidation group shall within 10 days of its establishment send a notice to creditors, and within 60 days of its establishment make a public announcement on newspapers prescribed by laws, administrative regulations or state securities regulatory authority.

The liquidation group shall carry out registration of creditors' rights so reported.

During the liquidation period, the liquidation group shall exercise the following functions and powers:

- (i) to sort out the Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (ii) to notify all creditors by notice or public announcements;
- (iii) to dispose of and liquidate any relevant unfinished business matters of the Company;
- (iv) to pay all outstanding taxes and taxes incurred during the liquidation;
- (v) to settle claims and debts;
- (vi) to deal with assets remaining after the Company's debts having been paid in full; and
- (vii) to represent the Company in any civil proceedings.

The liquidation committee shall thoroughly examine the assets of the Company, and prepare a balance sheet and an inventory of assets. Upon completion, the liquidation committee shall draw up a proposal for liquidation and submit the same to the shareholders' meeting and the relevant authority in charge for confirmation.

If the company is liquidated by reason of dissolution and the liquidation committee, having thoroughly examined the Company's assets and having prepared a balance sheet and assets list, discovers that the Company's assets are insufficient to pay its debts in full, it shall immediately apply to the PRC court for a declaration of insolvency.

After the People's Court has declared the Company insolvent, the company's liquidation committee shall turn over any matters regarding the liquidation to the People's Court.

Following the completion of liquidation, the liquidation group shall present a report on liquidation and prepare a statement of the receipts and payments during the period of liquidation and financial books and records which shall be audited by the PRC certified public accountants and submitted to the shareholders' general meeting or the relevant governing authority for confirmation.

The liquidation group shall also within 30 days after such confirmation, submit the documents referred to in the preceding paragraph to the company registration authority and apply for cancellation of registration of the Company, and publish an announcement relating to the termination of the Company.

17. OTHER PROVISIONS MATERIAL TO THE COMPANY OR ITS SHAREHOLDERS

(a) General provisions

The Company is a joint stock limited company of perpetual existence.

Within the scope specified the laws and administrative regulations, the Company may invest in other limited liability company and joint stock company to the extent of their own subscribed capital contribution.

The Article of Association constitute a legal document regulating the relationship between the Company and each of its shareholders and among the shareholders interest, actionable by a shareholder against the Company and vice versa and by shareholders against each other in respect of rights and obligations concerning the affairs of the Company arising out of the Articles of Association. The shareholders may also bring actions against the Directors, Supervisors, general manager and other senior officers of the Company. For the purposes of the Articles of Association, actions include court proceedings and arbitration proceedings.

(b) Shares and transfers

The Company may issue shares to domestic investors and foreign investors after approval of the securities authority of the State Council.

Foreign investors mean those investors of foreign countries and regions of Hong Kong, Macau and Taiwan who subscribe for Shares issued by the Company; domestic investors referred to in the preceding paragraph mean those investors within the territory of the PRC (excluding investors of the regions referred to in the preceding sentence) who subscribe for Shares issued by the Company.

The Company may increase its capital in the following ways:

- (i) public offering of new shares;
- (ii) private issue of new shares;
- (iii) allotting bonus Shares to its existing shareholders;
- (iv) conversion of capital reserve; and
- (v) any other ways permitted by laws, administrative regulations or relevant regulatory authorities.

The Company's increase of capital by issuing new Shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the State.

The Company may reduce its registered capital in accordance with the provisions of the PRC Company Law, other regulations and the Articles of Association.

When the Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets. The Company's registered capital after reduction shall not be less than the statutory minimum amount. Subject to the approval of the securities authority of the State Council, holders of our domestic Shares may transfer their Shares to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred shares on an overseas stock exchange which the Company need not convene the class shareholders' meeting to vote on, shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

(c) Shareholders

A shareholder of the Company is a person who lawfully holds Shares and has his name recorded on the register of shareholders.

A shareholder enjoys rights, and is subject to obligations, according to the class and number of Shares he holds. Holders of the same class of Shares enjoy the same rights and subject to the same obligations.

If two or more individuals registered as joint shareholders, they are treated as co-owners of any related shares with respect to the following requirements:

- (i) no more than four individuals can be registered as joint shareholders of any share;
- (ii) all joint shareholders of any share shall bear the joint and several liabilities for all amount of money due to the related share; and

- (iii) if one of the joint shareholders dies, only other living joint shareholders should be regarded as holding the ownership of the related share. However, the Board retains the right to ask for proper death certificate in order to change the register of shareholders.

In the regard of joint shareholders of any share, only the first rank one in the register of shareholders has the right to collect related share from the Company, receive notifications from the Company, attending the shareholders' general meeting of the Company, or exercise all voting rights of related shares. All notifications sent to this individual are treated as delivered to all joint shareholders of such related shares.

Unless specified otherwise in the Articles of Association, the holders of Domestic Shares and foreign shares are ordinary shareholders with the same rights and subject to the same obligations. The ordinary shareholder of the Company shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of Shares held by him;
- (ii) the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- (iii) the right to supervise the Company's business operations, and the right to present proposals or inquiries;
- (iv) the right to transfer, giving for free or making liens of Shares in accordance with the laws, administrative regulations, rules, regulatory documents, the regulatory requirements of the securities regulatory authorities on which the Shares are listed and the Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of the Articles of Association;
- (vi) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company according to the number of Shares held by him;
- (vii) the right to require the Company to buy back Shares when holding qualifications toward resolutions in respect of mergers or separation; and
- (viii) other rights conferred by laws, administrative regulations, rules, regulatory documents and the Articles of Association.

If a shareholder holding 5% or more of the voting shares of the Company pledges any shares that are in his or her possession, he or she shall report the same to the Company in writing on the day on which he or she pledges his or her shares.

Share certificates of the Company shall be in registered form.

Share certificates of the Company shall be signed by the Chairman of the Board of the Company. Where the stock exchanges or the securities authority on which Shares are listed require the share certificates to be signed by the general manager or other senior officers of the Company, the share certificates shall also be signed by the general manager or other senior officers. Where the Shares are issued or traded on a surplus basis, the Company shall comply with the relevant regulations of the securities regulatory authority.

The share certificates shall take effect after being affixed with the Company's seal or a machine-imprinted seal of the Company provided that such seal shall only be affixed with the authority of the Board. The signatures of the Chairman of the Board, the general manager or other senior officers of the Company on the Share certificates may be printed in mechanical form.

Any person who is registered shareholder or who requests to have his name (title) entered into the register of shareholders may, if his share certificate (the "original certificate") in respect of shares in the Company is lost, apply to the Company for a replacement new share certificate in respect of such shares (the "Relevant Shares").

If a holder of Domestic Shares has his share certificate stolen, lost or destroyed and applies for a replacement new share certificate, it shall be dealt with in accordance with relevant provisions of the PRC Company Law.

If a shareholder of foreign shares listed in Hong Kong has his share certificate stolen, lost or destroyed and applies for a replacement new share certificate, the issue of such certificate shall comply with the following requirements:

- (i) the applicant shall submit an application to the Company in the form prescribed by the Company accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss of the original certificate and declaring that no other person is entitled to be registered as a shareholder in respect of the Relevant Shares;
- (ii) before the Company decides to issue the replacement new share certificate, no statement made by any person other than the applicant declaring that he shall be registered as a shareholder in respect of the relevant shares has been received;
- (iii) the Company shall, if it decides to issue a replacement new share certificate to the applicant, make an announcement of its decision at least once every 30 days for a period of 90 days in such newspapers as may be designated by the Board;
- (iv) the Company shall have, prior to publication of its decision to issue a replacement new share certificate, delivered to the stock exchange on which its shares are listed a copy of the announcement to be published. The Company may publish the announcement upon receiving a confirmation from such stock exchange that the announcement has been exhibited in the premises of the stock exchange. The announcement shall be exhibited in the premises of the stock exchange for a period of 90 days. In the case of an application to issue a replacement new certificate being made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the announcement to be published;

- (v) if, by the expiration of the 90-day period referred to in above (iii) and (iv), the Company shall not have received from any person notice of any disagreement to such application, the Company may issue a replacement new share certificate to the applicant accordingly;
- (vi) where the Company issues a replacement new share certificate under the Articles of Association, it shall forthwith cancel the original share certificate and enter the cancellation and replacement issue in the register of shareholders accordingly; and
- (vii) all expenses relating to the cancellation of an original share certificate and the issue of a replacement new share certificate by the Company shall be borne by the applicant. The Company may refuse to take any action until reasonable security is provided by the applicant for such expenses.

(d) Untraceable members

In compliance with the laws, administrative regulations and department regulations, the company may exercise power to confiscate the dividends which nobody has been claimed only after the expiry of the relevant limitation period.

The Company may exercise power to cease sending dividend warrants by post to a holder of foreign shares listed overseas when such warrants have not be cashed twice in a row. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

The Company shall not exercise power to sell the shares of a shareholder of the overseas listed foreign shares who is untraceable unless:

- (i) during a period of 12 years at least three dividends in respect of the shares in question have become payable an no dividend during that period has been claimed; and
- (ii) on expiry of the 12 years the Company, gives notice of its intention to sell the shares by way of an advertisement published in the newspapers and notifies the securities regulatory authorities where the Shares of the Company are listed of such intention.

(e) The Board

The Board shall be accountable to the general meeting of the shareholders, and shall exercise the following functions and powers:

- (i) to convene general meetings and report on its work to the shareholders;
- (ii) to implement the resolutions of general meetings;
- (iii) to decide on the Company's business plans, investment plans;
- (iv) to formulate the Company's proposed annual financial budget and final accounts;

- (v) to formulate the Company's profit distribution plan and plan for making up for losses;
- (vi) to formulate proposals for the increase or reduction of the Company's registered capital, the issue of corporate bond or other securities and the listing plan;
- (vii) to prepare plans for material acquisition, purchase of the Company's shares, merger, demerger, dissolution or change of the form of the Company;
- (viii) to decide on the Company's investment, transaction of assets, mortgage of assets, guarantee, entrust financing and related transaction with the authorization of the shareholders' general meeting;
- (ix) to decide on the establishment of the Company's internal management structure;
- (x) to appoint or dismiss the Company's general manager, and the secretary of the Board; pursuant to the general manager's nominations to appoint or dismiss the deputy general manager, financial charge, and other senior officers of the Company;
- (xi) to formulate the Company's basic management system;
- (xii) to formulate plans for the amendment of the Company's Articles of Association;
- (xiii) to deal with disclosures of information on the Company;
- (xiv) to propose to the shareholders' general meetings the appointment or replacement of the auditor of the Company;
- (xv) to receive work report submitted by the general manager of the Company and to review his performance; and
- (xvi) to exercise other functions and powers conferred at general meetings and by the laws, regulations and the Articles of Association.

Meetings of the Board shall be held regularly at least forth in each year and shall be convened by the Chairman of the Board. A written notice should be sent to all the Directors 14 days prior to the regular Board meeting. For the extraordinary meetings of the Board notice should be served at least 5 days prior to the meeting.

A quorum will be formed by more than half of the Directors attending in person and appointing another Director as his attorney. A Director shall attend the board meeting in person. If a Director is unable to attend a board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization.

A Director shall be deemed to be unable to carry out his or her duties if he or she fails to attend two consecutive board meetings in person and fails to appoint an alternate Director to attend board meetings on his behalf. The Board shall propose at the shareholders' general meeting for the removal of such Director.

Directors attending board meetings shall exercise their powers as Directors within their scope of authorization. If a Director fails to attend a board meeting and does not appoint an attorney to attend, the Director is deemed to have relinquished his rights to vote at that meeting.

Each Director shall have one vote. Unless specified otherwise in the laws, administrative regulations or the Articles of Association, resolutions of the Board must be passed by more than half of all the Directors. A Director should abstain from voting on the ground if he or she is connected with the enterprise involved in the motion tabled to the meeting. To the extent that the Directors abstain from voting, the relevant Board meeting may be conducted if more than half the number of non-connected Directors are present at the meeting and resolutions shall be adopted by a simple majority vote of all non-interested Directors present thereat. If there are less than three interested non-connected Directors present at the Board meeting, no voting shall be conducted for the relevant motion and the matter concerned shall be submitted to the shareholders' general meeting for consideration.

(f) Board committees

The Board has established the strategy committee, audit committee, nomination committee, remuneration and assessment committee. Those committees comprised of members who are all Directors. For composition of audit committee, nomination committee, remuneration and assessment committee, the independent Directors shall form the majority and act as the Chairman. There shall be at least one independent Director who has accounting qualification in the audit committee.

(g) Secretary of the Board

The Secretary of the Board should be equipped with the requisite financial, managing and legal professional knowledge, professional ethics and personal quality, and he should obtain the certificate of secretary of the board training granted by the Shanghai Stock Exchange.

(h) Supervisory Committee

The Company shall have a supervisory committee.

The supervisory committee shall be composed of seven members, one of whom shall be the chairman of the supervisory committee. Meetings of the board of Supervisors shall be convened at least one times half a year. The chairman of the board of Supervisors shall be responsible for convening meetings of the board of Supervisors.

The election of the chairman of the supervisory committee and the resolutions of the supervisory committee shall be decided by two-thirds or more of the Supervisors. Decisions of the supervisory committee shall be made by the affirmative vote of two-thirds or more of the Supervisors. The board of Supervisors shall be composed of shareholder representatives and appropriate proportion of staff representatives of the Company. The proportion of staff representatives of the Company shall be one-third of the Supervisors.

The term of office of Supervisors shall be three years, renewable upon re-election.

The Directors, general manager, financial officer, other senior management personnel of the Company shall not act concurrently as Supervisors.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following functions and powers in accordance with law:

- (i) to check the regular reports prepared by the Board and provide written opinion;
- (ii) to examine the Company's financial situation;
- (iii) to supervise the Directors and senior officers in their performance of duties and to propose the removal of Directors and senior officers who have contravened any law, regulations, the Articles of Association or shareholders' resolutions, represent the Company to bargain with or sue Directors;
- (iv) to demand any Director and senior officer of the Company who acts in a manner which is harmful to the Company's interests to rectify such behavior, and to report such situations to the shareholders meeting or relevant authorities when necessary;
- (v) to propose to convene a shareholders' extraordinary general meeting, and to convene and preside over shareholders' general meetings when the Board fails to perform the duty of convening and presiding over the general meeting in accordance with the PRC Company Law;
- (vi) to propose resolutions at a shareholders' general meeting;
- (vii) to institute a suit to the Directors or senior officers of the Company by laws;
- (viii) to investigate when noticing abnormalities in the operation of the Company; to engage accountants, legal advisers and other professionals to assist its work when necessary and the cost of which shall be borne by the Company;
- (ix) to review the financial reports, operating reports and dividend plans submitted by the Board to the general meeting, and to engage certified public accountants and practicing auditors to assist with re-examination where concerns have been raised; and
- (x) other functions and powers set out in the law, administrative regulations and Articles of Association.

Supervisors may be present at meetings of the Board.

(i) General manager

The Company shall have one general manager, who shall be appointed and dismissed by the Board. The term of the general manager shall be 3 years. A general manager may be reelected upon the expiration of his/her term.

The general manager shall be accountable to the Board and exercise the following functions and powers:

- (i) to be in charge of the Company's production, operation and management; to organize the implementation of the resolutions of the Board and report to the Board;
- (ii) to organize the implementation of the Company's annual business plan and investment plan;
- (iii) to draft the Company's basic management system;
- (iv) to formulate specific rules and regulations of the Company;
- (v) to draft plans for the establishment of the Company's internal management structure;
- (vi) to propose the appointment or dismissal of deputy general manager and financial officer;
- (vii) to appoint and dismiss management personnel other than those required to be appointed or dismissed by the Board;
- (viii) to execute risk control system insure that satisfy the risk control indicator data formulated by CSRC; and
- (ix) other functions and powers conferred by laws, regulations, the Articles of Association or the Board or authorized by the Board.

(j) Common Reserve Fund

When distributing the after-tax profits of the current year, the Company shall allocate 10% of its profits into its statutory common reserve fund. When the cumulated amount of the statutory common reserve fund of the Company has reached 50% or more of its registered capital, no further allocations is required.

Where the statutory common reserve fund of the Company is insufficient to make up for the losses of the Company incurred during the previous years, before making allocation to the statutory common reserve fund in accordance with the preceding paragraph, the profits generated during the current year shall be used to make up for such losses.

After making allocation to the statutory common reserve fund of the Company from its after-tax profits, the Company may also allocate 10% of the after-tax profits to the discretionary common reserve fund.

After making up for the losses and making contributions to the common reserve fund, any remaining profits shall be distributed to the shareholders in proportion to their respective shareholdings, except it is stipulated in the Articles of Association that profit distributions shall not be made in accordance with the shareholding proportion.

If the shareholders' general meeting has, in violation of the provisions of the preceding paragraphs, distributed profits to the shareholders before the Company has made up for its losses and made allocations to the statutory common reserve fund, the shareholders must return the profits distributed in violation of the provision to the Company.

No profits shall be distributed in respect of the shares held by the Company.

The common reserve fund of the Company shall be used to make up its losses, increasing the scale of production and operation of the Company or converting the same into the capital of the Company to increase the amount thereof, provided that the capital common reserve fund shall not be applied for making up the losses of the Company.

At the time of converting the statutory common reserve fund into registered capital, the amount retained in such common reserve fund shall not be less than 25% of the registered capital before the said conversion.

(k) Settlement of Disputes

The Company shall act according to the following principles to settle disputes:

- (i) Whenever any disputes or claims arise between holders of the foreign shares and the Company, holders of the foreign shares and the Directors, Supervisors, general manager or other senior officers; or holders of the foreign shares and holders of domestic shares, based on the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or any other laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration, provided that such person is the Company or the Company's shareholder, Director, Supervisor, general manager or other senior officer.

Disputes in relation to the definition of shareholders and disputes in relation to the shareholders' register need not be resolved by arbitration.

- (ii) a claimant shall elect arbitration at the China International Economic and Trade Arbitration Commission (CIETAC) in accordance with the arbitration rules of CIETAC or at the Hong Kong international arbitration in accordance with the securities arbitration rules of the Hong Kong international arbitration. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant;

if a claimant shall elect arbitration at the Hong Kong international arbitration, any party may request for arbitration in Shenzhen in accordance with the securities arbitration rules of the Hong Kong international arbitration.

- (iii) If any disputes or claims of rights are settled by way of arbitration in accordance with the above (i), the laws of PRC shall apply save as otherwise provided in laws and administrative regulation.
- (iv) The award of an arbitral body shall be final, conclusive and binding on all parties.

FURTHER INFORMATION ABOUT OUR COMPANY**1. INCORPORATION**

We were incorporated in the PRC on December 28, 2008 as a joint stock company with limited liability. Our A Shares were listed on the Shanghai Stock Exchange on August 3, 2010.

We have established a place of business in Hong Kong at 3907-08, 39/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on April 13, 2012. Ms. Chan Yin Wah has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company to be served on our Company in Hong Kong.

As our Company is established in the PRC, it is subject to the relevant laws and regulations of the PRC and the Articles of Association. Certain relevant aspects of the relevant laws and regulations of the PRC and a summary of certain relevant provisions of the Articles of Association are set out in Appendices VI and VII to this prospectus, respectively.

2. CHANGES IN THE REGISTERED CAPITAL OF OUR GROUP**(a) Our Company**

On August 3, 2010, our Company issued 140,000,000 A Shares of RMB1.00 each which are listed on the Shanghai Stock Exchange. Immediately upon the A Share Offering, the Company's registered capital increased to RMB700,000,000, comprising 700,000,000 A Shares of RMB1.00 each. Please refer to the section headed "History, Development and Corporate Structure — History and Development — Listing on the Shanghai Stock Exchange in 2010" of this prospectus in respect of further details regarding the A Share Offering.

Pursuant to the shareholders' resolutions passed at the 2011 annual general meeting of the Company held on February 28, 2012, the Company has, by way of capitalization of the capital reserves, issued 700,000,000 new A Shares (on the basis of the Company's total issued share capital comprising 700,000,000 A Shares as of December 31, 2011) to all holders of A Shares whose names appeared on the Company's register of members as at the closing of trading on the Shanghai Stock Exchange on March 12, 2012, on the basis of ten new A Shares for every ten then issued A Shares. The registered capital of the Company has thereby increased to RMB1,400,000,000, comprising 1,400,000,000 A Shares of RMB1.00 each. The shareholding percentage of the holders of A Shares in the Company's registered capital was unchanged immediately after such capital increase. Trading of the A Shares newly issued under such capital increase commenced on the Shanghai Stock Exchange on March 14, 2012.

Immediately after completion of the Global Offering, but without taking into account the exercise of the Over-allotment Option, our total issued share capital will increase to RMB1,621,122,000 divided into 1,377,887,800 A Shares and 243,234,200 H Shares, which will be held as follows:

Name of Shareholder	Shares	Number of Shares	Approximate percentage of then enlarged issued share capital
Henan SASAC	A Shares	521,087,800 ⁽¹⁾	32.14%
Other holders of A Shares (including NSSF).....	A Shares	856,800,000	52.86%
Holders of H Shares (including NSSF).....	H Shares	243,234,200 ⁽²⁾	15.00%
Total		<u>1,621,122,000</u>	<u>100%</u>

Notes:

- (1) Such A Shares are directly held by Henan SASAC.
- (2) Such 243,234,200 H Shares comprise (i) 221,122,000 H Shares to be issued pursuant to the Global Offering; and (ii) 22,112,200 H Shares to be converted from A Shares which are to be transferred by Henan SASAC to NSSF in accordance with the relevant PRC regulations on reduction of state-owned shares.

Immediately after completion of the Global Offering, and assuming that the Over-allotment Option is exercised in full, our total issued share capital will be as follows:

Name of Shareholder	Shares	Number of Shares	Approximate percentage of then enlarged issued share capital
Henan SASAC	A Shares	517,770,980 ⁽¹⁾	31.30%
Other holders of A Shares (including NSSF).....	A Shares	856,800,000	51.79%
Holders of H Shares (including NSSF).....	H Shares	279,719,220 ⁽²⁾	16.91%
Total		<u>1,654,290,200</u>	<u>100%</u>

Notes:

- (1) Such A Shares are directly held by Henan SASAC.
- (2) Such 279,719,220 H Shares comprise (i) 254,290,200 H Shares to be issued pursuant to the Global Offering (including upon exercise of the Over-allotment Option in full); and (ii) 25,429,020 H Shares to be converted from A Shares which are to be transferred by Henan SASAC to NSSF in accordance with the relevant PRC regulations on reduction of state-owned shares.

Save as disclosed in this prospectus, there has been no alteration in the total issued share capital of our Company since our Company was incorporated as a joint stock company with limited liability.

(b) Our subsidiaries

Our subsidiaries (for the purposes of the Hong Kong Listing Rules) as of the date of this prospectus include the entities set out on pages 2 to 3 of the accountants' report in Appendix I to this Prospectus, except for Huaxuan Investment.

The following sets out the changes in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus:

- *ZMJ Comprehensive Equipment*

The registered capital of ZMJ Comprehensive Equipment, a direct non wholly-owned subsidiary of the Company, increased from RMB30,000,000 to RMB100,000,000 on May 5, 2011.

- *ZMJ Siberia*

ZMJ Siberia, a direct wholly-owned subsidiary of the Company, was established on June 2, 2011 with a total investment amount of US\$200,000 of which US\$100,000 (which represents the amount of its registered capital as shown in the relevant foreign investment certificate issued by MOFCOM) has been paid up and contributed by the Company.

- *ZMJ Foundry*

ZMJ Foundry, a non wholly-owned subsidiary of the Company, was established on November 25, 2011 with a registered capital of RMB30,000,000 which has been fully paid-up. Please refer to the section headed "History, Development and Corporate Structure — History and Development — Establishment of ZMJ Foundry in 2011" of this prospectus in respect of details regarding the capital structure of ZMJ Foundry.

- *ZMJ Hong Kong*

ZMJ Hong Kong, a direct wholly-owned subsidiary of the Company, was incorporated on November 8, 2012 with an authorized and issued share capital of US\$7.5 million divided into 7.5 million shares of US\$1.0 each, all of which were issued to the Company and were unpaid as of the Latest Practicable Date.

Save as disclosed in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years preceding the date of this prospectus.

3. SUBSTANTIAL SHAREHOLDERS OF OUR SUBSIDIARIES

The following sets out the substantial shareholders (other than members of the Group) of our non wholly-owned subsidiaries:

- **ZMJ Comprehensive Equipment**

Zhengzhou Hua Yuan Investment Company Limited* (鄭州華源投資股份有限公司) is a substantial shareholder of ZMJ Comprehensive Equipment holding an approximately 31.11% equity interest in it.

- **ZMJ Longwall Machinery**

Shanghai Wan You Dynamic Technology Company Limited* (上海萬友動力科技有限公司) is a substantial shareholder of ZMJ Longwall Machinery holding a 40% equity interest in it.

- **ZMJ Shun Li Machinery**

Huainan Mining is a substantial shareholder of ZMJ Shun Li Machinery holding an approximately 37.40% equity interest in it.

- **ZMJ Lu An Xinjiang**

Lu Xin Coal Chemical is a substantial shareholder of ZMJ Lu An Xinjiang holding a 40% equity interest in it.

- **ZMJ Foundry**

Zhengzhou Dongdian Technology Company Limited* (鄭州東點科技股份有限公司) is a substantial shareholder of ZMJ Foundry holding an approximately 34.73% equity interest in it.

4. SHAREHOLDERS' RESOLUTIONS PASSED AT THE 2011 FIRST EXTRAORDINARY GENERAL MEETING OF OUR COMPANY ON SEPTEMBER 28, 2011

At the 2011 first extraordinary general meeting of our Company held on September 28, 2011, the following resolutions, among others, were passed and approved:

- (a) the issue by our Company of the H Shares of nominal value of RMB1.00 each and the listing of such H Shares on the Hong Kong Stock Exchange;
- (b) the number of H Shares to be issued under the Global Offering not being more than 20% of the total issued share capital of our Company as enlarged by the Global Offering, and the grant to the Joint Global Coordinators the Over-allotment Option comprising not more than 15% of the number of H Shares initially available under the Global Offering;

- (c) subject to the completion of the Global Offering, the conditional adoption of the Articles of Association, which shall become effective on the Listing Date and the authorization to the Board and persons authorized by the Board to amend the Articles of Association in accordance with the requirements by the relevant regulatory authorities in accordance with the relevant laws and regulations; and
- (d) authorization in favor of the Board and persons authorized by the Board to handle all matters relating to the Global Offering and the issue and listing of the H Shares.

FURTHER INFORMATION ABOUT OUR BUSINESS

1. SUMMARY OF MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus, which have not been terminated and are or may be material to us:

- (a) a capital contribution agreement dated May 17, 2012 entered into between the Company and Longmay Group, pursuant to which, among other things, the Company and Longmay Group agreed to each contribute RMB38.0 million for the establishment of the Zhenglong Joint Venture;
- (b) a framework agreement dated September 2, 2012 entered into between the Company and Huainan Mining, pursuant to which the Group will supply to the Huainan Mining Group coal mining and excavating equipment produced by the Group from time to time, and the Group will purchase certain raw materials and accessories from or sourced by the Huainan Mining Group from time to time, all in accordance with the agreement. Further details of this agreement are set out in the section headed “Connected Transactions — Non-Exempt Continuing Connected Transactions — Framework Agreement with Huainan Mining” of this prospectus;
- (c) a cornerstone investment agreement dated November 20, 2012 entered into between the Company, the Joint Global Coordinators and Eldon Development Ltd., details of which are included in the section headed “Cornerstone Investors” of this prospectus;
- (d) a cornerstone investment agreement dated November 20, 2012 entered into between the Company, the Joint Global Coordinators and China Huadian HongKong Company Limited, details of which are included in the section headed “Cornerstone Investors” of this prospectus;
- (e) a cornerstone investment agreement dated November 20, 2012 entered into between the Company, the Joint Global Coordinators and Topful Holdings Limited, details of which are included in the section headed “Cornerstone Investors” of this prospectus;

- (f) a cornerstone investment agreement dated November 20, 2012 entered into between the Company, the Joint Global Coordinators and Yitai (Group) HK Co., Ltd., details of which are included in the section headed “Cornerstone Investors” of this prospectus; and
- (g) the Hong Kong Underwriting Agreement.

FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT AND STAFF

1. DIRECTORS’ AND SUPERVISORS’ SERVICE CONTRACTS

None of our Directors or Supervisors has or is proposed to have a service agreement with any member of our Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

As of the date of this prospectus, none of our Directors had provided personal guarantees in favor of lenders in connection with banking facilities granted to our Company.

2. DIRECTORS’ AND SUPERVISORS’ REMUNERATION

The aggregate amounts of remuneration in the form of salaries, allowance, benefits in kind, discretionary bonuses and retirement scheme contributions made on their behalf granted to the Directors and the Supervisors in respect of the financial years ended December 31, 2009, 2010, 2011 and the six months ended June 30, 2012 were approximately RMB4.0 million, RMB4.4 million, RMB5.2 million and RMB2.1 million, respectively. Save as disclosed under note 15 to the accountants’ report included in Appendix I to this prospectus, no Director or Supervisor received other remuneration from our Company in respect of the three financial years ended December 31, 2011 and the six months ended June 30, 2012.

Under the arrangements currently in force, the aggregate amount of remuneration payable to, and benefits in kind receivable by, the Directors and Supervisors from our Company in respect of the financial year ending December 31, 2012 is estimated to be approximately RMB4.0 million.

3. DISCLOSURE OF INTERESTS

(a) Directors and Supervisors

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), as far as our Directors are aware, the following persons will have an interest or short position in the shares, underlying shares or debentures of our Company or of any of its associated corporations within the meaning of Part XV of the SFO which (i) will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Hong Kong Listing Rules, in each case once the H Shares are listed on the Hong Kong Stock Exchange. For this purpose, the relevant regulatory provisions as mentioned above shall be deemed to apply to the Supervisors to the same extent as they apply to the Directors:

Name	Nature of Interest	Relevant company (including associated corporations)	A Shares held immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	
			Number	Approximate percentage of then enlarged issued share capital
Mr. Jiao Chengyao (焦承堯)	Personal interest	The Company	4,789,120	0.30
Mr. Shao Chunsheng (邵春生)	Personal interest	The Company	4,789,120	0.30
Mr. Xiang Jiayu (向家雨)	Personal interest	The Company	3,368,960	0.21
Mr. Fu Zugang (付祖岡)	Personal interest	The Company	3,368,960	0.21
Mr. Wang Xinying (王新瑩)	Personal interest	The Company	3,368,960	0.21
Mr. Ding Hui (丁輝)	Personal interest	The Company	3,192,000	0.20
Mr. Ni Heping (倪和平)	Personal interest	The Company	3,192,000	0.20

(b) Substantial Shareholder

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), as far as our Directors are aware, the following person will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed:

		A Shares held immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	
Name of Shareholder	Nature of interest	Number	Approximate percentage of then enlarged issued share capital
Henan SASAC	Beneficial interest	521,087,800	32.14

Save as disclosed in this prospectus, but not taking into account any H Shares which may be taken up under the Global Offering, our Directors are not aware of any legal person or individual (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, have any interest or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, save as set out or referred to under “Further Information about Our Company — 3. Substantial Shareholders of Our Subsidiaries” in this Appendix VIII to this prospectus.

(c) Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or Supervisors is interested in the promotion of any member of our Group, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group; and
- (b) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business.

OTHER INFORMATION**(a) Taxation***(i) Estate duty*

Our Directors have been advised by our PRC Legal Advisers that currently there is no PRC law imposing liability for estate duty and therefore no material liability for estate duty under the laws of the PRC is likely to be imposed on the Company and its subsidiaries in the PRC.

(ii) Consultation with professional advisers

Intending holders of the H Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the H Shares or exercising rights attaching to them. None of our Company, the Directors, the Joint Sponsors, the Joint Global Coordinators, the Underwriters, any of their respective directors, officers, employees, agents, representatives, advisers or the other parties involved in the Global Offering accepts responsibility or liability for any tax effect on, or liabilities of, holders of H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in H Shares or exercise of any rights attaching to them.

(b) Litigation

So far as our Directors are aware, as of the Latest Practicable Date, no member of our Group was involved in any material litigation, arbitration, claim or administrative proceedings that would, individually or in the aggregate, have a material adverse effect on our financial condition. So far as our Directors are aware, as of the Latest Practicable Date, no material litigation, arbitration, claim or administrative proceedings were pending or threatened against any member of our Group.

(c) No Material Adverse Change

Our Directors confirm that, as of the date of this prospectus, there has been no material adverse change to our financial or trading position or prospects since June 30, 2012, being the date to which our most recent audited consolidated financial statements were prepared, and since that date, there has been no event up to the date of this prospectus that would materially affect the information shown in our consolidated financial statements included in the accountants' report set out in Appendix I to this prospectus, in each case except as otherwise disclosed in this prospectus.

(d) Joint Sponsors

The Joint Sponsors have made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, on the Main Board of the Hong Kong Stock Exchange the H Shares to be issued under the Global Offering including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option and any H Shares to be converted from A Shares in accordance with the relevant PRC regulations on reduction of state-owned shares.

As regards the independence of each of the Joint Sponsors:

- (i) UBS Securities Hong Kong Limited has met the criteria under Rule 3A.07 of the Hong Kong Listing Rules and is an independent sponsor of our Company; and

- (ii) J.P. Morgan Securities (Far East) Limited has met the criteria under Rule 3A.07 of the Hong Kong Listing Rules and is an independent sponsor of our Company.

(e) Preliminary Expenses

The estimated preliminary expenses incurred or proposed to be incurred in respect of the Global Offering (including the underwriting commissions) amount to approximately HK\$150 million and are payable by our Company.

(f) Promoters

We had 39 promoters consisting of Henan SASAC, 12 enterprises and 26 individuals when our Company was incorporated as a joint stock limited company on December 28, 2008. These promoters include Mr. Jiao Chengyao, Mr. Shao Chunsheng, Mr. Xiang Jiayu, Mr. Fu Zugang and Mr. Wang Xinying, being five of our Directors, and Mr. Ding Hui and Mr. Ni Heping, being two of our Supervisors. Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given within the two years immediately preceding the date of this prospectus, or is proposed to be paid, allotted or given, to our promoters in connection with the Global Offering.

(g) Qualification of Experts

Name	Qualifications
UBS Securities Hong Kong Limited	Licensed under the SFO to conduct types 1, 6 and 7 regulated activities under the SFO
J.P. Morgan Securities (Far East) Limited	Licensed under the SFO to conduct types 1, 4 and 6 regulated activities under the SFO
Zhong Lun Law Firm	Registered law firm in the PRC
Deloitte Touche Tohmatsu	Certified public accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer and consultant

(h) Consents of Experts

Each of the Joint Sponsors, Zhong Lun Law Firm (as PRC legal advisers of our Company), Deloitte Touche Tohmatsu (as independent reporting accountants of our Company), and Jones Lang LaSalle Corporate Appraisal and Advisory Limited (as independent property valuer and consultant of our Company) has given and has not withdrawn its respective written consent to the issue of this prospectus with copies of its report(s), letter(s) or opinion(s) (as the case may be) and the references to its name or summaries of report(s), letter(s) or opinion(s) (as the case may be) included in this prospectus in the form and context in which they are respectively included.

(i) Interests of Experts in our Company

Save as disclosed in this prospectus, none of the experts named in paragraph (g) above is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate person to subscribe for any shares or securities in any member of our Group.

Save as disclosed in this prospectus, none of the experts named in paragraph (g) above is interested in the promotion of any member of our Group, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

(j) Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, our Company has not issued nor agreed to issue any share or loan capital fully or partly paid up otherwise than in cash;
- (b) no share or loan capital of our Company or of any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) our Company has not issued any founder or management or deferred shares;
- (d) none of our Company or any of our subsidiaries has any outstanding convertible debt securities or debentures;
- (e) within the two years immediately preceding the date of this prospectus, no commission, discount, brokerage or other special term has been paid or granted (as the case may be) in connection with the issue or sale of any capital of our Company;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;
- (g) there has been no interruption in our business which may have or have had a significant effect on the financial position in the last 12 months;
- (h) other than the A Shares which are listed on the Shanghai Stock Exchange, no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any other stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought.

Our Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited company and does not expect to be subject to the *Sino-foreign Joint Venture Law of the PRC* (中華人民共和國中外合資經營企業法).

Our Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules with effect from the Listing Date.

All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

(k) Binding Effect

This prospectus shall have the effect, if any application is made in pursuance hereto, of rendering all persons concerned bound by the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

(l) Bilingual Prospectus

The English language and Chinese language versions of the prospectus are being published separately, in reliance upon the exemption provided under section 4 of the *Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice* (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were copies of the Application Forms, the written consents and copies of the material contracts referred to in Appendix VIII to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Baker & McKenzie at 23rd Floor, One Pacific Place, 88 Queensway, Hong Kong during normal business hours up to the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the accountants' report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the consolidated audited accounts of our Group for each of the two financial years ended December 31, 2010 and 2011;
- (d) the unaudited condensed consolidated financial statements of our Group for the nine months ended September 30, 2012, the text of which is set out in Appendix II to this prospectus;
- (e) the letter relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix III to this prospectus;
- (f) the letters relating to our profit forecast for the year ending December 31, 2012, the text of which is set out in Appendix IV to this prospectus;
- (g) the PRC legal opinion issued by the PRC Legal Advisers in connection with the Global Offering and the Listing;
- (h) the material contracts referred to under "Further Information about Our Business — Summary of Material Contracts" in Appendix VIII to this prospectus;
- (i) the written consents referred to under "Other Information — (h) Consents of Experts" in Appendix VIII to this prospectus; and
- (j) the following PRC laws, together with unofficial English translations thereof:
 - (i) the PRC Company Law, the Special Regulations, the Mandatory Provisions;
 - (ii) the PRC Securities Law;

- (iii) the *Arbitration Law of the PRC* promulgated by the Standing Committee of the National People's Congress of the PRC on August 31, 1994 which became effective from September 1, 1995; and
- (iv) the *Civil Procedure Law of the PRC* adopted at the fourth meeting of the Seventh National People's Congress of the PRC, promulgated on April 9, 1991, as amended in 2007 and implemented on October 28, 2007.

