Web Proof Information Pack of

国际煤机集团

INTERNATIONAL MINING MACHINERY

INTERNATIONAL MINING MACHINERY HOLDINGS LIMITED

國際煤機集團

(incorporated in the Cayman Islands with limited liability)

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This Information Pack contains the following information relating to International Mining Machinery Holdings Limited extracted from a version of the post-hearing proof of the draft document:

YOU SHOULD READ THE SECTION HEADED "WARNING" ON THE COVER OF THIS INFORMATION PACK.

SUMMARY

OVERVIEW

We are a leading designer and manufacturer of underground longwall coal mining equipment in China. A complete underground longwall mining system consists of four core pieces of equipment, namely roadheaders, shearers, armoured-face conveyors and hydraulic roof supports. We are a market leader in China in designing and manufacturing roadheaders and shearers, the two pieces of equipment which we believe to be the most technologically sophisticated in the underground longwall mining system, and we are quickly growing our armoured-face conveyor business. By capitalising on our capabilities, the extended history of our operations (as reflected in a large installed base) and a track record of innovation, we believe that we are uniquely positioned to become among the first complete longwall system solution providers in China.

The following is a brief overview of our current product segments:

➢ *Roadheader products.* We are a leading roadheader supplier in China, with a 27% market share based on units sold in 2008, according to China National Coal Machinery Industry Association, or CMIA. According to the same source, we also had the largest installed base of roadheaders as of 31 December 2008, based on the aggregate number of units sold from 2005 to 2008. Jiamusi Machinery, our subsidiary that designs and manufactures our roadheader products, traces its history back to 1957 and manufactured the first roadheader in China in 1976. We currently offer 24 series of roadheaders, classified by installed cutting power under the categories of light-duty, medium-duty and heavy-duty. We believe our EBZ350 series roadheaders have the highest installed cutting power among roadheaders manufactured in China today.

➢ *Shearer products.* We are the largest longwall shearer supplier in China, with a 27% market share based on units sold in 2008, according to CMIA. According to the same source, we also had the largest installed base of shearers as of 31 December 2008, based on the aggregate number of units sold from 2005 to 2008. Jixi Machinery, our subsidiary that designs and manufactures our shearer products, traces its history back to 1936 and manufactured the first shearer in China in 1953. We offer a full line of shearers to operate under a wide range of coal bed conditions, from ultra-thin coal seams of 0.65 metres to thick seams of 6 metres. We believe that we are one of the few manufacturers in China with the capability to design and manufacture shearers with total power output over 2,000KW.

➢ *Armoured-face conveyors and related products.* We established our Huainan Longwall subsidiary in 2007 as a joint venture in which we initially held a 75% equity interest. Huainan Benniu, our joint venture partner at the time, was principally engaged in the manufacture and sale of mining machinery, conveyor machinery including armoured-face conveyors, and related spare parts. As part of the joint venture arrangement, Huainan Benniu contributed substantially all of its assets for the remaining 25% interest in Huainan Longwall. Capitalising on Huainan Benniu's customer base, we generated significant sales of armoured-face conveyors and related products in 2008, which we exceeded within the first seven months of 2009. We entered into an agreement with Huainan Benniu to purchase the remaining 25% equity interest of Huainan Longwall in December 2009. Approvals and registration procedures relating to the purchase were completed on 19 January 2010, and we expect the consideration for the purchase to be paid in March 2010.

- *Aftermarket parts and services.* We offer a wide range of aftermarket services, including onsite service repairs, overhauls and a supply of spare parts through an extensive network of service centres and parts depots in key mining districts which are close to our customers.

We primarily sell our products through independent distributors and sales agents who then sell them to end-customers who are coal producers. Our sales to end-customers, including direct sales and sales through agents, accounted for approximately 40% of our total revenue for the seven months ended 31 July 2009. Our end customer base includes all of the 50 largest coal producers in China (as ranked by China Coal News in August 2009), which collectively accounted for approximately 60% of the total coal produced in China in 2008. To further solidify our relationships with our targeted end customers, we have established three joint ventures with leading PRC coal producers including Shendong Tianlong Group Co., Ltd. and China National Coal Mining Equipment Co. Ltd. to provide aftermarket services in key coal mining regions. Our distribution and service network consists of 37 wholly-owned service centres and various distributors, sales agents and parts depots. Our sales and service points are located in the 13 largest coal production bases in China, each with an annual coal production of more than 100 million tonnes and collectively representing 60% of the total coal production in China in 2008.

Our products are well-recognised in China for their quality and advanced technology and have won numerous awards nationally. For example, our EBZ100 roadheader won the National Quality Gold Metal in 1986, which was the only occasion on which such award was granted in history. Our MG132/315-WD shearer was awarded the first prize in technology advancement in 2007 by the Heilongjiang provincial government. As part of our product development efforts, we work closely with our end customers in designing, manufacturing and testing new lines of products that meet their specific demands. As of 31 July 2009, we employed 2,590 manufacturing and technical personnel, which represented 75.1% of our full-time employees.

In addition to our advantageous market position and capabilities, we believe that the current industry and regulatory environment will significantly contribute to our growth. Substantially all of China's coal reserves can be economically extracted only through underground mining. Compared to room and pillar mining, longwall mining is fully mechanised and as a result, increases operating efficiency and safety. To promote safety and efficiency, the PRC Government has closed more than 12,000 small mines as of the end of 2008 and encouraged the consolidation and mechanisation of the remaining small and medium mines. PRC Government policy has mandated that state-owned large-scale mines achieve 95% mechanisation rates, and that medium-scale mines achieve 80% mechanisation rates, by 2010.

Our Company was established on 12 April 2006 and acquired the 100% equity interest in Jiamusi Machinery and Jixi Machinery on 16 May 2006. For the 2006 Consolidated Period, our revenue totaled RMB545.9 million and our profit for the period totaled RMB60.2 million. From 2007 to 2008, our revenue increased from RMB857.6 million to RMB1,279.7 million, or an increase of 49.2%, and our profit for the year decreased from RMB149.8 million to RMB146.2 million, or a decrease of 2.4%, reflecting, among other things, significantly higher tax expense due to the expiration of a tax holiday at Jiamusi Machinery and Jixi Machinery. In the seven months ended 31 July 2009 compared to the same period in 2008, our revenue increased from RMB702.6 million to RMB873.0 million, or an increase of 24.3%, and our profit for the same period increased from RMB94.9 million to RMB138.4 million, or an increase of 45.8%.

We have a limited operating history as a combined business. We were established in 2006 and currently operate through three principal operating subsidiaries. Two of our principal subsidiaries, Jiamusi Machinery and Jixi Machinery, have significant operating history and were managed by the same previous controlling shareholders. Members of senior management of these two subsidiaries are among our executive officers responsible for our management and operations. Our third principal subsidiary, Huainan Longwall, was established in 2007. Due to our limited operating history as a combined business, our historical operating results may not be indicative of any trends in the future.

THE RESOLUTE FUND, L. P.'S INVESTMENT IN OUR COMPANY AND THE REORGANISATION

The Resolute Fund, L.P., a private equity fund, indirectly controls our Company through the interests held by its five parallel funds in TJCC Holdings. The Resolute Fund, L.P. has capital commitments of approximately US$1.5 billion and more than 75 limited partners. Resolute Fund Partners, LLC, a Delaware limited liability company, is the general partner of The Resolute Fund, L.P. and each of the five parallel funds. The Jordan Company, L.P., a Delaware limited partnership, is the manager of The Resolute Fund, L.P. and each of five parallel funds. The investment approach of The Jordan Company, L. P. is to acquire companies in partnership with management at reasonable valuations and to support these investments with a hands-on, value-added operational strategy to generate superior investment returns. Its hands-on strategy focuses on operational improvements to enhance internal growth and strategic acquisitions. Its value-added approach supports a strong relationship with talented managers. See "Relationship with our Controlling Shareholders" for more information on our Controlling Shareholders.

The Resolute Fund, L.P. established, through TJCC Holdings, our Company on 12 April 2006 and acquired Jiamusi Machinery and Jixi Machinery in May 2006. Our Company is directly owned as to 91.0% by TJCC Holdings, an investment company established by five parallel funds of The Resolute Fund, L.P. The remaining 9.0% equity interest in our Company is held as to 6.3% by Mr. Rubo Li, 1.35% by Mr. Emory Williams and 1.35% by Williams Realty, respectively. Mr. Rubo Li, our non-executive Director, and Mr. Emory Williams, who resigned as a Director in December 2009, had assisted The Resolute Fund, L. P. in identifying Jiamusi Machinery and Jixi Machinery as potential attractive acquisitions and subsequently participated in the acquisition negotiations. Mr. Rubo Li and Mr. Emory Williams were given minority interests in our Company as well as a "founder participation" in the event of repurchase or redemption of our preferred shares as an incentive provided by The Resolute Fund, L. P. to start-up entrepreneurs and management business partners. Our Company has also extended certain loans to Mr. Rubo Li and Mr. Emory Williams. See "Reorganisation — Preferred Shares" for more information on the "founder participation rights" and "Reorganisation — Historical related party transactions — Loans to Messrs. Rubo Li and Emory Williams and Their Respective Related Parties" for more information on the loans extended to Mr. Rubo Li and Mr. Emory Williams.

The Resolute Fund, L. P. raised the funds for the acquisitions of Jiamusi Machinery and Jixi Machinery and injected the proceeds to our Company through a subscription by TJCC Holdings of preferred shares in our Company. Upon our establishment, The Resolute Fund, L. P., through TJCC Holdings, provided further funds for our acquisitions and other investments in the PRC through further subscription of preferred shares in our Company and through intercompany loans. See "Reorganisation — Preferred Shares" and "Reorganisation — Historical Related Party Transactions — Intercompany Loans from TJCC Holdings".

Through the provision of management consulting services, The Resolute Fund, L. P. has provided management expertise and support to our Company. Through The Jordan Company, L. P., it has provided management consulting services to our Company through the appointment of Mr. John W. Jordan II and Mr. Thomas H. Quinn to our Board. It also provides management services to our Company through TJCC Services, a service company providing management services to our Company and, to a lesser extent, services to its other investment portfolio companies in the PRC. Our Company has paid management fees for the services provided by TJCC Services. We have also extended loans to TJCC Services. See "Reorganisation — Historical related party transactions — Payment for Management Consulting Services".

We are undertaking a number of steps as part of our Reorganisation to settle all historical related party transactions and to repurchase the outstanding preferred shares. These steps include:

(i) repurchase of all outstanding preferred shares held by TJCC Holdings;

(ii) settlement of all related party transactions and amounts payable and receivable in respect of such related party transactions, except the consulting arrangement with Mr. Rubo Li;

(iii) payment of US$10 million (equivalent to approximately HK$77.5 million), representing the TJCC Services Transaction and Termination Fee, to TJCC Services; and

(iv) payment of a contingent dividend to the holders of ordinary shares of the Company as of 24 January 2010, such payment to be determined and paid upon completion of the Reorganisation and the audit of the 2009 annual results of the Company. See "Summary — Contingent Dividend Based on Distributable Profits as of 31 December 2009".

COMPETITIVE STRENGTHS

We believe that the following strengths distinguish us from our competitors and contribute to our ability to compete effectively in the future:

➢ market leadership in key products;

➢ largest installed base of roadheaders and shearers in China;

➢ extensive distribution and service network covering a broad customer base;

➢ strong product development capability;

➢ commitment to reliability, safety and productivity; and

➢ experienced management team with a proven track record.

BUSINESS STRATEGY

Our long-term objective is to become the leading underground longwall equipment designer and manufacturer in China. To that end, we intend to implement a business strategy with the following key aspects:

➢ expand capacity to capture growth opportunities and increase efficiency;

➢ capture aftermarket sales opportunities;

➢ expand our capability to provide complete longwall system solutions;

➢ expand distribution and service network and strengthen relationships with key customers; and

➢ further enhance product development capability.

RISK FACTORS

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be categorised into: (i) risks relating to our business and industry; and (ii) risks relating to the People's Republic of China.

Risks Relating to Our Business and Industry

➢ Our business and operating results are subject to significant cyclical fluctuations.

➢ Disruptions in the global financial markets could continue to have a material adverse impact on our results of operations, financial condition and cash flows.

➢ Regulations on the coal mining industry may affect demand for our products.

➢ We may face challenges in integrating our businesses.

➢ Future acquisitions of businesses or establishment of joint ventures may subject us to risks and uncertainties.

➢ Our historical outstanding trade receivables and the turnover days of our trade receivables have been relatively high, and our discounted bills and factor programmes may not be effective.

➢ We derive revenue from a limited number of products and services.

➢ If we fail to offer technologically improved equipment to our end customers, demand for our products may be materially adversely affected.

➢ If we are unable to address our current manufacturing capacity constraints, or maintain our current utilisation rate, our operating results and growth prospects may be adversely affected.

➢ Our business requires significant and continuous capital investment.

➢ Fluctuation in steel and other raw material prices may adversely affect our business.

➢ We purchase our raw materials and key components from a limited number of suppliers, and do not have long-term contracts with our suppliers.

➢ We rely on a limited number of customers.

➢ We may be subject to product liability and other claims.

- Our continued success depends on our ability to protect our intellectual property.
- Disputes with our joint venture partners could adversely affect our business and operating results.
- Our insurance coverage may be insufficient to cover all risks of loss associated with our business operations.
- The interests of our Controlling Shareholders may conflict with the interests of our other shareholders.
- Our growth depends on our ability to continue to attract and retain qualified personnel, including our senior management members.
- Compliance with environmental, health and safe production regulations can be costly, while non-compliance with such regulations may result in fines, other penalties or actions that could adversely affect our reputation.
- We have not obtained the building ownership rights to some of our facilities.
- Labour disruptions could adversely affect our operations.
- A material disruption to our manufacturing plants could adversely affect our ability to generate revenue.
- We operate in a highly competitive industry.
- Changes to industry standards may have an adverse impact on our business.
- PRC coal mining industry consolidation may adversely affect our business operations.
- We may not be able to register our trademarks in Hong Kong or PRC.

Risks Relating to the People's Republic of China

- Economic, political and social conditions, as well as government policies in China could have a material adverse effect on our business, results of operations and financial condition.
- The slowdown of economic growth in China and the world could have a material adverse effect on our business, results of operations and financial condition.
- Restrictions on foreign currency exchange may limit our ability to obtain and remit foreign currency or to utilise our revenues effectively.
- The discontinuation or reduction of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.
- There are significant uncertainties under the New EIT Law relating to our PRC enterprise income tax liabilities.

➢ We may be deemed a PRC tax resident enterprise under the New EIT Law and its implementation regulations and be subject to PRC taxation on our worldwide income.

➢ Restrictions on payment of dividends under applicable regulations may limit the operating subsidiaries' ability to remit dividends to the Group, which could affect the Group's liquidity and its ability to pay dividends.

➢ Failure to comply with PRC regulations in respect of the registration of our PRC citizen employee's share options may subject such employees or us to fines and legal or administrative sanctions.

➢ Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of operations of our Company and our ability to pay dividends.

➢ The PRC legal system embodies uncertainties which could limit the legal protections available to us.

➢ It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us or our Directors.

➢ The enforcement of the new labour contract law and an increase in labour costs in the PRC may adversely affect our business and our profitability.

➢ Any recurrence of severe acute respiratory syndrome or any other epidemic in China may have a material adverse effect on our business and operations, financial condition and results or operations.

SUBSEQUENT EVENTS

The following significant events, substantially all of which relate to our Reorganisation, occurred after 31 July 2009, which was the last day of the Relevant Period, but prior to the date of this document:

(1) On 3 December 2009, IMM AFC, our wholly-owned subsidiary, entered into an equity transfer agreement with Huainan Benniu, our then joint venture partner, to purchase the remaining 25% equity interest in Huainan Longwall for a cash consideration of RMB51.4 million (equivalent to approximately HK$58.4 million). Approvals and registration procedures relating to the purchase were completed on 19 January 2010, and we expect the consideration for the purchase to be paid in March 2010.

(2) Pursuant to the resolutions of the board of directors of TJCC IMM Jiamusi passed on 23 December 2009 and 31 December 2009, TJCC IMM Jiamusi declared dividends of US$[●] (equivalent to approximately RMB[●] or HK$[●] million) and US$[●] (equivalent to approximately RMB[●] or HK$[●] million) respectively to our Company. The Directors confirm that we had a net asset position and had sufficient distributable reserves upon the declaration of dividends from TJCC IMM Jiamusi to us. Details of the special dividends declared are set out in the section headed "Reorganisation" in this document.

(3) Pursuant to the resolution of the board of directors of IMM Mauritius passed on 17 December 2009, IMM Mauritius initiated a liquidation and the remaining cash of approximately US$5.0 million (equivalent to approximately RMB34.2 million or HK$38.8 million) was distributed to the Company. The Directors confirm that there are no material gains or losses arising from the liquidation of IMM Mauritius.

(4) Pursuant to the resolutions of our Board of Directors passed on 17 December 2009 and 23 December 2009, we repurchased US$10.0 million (equivalent to approximately HK$77.5 million) and US$33.4 million (equivalent to approximately HK$258.9 million) respectively of the preferred shares from TJCC Holdings. Upon completion of the Reorganisation, we will have repurchased all outstanding preferred shares of the Company at a total consideration of US$107.36 million (equivalent to approximately HK$832.1 million), consisting of the initial purchase price paid by the holders of the preferred shares of US$102.5 million (equivalent to approximately HK$794.5 million), and founder participation rights in the amount of US$4.86 million (equivalent to approximately HK$37.7 million). The US$4.86 million (equivalent to approximately HK$37.7 million) in founder participation rights represents a loss associated with the repurchase of the preferred shares which will be reflected in the net profit for the year ending 2010. Details of the repurchase of the preferred shares is set out in the section headed "Reorganisation" in this document.

(5) Pursuant to the resolution of the Board of Directors of TJCC IMM Jiamusi passed on 24 January 2010, TJCC IMM Jiamusi declared a dividend of RMB[●] million (equivalent to approximately US$[●] million or HK$[●] million) to our Company.

(6) Pursuant to the resolution of our Board of Directors and the holders of our ordinary shares and preferred shares passed on 24 January 2010, we declared and approved a contingent dividend to the holders of our ordinary shares as at 24 January 2010. The range of the contingent dividend amount has been determined based our available distributable profits and on certain expected cash inflow. The payment of the dividend is contingent upon the completion of the Reorganisation. Details of the contingent dividend is set out in the section headed "Summary — Contingent Dividend Based on Distributable Profits as of 31 December 2009" in this document.

(7) We expect our Board of Directors to approve, on 24 January 2010, a payment of US$10.0 million (equivalent to approximately RMB68.3 million or HK$77.5 million) for a transaction and termination fee in relation to the termination of a management consulting agreement with TJCC Services. The payment of the transaction and termination fee will reduce the net profit for the year ending 31 December 2010 by approximately RMB68.3 million (equivalent to approximately US$10.0 million or HK$77.5 million). Details of the transaction and termination fee are set out in the section headed "Reorganisation" in this document.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our income statement and statement of cash flow data for the years ended 31 December 2007 and 2008, and seven months ended 31 July 2008 and 2009; and a summary of our statement of financial position data as of 31 December 2006, 2007, 2008 and 31 July 2009. We were established on 12 April 2006 and acquired Jiamusi Machinery and Jixi Machinery on 16 May 2006, and in this document, we may refer to the period from 12 April 2006 to 31 December 2006 as the "2006 Consolidated Period". The results of operations of Jiamusi Machinery and Jixi Machinery for the period from 16 May 2006 through 31 December 2006 were consolidated into our consolidated results of operations for the 2006 Consolidated Period. Our summary consolidated income statement data, statement of financial position data and statement of cash flow data are derived from the Accountants' Report of International Mining Machinery Holdings Limited in Appendix I. To better demonstrate our financial performance for the full year in 2006, we also present below certain data derived from the consolidated income statement of Jiamusi Machinery and Jixi Machinery prior to our acquisition for the period from 1 January 2006 to 15 May 2006, under the heading "Pre-acquisition period". See Appendices IA and IB for further information. Operating results in any historical period may not be indicative of the results that may be expected in any future period.

Summary Income Statement Data

	Pre-acquisition Period				Consolidated Income Statement									
	Jiamusi Machinery		Jixi Machinery		The Group									
	For the period from 1 January 2006 to 15 May 2006				Period from 12 April to 31 December		For the year ended 31 December				For the seven months ended 31 July			
					2006		2007		2008		2008		2009	
					(in millions of RMB, except percentages)									
Revenue	174.4	100.0%	134.1	100.0%	545.9	100.0%	857.6	100.0%	1,279.7	100.0%	702.6	100.0%	873.0	100.0%
Cost of sales	(82.5)	(47.3)%	(86.1)	(64.2)%	(301.9)	(55.3)%	(504.4)	(58.8)%	(804.6)	(62.9)%	(424.7)	(60.4)%	(546.9)	(62.6)%
Gross profit	91.9	52.7%	48.0	35.8%	244.0	44.7%	353.2	41.2%	475.1	37.1%	277.9	39.6%	326.2	37.4%
Other income and gains	10.0	5.7%	28.6	21.3%	0.02	—	5.6	0.7%	7.7	0.6%	5.0	0.7%	1.3	0.1%
Selling and distribution costs	(18.7)	(10.7)%	(8.3)	(6.2)%	(36.1)	(6.6)%	(72.7)	(8.5)%	(118.3)	(9.2)%	(54.3)	(7.7)%	(57.5)	(6.6)%
Administrative expenses	(16.0)	(9.2)%	(13.2)	(9.8)%	(128.2)	(23.5)%	(130.2)	(15.2)%	(167.8)	(13.1)%	(101.7)	(14.5)%	(88.6)	(10.1)%
Other expenses	(7.2)	(4.1)%	(6.7)	(5.0)%	(15.3)	(2.8)%	(14.6)	(1.7)%	(10.0)	(0.8)%	(6.1)	(0.9)%	(6.6)	(0.8)%
Finance revenue	0.04	—	0.006	—	1.9	0.3%	4.7	0.5%	14.6	1.1%	7.4	1.1%	10.3	1.2%
Finance costs	(2.1)	(1.2)%	(3.6)	(2.7)%	(6.6)	(1.2)%	(7.3)	(0.9)%	(17.1)	(1.3)%	(10.6)	(1.5)%	(10.2)	(1.2)%
Share of (loss)/profits of an associate	—	—	—	—	—	—	0.1	—	0.8	0.1%	(0.06)	—	(0.02)	—
PROFIT BEFORE TAX	57.8	33.2%	44.8	33.4%	59.6	10.9%	138.9	16.2%	185.2	14.5%	117.6	16.7%	174.8	20.0%
Tax	(14.4)	(8.3)%	(8.9)	(6.6)%	0.6	0.1%	10.9	1.3%	(39.0)	(3.0)%	(22.7)	(3.2)%	(36.4)	(4.2)%
PROFIT FOR THE YEAR	43.4	24.9%	36.0	26.8%	60.2	11.0%	149.8	17.5%	146.2	11.4%	94.9	13.5%	138.4	15.9%

Summary Statement of Financial Position Data

	As of 31 December			As of 31 July
	2006	2007	2008	2009
	(in millions of RMB)			
NON-CURRENT ASSETS				
Property, plant and equipment	230.0	282.7	279.3	264.1
Land use rights	132.9	129.8	126.6	142.7
Goodwill	101.2	101.2	101.2	101.2
Other intangible assets	52.0	40.1	48.9	40.0
Available-for-sale investments	—	7.5	7.5	7.5
Investments in associates	0.5	0.6	21.3	20.9
Deferred tax assets	10.8	9.0	10.3	8.0
Prepayments, deposits and other receivables	1.1	1.9	38.7	27.3
	528.5	572.8	633.8	611.7
CURRENT ASSETS				
Inventories	202.1	324.8	413.6	360.3
Trade and bills receivables	381.8	595.6	719.7	1,022.3
Prepayments, deposits and other receivables	26.9	59.2	70.1	56.8
Cash and cash equivalents	138.5	95.7	80.9	175.7
Amounts due from shareholders	—	19.6	19.2	19.7
Amounts due from related parties	7.8	122.8	221.8	272.3
	757.2	1,217.7	1,525.4	1,907.1
CURRENT LIABILITIES				
Interest-bearing loans	96.3	120.5	113.8	250.2
Trade and bills payables	194.3	315.5	418.4	469.7
Other payables and accruals	283.2	307.1	321.1	279.6
Tax payable	78.4	67.0	52.9	30.1
Amount due to a holding company	—	74.6	126.8	160.2
Amounts due to shareholders	0.3	0.2	0.2	0.09
Amounts due to related parties	1.8	41.3	64.1	75.9
Preference shares	—	—	—	600.9
	654.5	926.1	1,097.2	1,866.8
NET CURRENT ASSETS	102.7	291.6	428.2	40.3
TOTAL ASSETS LESS CURRENT LIABILITIES	631.2	864.4	1,062.0	652.0
NON-CURRENT LIABILITIES				
Deferred tax liabilities	55.0	42.3	49.4	55.0
Preference shares	499.8	541.2	554.2	—
	554.7	583.5	603.6	55.0
NET ASSETS	76.5	280.9	458.4	597.0
EQUITY				
Equity attributable to equity holders of the parent:				
Ordinary share capital	0.07	0.08	0.08	0.08
Reserves	76.4	257.5	439.2	575.0
	76.5	257.5	439.2	575.0
Minority interests	—	23.4	19.2	22.0
TOTAL EQUITY	76.5	280.9	458.4	597.0

Summary Statement of Cash Flows Data

	Period from 12 April to 31 December	Year ended 31 December		Seven months ended 31 July	
	2006	2007	2008	2008	2009
	(in millions of RMB)				
Net cash inflow/(outflow) from operating activities[1]	55.7	110.3	208.8	126.7	(29.2)
Net cash outflow from investing activities	(335.4)	(202.5)	(206.2)	(126.9)	(49.1)
Net cash inflow/(outflow) from financing activities	419.2	52.0	(17.1)	(33.2)	173.0
Net increase/(decrease) in cash and cash equivalents	139.4	(40.2)	(14.5)	(33.5)	94.8
Cash and cash equivalents at incorporation date/at beginning of period/year	—	138.5	95.7	95.7	80.9
Effective of foreign exchange rate changes	(0.9)	(2.6)	(0.3)	(0.3)	(0.001)
Cash and cash equivalents at the end of period/year	138.5	95.7	80.9	62.0	175.7

(1) The net cash inflow/(outflow) from operating activities for the period ended 31 December 2006, the two years ended 31 December 2008 and the seven months ended 31 July 2009 did not include cash received from bills receivable discounted to banks prior to maturity, which was reflected in cash inflow from financing activities. These discounted bills were received from our customers as payment of trade receivables and are a common form of payment in our industry.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2009

We believe that on the bases as set out in Appendix III to this document, our estimated consolidated profit attributable to equity holders of the Company for the year ended 31 December 2009 is expected to be not less than RMB[●] million under IFRS.

CONTINGENT DIVIDEND BASED ON DISTRIBUTABLE PROFITS AS OF 31 DECEMBER 2009

On 24 January 2010, our Board of Directors and the holders of our ordinary shares and preferred shares declared and approved the Contingent Dividend to the then holders of our ordinary shares, contingent upon the completion of the Reorganisation. The final amount of the Contingent Dividend is subject to certain expected cash inflow. Our Cayman Islands counsel have confirmed and our Directors, based on the confirmation by our Cayman Islands counsel, have confirmed that the declaration of a range of dividend is in compliance with Cayman Islands law and the Company's Articles of Association.

Although we had no distributable reserves as of 31 July 2009, profits were available for distribution from our subsidiaries to us. As of the date of declaration of the Contingent Dividend on 24 January 2010, our subsidiary, TJCC IMM Jiamusi, had declared dividends with an aggregate amount of US$[●] million (equivalent to approximately HK$[●] million) to us. After taking into account the estimated expenses of the Company, withholding tax payable and other expenses for the relevant periods, we expect that we have sufficient distributable profits of approximately US$[●] million (equivalent to HK$[●] million) to pay the Contingent Dividend.

The Contingent Dividend will be determined based on certain expected cash inflow and our distributable profits as reflected in the audited financial statements of the Company for the financial year ended 31 December 2009. Our Group's retained earnings as of 31 July 2009 were approximately RMB[●] million (equivalent to approximately US$[●] million). Our estimated profits for the period from 1 August 2009 to 31 December 2009 based on the profit estimate for the year ended 31 December 2009 less the audited profits for the seven months ended 31 July 2009 is approximately RMB[●] million (equivalent to approximately US$[●] million). We will only pay the Contingent Dividend after completion of the annual audit for the financial year ended 31 December 2009. Our 2009 annual results announcement will disclose whether there is sufficient distributable profits to pay the amount of Contingent Dividend so determined. The amount of Contingent Dividend so determined will be paid into a designated account of the Company, which will be paid to the holders of our ordinary shares as at 24 January 2010 within 5 days after publication of the 2009 annual results announcement.

DIVIDEND POLICY

Our directors may declare dividends, if any, after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. The distribution of dividend for any financial year shall be subject to Shareholders' approval.

Our ability to declare future dividends will also depend on the availability of dividends, if any, received from our PRC operating subsidiaries. Pursuant to the PRC laws, dividends may only be paid out of distributable profits, defined as the retained earnings after tax payments as determined under the PRC GAAP less any recovery of accumulated losses and the required allocations to statutory reserves made by our PRC operating subsidiaries. In general, we will not declare dividends in a year where we do not have any distributable profits.

Taking into account the factors set forth above, we currently intend to distribute to our Shareholders approximately 20% of our annual distributable profit attributable to owners of our Company in respect of the financial year ending 31 December 2010 and each financial year thereafter. However, such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividends in such manner or declare or pay dividends at all. On 24 January 2010, we declared the Contingent Dividend as part of the Reorganisation. For details regarding the Contingent Dividend, please refer to "— Contingent Dividend Based on Distributable Profits as of 31 December 2009" above. The Contingent Dividend will be declared on a one-time basis. The amount of the Contingent Dividend is not indicative of our future profits or the dividends that we may declare or pay in the future.

DEFINITIONS

In this document, the following terms have the following meanings unless the context otherwise requires. Certain technical terms are explained in the section headed "Glossary" in this document.

"2006 Consolidated Period"	the period from our inception on 12 April 2006 to 31 December 2006;
"Articles of Association" or "Articles"	the articles of association adopted by the Company, as amended from time to time, a summary of which is set forth in the paragraph headed "Articles of Association" included in Appendix VI to this document;
"Associate"	a company, other than a subsidiary or jointly controlled entity, in whose equity voting rights we have a long-term interest or over which we are in a position to exercise significant influence;
"Authority"	means any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign;
"Board" or "Board of Directors"	the Board of Directors of the Company;
"Business Day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong;
"CAGR"	compounded annual growth rate;
"CMIA"	China National Coal Machinery Industry Association;
"Companies Law"	the Companies Law (2009 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time;
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Company", "our Company", "Group", "our Group", "we" or "us"	International Mining Machinery Holdings Limited (formerly known as TJCC IMM Holdings Ltd.), an exempted company incorporated on 12 April 2006 with limited liability under the laws of the Cayman Islands, and, except where the context indicates otherwise, (i) our subsidiaries, and (ii) with respect to the period before the Company became the holding

	company of its present subsidiaries, the businesses operated by its present subsidiaries or, as the case may be, their predecessors;
"Company Law"	the Company Law of the PRC (中華人民共和國公司法), as adopted at the Fifth Session of the Standing Committee of the Eighth NPC on 29 December 1993, effective 1 July 1994, as amended, supplemented or otherwise modified from time to time;
"Contingent Dividend"	conditional upon completion of the Reorganisation. See the section headed "Summary — Contingent Dividend Based on Distributable Profits as of 31 December 2009" in this document;
"Controlling Shareholders"	unless the context requires otherwise, refers to TJCC Holdings and The Resolute Fund, L.P. managed by The Jordan Company, L.P.;
"Director(s)"	the director(s) of the Company, including all executive, non-executive and independent non-executive Directors;
"Eleventh Five-Year Plan"	a plan published by the National Development and Reform Committee of the PRC in March 2006;
"GDP"	gross domestic product (all references to GDP growth rates are to real as opposed to nominal growth rates of GDP);
"Heilongjiang Coal Mining Machinery"	Heilongjiang Coal Mining Machinery Group Co., Ltd. (黑龍江煤礦機械集團有限公司), formerly known as Heilongjiang Coal Mine Machinery Company Limited (黑龍江煤礦機械有限公司), a state-owned enterprise established in the PRC on 23 June 1992 and the former sole shareholder of Jixi Machinery and Jiamusi Machinery;
"HK Siwei"	International Mining Machinery Siwei Holdings Limited, a limited company incorporated in Hong Kong on 22 February 2007 and a Connected Person of the Company;
"HK$" or "HK dollars" or "Hong Kong dollars"	the lawful currency of Hong Kong;
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Huainan Benniu"	Huainan Benniu Machinery Co., Ltd. (淮南奔牛機械有限責任公司), a company incorporated in the PRC

	on 13 June 2006 and our former joint venture partner in Huainan Longwall;
"Huainan Longwall"	Huainan Longwall Coal Mining Machinery Co., Ltd. (淮南長壁煤礦機械有限責任公司), a company incorporated in the PRC on 27 June 2007 and a joint venture in which we initially held a 75% equity interest. We entered into an agreement with Huainan Benniu to purchase the remaining 25% equity interest of Huainan Longwall in December 2009. Approvals and registration procedures relating to the purchase were completed on 19 January 2010;
"Huainan Shunli"	Huainan Shunli Coal Mining Equipment Overhaul Co., a joint venture incorporated in the PRC on 26 September 2006 and an Associate of the Company, which is 25% owned by Jixi Machinery, 40% by Huainan Shunli Machine Co., Ltd. (淮南舜立機械有限責任公司), and 35% by Hefei Bosenfu Trade Co., Ltd. (合肥鉑森夫商貿有限責任公司);
"IFRS"	International Financial Reporting Standards promulgated by the International Accounting Standards Board ("IASB"); IFRS include the International Accounting Standards ("IAS") and their interpretations;
"IMM AFC"	International Mining Machinery AFC Holdings Limited, a company incorporated in Hong Kong on 22 February 2007 and an indirect wholly-owned subsidiary of the Company;
"IMM Jiamusi"	International Mining Machinery Jiamusi Holdings Limited, a company incorporated in Hong Kong on 31 January 2007 and an indirect wholly-owned subsidiary of the Company;
"IMM Jixi"	International Mining Machinery Jixi Holdings Limited, a company incorporated in Hong Kong on 31 January 2007 and an indirect wholly-owned subsidiary of the Company;
"IMM Mauritius"	International Mining Machinery Limited, a company incorporated in Mauritius on 31 October 2005 and a direct wholly-owned subsidiary of the Company; IMM Mauritius has initiated its own voluntary winding-up;
"IMM Xinjiang"	Xinjiang Coal Mining Machinery Co., Ltd., a joint venture company incorporated in the PRC on 10 July 2007 and an Associate of the Company, which is 15% owned by Jiamusi Machinery, 49% by Xinjiang Shenxin Development Co., Ltd. (新疆神新發展有限責任公司), and 36% by Zhengzhou Siwei Mechanical and Electrical Equipment Investment Co., Ltd.;

"Jiamusi Machinery"	Jiamusi Coal Mining Machinery Co., Ltd. (佳木斯煤礦機械有限公司), a company incorporated in the PRC on 4 September 2002 and one of our principal operating subsidiaries in the PRC;
"Jixi Machinery"	Jixi Coal Mining Machinery Co., Ltd. (雞西煤礦機械有限公司), a company incorporated in the PRC on 19 September 2001 and one of our principal operating subsidiaries in the PRC;
"Latest Practicable Date"	22 January 2010, being the latest practicable date for determining certain information for the purpose of inclusion in this document;
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company;
"MOFCOM"	the Ministry of Commerce of the People's Republic of China (中華人民共和國商務部);
"NDRC"	National Development and Reform Commission of the PRC (國家發展和改革委員會);
"PRC" or "China" or "People's Republic of China"	the People's Republic of China. Except where the context otherwise requires, references in this document to the PRC or China do not apply to Hong Kong, Macau or Taiwan;
"PRC National Bureau of Statistics" or "Bureau of Statistics"	National Bureau of Statistics of the PRC (中華人民共和國國家統計局);
"Property Valuer"	Savills Valuation and Professional Services Limited;
"Relevant Period"	the period from 12 April 2006 (the date of incorporation of our Company) to 31 July 2009;
"Reorganisation"	the reorganisation as described in the section entitled "Reorganisation" in this document;
"Reporting Accountants"	Ernst & Young;
"RMB" or "Renminbi"	the lawful currency of the PRC;
"SACMS"	the State Administration of Coal Mine Safety;
"SAFE"	State Administration of Foreign Exchange (中華人民共和國國家外匯管理局), the PRC Government agency responsible for matters relating to foreign exchange administration;

"Share Option Scheme"	the share option scheme conditionally to be adopted by our Company on 24 January 2010, the principal terms of which are summarised under the section headed "Share Option Scheme" in Appendix VII to this document;
"Shares"	ordinary shares of the Company with a nominal value of HK$0.10 each;
"State", "state", "PRC Government" or "government"	the government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof;
"State Council"	State Council of the PRC (中華人民共和國國務院);
"Tianlong Machinery"	Tianlong Coal Mining Machinery Repairing Co., a joint venture company incorporated in the PRC on 17 July 2008 and an associate of the Company, which is 20% owned by Jiamusi Machinery and 60% by Shendong Tianlong Group Co., Ltd. (神東天隆集團有限責任公司) (20.5% of the entire equity interest of which is owned by China Shenhua Energy Company Limited, a joint stock company whose H shares are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1088)), and 20% by China National Coal Mining Equipment Co. Ltd., (中國煤礦機械裝備有限責任公司);
"TJCC Holdings"	TJCC Holdings Ltd., a company incorporated in Cayman Islands on 12 April 2006 and a Controlling Shareholder of the Company;
"TJCC IMM AFC"	TJCC IMM AFC Holdings Ltd., a company incorporated in Cayman Islands on 26 January 2007 and a direct wholly-owned subsidiary of the Company;
"TJCC IMM Jiamusi"	TJCC IMM Jiamusi Holdings Ltd., a company incorporated in Cayman Islands on 26 January 2007 and a direct wholly-owned subsidiary of the Company;
"TJCC IMM Jixi"	TJCC IMM Jixi Holdings Ltd., a company incorporated in Cayman Islands on 26 January 2007 and a direct wholly-owned subsidiary of the Company;
"TJCC Services"	TJCC Services Ltd, a company incorporated in Cayman Islands on 12 April 2006;
"United States" or "U.S."	the United States of America;
"U.S.$" or "U.S. dollars"	the lawful currency of the United States;

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"VAT"	value-added tax;
"Williams Realty"	Williams Realty Co., LLC, a Florida Limited liability company established in 1978, the entire equity interest of which is owned by Mr. Emory Williams, a former Director resigned on 4 December 2009, and is a Connected Person of the Company; and
"Zhengzhou Siwei"	Zhengzhou Siwei Mechanical & Electrical Equipment Manufacturing Co., Ltd. (鄭州四維機電設備製造有限公司), a company incorporated in the PRC on 9 June 2003 and a Connected Person of the Company.

GLOSSARY

This glossary contains explanations of certain technical terms used in this document. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

"armoured-face conveyor"	a chain conveyor used in the long-wall mining process to transport material from the coal face;
"coking coal"	coal which is used in the process of manufacturing steel, also known as metallurgical coal;
"installed base"	the numbers and types of coal mining equipment sold during the years 2005 to 2008, as reported by CMIA based on the assumption that all such equipment is currently in service;
"KW" or "kw"	kilowatt, a unit measuring power;
"longwall mining"	a fully-mechanised underground mining method in which the mining face is supported by a hydraulic shield while the coal is excavated by a shearer and then transported to the surface by conveyors;
"mechanisation rate"	the percentage of mechanical equipment and machinery used at the working coal face to extract the coal;
"Mtpa"	Metric tonnes per annum;
"m^2" or "sq. m."	square metres;
"mining face" or "working face"	the working area where the extraction of overburden or coal takes place in an underground or surface mine;
"primary energy"	energy embodied in the natural resources that has not undergone any form of artificial conversion or transformation;
"proved coal reserves"	the economically mineable part of a measured coal resource. They include diluting materials and allowances for losses which may occur when the material is mined and after accounting for processing plant yield. Proved reserves are based on feasibility studies and other appropriate assessments and take into account relevant mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified;
"raw coal"	coal in its raw, untreated state subsequent to extraction and prior to sizing and other beneficiation;

GLOSSARY

"roadheader"	a piece of excavating equipment consisting of a boom-mounted cutting head, a loading device usually involving a conveyor, and a crawler travelling track to move the entire machine forward into the rock face;
"roof support"	posts, jacks, roof bolts, and beams used to support the rock overlying a coal seam in an underground mine;
"seam" or "coal seam"	a stratum that contains coal within a defined zone;
"shearer"	a rotating cutting device used in underground mining to remove coal from the coal seam;
"stratum"	a layer of rock or soil with internally consistent characteristics that distinguishes it from contiguous layers;
"surface mining"	a type of mining in which soil and rock overlying the mineral deposit is removed;
"thermal coal"	thermal coal is used in combustion processes by power producers and industrial users to produce steam for power and heat;
"underground coal mining"	the extraction of coal or its products from rock strata by underground mining methods such as room-and-pillar mining, shortwall (continuous mines) mining and longwall mining;
"utilisation rate"	percentage of total resources that can be utilised and, in our case, calculated as actual production volume divided by production capacity; and
"welding"	a fabrication process that joins materials, usually metals or thermoplastics, by causing coalescence.

We have included in this document forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

These forward-looking statements include, without limitation, statements relating to:

➢ our operations and business prospects;

➢ general economic conditions of the domestic and global economy;

➢ 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 on the coal mining equipment manufacturing industry and our business;

➢ changes in pricing for our products;

➢ 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;

➢ changes in political, economic, legal and social conditions in China, including the PRC Government's specific policies with respect to economic growth, inflation and foreign exchange;

➢ changes in restrictions on foreign currency convertibility and remittance abroad;

➢ fluctuations in exchange rates and interest rates;

➢ our ability to implement our business strategy, plans, objectives and goals;

➢ our dividend policy;

➢ certain statements in "Financial Information" with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and

➢ other statements in this document that are not historical fact.

In some cases, we use the words "aim", "anticipate", "believe", "continue", "could", "expect", "going forward", "intend", "ought to", "may", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and similar expressions to identify forward-looking statements.

These forward-looking statements are based on current plans and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this document.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

RISK FACTORS

There are certain risks involved in our operations and many of these risks are beyond our control. These risks can be categorised into: (i) risks relating to our business and industry; and (ii) risks relating to the People's Republic of China.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our business and operating results are subject to significant cyclical fluctuations.

The sale of coal mining equipment is cyclical in nature and subject to a variety of factors, including fluctuations in market prices of coal and alternatives to coal, changes in general economic conditions, interest rates, our end customers' replacement or repair cycles, consolidation in the mining industry and competitive pressure. Many factors affect the supply of and demand for coal, minerals and oil and thus may affect the sale of our products and services, including:

➢ coal prices and changes in those prices;

➢ the levels of coal production;

➢ economic activity in China and elsewhere in the world;

➢ the level of coal mining activity;

➢ the levels of coal inventories;

➢ the expected cost of developing new reserves;

➢ the cost of conducting coal mining operations;

➢ substitution of new or competing inputs and mining methods;

➢ government policies;

➢ environmental regulation; and

➢ tax policies.

In particular, the coal mining industry is highly sensitive to general economic conditions and fluctuations in the prevailing prices of coal. Although the prices of coal in China are partially regulated by the PRC Government, coal prices have fluctuated in recent years. For example, the steam coal spot price of Qinhuangdao in China was approximately US$51 per metric ton, US$74 per metric ton, US$147 per metric ton and US$85 per metric ton as of 30 June 2006, 2007, 2008 and 2009, respectively. Historically, the production volume of coal has continued to rise during periods of price fluctuation. However, there can be no assurance that future fluctuations in coal prices will not negatively affect coal production. The production volume of coal is sensitive to coal prices, which in turn are affected by changes in general economic conditions. An economic slowdown in China or elsewhere in the world could curtail demand for coal and, consequently, coal mining equipment. In addition, our principal end customers are mining companies engaged in underground coal mining which have encountered increased scrutiny relating to safety regulations in recent years, primarily due to a number of recent high profile mine accidents in China's underground coal mining industry. Current or proposed legislation on safety standards and the increased cost of compliance may contribute to customers' decisions to discontinue or limit their mining operations and discourage development of new mines.

If demand for mining services or mining equipment utilisation rates decrease significantly, demand for our products and services will likely decrease. In particular, sales of original equipment historically have accounted for, and we expect to continue to account for, a significant majority of our total revenue. Demand for original equipment is generally closely correlated with the strength of commodity markets and, as a result, has historically been more cyclical than aftermarket sales. As a result of this cyclicality, we may experience in the future extended periods of reduced sales and margins.

Disruptions in the global financial markets could continue to have a material adverse impact on our results of operations, financial condition and cash flows.

The global financial crisis that began in 2008 has adversely affected China, and other world economies, including the United States. Although the PRC Government has adopted increasingly flexible macroeconomic policies, including an announced fiscal stimulus package, aimed at offsetting the slowdown brought about by the financial crisis, the growth of China's overall economy has been negatively impacted. The financial crisis may adversely affect our business and operating results in a number of respects. We believe that the global financial crisis has impacted our customers and may be a contributing factor to the increase in our trade receivables amounts. Our trade receivables due 366 days and longer increased from RMB15.3 million as of 31 December 2007, to RMB27.3 million as of 31 December 2008 and RMB57.1 million as of 31 July 2009. Our customers may delay payments in an attempt to conserve liquidity in response to the financial crisis, which in turn affects the aging schedule and turnover days of our trade receivables. See "Financial Information".

The global financial crisis also resulted in a tightening in credit markets, a low level of liquidity in many financial markets and increased volatility in credit and equity markets. Many financial institutions worldwide have tightened lines of credit and reduced the amount of funding available to borrowers. If these conditions continue, worsen or recur, they may adversely affect the availability, terms and cost of borrowings in the future, including any financings necessary to complete acquisitions or capital expenditures. Any disruptions in our ability to renew existing borrowings or obtain new borrowings may materially and adversely affect our business, financial condition, results of operations and cash flows as we rely on bank borrowings for a portion of our working capital and capital expenditure requirements.

The timing and nature of any recovery in worldwide financial markets and the global economy remain uncertain, and there can be no assurance that market conditions will improve in the near future or, even if they do improve, will not deteriorate again. In addition, we cannot assure you that recent PRC Government initiatives in response to the slowdown in the PRC economy will stabilise PRC debt markets in general or increase liquidity and the availability of borrowings to us. Furthermore, in response to a rapid increase in liquidity in the market, the PRC Government has recently implemented a number of measures to control such increase, including by raising interest rates. These factors may adversely affect own business, results of operations and financial condition.

Regulations on the coal mining industry may affect demand for our products.

Many of our end customers are underground coal mining companies. Many of these end customers supply coal for power generation in China. The operations of these mining companies are geographically diverse and are subject to or impacted by a wide array of regulations, including those directly affecting mining activities and those indirectly affecting their businesses, such as applicable environmental laws and an array of regulations governing the operation of electric utilities. As a result of changes in regulations and laws relating to the operation of mines, our end customers' mining operations could be disrupted or curtailed by governmental authorities. The high cost of compliance with mining and environmental regulations may also induce end customers to discontinue or limit their mining operations and may discourage companies from developing new mines. Additionally, government regulation of electric utilities may also adversely affect the demand for coal to the extent that such regulations cause electric utilities to select alternative energy sources and technologies as a source of electric power. Due to these factors, demand for our coal mining equipment could be substantially affected by regulations adversely impacting the coal mining industry or altering the consumption patterns of electric utilities.

We may face challenges in integrating our businesses.

We have a limited operating history as a combined business. We were established in 2006 and currently operate through three principal operating subsidiaries. Two of our principal subsidiaries, Jiamusi Machinery and Jixi Machinery, have significant operating history and were managed together under their previous controlling shareholders. Our third principal subsidiary, Huainan Longwall, was established in 2007. In addition, we have acquired minority interests in a number of joint ventures. Our limited operating history as a combined business may make the prediction of future results of operations difficult and, therefore, our historical operating results may not be indicative of any trends in the future.

Our limited operating history as a combined business presents us with a number of challenges in the integration of these businesses. To integrate our businesses, since 2006, we have implemented measures in a number of areas, including financial data, risk control, human resources, administration and information technology. However, we cannot assure you that these efforts will be successful. Our integration efforts may also be complicated by factors such as diversion of management's attention from daily operations, potential loss of key employees and customers, the potential for deficiencies in internal controls at the acquired business, performance problems with the acquired business' technology, and exposure to unanticipated liabilities of the acquired business. In addition, a key aspect of our business strategy is to expand our capability to provide complete longwall system solutions. To this end, we have sought to realise significant synergies by integrating the design and marketing processes of products at our subsidiaries. We cannot assure you that these efforts will be as successful as anticipated. If we fail to integrate the operations of our subsidiaries, our business operations and financial condition could be materially and adversely affected.

Future acquisitions of businesses or establishment of joint ventures may subject us to risks and uncertainties.

As part of our strategy, we may explore opportunities to complement our existing businesses, such as acquisitions and establishment of joint ventures, which may lead to risks and uncertainties in a number of areas, including the inability to generate sufficient revenue 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 as a result of efforts to integrate the acquired businesses or new businesses. In addition, future acquisitions or joint ventures may require additional debt or equity financing, which in the case of debt financing, will increase our exposures to risks related to our substantial indebtedness, increase our leverage and potentially affect our credit ratings, and in the case of equity financing, would be dilutive to our existing shareholders. Any downgrades in our credit ratings associated with an acquisition or joint venture could adversely affect our ability to borrow by resulting in more restrictive borrowing terms. As a result of the foregoing, we also may not be able to complete acquisitions or joint venture projects in the future to the same extent as in the past, or at all. These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realise other anticipated benefits of an acquisition or joint venture, and could adversely affect our business, financial condition and results of operations. Any acquisition may also cause us to assume liabilities, acquire goodwill and non-amortisable intangible assets that will be subject to impairment testing and potential impairment charges, incur amortisation expense related to certain intangible assets, increase our expenses and working capital requirements, and subject us to litigation, which would reduce our return on invested capital. Failure to manage and successfully integrate the acquisitions we make or joint ventures we enter into could materially harm our business and operating results.

Our historical outstanding trade receivables and the turnover days of our trade receivables have been relatively high, and our discounted bills and factor programmes may not be effective.

As of 31 December 2006, 2007 and 2008 and 31 July 2009, our outstanding trade receivables net of impairment provision were RMB292.0 million, RMB514.4 million, RMB599.9 million and RMB849.4 million, respectively, and the turnover days of our trade receivables were 141 days, 172 days, 159 days and 175 days in 2006, 2007, 2008 and seven months ended 31 July 2009, respectively. As of 31 December 2006, 2007 and 2008 and 31 July 2009, the provision we made for trade and bills receivables was RMB24.1 million, RMB24.2 million, RMB25.0 million and RMB25.8 million, respectively. The increase in our outstanding trade receivables from 31 December 2008 to 31 July 2009 was mainly due to the increase in our sales and the credit period extensions granted to some of our customers that were affected by the ongoing financial crisis. A portion of our customers make payments by bank notes, with maturities generally under 180 days. We may discount a portion of such bank notes to banks prior to their maturities with interest charged by the banks. However, if our customers do not pay under a substantial amount of such trade receivables, and if we enter into additional note or factor programmes in the future, we may be required to sell our trade receivables at a greater discount, which in turn may adversely affect our liquidity. For further information about our factor programmes, see "Financial Information — Discussion of Certain Statements of Financial Position Items — Trade and bills receivables" of the document.

To the extent our trade receivables are not part of our discounted bills or factor programmes, delays in receiving payments from or non-payment by our customers may adversely affect our cash flow position and our ability to meet our working capital requirements. In addition, defaults in making payments to us on sales contracts for which we have already incurred significant costs and expenditures can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available for other purchase orders. We historically have had a relatively high customer concentration. As a result, any extended delay in payment by any major customer or end customer would have a material and adverse effect on the aging schedule and turnover days of our trade receivables. Our major customers' and end customers' ability to pay may be impaired by a number of factors including, but not limited to, unfavourable market conditions and delays in the schedules at mining operations, which in turn may be due to various reasons, including unfavourable economic conditions, operational hazards or natural disasters and budget constraints. Inability to collect our trade receivables on a timely basis could materially and adversely affect our financial condition, liquidity and results of operations. We cannot assure you that our customers will make payments in full to us on a timely basis or that we will be able to efficiently manage the level of bad debt arising from receipt of payments in stages.

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

Our revenue is derived from sales of roadheader products, shearer products and armoured-face conveyors and related products, as well as aftermarket parts and services. Our products are primarily designed for underground longwall coal mining. Our products are generally not designed for or used in surface mining, room-and-pillar underground mining or mining of other types of minerals. As a result, our end customers' preference and demand for particular types of equipment used in underground coal mining may affect our business and profitability. Our business and financial performance is therefore dependent to a significant extent on market demand and preference for coal mining equipment and components as well as the growth and viability of the coal mining industry. An adverse change in market demand, customer preference or market prices for coal mining equipment and components could have a material adverse effect on our results of operations.

If we fail to offer technologically improved equipment to our end customers, demand for our products may be materially adversely affected.

We believe that our coal mining industry end customers are focused on improving automation, standardisation and integration of equipment and mining operations. In that regard, we concentrate on producing technologically improved equipment that allows our customers to conduct safe and cost-effective operations. To remain competitive, we believe we must develop new and innovative products on an ongoing basis. If we are unable to continue to develop new and innovative products that incorporate technological advancements and meet the evolving requirements of our customers, or if we are unable to successfully bring such products to market, or if our competitors produce and sell equipment that is more technologically advanced or otherwise better received in the marketplace than ours, the demand for our mining equipment could be materially adversely affected.

If we are unable to address our current manufacturing capacity constraints, or maintain our current utilisation rate, our operating results and growth prospects may be adversely affected.

As part of our strategy, we plan to increase our production capacity by upgrading our existing facilities and equipment, constructing additional facilities, purchasing new equipment and recruiting additional qualified employees. However, we cannot assure you that we will be able to successfully implement our expansion plan. An unsuccessful implementation of our expansion plan may lead to our inability to commit to a production schedule for our customers within the timeframes they require. As a result, these customers may seek to procure equipment from other suppliers to meet their project deadlines, which could adversely affect our future sales, profitability and cash flow.

Conversely, our success also depends on our ability to maintain the current utilisation rate of our existing manufacturing facilities and our ability to outsource our work to third parties. Our inability to maintain our utilisation rate or to improve our manufacturing efficiency may reduce our market share and profitability. The utilisation rate and efficiency of our manufacturing facilities will also depend on our ability to integrate the design and manufacturing process of products at our various facilities as well as to enhance the product mix at each facility. Any failure to achieve any of the foregoing may adversely affect our operating results and growth prospects.

Our business requires significant and continuous capital investment.

We may be required to make significant capital expenditures to develop our business in the future. We may also require further funding for working capital, investments, potential acquisitions, joint ventures, debt servicing and other corporate requirements. As of 31 December 2006, 2007, 2008 and 31 July 2009, the amount due to TJCC Holdings was nil, RMB74.6 million, RMB126.8 million and RMB160.2 million, respectively. As of 31 December 2006, 2007, 2008 and 31 July 2009, the amount due to other shareholders and related parties was RMB2.2 million, RMB41.5 million, RMB64.3 million and RMB76.0 million, respectively. These existing related party obligations are expected to be settled upon the completion of the Reorganisation. After such settlement, we cannot assure you that our future funding from third parties will be readily accessible. If we are unable to secure sufficient external funds when required, we may not be able to fund necessary capital expenditures. The availability of external funding is subject to various factors, some of which are beyond our control, including governmental approvals, prevailing capital market conditions, credit availability, interest rates and the performance of each of the businesses we operate. In addition, the current financial crisis may further restrict the bank credit available to us. Furthermore, in response to a rapid increase in liquidity in the market, the PRC Government has recently implemented a number of measures to control such increase, including by raising interest rates. Our inability to arrange additional financing in a timely manner on terms that are satisfactory to us could materially and adversely affect our business, results of operations and expansion plans.

Fluctuation in steel and other raw material prices may adversely affect our business.

For the 2006 Consolidated Period, the years ended 31 December 2007, 2008 and the seven months ended 31 July 2009, our cost of raw materials, including cost of steel, accounted for 73.5%, 73.1%, 76.5% and 78.7% of our total cost of sales, respectively. The market prices for steel and other such raw materials may fluctuate significantly. If supplies of these raw materials decline or their prevailing prices increase, we may experience cost increases, or delays, reductions or disruptions in raw material supplies that may result in a failure to meet our customers' delivery schedules. Our ability to pass increased costs of steel and other raw materials along to our customers may be limited by competitive pressures, customer resistance and the terms in our sales contracts with customers. Even if we are able to pass along all or a portion of the increases in costs of raw materials, there is typically a lag between their actual cost increase and the corresponding increase in the prices of our products. We cannot provide assurance that we will in the future be able to recover any increase in costs of steel and other raw materials by selling our products at higher prices. As a result of the foregoing, any increase in the prices of steel or other raw materials could have a material adverse effect on our results of operation and financial condition.

We purchase our raw materials and key components from a limited number of suppliers, and do not have long-term contracts with our suppliers.

We procure substantial amounts of our principal raw materials and key components including steel, electric parts, hydraulic parts, automated control systems and bearings for our operations from a limited number of independent third-party suppliers. In the 2006 Consolidated Period, 2007, 2008 and the seven months ended 31 July 2009, purchases from our five largest suppliers accounted for

24.5%, 21.4%, 21.9% and 27.8%, respectively, of our total purchases. We do not maintain significant inventories of principal raw materials and key components in our facilities. In addition, we do not have exclusive or long-term contracts with our suppliers, and therefore we may not be able to obtain necessary raw materials and key components on commercially acceptable terms or at all in the event of an overall increase in market demand for such materials and components on commercially acceptable terms or at all. As a result, if any of our suppliers are unable to fulfil their contractual obligations with us on a timely basis, or on agreed-upon or cost-effective terms, we may incur substantial costs and delays in our production.

We rely on a limited number of customers.

We derive a significant portion of our revenue from a limited number of customers. In the 2006 Consolidated Period, 2007, 2008 and the seven months ended 31 July 2009, revenue from our five largest customers accounted for 46.6%, 56.4%, 42.9% and 48.9% of our revenue, respectively. During the Relevant Period, four of our largest customers were distributors. We depend significantly on our distributors or sales agents to market and sell our products. We also depend on our distributors to provide aftermarket parts and services to our end customers. Some of our distributors or sales agents may maintain stronger relationships with our end customers than with us. We cannot assure you that our relationships with our distributors or sales agents will not terminate due to our inability to reach agreement on contractual terms or for other reasons. Furthermore, we cannot assure you that our distributors will continue to be able to effectively service our end customers and assist us in expanding our base of end customers. In addition, the mining industry in China is undergoing a period of consolidation. As a result, it has become increasingly important for us to be able to maintain our relationships with large coal mining enterprises and other key end customers. If we fail to effectively maintain our relationships with our distributors or sales agents, or if we and our distributors or agents fail to effectively maintain the relationships with our end customers, our business, results of operations and growth prospects may be adversely affected.

In addition, our sales and operating results may fluctuate significantly from period to period because our customers' purchasing patterns are affected by a variety of factors beyond our control. Because of the relatively high sales price of most of our products, one or a limited number of significant purchase orders may account for a substantial portion of sales in any particular period. In addition, our sales and gross profit may fluctuate depending upon the size and the requirements of the particular contracts entered into in that period. The loss of one or more of our significant customers could, at least on a short-term basis, have an adverse effect on our business, financial condition and results of operations.

We may be subject to product liability and other claims.

The sale of coal mining equipment entails an inherent risk of product liability and other claims. During the Relevant Period, we received warranty claims from our end-customers during the twelve-month warranty period for which we provide free warranty service for the repair and maintenance of parts or components. For the 2006 Consolidated Period, 2007, 2008 and the seven months ended 31 July 2009, our provision for warranties amounted to RMB5.6 million, RMB9.2 million, RMB17.1 million, and RMB9.0 million, respectively. We have not obtained insurance coverage for product liability and have not implemented any other protection scheme. If coal mining equipment manufactured by us proves to be defective and results in financial losses to our end customers or personal injuries to their employees, we may be subject to product liability claims under PRC laws or laws of other jurisdictions in which our products are sold. As a result, we may incur significant legal costs regardless of the outcome of any claim of alleged defects. Lawsuits are inherently expensive to defend and will divert management and other resources from our business operations, which could in turn materially and adversely affect our business, financial position and results of operations. We cannot assure you that we will not be subject to product liability or other claims in the future. Successful claims brought against us that are not covered by insurance could adversely affect our business, financial condition or results of operations.

Our continued success depends on our ability to protect our intellectual property.

Our continued success depends in part upon our ability to protect intellectual property. We rely principally on trademark and patent laws and, to a lesser extent, nondisclosure agreements and other contractual arrangements and laws relating to unfair competition, to protect our intellectual property, including jointly developed intellectual property. However, these measures could prove inadequate to protect intellectual property from infringement by others or to prevent misappropriation of our proprietary rights or technologies. In addition, China's intellectual property laws are still evolving and the levels of protection and means of enforcement of intellectual property rights in China differ from those in other jurisdictions. In particular, as part of our strategy, we intend to increase revenue from aftermarket parts and services as a proportion of our total revenue. However, we may face challenges in implementing this aspect of our strategy as there are a number of independent firms in China, commonly referred to as "will-fitters" that produce copies of the parts manufactured by us and other original equipment manufacturers. Enforcement of our intellectual property rights could be costly, and we may not be able to immediately detect unauthorised use of our intellectual property and enforce our rights in such property. Our inability to protect our proprietary technologies and enforce intellectual property rights through infringement or other enforcement proceedings could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, we cannot assure you that any of our existing intellectual property rights will not be challenged by third parties. We may incur substantial legal and other costs as a party in an intellectual property lawsuit, which could affect our profitability and results of operations. Moreover, any judgment against us would materially and adversely affect our business operations and financial condition by potentially limiting our product offerings.

Disputes with our joint venture partners could adversely affect our business and operating results.

We have entered into a number of joint ventures in which we hold minority interests. We cannot assure you that disputes will not arise between us and our joint venture partners, or that a joint venture partner will not breach its obligations to us. If a dispute cannot be timely resolved in a satisfactory manner, the business and results of operations of the affected joint venture may be negatively impacted. The joint ventures may also be at risk of termination if the dispute remains unresolved. Furthermore, any financial, operating or other difficulties experienced by our joint venture partners in their businesses may also impede their ability to fulfil their contractual obligations with respect to the joint venture companies, which may in turn adversely affect the results of operations of the joint venture companies. The occurrence of any of these events may in turn adversely affect our business and operating results.

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

As of 31 July 2009, we had RMB363.7 million of insurance coverage, covering losses which may arise from property damages to our facilities and equipment. While we maintain all of the necessary insurance coverage mandated by PRC law, we cannot guarantee that our insurance polices will provide adequate compensation for all potential losses. Consistent with what we consider customary practice in China, 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 of our operations. Accidents or natural disasters may also 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 insured limits, we could suffer from damage to our reputation or lose all or a portion of our production capacity as well as future revenues anticipated to derive from the relevant facilities.

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

Our Controlling Shareholders own approximately 91.0% of our issued share capital. Subject to our Memorandum and Articles of Association and applicable laws and regulations, our Controlling Shareholders will continue to have the ability to exercise a controlling influence on our management, policies and business by controlling the composition of our board, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving our annual budgets. We cannot assure you that our Controlling Shareholders will not cause us to enter into transactions or take, or fail to take, other actions or make decisions that conflict with the best interests of our other shareholders.

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

We rely heavily on our employees, which include skilled manufacturing workers, equipment operators, engineers and other technical personnel, to operate efficiently and expand our operations. Demand for these personnel is currently high and the supply is limited, particularly in the case of skilled and experienced employees. Although we have not experienced any difficulty in recruiting and retaining skilled and experienced employees in the past, we cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced engineers and machinists in the future. If we fail to recruit, retain or train skilled employees, our growth and business prospects could be materially affected. Additionally, a significant increase in the wages paid by competing employers could result in a reduction in our skilled labour force, increases in the rates of wages we must pay or both. Furthermore, we may be faced with increased training costs and reduced productivity as we train new employees.

In addition, the industry expertise and extensive contributions of our executive Directors and other members of our senior management are essential to our continuing success. As we continue to grow our business, we will increasingly require more employees and executives who have industry-related experience and expertise. If we lose the services of any of our 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 adversely affected.

Compliance with environmental, health and safe production regulations can be costly, while non-compliance with such regulations may result in fines, other penalties or actions that could adversely affect our reputation.

As a coal mining equipment company with a variety of its operations in China, we are required to comply with a variety of national and local regulations concerning environmental protection and health and safe production. In addition, in order to maintain or renew our licenses, certificates and permits, we are subject to various periodic inspections, examinations, inquiries and audits by PRC regulatory authorities in accordance with applicable PRC laws and regulations. A finding of non-compliance or failure to obtain, maintain or timely renew the necessary licenses, certificates, permits or approvals could have a negative impact on our business operations and financial condition.

PRC environmental, health and safety laws and regulations are continuously evolving, and we cannot assure you that we have always complied, or will always comply, with such laws and regulations. We may also be required to incur substantial costs in order to comply with new or amendments to existing laws and regulations. Failure to comply with any of these laws and regulations could result in 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. Any non-compliance with environmental, health and safety laws and regulations, or costs incurred in order to comply with such laws and regulations, may have a material adverse effect on our business, financial condition and results of operations.

We have not obtained the building ownership rights to some of our facilities.

As of the Latest Practicable Date, we have not obtained building ownership rights to some of our facilities primarily used for office, production, storage and other uses. As we carry out our operating activities in those facilities, our operation in connection with such facilities may be adversely affected if any third party claims that it is the legal or beneficial owner of any of those facilities, or land underlying the facilities. We cannot give any assurance that any such ownership dispute or claim will not occur. If any such dispute or claim occurs, our business operations and our financial condition could be materially and adversely affected. In addition, there is no assurance that we will not be subject to any claims (including lawsuits) for compensation in respect of any illegal or unauthorised use of land owned by third parties.

Labour disruptions could adversely affect our operations.

Members of our work force are generally employed under employment contracts which specify each employee's position, responsibilities, remuneration and grounds for termination pursuant to the PRC labour law and relevant regulations. Although we believe that our relations with our employees are good, a dispute between us and our employees or a strike or other disruption could disrupt our operations.

A material disruption to our manufacturing plants could adversely affect our ability to generate revenue.

Our manufacturing facilities are located in Jiamusi and Jixi of Heilongjiang province and Huainan of Anhui province, all in the PRC. We also have minority interests in a number of joint ventures with facilities at various locations in China. If operations at any of these facilities were to be disrupted as a result of equipment failures, natural disasters, work stoppages, power outages or other reasons, our business, financial position and results of operations could be materially adversely affected. Any of these significant events could require us to make large unanticipated capital expenditures. Interruptions in production could increase our costs and delay our delivery of original equipment and parts in production. Production capacity limits caused by such disruptions could cause us to reduce or delay sales efforts until production capacity is available. All of our facilities are also subject to the risk of catastrophic loss due to fires, explosions or adverse weather conditions. Lost sales or increased costs that we may experience during the disruption of operations may not be recoverable under our insurance policies, and longer-term business disruptions could result in a loss of customers. If this were to occur, our future sales and, therefore, our future profitability and cash flow, could be materially adversely affected.

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. Many of our end customers are large mining companies that have substantial bargaining power. They require our equipment to meet high standards of availability, productivity, safety and cost effectiveness, and they may delay their payments to us for a variety of reasons. In addition, some of our sales require us to participate in competitive tenders where we must compete on the basis of various factors, including performance guarantees, pricing, customer relationships, lead times, operating costs, product productivity, design, reliability, service, delivery and other commercial factors. We compete directly and indirectly with other manufacturers of coal mining equipment and manufacturers of parts and components for such products. Our primary competitors include Sany Heavy Equipment Co., Ltd. in our roadheader products segment, Wuxi Shengda Machinery Co., Ltd. in our shearer products segment and China Coal Zhangjiakou Coal Mining Machinery Co., Ltd. in our armoured-face conveyors and related products segment. Some of our competitors may have larger operations, possess greater financial resources, may be less leveraged and may be willing to sacrifice profit for market share and revenues. As such, they may be able to offer lower prices and more favourable payment terms than we can. If we cannot compete effectively with existing or future competitors, our operating results could be materially and adversely affected.

Changes to industry standards may have an adverse impact on our business.

Consistent delivery of high quality products is critical to our success. We have implemented a quality control system to ensure that our products meet all relevant national standards and customer specifications, including standards relating to safety and technological requirements. The State Administration of Coal Mine Safety, or SACMS, is responsible for adopting industry standards for coal mining equipment including safety standards, and meeting the requirements of those standards is essential for our business operation. We cannot assure you that our current and newly developed products will continue to comply with changing industry standards or requirements. If we fail to comply with these standards or requirements, our business may be adversely affected.

PRC coal mining industry consolidation may adversely affect our business operations.

In order to enhance coal mining safety, coal exploration efficiency and environmental protection, the PRC Government has taken initiatives to consolidate the coal mining industry. According to China Coal News, in 2009 more than 70% of over 2,000 operators of smaller mines in China's largest coal production base, Shanxi, have agreed to be acquired by operators of larger mines, as industry consolidation continues. This industry consolidation may contribute to increasing competition in the coal mining equipment industry in China. As a result, we may lose end customers that were operators of smaller mines which have been acquired. We may also fail to compete effectively to retain and gain market share on our sales to the operators of larger mines. Moreover, if an end customer is acquired, such customer may come under a new management team who will require time to review our customer’ trade payables and equipment orders as part of the consolidation. This could result in a delay in payment of the trade receivables they owe us, and could lead to delay or even cancellation of equipment orders that have been placed with us. Any of these actions could materially adversely affect our trade receivables and inventory turnover days and/or require us to make provision against trade receivables or inventory, in each case potentially materially adversely affecting our working capital and current assets and liabilities. If any of the foregoing occurs, our business, market position, growth prospects and operating results may be adversely affected.

We may not be able to register our trademarks in Hong Kong or PRC

We will use certain trademarks including the logo “IMM 国际煤机集团 INTERNATIONAL MINING MACHINERY” for our future business operations. As of the Latest Practicable Date, we have applied for the trademark registration of the portfolio of trademarks set out in the section headed “Statutory and General Information — Intellectual Property Rights” in Appendix VII to this document. However, there is no assurance that these applications for trademark registration in Hong Kong and PRC could eventually be approved or that we would be granted with exclusive rights to use these marks as registered trademarks in Hong Kong and PRC. If the trademarks including the logo “IMM 国际煤机集团 INTERNATIONAL MINING MACHINERY” could not be registered or if the registration process is delayed, our trademarks may be infringed, and our business and operating results may be materially and adversely affected.

RISKS RELATING TO THE PEOPLE’S REPUBLIC OF CHINA

Economic, political and social conditions, as well as government policies in China could have a material adverse effect on our business, results of operations and financial condition.

China’s economy differs from the economies of many developed countries in many respects, including:

- ➢ structure;
- ➢ level of government involvement;
- ➢ level of development;
- ➢ growth rate;
- ➢ control of foreign exchange; and
- ➢ allocation of resources.

China’s economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the PRC Government has implemented economic reform measures to emphasise the utilisation of market forces in economic development. We cannot predict whether changes in China’s political, economic and social conditions, laws, regulations and policies will have any material adverse effect on our current or future business, financial condition and results of operations.

The slowdown of economic growth in China and the world could have a material adverse effect on our business, results of operations and financial condition.

Disruptions in the worldwide financial markets and other macroeconomic challenges currently affecting the PRC economy and the global economic outlook could adversely impact our business, results of operations and financial condition. The slowdown in the growth of the PRC economy may result in a decrease in domestic demand for coal and coal-related products and subsequently affect the demand for coal mining equipment. We cannot assure you that the domestic or international demand for coal will continue to grow, or that the domestic or international markets for coal will not experience excess supply, both of which would have a negative impact on our coal mining equipment manufacturing operations. Therefore, continuing or further macro-economic measures implemented by the PRC Government may have a material adverse effect on our business, results of operations and financial condition.

Restrictions on foreign currency exchange may limit our ability to obtain and remit foreign currency or to utilise our revenues effectively.

We receive substantially all of our revenues in Renminbi, which currently is not a fully convertible currency. A portion of these revenues must be converted into other currencies to meet our foreign currency obligations. These foreign currency denominated obligations include payment of interest and principal on foreign currency-denominated debt and payment of dividends declared, if any, in respect of our Shares.

Under China's existing foreign exchange regulations, we will be able to pay dividends in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements. However, the PRC Government may take measures in the future to restrict access to foreign currencies for current account transactions, which may prevent us from paying dividends in foreign currencies to our shareholders. In addition, foreign exchange transactions under our capital account, including foreign currency-denominated borrowings from PRC or foreign banks and principal payments in respect of foreign currency denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of PRC Governmental authorities, including the SAFE. In particular, if we borrow foreign currency loans from foreign lenders, these loans must be registered with the SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures and other purposes.

The discontinuation or reduction of any of the preferential tax treatments currently available to us in the PRC could materially and adversely affect our business, financial condition and results of operations.

Prior to 1 January 2008, under the then-current enterprises income tax law, or the Old EIT Law, our PRC companies were subject to a 33.0% income tax rate, which was subject to certain tax holidays and preferential tax rates. In accordance with the relevant income tax laws and regulations of the PRC, Jiamusi Machinery and Jixi Machinery were exempted from enterprise income tax for two years commencing from the first profit-making year, which was 2006, and were entitled to a 50% reduction in their enterprise income tax for the subsequent three years.

Under the new enterprise income tax law effective 1 January 2008, or the New EIT Law, both foreign-invested enterprises and domestic enterprises are subject to a unified 25% income tax rate. Furthermore, pursuant to the New EIT Law and relevant regulations issued by the State Council, certain enterprises established prior to 16 March 2007 that are entitled to the lower tax rates in accordance with the then prevailing tax laws and regulations shall be eligible for a five-year transition period beginning from 1 January 2008. We believe that, from 1 January 2008 to 31 December 2010, Jiamusi Machinery and Jixi Machinery are still entitled to a 50% reduction in their enterprise income tax, and the applicable enterprise income tax rate for Jiamusi Machinery and Jixi Machinery is 12.5%. Huainan Longwall does not enjoy any preferential tax treatment and its applicable enterprise income tax rate is 25.0% beginning 1 January 2008. In 2009, both Jixi Machinery and Jiamusi Machinery were granted the qualification as "High and New Technology Enterprise" by the State Administration of Taxation. This status must be applied for annually and, if granted, will reduce the enterprise income tax rate by 50% for the year of the grant.

In the period from 12 April 2006 to 31 December 2006 and the year ended 31 December 2007, we recorded tax credits instead of tax expenses, primarily due to our preferential tax treatments in the PRC. In the year ended 31 December 2008 and the seven months ended 31 July 2009, our effective income tax rate was 21.1% and 20.8%, respectively. If there is any discontinuation or reduction of the preferential tax treatments, our business, financial condition and results of operations could be materially and adversely affected. In addition, we cannot assure you that any of our PRC subsidiaries will able to obtain any further preferential tax treatments after 31 December 2010.

There are significant uncertainties under the New EIT Law relating to our PRC enterprise income tax liabilities.

Under the New EIT Law, the profits of a foreign invested enterprise arising in 2008 and onwards which are distributed to its immediate holding company outside the PRC will be subject to a withholding tax rate of 10.0%. Pursuant to a special arrangement between Hong Kong and the PRC, such rate is lowered to 5.0% if a Hong Kong resident enterprise owns over 25% of the PRC company. Further, according to the Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (關於印發《非居民享受稅收協定待遇管理辦法（試行）》的通知), which became effective on 1 October 2009, the 5% tax rate does not automatically apply. Approvals from competent local tax authorities are required before an enterprise can enjoy the relevant tax treatments relating to dividends under relevant taxation treaties. For 2008 and the seven months ended 31 July 2009, we have accrued provisions of RMB9.6 million and RMB6.9 million, respectively, at the withholding tax rate of 5%. However, according to a tax circular issued by the State Administration of Taxation in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate enjoyed by the relevant offshore entity.

Although we are a Cayman Islands company and the equity interests of our RPC subsidiaries are directly held by our subsidiaries in Hong Kong, the PRC tax authorities may regard the main purpose of our subsidiaries in Hong Kong as obtaining a lower withholding tax rate of 5.0%. As a result, the PRC tax authorities could levy a higher withholding tax rate to dividends received by our subsidiaries in Hong Kong from our PRC subsidiaries.

We may be deemed a PRC tax resident enterprise under the New EIT Law and its implementation regulations and be subject to PRC taxation on our worldwide income.

The New EIT Law of the PRC and its implementation regulation currently in force provide that if a non-PRC incorporated enterprise has its "de facto management organisation" located within the

PRC, such enterprise may be recognised as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on its worldwide income.

In our case, as of the Latest Practicable Date, there have been no official tax rules promulgated regarding the determination of the "de facto management organisation" for foreign enterprises like ourselves which are controlled by a fund established outside the PRC.

As such, we believe that our Company is not a PRC tax resident enterprise under the New EIT Law of the PRC.

If the PRC tax rules later clarify that any of our Group's non-PRC entities is a deemed PRC tax resident enterprise, such deemed PRC tax resident enterprise would be subject to enterprise income tax of 25% on its worldwide income (including dividend income receivable from its subsidiaries), which excludes the dividends receivable directly from another PRC tax resident. Currently we cannot assure you that that we will not be treated as a "PRC tax resident enterprise" under the New EIT Law and related implementation regulations and not be subject to the enterprise income tax at the rate of 25% on our income generated both inside and outside the PRC.

Restrictions on payment of dividends under applicable regulations may limit the operating subsidiaries' ability to remit dividends to the Group, which could affect the Group's liquidity and its ability to pay dividends.

As a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our PRC operating subsidiaries. Under PRC law and the constitutional documents of our PRC operating subsidiaries, dividends may be paid only out of distributable profits. Distributable profits refer to after tax profits as determined under PRC GAAP less any recovery of accumulated losses and required allocations to statutory funds. Any distributable profits that are not distributed in a given year are retained and become available for distribution in subsequent years.

The calculation of our distributable profits under PRC GAAP differs in many aspects from the calculation under IFRS. As a result, our PRC operating subsidiaries may not be able to pay a dividend in a given year if they do not have distributable profits as determined under PRC GAAP even if they have profits as determined under IFRS. Accordingly, since our Company derives all of our earnings and cash flows from dividends paid to us by our PRC operating subsidiaries in the PRC, we may not have sufficient distributable profits to pay dividends to our Shareholders.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the Implementation Rules of the Administration Measure for Individual Foreign Exchange (《個人外匯管理辦法實施細則》, the "Individual Foreign Exchange Rules"), issued on 5 January 2007 by SAFE and the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and Share Option Schemes of Overseas Listed Companies (《境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程》) issued on 28 March 2007 by SAFE (the "Circular 78"), PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas listed company or other qualified PRC agents, to obtain the approval from SAFE or its local branches and complete certain other procedures related to the share option or other share incentive plan.

In order to comply with the requirements of the Individual Foreign Exchange Rules and the Circular 78, we will require our domestic employees to obtain approval from SAFE or its local branches when they participate in the share option scheme. Foreign exchange income from the sale of shares or dividends distributed by the overseas listed company must be remitted into China. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator and a custodian bank, as well as open foreign currency accounts to handle transactions relating to the share option or other share incentive plan.

Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect the financial condition and results of operations of our Company and our ability to pay dividends.

We are exposed to foreign exchange risks because we from time to time incur borrowings in foreign currencies while we generate revenue denominated in Renminbi. Should the Renminbi substantially depreciate against the relevant foreign currency, our repayment obligations may be significantly increased. As of 31 December 2008, our loans denominated in the currencies other than Renminbi were equal to approximately RMB40.5 million. These loans will be settled prior to the Reorganisation. The conversion of Renminbi to repay foreign loans via foreign currency remittances and to pay dividends may subject us to the relevant PRC foreign exchange regulations. As a result, we are exposed to foreign exchange fluctuations and movements in the exchange rate of Renminbi, which may have a direct impact on our profit.

On 21 July 2005, the PRC Government reformed the Renminbi exchange rate mechanism so that the Renminbi was no longer pegged to the U.S. dollar but to a basket of currencies. A revaluation of Renminbi resulted in the appreciation of Renminbi against the U.S. dollar and Hong Kong dollar by approximately 21.2% as of 1 October 2009. The relaxation of the Renminbi-U.S. dollar peg may contribute to volatility or increased fluctuations in the value of Renminbi. Further appreciation of Renminbi could cause our costs to increase or our operating revenues to decrease. Conversely, depreciation of Renminbi could adversely affect the value of dividends, if any, payable on, the Shares by our Company in foreign currency terms, and could increase the cost of importing equipment and facilities that are quoted in foreign currencies.

The PRC legal system embodies uncertainties which could limit the legal protections available to us.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC Government began to promulgate a comprehensive system of laws and regulations governing general economic and business matters. The overall effect of legislation since 1979 has been a significant enhancement of the protections afforded to various forms of foreign-invested enterprises in China. Each of our PRC subsidiaries is a foreign invested enterprise. As such, our PRC subsidiaries are subject to laws and regulations applicable to foreign investment in China. However, these laws, regulations and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, 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 preemption of local regulations by national laws. Furthermore, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

It may be difficult to serve process within the PRC or to enforce any judgments obtained from non-PRC courts against us or our Directors.

Our operating subsidiaries are incorporated in the PRC, substantially all of our executive Directors currently reside within the PRC, and all or substantially all of our assets are located within the PRC. The PRC does not currently have treaties providing for the reciprocal recognition or enforcement of judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other western countries. An Arrangement between China and Hong Kong Special Administrative Region on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned was signed on 14 July 2006 and came into effect on 1 August 2008. However, there are many restrictions on such arrangement. As a result, it may not be possible to effect service of process upon our subsidiaries or our Directors resident in the PRC pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in the PRC of judgments of courts outside the PRC might be difficult or impossible.

The enforcement of the new labour contract law and an increase in labour costs in the PRC may adversely affect our business and our profitability.

A new labour contract law became effective on 1 January 2008. It imposes more stringent requirements on employers with respect to entering into fixed term employment contracts, hiring temporary employees and dismissing employees. In addition, under the newly promulgated Regulations on Paid Annual Leave for Employees, which became effective on 1 January 2008, each employee who has served more than one year for an employer is entitled to a paid vacation ranging from 5 to 15 days, depending on length of service. Employees who waive such vacation time at the request of employers must be compensated for three times their regular salaries for each waived vacation day. As a result of the new law and regulations, our labour costs are expected to increase. In addition, many of our principal subsidiaries are parties to collective bargaining agreements with their employees. We cannot assure you that any disputes, work stoppages or strikes will not arise in the future. When existing collective bargaining agreements expire, we cannot assure you that we will be able to reach new agreements with our employees. Such new agreements may be on substantially different terms and may result in increased direct and indirect labour costs. Increases in our labour costs and future disputes with our employees could adversely affect our business, financial condition or results of operations.

Any recurrence of severe acute respiratory syndrome or any other epidemic in China may have a material adverse effect on our business and operations, financial condition and results or operations.

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 recent reports of outbreaks of a highly pathogenic avian influenza caused by H5N1 virus in certain regions of Asia and Europe. The World Health Organisation 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. 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 China, Hong Kong and certain other areas, could have similar adverse effects. Further, the World Health Organisation in April 2009 raised its pandemic alert level in response to an outbreak of influenza A caused by H1N1 virus that originated in Mexico, and resulted in a number of confirmed cases worldwide. There is no guarantee 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 results of operations.

PARTIES INVOLVED

DIRECTORS

Name	Address	Nationality
Executive Directors		
Thomas H. QUINN	20 South Mayflower Road Lake Forest, Illinois 60045 United States	American
Kee-Kwan Allen CHAN	Room E, 31/F, Blk B Ning Yeung Terrace 78 Bonham Road Mid-levels Hong Kong	American
Kwong Ming Pierre TSUI	Room 1502, Block 11, Central Park 6 Chaoyangmenwai Avenue, Beijing China	Chinese
Yinghui WANG	Room 401, Unit 3 Building No. 64 Yanhe South Road Jiguan District, Jixi, Heilongjiang Province China	Chinese
Youming YE	840 Weidner Rd Apt 504 Bufflo Grove, Illinois 60089-4750 United States	American
Non-Executive Directors		
Rubo LI	No. 82, Shuang Yu Villa Houshayu, Shunyi District Beijing China	Chinese
John W. JORDAN II	3 W Burton Place Chicago, Illinois 60610-1404 United States	American
Lisa M. ONDRULA	3061 Independence Avenue Glenview, Illinois 60026 United States	American

Name	Address	Nationality
Independent Non-Executive Directors		
Yiming HU	Room 1101, Unit 98, Block 289 Jinian Rd, Yang Pu District Shanghai 200434 China	Chinese
Xuezheng WANG	Room 1404, Building 2 A8 Block, Sanlihe East Rd Xicheng District Beijing China	Chinese
Zhenduo YUAN	Room 9312, Chenglong Garden Huanghe South Rd. Huanggu District Shenyang City, Liaoning Province China	Chinese
Fung Man, Norman WAI	Flat 2, 26/F., Block 2 Parc Palais 18 Wylie Road Ho Man Tin, Kowloon Hong Kong	Chinese

PARTIES INVOLVED

Legal Advisors to Our Company	*As to PRC Law* King & Wood 28-30F, Huai Hai Plaza 1045 Huai Hai Road (M) Shanghai 200031, China *As to Cayman Islands Law* Walkers 15th Floor Alexandra House 18 Chater Road Central Hong Kong
Reporting Accountants	Ernst & Young 18th Floor Two International Finance Centre 8 Finance Street Central Hong Kong
Property Valuers	Savills Valuation and Professional Services Limited 23/F Two Exchange Square Central Hong Kong
Cayman Islands Principal Share Registrar	Walkers Corporate Services Limited Walker House 87 Mary Street George Town Grand Cayman, KY1-9005 Cayman Islands

CORPORATE INFORMATION

Registered Office	Walkers Corporate Services Limited Walker House 87 Mary Street George Town Grand Cayman KY1-9005 Cayman Islands
Principal Place of Business in the PRC	3rd floor, Tower A, Aimer Plaza Wangjing Development Zone Chaoyang District Beijing 100102 China
Headquarters in the PRC	3rd floor, Tower A, Aimer Plaza Wangjing Development Zone Chaoyang District Beijing 100102 China
Principal Place of Business in Hong Kong	8th Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Joint Company Secretaries	Dong WANG Wai Fung NGAI (FCIS, FCS(PE), CPA, ACCA)
Authorised Representatives	Thomas H. QUINN 20 South Mayflower Road Lake Forest, Illinois 60045 United States Kee-Kwan Allen CHAN Room E, 31/F, Blk B Ning Yeung Terrace 78 Bonham Road Mid-levels, Hong Kong
Audit Committee	Yiming HU (Chairwoman) Lisa M. ONDRULA Xuezheng WANG
Remuneration Committee	Thomas H. QUINN (Chairman) Fung Man, Norman WAI Zhenduo YUAN

CORPORATE INFORMATION

Company's Website	www.immchina.com (information contained in this website does not form part of this document)

Certain information and statistics in this section and elsewhere in this document relating to the Chinese economy as well as the global and Chinese energy industry are derived from various official and independent third party sources. In addition, certain information and statistics in this section and elsewhere in this document relating to China's coal mining machinery industry have been derived from an industry report prepared by the China Coal Mining Machinery Association entitled "Overview of China's Coal Mining Machinery Industry" (the "Industry Report"). We did not commission the Industry Report, and the Industry Report is publicly available.

We believe that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. No independent verification has been carried out on such information and statistics by us. We make no representation as to the accuracy of such information and statistics.

GLOBAL COAL INDUSTRY

Coal is the world's most abundant cost efficient energy source and the global coal fundamentals remain very strong. According to BP Statistical Review of World Energy 2009, or BP Statistical Review 2009, worldwide primary energy consumption totaled 11,294.9 million tonnes oil equivalent in 2008, of which coal represented 29.2%, equivalent to 3,304 million tons of oil, and oil and natural gas represented 34.8% and 24.1%, respectively. Global consumption of coal rose to 3,303.7 million tonnes oil equivalent in 2008, representing a 3.4% increase from 2007. Growth in coal consumption was attributable to a number of factors, including increased demand for power, growth in industrial production, volatility in petroleum and natural gas prices, the competitiveness of coal as a cost-efficient energy resource in comparison to other energy sources, advances in coal mining and processing technologies as well as the productivity and growth of the steel industry, which has directly resulted in increased demand for coking coal. Coal serves a vital role in global power generation, and this role is expected to continue in the foreseeable future. Coal is also indispensable for global energy generation. According to World Energy Outlook 2008, global primary energy demand of coal will reach 4.91 billion tons in 2030 despite efforts to develop and utilise alternative fuel sources.

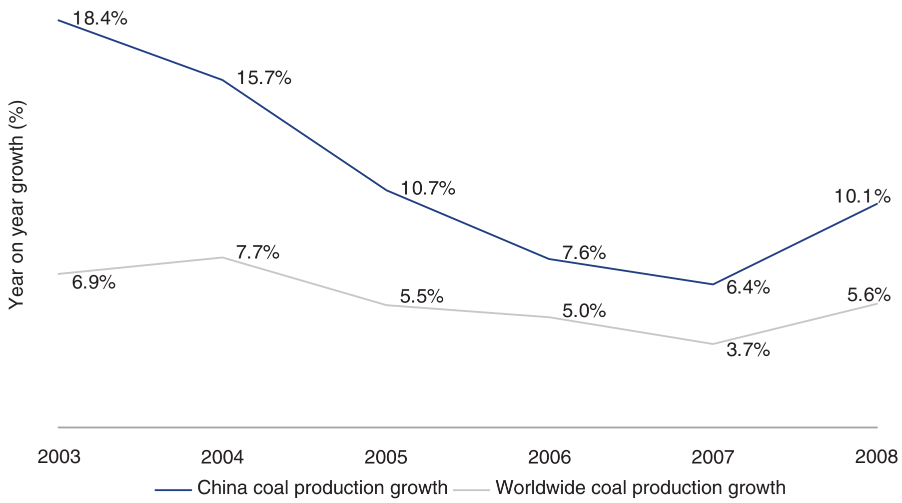
Coal consumption at its current levels is sustainable because world coal reserves are abundant. According to BP Statistical Review 2009 estimates, the world's total proven coal reserve base represents approximately 122 years of production at current mining rates. Coal reserves have a wide distribution pattern, with particular concentrations in the United States, Russia, China, Australia and India. These countries possess 28.9%, 19.0%, 13.9%, 9.2% and 7.1%, respectively, of the proven worldwide coal reserves at the end of 2008. Many major coal consumers and producers are located in the Asia-Pacific region. According to BP Statistical Review 2009, coal consumption and production in this region in 2008 accounted for 61.5% and 61.1% of global consumption and production respectively. From 2003 to 2008, coal consumption and production in the Asia-Pacific region increased at a CAGR of 8.8% and 9.1%, respectively, far exceeding the growth rates of worldwide coal consumption and production during the same period, which were 4.9% and 5.7%, respectively.

CHINA COAL INDUSTRY

China is the world's largest producer of coal and is expected to remain so in the foreseeable future. According to BP Statistical Review 2009, China produced 2,782 million tonnes of coal in 2008, a 10.1% increase from its 2007 production of 2,526 million tonnes. From 2003 to 2008, coal production in China grew at a CAGR of 10.1%, according to the same.

At 2,782 million tonnes, China's 2008 coal production accounted for 42.5% of global output, which was a total of 6,781 million tonnes according to BP Statistical Review 2009. According to the Energy Information Administration (EIA), China's share of global coal production is expected to increase from approximately 35% in 2004 to 45% in 2030. China's growth in coal production continues to be the primary contributor to the increase in global coal production volume, representing 57%, 66% and 71% of global growth in coal production in 2006, 2007 and 2008, respectively.

The following chart sets forth the Worldwide and China coal production growth for the periods indicated:



Source: BP Statistical Review of World Energy 2009

China's coal-producing areas exceed 550,000 square kilometres but are generally concentrated in certain regions of the country. According to China's National Bureau of Statistics, in 2008, 74.4% of total proven coal reserves in China are deposited in Shanxi, Inner Mongolia, Shaanxi, Guizhou and Xinjiang, the top five provinces in terms of proven reserves in 2008. The next five largest provinces including Henan, Shandong, Anhui, Yunnan and Heilongjiang accounted for a combined total of 13.4% of total national proven reserves. The remaining 12.2% of total national proven reserves are deposited in other provinces, with Hebei, Ningxia, Gansu, Sichuan and Liaoning each accounting for in excess of 1% of total national proven reserves.

Coal fields in China with good mining conditions are mainly concentrated in Xinjiang, parts of Ningxia, as well as the area referred to in the industry as the "Tri-West Area", which consists of Shanxi, Shaanxi and western Inner Mongolia. The Tri-West Area has favourable geological conditions for coal production. Coal reserves in this area are of high quality and contain a wide variety of coal. However, due to limited local consumption and the remote distance of these reserves from major customers and major ports, these high-quality coal reserves have not been fully exploited. The coal reserves in Jiangsu, Anhui, Shandong and Henan are also of high quality and contain a wide variety of coal. Furthermore, they are close to transportation facilities as they are located near China's more economically developed coastal regions. However, the coal reserves in these provinces are relatively small, and represent only 9.2% of the proven reserves in China.

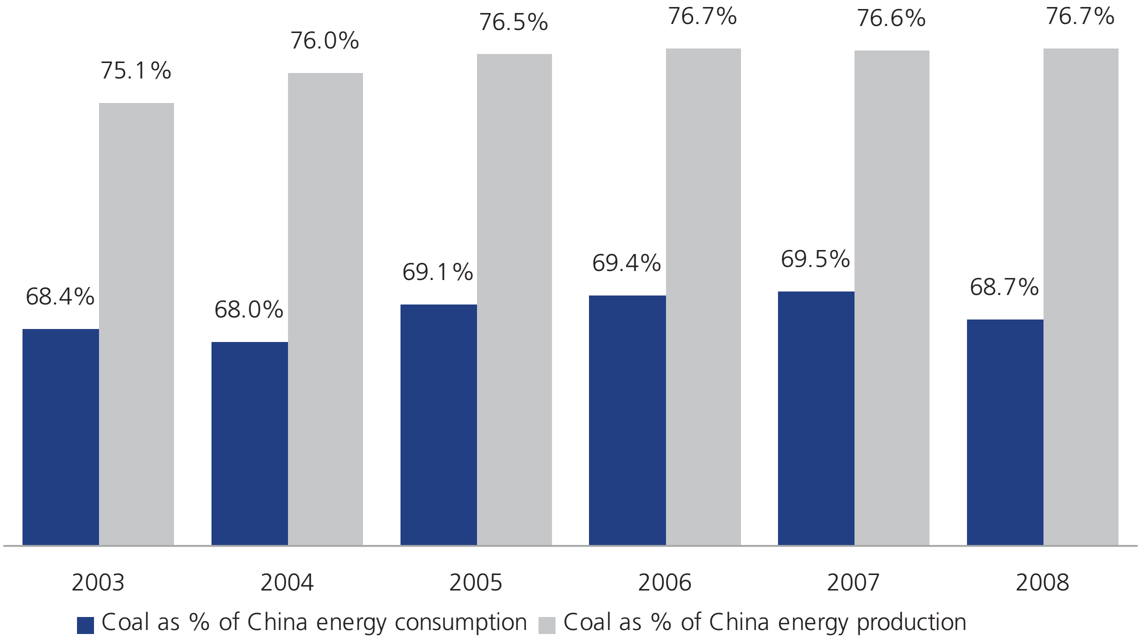
The following table sets forth the five provinces or regions with the most proven coal reserves and the coal production in these provinces or regions in China in 2008.

Province/Autonomous Region	Amount of proven coal reserves	Percentage national total
	(Billion tonnes)	(%)
Shanxi	106.15	32.5%
Inner Mongolia	78.91	24.2%
Shaanxi	27.85	8.5%
Guizhou	15.01	4.6%
Xinjiang	14.74	4.5%

Source: *China's National Bureau of Statistics*

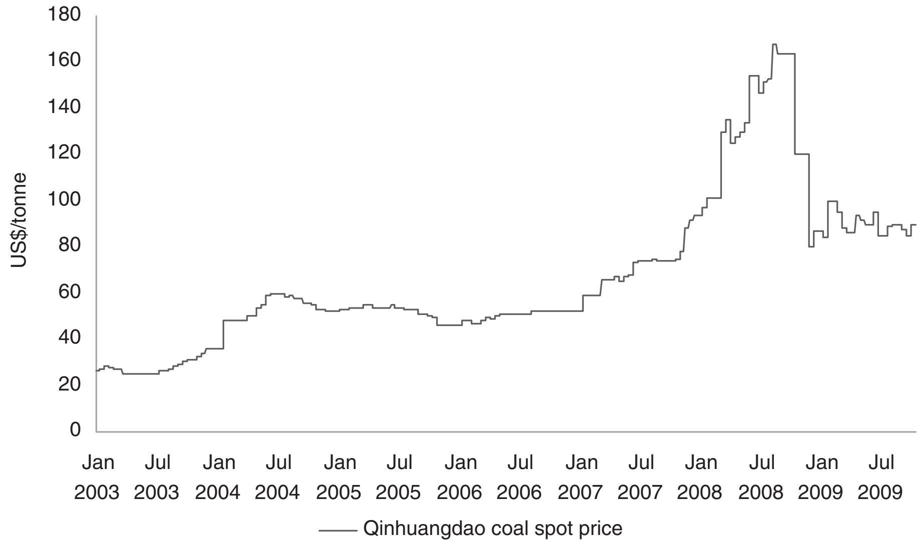
The growth in coal consumption in China accounted for 75.3% of global growth in coal consumption in 2008. Because China lacks a significant oil and natural gas resource base, coal historically has been, and is expected to remain, the most important energy resource, accounting for 68.7% of its total primary energy consumption and 76.7% of its total energy production in 2008, according to Chinese National Bureau of Statistics. According to the China Coal Industry Association, coal will remain China's primary source of energy production for at least the next two decades.

The following chart illustrates coal consumption and production as a percentage of China's total energy consumption and production for the period indicated.



Source: *China's National Bureau of Statistics*

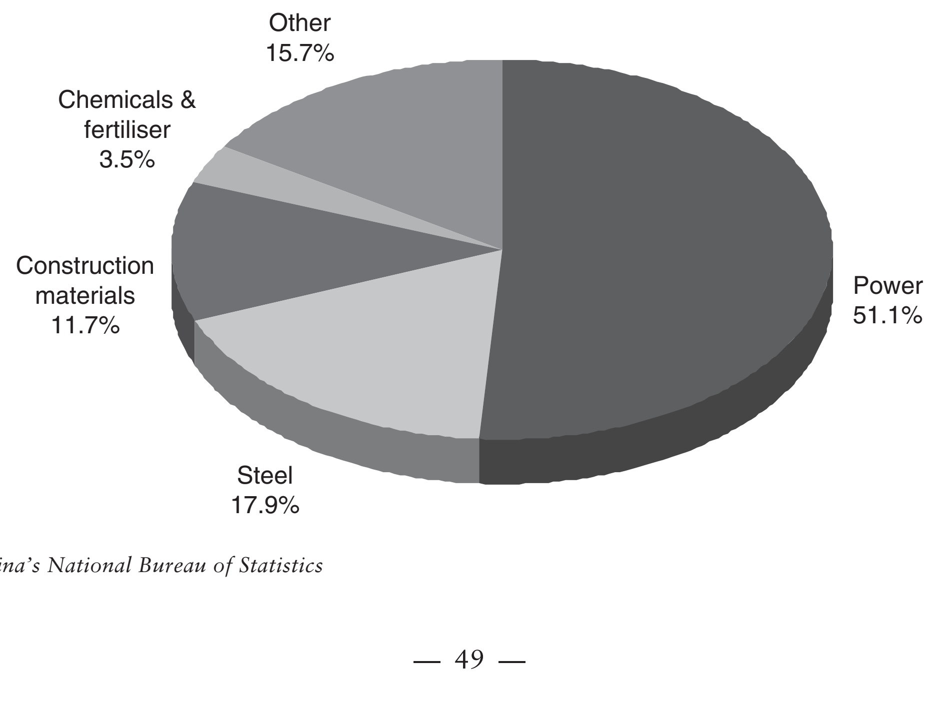
The price of coal in China has risen steadily since 2003. In 2008, the price of coal more than doubled to each a high of US$169/tonne in August 2008, followed by a decline of 50% by the end of 2008. Despite the large drop in price at the end of 2008, the price of coal at the end of 2008 was still higher than at the end of 2007, and increased steadily in 2009.



Source: Bloomberg

Economic growth in China has increased coal consumption across various coal consuming sectors. Coal consumption in China increased from 853.1 million tonnes of oil equivalent in 2003 to 1,406.3 million tonnes of oil equivalent in 2008, representing a CAGR of 10.5%. The power, steel and cement sectors are the largest consumers of coal, accounting for a total of 84.3% of China's total coal consumption. In particular, the power sector continues to dominate the use of coal, accounting for 51.1% of the national total coal consumption in 2008.

The chart below sets forth the coal consumption by sector in China in 2008:



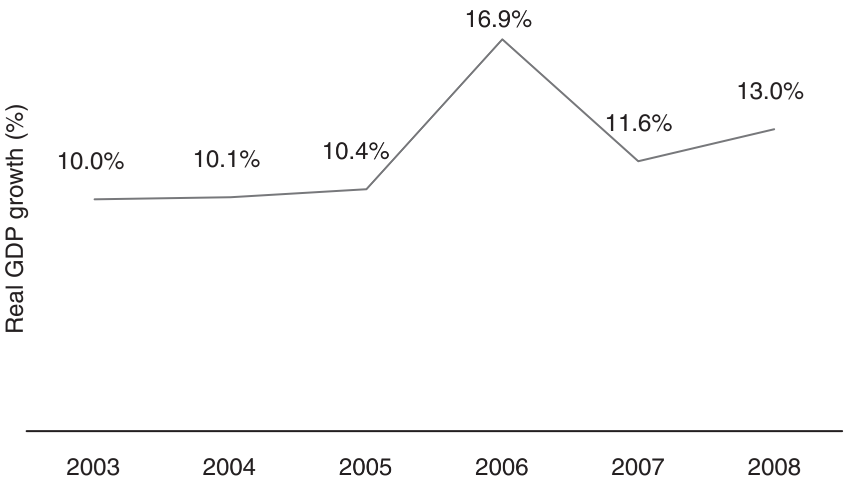
Source: China's National Bureau of Statistics

Key Factors Affecting China's Coal Industry

We believe that China's coal industry will continue to experience growth attributable to the following key factors:

➢ *China's GDP growth*. China's economic growth in recent years has led to a surge in the demand for energy. China's real GDP grew at a CAGR of 12.4% between 2003 and 2008 according to China's National Bureau of Statistics. In the same period, China's total energy consumption increased 10.2%. China's 2008 GDP stands at RMB30.3 trillion according to China's National Bureau of Statistics, making it one of the largest economies in the world. China's ability to maintain its rapid economic expansion is dependent on its ability to continue to procure reliable energy supplies, which are primarily in the form of coal.

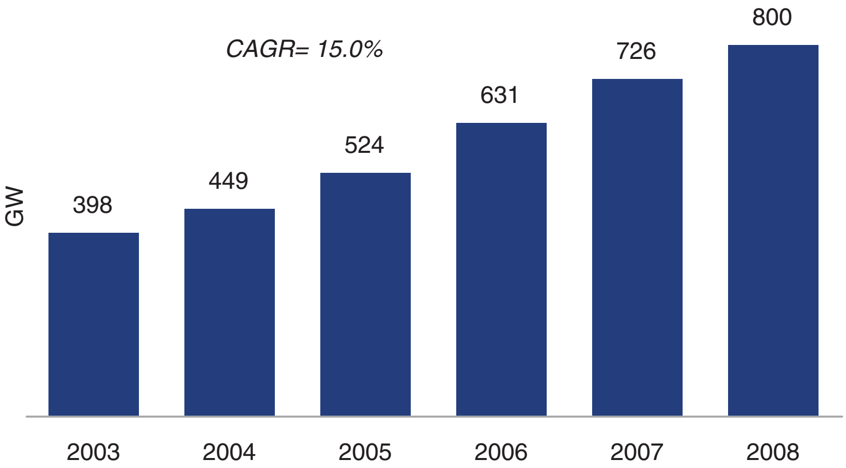
The following chart sets forth China's real GDP growth for the period indicated:



Source: China's National Bureau of Statistics

➢ *The power sector*. According to EIA data, China's power industry is the second largest in the world after the United States. According to the China Electricity Council, at the end of 2008, China's total installed generating capacity was 800GW, 75.9% of which was generated by coal-fired power plants. According to SXCoal, coal-fired power plants in China generated a total of 2,785.7 billion KWh in 2008, consuming a total of 1,365.0 million tonnes of coal, increasing by 3.1% and 3.0% respectively compared to 2007. China's power generation capacity is expected to double between 2009 and 2020 from 800GW to over 1,500GW, representing a CAGR of over 5.9%. We believe the ongoing investment in power infrastructure will continue to foster future demand for coal in China.

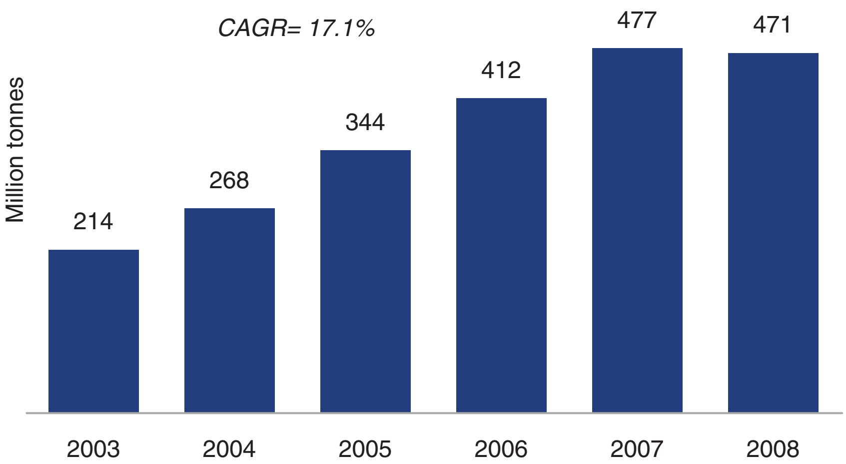
The following chart sets forth the growth of China's power capacity for the periods indicated:



Source: *China Electricity Council*

➢ *The steel sector*. According to China's National Bureau of Statistics, production of pig iron in China in 2008 was 470.7 million tonnes, increasing by 0.3% compared to 2007. According to SXCoal, coal consumption by the steel industry in 2008 was 461.3 million tonnes, decreasing by 0.2% compared to 2007. The weakness in pig iron production and coal consumption in 2008 was mainly due to the global economic slowdown, but the steel industry is expected to grow strongly in the future, benefiting from the recovery of downstream markets such as the construction, automotive and manufacturing industries.

The following chart sets forth the growth of China's pig iron production for the periods indicated:

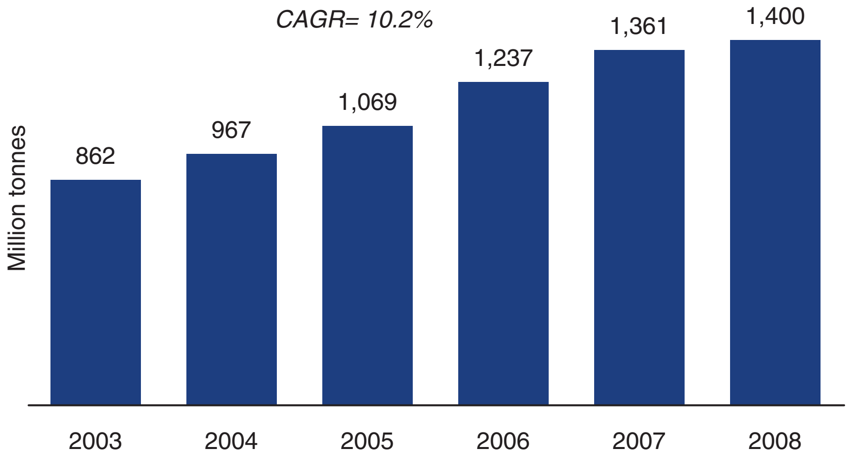


Source: *China's National Bureau of Statistics*

➢ *The construction materials sector*. The construction materials industry in China encompasses a wide range of materials, including cement, glass and ceramics. According to China's National Bureau of Statistics, the cement industry in China produced 1,400 million tonnes of cement in

2008 increasing by 2.9% compared to 2007. According to SXCoal, the cement industry in China consumed 319.3 million tonnes of coal, increasing by 5.2% compared to 2007. In the first half of 2009, the cement industry exhibited a strong rebound from the lows of 2008. Demand, pricing and long term prospects for the industry are all expected to recover significantly, which will further drive the demand for coal in China.

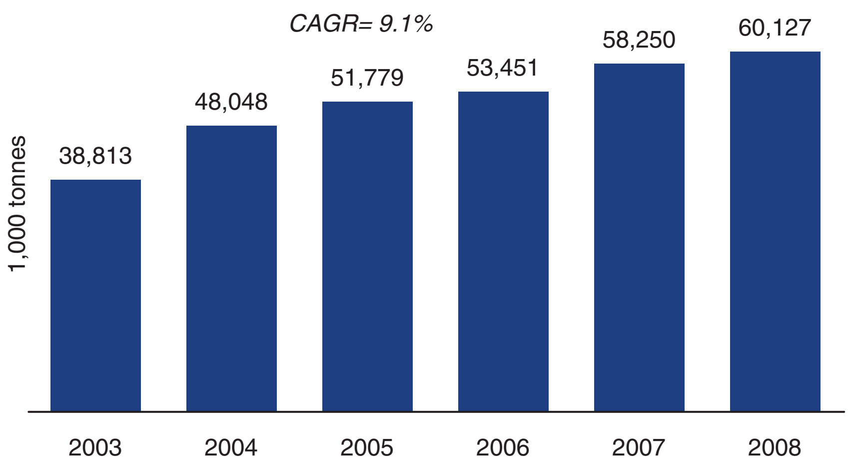
The following chart sets forth the growth of China's cement production for the periods indicated:



Source: *China's National Bureau of Statistics*

➢ *The chemical and fertiliser sector*. Coal is widely used as a basic industrial material in the chemicals and fertiliser industry. According to China's National Bureau of Statistics, China produced 60.1 million tonnes of fertiliser in 2008, increasing by 3.2% compared to 2007. According to SXCoal, coal consumption by the chemical and fertiliser industry in 2008 was 89.9 million tonnes, down 1.9% compared to 2007. As the chemicals and fertiliser industry recovers from the global economic slowdown, it is expected to continue to be an important contributor to coal consumption in China.

The following chart sets forth the growth of China's chemical fertiliser production for the periods indicated:



Source: *China's National Bureau of Statistics*

Government Policy Regarding Investment in the China Coal Mining Industry

According to China's Eleventh Five-Year Plan, the main targets of China's coal mining industry are to increase coal production, construct new large scale mines, develop large mining groups, improve technology and productivity, improve mine safety, energy conservation and utilisation of mine gases, and improve environmental protection.

China aims to develop intensively 13 large scale coal mining production bases in China, exploring and developing the coal mining production bases in an organised and systematic manner, and to optimise both the organisational structure of the bases by developing large coal mining companies and the production structure, focusing on large surface mines and high yield underground mines. During the Eleventh Five-Year Plan, ten 10-million tonne surface mines and ten 10-million tonne high yield underground mines will be developed. By 2010, the total coal production volume of the 13 coal mining production bases is expected to reach 2.24 billion tonnes.

During the Eleventh Five-Year Plan, 810 million tonnes of coal mining capacity is expected to be under construction, consisting of 360 million tonnes of capacity whose construction was started during the Tenth Five Year Plan and 450 million tonnes of new construction. In total, an additional 430 million tonnes of coal mining capacity is expected to come into operation during the Eleventh Five-Year Plan. The Eleventh Five-Year Plan includes 360 million tonnes of capacity attributable to construction started during the Tenth Five-Year Plan that is expected to be completed during the Eleventh Five-Year Plan, and 450 million tonnes, of which 200 million tonnes of capacity is attributable to the upgrading of small scale coal mines to medium scale coal mines and 250 million tonnes of which construction was commenced and is expected to finish during the Eleventh Five-Year Plan.

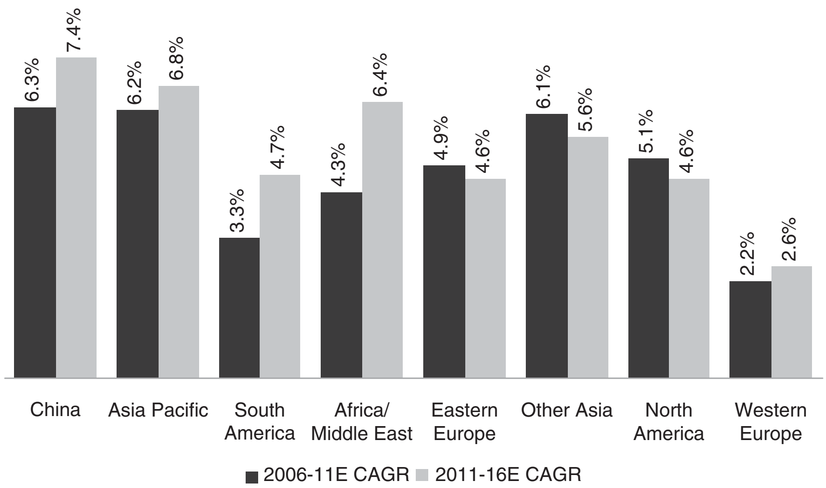
The expansion in China's coal mining industry is expected to trigger significant fixed asset investment in the industry. According to the CMIA, the total investment in new coal mines will reach RMB220 billion during the Eleventh Five-Year Period. As a result, it is estimated that RMB77 billion will be allocated to investment in coal mining machinery to meet the demand of increasing coal production.

During the first seven months of 2009, fixed asset investment in the coal mining industry increased by 39.6% compared to the same period in 2008. The significant fixed asset investment is expected to directly benefit the coal mining machinery industry.

GLOBAL COAL MINING MACHINERY INDUSTRY

The global coal mining machinery industry is a fast growing industry in which demand is expected to reach US$9,950 million in 2011. The industry benefits from continuous growth of the coal mining industry and high commodity prices. Coal mining capital expenditures are expected to rise significantly, driven by a combination of underinvestment by coal mining operators in the past and the recovery of the global economy. In particular, significant growth is expected in emerging markets such as China. Based on estimates by Freedonia, the coal mining equipment market in the Asia-Pacific region will grow from US$4,125 million in 2006 to US$5,580 million by 2011. In the same period, the European market will grow from US$1,140 million to US$1,385 million, and the North American market will grow from US$1,795 million to US$2,300 million. These estimates represent a CAGR of 6.2%, 4.0% and 5.1%, respectively, for these three regions.

In mature markets, sales of coal mining equipment are correlated with the replacement cycles of equipment currently in use. The service life of mining equipment is relatively short due to the harsh conditions in which they operate. The cyclical replacement of mining equipment provides a stable source of demand for new equipment. China's demand for coal mining machinery is expected to grow from 2006 to 2011 at a CAGR of 6.3%, and at a CAGR of 7.4% between 2011 and 2016. The following table shows the growth in demand for mining equipment for selected countries and regions.



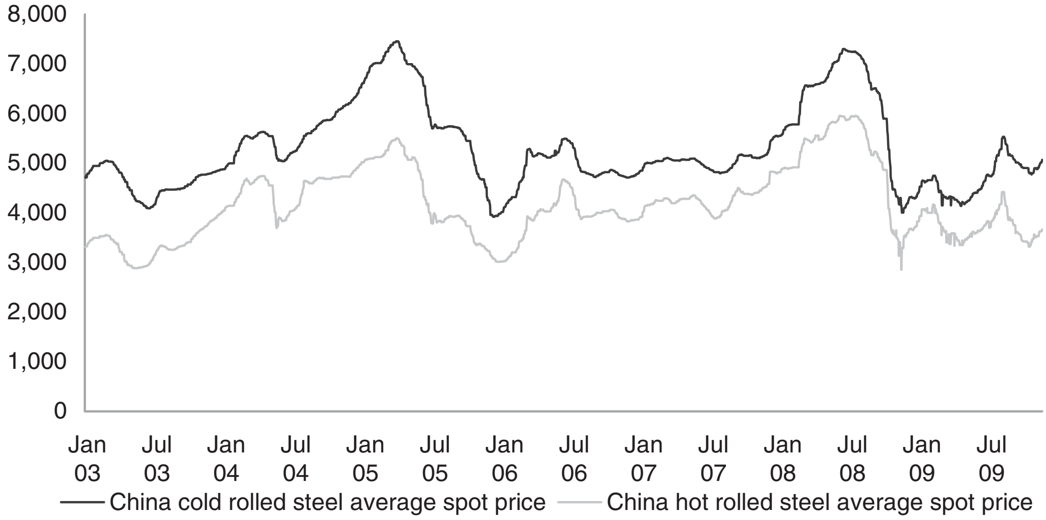
Source: *Freedonia*

The following table sets forth the growth in demand for each country or region in the chart above in terms of U.S. dollars:

	2006	2011E	2016E
	(U.S. dollars in millions)		
China	2,640	3,580	5,125
Asia Pacific	4,125	5,580	7,750
South America	115	135	170
Africa/Middle East	445	550	750
Eastern Europe	715	910	1,140
Other Asia	1,485	2,000	2,625
North America	1,795	2,300	2,885
Western Europe	425	475	540

Source: *Freedonia*

Steel is a major raw material used by the coal mining machinery industry globally, including China. The price of steel dropped significantly in 2009. Although steel prices have increased in the second half of 2009, they are still relatively low compared to previous years, which is expected to benefit manufacturers of coal mining machinery in terms of raw material costs. The chart below sets forth the price of steel in China from 2003 through July 2009.



Source: Bloomberg

CHINA COAL MINING MACHINERY INDUSTRY

Overview

Since 2000, a significant increase in the demand for coal has led to robust growth in the coal mining industry in China. Machinery and service industries providing coal mining, processing and utilisation have also entered into one of the most rapid development stages in history, as significant growth in metrics such as coal production scales and volumes, as well as deeper mines, more complicated geological conditions and increased safety awareness have reinforced the needs of the industry. During this period, the government has closed down more than 12,000 small coal mines due to safety concerns and has encouraged increased mechanisation of the existing medium scale and large scale mines. In addition, the significant improvement in sales revenue and net income in the coal mining industry has stimulated further demand for new mining machinery equipment.

Compared to 2007, in 2008, the Chinese coal mining machinery industry increased by 10.5% in terms of production volume, 16.7% in terms of production value and 17.7% in terms of industry-wide sales. Demand for coal mining machinery in China is expected to reach approximately RMB90 billion by the end of the Eleventh Five-Year Plan in 2010, including RMB70 billion in new coal mining machinery and equipment and RMB20 billion for upgrading and replacing existing equipment.

The following table sets forth the actual and estimated size of China's coal mining machinery industry by units sold for the periods indicated:

Mining machinery (units)	2003	2004	2005	2006	2007	2008	2009E
Roadheader	198	497	699	855	867	1,343	1,504
Shearer	218	353	437	483	546	661	727
Armoured-face conveyor	3,539	4,944	5,323	3,915	4,872	4,236	4,533

Source: China National Coal Machinery Industry Association

The following table sets forth the size of China's coal mining machinery industry by revenue for 2008:

Revenue	2008
	(RMB in millions)
Roadheader	7,136.0
Shearer	5,455.9
Armoured-face conveyor	15,935.9

Source: China National Coal Machinery Industry Association

Due to the high growth of the domestic Chinese market, exported equipment has generally constituted only a small percentage of China's total sales of coal mining equipment. However, total sales are growing due to increased international demand for coal mining machinery, as well as the competitive pricing and quality improvements offered by PRC products. In addition, the technological gap between domestic and international coal mining machinery has been narrowing, with PRC products offering improved equipment performance. This in turn has led to sales increases for equipment manufacturers in China. As the PRC suppliers increase production capacity, exports are estimated to increase significantly.

The table below sets forth the actual and estimated export volume and sales revenue of PRC coal mining machinery:

	2003	2004	2005	2006	2007	2008	2009E	2010E
Export (in units)	256	315	236	445	330	760	800	920
Export value (in millions of RMB)	25	32	23	210	280	200	250	280

Source: China National Coal Machinery Industry Association

Competitive Landscape and Major Players

Compared to imported machinery, China's domestic coal mining machinery products have advantages in terms of price and aftermarket service. Domestic manufacturers enjoy significant manufacturing and operating cost advantages, with product prices as low as half the price of imported equipment. The advantages have been a key contributor to the ability of domestic products to secure strong orders in recent years. Wide distribution networks, quality aftermarket services and a deep understanding of the needs of domestic coal mining customers have also contributed to the success of domestic manufacturers in the domestic market.

Domestic coal mining machinery still lags behind imported products in terms of technology, reliability, service life and level of automation. However, domestic products have improved significantly in recent years primarily due to a number of breakthroughs in the research and development, design and manufacturing of coal mining machinery. Currently, the technology, service life and level of automation of some high-end PRC products and models have reached world leading standards. Consequently domestic coal mines mainly utilise domestic coal mining machinery, as compared to imported products that only account for approximately 3% of the total coal mining machinery market in the PRC.

Domestic manufacturers of coal mining machinery are generally small. The fragmented nature of the industry allows for significant opportunities for industry leaders to acquire smaller competitors, provide integrated sets of products and set nationwide industry standards.

The following table sets forth the ranking of roadheader manufacturers in China in terms of roadheaders sold and market share in 2008:

Rank	Company	Number of roadheaders sold in 2008	Market share in 2008 (%)
1	Sany Heavy Equipment International Holdings Co. Ltd.	366	27
2	International Mining Machinery Holdings Limited(1)	362	27
3	Taiyuan Mining Machinery Group Co. Ltd.	218	16
4	China National Coal Mining Equipment Co. Ltd.	120	9
5	Shanghai Chuangli Coal Mine Equipment Co. Ltd.	74	6

Source: China National Coal Machinery Industry Association

(1) The number of roadheaders sold by us in 2008 was based on the time of sale of the roadheaders (*i.e.*, when we entered into sales and purchase agreements for the roadheaders with our end-customer), whereas the number of roadheaders sold as disclosed in the sections headed "Business — Our Products and Services" and "Financial Information" in the document was based on the number of roadheaders we had sold for which revenue has been recognised. We do not recognise revenue until the roadheaders are delivered to our end-customers, which only occurs after the entry into sale and purchase agreements with them.

The following table sets forth the ranking of shearer manufacturers in China in terms of shearers sold and market share in 2008:

Rank	Company	Number of shearers sold in 2008	Market share in 2008 (%)
1	International Mining Machinery Holdings Limited(1)	179	27
2	Taiyuan Mining Machinery Group Co. Ltd.	114	17
3	Xi'an Coal Mining Machinery Co. Ltd.	92	14
4	Wuxi Shengda Machinery Co. Ltd. (Joy Global Inc.)	87	13
5	Shanghai Chuangli Coal Mine Equipment Co. Ltd.	70	11

Source: China National Coal Machinery Industry Association

(1) The number of shearers sold by us in 2008 was based on the time of sale of the shearers (i.e when we entered into sales and purchase agreements for the shearers with our end-customer), whereas the number of shearers sold as disclosed in the sections headed "Business — Our Products and Services" and "Financial Information" in the document was based on the number of shearers we had sold for which revenue has been recognised. We do not recognise revenue until the shearers are delivered to our end-customers, which only occurs after the entry into sale and purchase agreements with them.

Our competitors include the following leading designers and manufactures of coal mining machinery in China:

➢ *Sany Heavy Equipment International Holdings Co. Ltd.* Sany Heavy Equipment International Holdings Co. Ltd. was established in January 2004 by Sany Group. It has been listed in Hong Kong since November 2009. It is engaged in the research, design and manufacturing of coal mining machinery, with the roadheader being its principal coal mining machinery product. In 2008, Sany Heavy Equipment International Holdings Co. Ltd.'s revenue was RMB1,146.8 million.

➢ *Taiyuan Mining Machinery Group Co Ltd.* Taiyuan Mining Machinery Group Co Ltd is a wholly state owned enterprise established from the equity reform of Taiyuan Mining Machinery Factory. The company's key products are divided into coal mining machinery, metalworking machinery, lubricated hydraulic systems and components, as well as electronic control systems.

➢ *China National Coal Mining Equipment Co Ltd.* China National Coal Mining Equipment Co Ltd is a state owned enterprise consisting mainly of Zhangjiakou Coal Mining Machinery Co Ltd and Beijing Coal Mining Machinery Co Ltd. The company's parent company, China Coal Energy Co Ltd, has been listed in Hong Kong since 2006 and in Shanghai since 2008. The company's products include roadheaders, shearers and armoured-face conveyors. In 2008, China National Coal Mining Equipment Co Ltd's revenue was RMB4,133.6 million.

➢ *Shanghai Chuangli Coal Mine Equipment Co. Ltd.* Shanghai Chuangli Coal Mine Equipment Co. Ltd. was founded in 2003. The company's key products include roadheaders, shearers and other mining equipment such as electronic systems and other mining equipment components.

➢ *Xi'an Coal Mining Machinery Co. Ltd.* Xi'an Coal Mining Machinery Co. Ltd. was established in 1951 as the Xi'an Coal Mine Equipment Factory. The company's main products include shearers, roadheaders, and other coal mine equipment.

➢ *Wuxi Shengda Machinery Co. Ltd.* Wuxi Shengda Machinery Co. Ltd. was established in 1965 as the Wuxi Coal Machinery Factory, and was acquired in 2008 by Joy Global Inc. The company's key products include ultra-thin seam, thin seam, medium and thick seam shearers.

Major Industry Trends

Integrated sets of coal mining machinery is demanded

A complete underground long wall mining system typically consists of four core pieces of equipment, namely roadheader, shearer, armour-faced conveyor and hydraulic roof support. We believe market demand for coal mining equipment in the future will no longer be limited to single equipment items. Customers are increasingly demanding integrated sets of coal mining machinery comprised of roadheaders, shearers, armour-faced conveyors, hydraulic roof supports and other complementary products that can be integrated into existing systems.

China's coal mining machinery industry was first developed during the planned economy period, where it was initially based on and developed in accordance with the national coal production allocation system controlled by the PRC government. As a result, different pieces of the same product were manufactured and processed by several different manufacturing companies. The structure of the industry has persisted and the market is fragmented, consisting mainly of small-scale operations.

From the perspective of the customer, safe and efficient longwall mining demands that all coal mining machinery is well coordinated, making complete sets of integrated coal mining machinery one of the key development trends in the domestic industry. Hence, the ability of manufacturers to offer complete sets of coal mining machinery will become key to their future growth in the industry.

Focus on high productivity and high efficiency machinery

The development of coal mining machinery has been mainly focused on high productivity and high efficiency machinery including (i) thick-seam mining integrated systems with annual capacity of 6 to 10 million tonnes; (ii) thin-seam mining integrated systems with annual capacity of 1.5 to 2 million tonnes; (iii) short wall mining integrated systems with annual capacity over 1 million tonnes, and (iv) roadway layout rapid mechanised excavation integrated systems. Currently, the 6 million tonne thick-seam mining integrated systems have completed testing and the 10 million tonne thick-seam mining integrated systems are already in production. These developments are expected to meet the demand for high powered coal mining machinery and improve the level of technical expertise in the domestic coal mining machinery industry.

Industry consolidation is expected

With the establishment of the 13 coal production bases, the coal mining industry in China has begun to implement its resource integration and large-scale conglomeration strategy. The increasingly sophisticated customer base consisting of China's consolidated coal mining companies is expected to demand advanced and efficient equipment that is accompanied by comprehensive services. This results in increasing pressure on the mining equipment industry to consolidate in order to minimise capacity constraints, share technology and create purchasing power mass.

Currently, the coal mining equipment industry in China is fragmented. The industry is divided by equipment type, and many large-scale domestic manufacturers only command a leading position in certain types of equipment or product segments.

Industry consolidation is already under way in China and in recent years, two major domestic equipment manufacturers have acquired smaller equipment manufacturers. In the current competitive landscape, domestic manufacturers that can raise or generate sufficient capital will be able to participate in the consolidation trend and achieve rapid expansion through mergers and acquisitions, while those that cannot adopt a similar strategy are expected to become acquisition targets or be forced out of the market.

In recent years, some foreign players, such as Joy Mining Machinery, have adopted acquisitive expansion strategies, contributing to the consolidation of the PRC coal mining machinery industry.

Key Future Growth Factors

Strong growth in related industries

Strong growth in the overall PRC economy is expected to fuel the demand for coal. This is manifested primarily in the power, cement and steel industries. All of these industries are expected to grow strongly in the coming years. China's power generation capacity is expected to double between 2009 and 2020 from 800GW to over 1,500GW. Over half of the capacity expansion will be thermal power generation which consumes coal as its primary fuel source. The cement industry has experienced a strong rebound from the downturn in the industry in 2008, and the condition of the industry is expected to improve further in terms of both pricing and volume in the short, medium and long term. The government's economic stimulus, liberalising of monetary policy, and lending practices have sparked recovery in many downstream industries in the PRC, which in turn have generated a strong rise in steel demand in China, a trend expected to continue in the future. Growth in these industries will increase the demand for coal.

Improvement of mechanisation levels in coal mines

The China Coal Industry Association estimates that demand for coal mining machinery equipment, driven by the rapid mechanisation of the PRC coal mining industry, will reach RMB30.1 billion during 2009 to 2015. The PRC government has announced plans to invest another RMB12.1 billion in the upgrading of existing facilities during the same period. Favourable conditions in the coal mining industry have led to improvements in industry profitability, thereby increasing the capability of coal mines to increase mechanisation. The PRC government has announced plans to continue to close small coal mines due to safety issues and raise the proportion of large mechanised coal mines in the entire coal mining industry thus further driving the demand for coal mining machinery and equipment. According to data issued by the State Administration of Work Safety, or SAWS, in 2008, the mortality rate in PRC coal mines is 1.182 persons per 1 Mtpa capacity, which is higher than anywhere else in the world. The primary reason is that most small to medium-scale coal mines in China utilise fewer mining machines and tend to use mining machinery of lower quality. According to the SAWS, the mortality rate per 1Mtpa in domestic mines with a high rate of mechanisation is only 1/40 of the national average mortality rate, and is close to the level in developed countries. The closing of over 15,000 small unsafe mines and the increased automation and mechanisation of the underground coal mining industry has significantly reduced the number of coal mining fatalities in China from approximately 7,000 in 2002 to 3,215 in 2008. Mine safety will continue to improve as mechanisation levels continues to increase.

As part of the Eleventh Five-Year Plan, the technology requirements for production in the coal industry will increase significantly. The PRC Government plans to construct 140 modern, high-efficiency, safe mines, as well as increase its financial support of coal mining construction projects. For example, seventeen coal mining construction projects will receive loans from China Development Bank to support the acquisition of mining machinery and 100 high profile conventional coal mining work faces will be upgraded to fully mechanised work faces. As a result, domestic large and medium-scale coal mines are expected to achieve mechanisation rates over 95% and over 80%, respectively, by 2010, while the mechanisation and/or semi-mechanisation rate in small-scale coal mines is expected to exceed 30% during that same period. The overall mechanisation rates of domestic coal mines will increase from 42% in 2006 to 77.6% in 2010, according to the Eleventh Five-Year Plan.

Construction of new mine bases

The construction of new coal mines and new working faces in existing mines is expected to create substantial demand for new equipment. According to the Eleventh Five-Year Plan for the Coal Industry Development issued by the National Development and Reform Commission in January 2007, domestic coal production was estimated to increase from 2.2 billion tonnes in 2005 to 2.6 billion tonnes in 2010, with a CAGR of 3.4%. This includes a estimated 380 million tonne reduction in coal production over this period from the closure of small scale mines that would not be consolidated. According to the Eleventh Five-Year Plan, 810 million tonnes of new production capacity was estimated to be added between 2005 and 2010. With the reduction of capacity from the closure of small mines, the net increase in coal production was projected to be 430 million tonnes during this period. Actual coal production in 2008 of 2.8 billion tonnes has already exceeded the 2010 projection of 2.6 billion tonnes. In light of the sustained growth of coal production, fixed assets investment in the coal industry is expected to maintain a stable growth rate of 10% annually.

Investment in fixed assets is expected to be 70% of the total coal mining investment, of which 50% will be invested in coal mining machinery and equipment. Therefore, overall investment in coal mining machinery and equipment is expected to account for 35% of the total investment in new coal mines. According to CMIA, the total investment in new coal mines will reach RMB220 billion during the Eleventh Five-Year Period. As a result, approximately RMB77 billion will be allocated to the investment in coal mining machinery equipment in order to meet the demands of increasing coal production. In the first seven months of 2009, fixed asset investment in the coal mining industry increased by 39.6% compared to the same period in 2008. This significant fixed asset investment is expected to drive sales in the coal mining machinery industry.

The major coal mining companies in China have all earmarked significant funds for future capital expenditures, aimed at constructing new mine bases and upgrading mining machinery at existing mine bases. Total capital expenditure for the next four years of China Shenhua, China Coal Energy and Yanzhou Coal will exceed RMB80 billion, which is expected to contribute positively to demand in the coal mining machinery industry.

Aftermarket, upgrades and replacement of old equipment

The rate of aging of coal mining equipment is related to coal production when there is consistent equipment usage levels. Mining companies periodically purchase parts to maintain their current equipment or acquire new equipment to replace old and obsolete equipment and to ensure that their operations are safe and efficient. Because the average life span of most coal mining machinery is between three and five years, the growth rate of the coal mining machinery industry is expected to lag behind the growth rate of coal production by a period of three to five years. A period of strong expansion and capital expenditure which occurred in 2003 to 2006 is expected to result in strong demand for coal mining machinery replacement parts, services and new machines in 2007 to 2010.

As China continues its efforts to increase coal production with the mechanisation of existing coal mines and the construction of 13 new coal production bases, the demand for coal mining machinery is also expected to increase. This fosters growth in the need for aftermarket services and machinery components. In particular, aftermarket service is expected to be a key growth area for Chinese coal mining machinery manufacturers. Manufacturers with the ability to provide one-stop value-added services are expected to be influential in the market. In this respect, the provision of technical training and the establishment of a strong network of service operations close to customers will allow them to provide on-time, 24/7 service and solutions and in doing so significantly improve their understanding of, and communication with, their customers. This will in turn improve their overall market position and accelerate growth.

In 2008, aftermarket sales of major domestic Chinese coal mining machinery manufacturers accounted for approximately 15% of total sales. Comparatively, aftermarket sales for international mining machinery manufacturers such as Bucyrus Inc. and Joy Mining Machinery Company accounted for 46% and 61% in 2008, respectively. As the Chinese coal mining machinery industry continues to develop, aftermarket sales will be expected to account for an increasing proportion of total sales. The gap between Chinese manufacturers and international players such as Bucyrus Inc. and Joy Mining Machinery Company in this respect points to the massive potential for growth in aftermarket sales amongst Chinese coal mining machinery manufacturers.

Preferential government policies

The coal mining equipment industry is one of the 16 key sectors that the State Council has targeted for development. On 7 February 2007, the State Administration of Taxation cancelled certain tariff (or related VAT) for "large-scale, in-mine comprehensive excavation, lifting and washing equipment and large scale glory hole equipment". We believe domestic manufacturers of mining excavation equipment will benefit from the cancellation of this equipment imports tariff. The PRC government encourages all domestic industries, including coal mining, to purchase domestic equipment and technology, and has set target localisation rates for each major industry which will help the domestic mining machinery manufacturers capture the growing Chinese market.

Background Information on Associations and Industry Groups

Provided below is information on some of the industry associations and groups relating to our business, many of which have been referred to in this document.

➢ *BP Statistical Review of World Energy*. the BP Statistical Review of World Energy is an annual publication which has been authored by BP since 1951, and currently has a worldwide circulation of 60,000 printed copies. The statistics in the document are taken from government and other primary sources as well as published data. BP is one of the world's largest energy companies engaged in the exploration and production, refining and marketing of oil & gas products as well as alternative energy.

➢ *Energy Information Administration*. the Energy Information Administration is an independent statistical agency within the Department of Energy of the United States of America. The agency collects data on energy reserves, production, consumption, distribution, prices, technology and related international, economic and financial matters. This information is disseminated as policy-independent data.

➢ *China's National Bureau of Statistics*. directly governed by the Central Government of the PRC, the National Bureau of Statistics is responsible for the collection and coordination of national statistics, ensuring the truthfulness, accuracy and timeliness of statistical data, as well as establishing policies and guidelines with respect to national statistics.

➢ *China Coal Industry Association*. the China Coal Industry Association is responsible for the collection of information regarding policy, technology, industry data in the China coal industry.

- *CEIC*. CEIC Data Company Ltd is an independent research provider. Its data is assembled by data specialists and researchers in collaboration with prime national and regional statistical agencies.

- *SXCoal*. Established in 1998, SXCoal.com consists of teams of professional coal experts dedicated to the collection of data regarding resources, price, policy, analysis, companies and related industries.

- *Freedonia*. Freedonia is an independent research provider based in Ohio, United States. It authors independent reports using trade publications, government statistics, proprietary databases and annual and industry reports.

- *China Coal Mining Machinery Association*. The China Coal Mining Machinery Association is a national organisation with membership covering all medium and large coal mining machinery manufacturers in China. It compiles an annual yearbook on the production and economic indicators of coal mining machinery manufacturers, which is distributed to member companies.

OVERVIEW

To date, the PRC Government has promulgated few laws or regulations specifically applicable to the coal mining equipment manufacturing industry. However, many of the laws, regulations and policies governing the coal mining industry have significant impact on the coal mining equipment manufacturing industry due to the interconnected nature of the two industries. For instance, policies promoting the mechanisation of coal mining operations in China, affect us as a coal mining equipment manufacturing company because they affect our customers' selection of coal mining equipment. In addition, all of our business operations in China are subject to fees and taxes, as well as safety and environmental protection laws and regulations.

Due to the close relationship between the coal mining equipment manufacturing industry and the coal mining industry, we are subject to the supervision and regulations of the State Administration of Coal Mine Safety, or SACMS, which sets standards for coal mining equipment. In addition, we are also regulated and supervised by other government authorities in various aspects of our business.

THE COAL MINING EQUIPMENT MANUFACTURING INDUSTRY

Principal Legislations

Under the guidance of the Outline of the Eleventh Five-Year Plan for National Economic and Social Development of the PRC issued in March 2006, the NDRC further issued guidance for the development of the coal industry. The PRC Government plans to accelerate consolidation by selectively granting mining rights only to coal mining projects that meet the threshold level of production. During the Eleventh Five-Year Plan which is from 2006 to 2010, the PRC Government will not grant mining rights to any new coal mining project that cannot produce 300 thousand tonnes of coal per year. Furthermore, in response to the high accident rate, the PRC Government has increasingly tightened regulatory standards to promote safety in mines and has been actively enforcing these standards by shutting down mines that fail to meet government safety standards. Under the Eleventh Five-Year Plan, the PRC Government requires the fatality rate per million tonnes of coal to be reduced to below 2.0. To achieve this goal, the PRC Government requires mechanisation levels of large and medium-scale coal mines to reach 95% and 80% respectively by 2010.

The NDRC also issued the *Coal Industry Policy*, or the Policy, on 23 November 2007 to promote the adoption of integrated and mechanised coal mining technologies as well as the use of long-wall mining methods. In addition, the Policy encourages reform in the mining technology and roof supports used in small-scale coal mines and the development of safe and efficient conveying technology and equipment.

The Amended Catalogue for the Guidance of Foreign Investment Industries, which took effect from 1 December 2007, or the Catalogue, was approved by the State Council in October 2007. According to the Catalogue, foreign investment that promotes the development and application of new technologies that improve the recovery rate at mining sites such as the shearers with power of more than 2000KW are encouraged. In addition, pursuant to the *Guideline for Present Priority Development of High-tech Indoctrination Key Areas (2007)* published by the NDRC, Department of Science and Technology, the Ministry of Commerce of the People's Republic of China, or MOFCOM, and the State Intellectual Property Office of China, or SIPO on 23 January 2007, the development of integrated, large-scale shearers and roof support systems for coal mining is also encouraged by the PRC Government.

Other Legislations

The Standing Committee of the National People's Congress promulgated *the Coal Law of the PRC*, or the Coal Law, on 29 August 1996, which became effective on 1 December 1996, to specifically address the exploration, exploitation and mining of coal. The Coal Law sets forth requirements in many areas of coal production, including, among others, exploration, the approval of new mines, the issuance of production permits, the implementation of safety standards, the trading of coal, the protection of mining areas from destructive exploitation, the protection of miners and administrative supervision.

On 14 March 2005, the NDRC announced the PRC Government's decision to revise the Coal Law of the PRC promulgated in 1996 by the National People's Congress. The NDRC concluded the comment-seeking process on 15 October 2005 and has begun the rulemaking process. This decision was made in response to concerns over the lack of a well-coordinated development plan for mining, which contributed to a significant amount of waste of valuable coal resources. The lack of effective penalty provisions or the lenient enforcement of existing provisions in the Coal Law has been cited as another important reason for the current rulemaking effort.

The revised Coal Law is expected to strengthen the administration and management of coal reserves, to facilitate and institutionalise coal trading and to promote safe operation of coal mines in China. Additionally, to ensure optimal utilisation of coal resources, the NDRC may evaluate the mining techniques and coal extraction capabilities of coal mining operators when allocating new coal reserves. The PRC Government may prefer to allocate larger coal reserves to large coal mining operators with sufficient funding and advanced mining and coal extraction techniques to ensure optimal extraction of coal reserves and mining safety.

On 7 June 2005, the State Council promulgated *Several Opinions on Promoting the Healthy Development of the Coal Industry*, or the Opinions, announcing the PRC Government's policies with respect to the development and restructuring of the coal industry. The Opinions resonated with the NDRC's announcement on the revision of the Coal Law and reiterated 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 organisation and regulation of small coal mines.

Safety

The *Provisional Regulation of Safety Mark Management for Coal Mining Products*, which was promulgated by the SACMS on 26 November 2001 and became effective on 1 January 2002, requires coal mining products that may endanger the safety and health of coal miners to obtain product safety marks certified by the SACMS. No person or entity is allowed to sell, purchase or use coal mining products that require safety marks prior to obtaining them. The SACMS has authorised coal mining product safety mark certification organisations to review and approve equipment to be granted product safety marks. Roadheaders, shearers, armoured-face conveyors and related products all fall under the product categories that require safety marks. Our maintenance services business is subject to the *Management Regulation of Coal Principal Equipment Maintenance and Overhaul License*. In addition, the production of certain of our products requires the National Production License for Industrial Products and some of our products require certain safety qualification certificates. We have obtained all such licenses and certificates other than three product safety marks which are under renewal. The three products whose safety marks are under renewal have passed technical examination and are undergoing functional examination and other required examinations. The renewal is to be completed in one or two months. There is no material legal impairment in obtaining the relevant safety marks as long as the products meet all requirements of the examinations. Jixi Machinery has not and will not sell such products before the renewed safety marks are granted. Our PRC legal counsel, King & Wood has confirmed that the continued business operation would not breach any PRC laws and regulations as long as the Group does not sell such products before the renewal is approved.

Environmental Protection

The Environmental Protection Law, promulgated by the National People's Congress on 26 December 1989, is the basic law for environmental protection in China. The law establishes the basic principle for coordinated advancement of economic growth, social progress and environmental protection, and defines the rights and duties of governments at all levels.

Pursuant to *the Environmental Protection Law*, the Ministry of Environmental Protection is empowered to formulate national environmental quality and discharge standards and to monitor China's environmental system at the national level for the purpose of preventing and eliminating environmental pollution and damage to ecosystems. Environmental protection bureaus at the county level and above are responsible for environmental protection within their areas of jurisdiction. Local environmental protection bureaus may set more stringent local standards on discharging pollutants than the national standards and enterprises are required to comply with the more stringent of the two sets of standards. The PRC Environmental Protection Law requires any entity operating a facility that produces pollutants or other hazards to incorporate environmental protection measures into its operations and to establish an environmental protection responsibility system, which must adopt effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials.

New construction, expansion or reconstruction projects and other installations that directly or indirectly discharge pollutants to the environment are subject to relevant provincial regulations governing environmental protection for such projects. Entities undertaking such projects must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment to the competent authorities for examination. The authorities will allow the construction project operator to release a certain amount of pollutants into the environment and will issue a pollutant discharge license for that amount of discharge subject to the payment of discharge fees. The release of pollutants is subject to monitoring by the competent environmental protection authorities. If an entity discharges more than the amount permitted by the pollutant discharge license, the local environmental protection bureau can fine the entity up to several times the discharge fees payable by the offending entity for its allowable discharge, require the offending entity to close its operations, or take other measures to remedy the problem.

In the environmental impact statement of a construction project, the project operator is required to make an assessment regarding the pollution and environmental hazards the project is likely to produce and its impact on the ecosystem, and measures for their prevention and control. The operator is required to submit the statement according to the specified procedure to the competent environmental protection authority for examination and approval. The building of sewage outlets within any water conservancy projects, such as canals, irrigation channels and reservoirs, is subject to the consent of the competent authority in charge of water conservancy projects.

The facilities for the prevention and control of pollution are required to be designed, constructed and put into use or operation simultaneously with the main part of a construction project. Such facilities must be inspected by the competent environmental protection authority. If they do not conform to the specified requirements, the operator is be permitted to put the new facility into operation or use.

Pursuant to the requirements under the amended *Law on Prevention of Water Pollution of the PRC*, which became effective as of 1 June 2008, *Law on Prevention of Air Pollution of the PRC*, which became effective as of 1 September 2000 and *Administrative Regulations on Levy and Use of Discharge Fees*, which became effective as of 1 July 2003, enterprises which discharge water or air pollutants are required to pay discharge fees pursuant to the types and volume of pollutants discharged. The discharge fees are calculated by the local environmental protection authority which assess and determine the types and volume of pollutants discharged.

Violators of the *Environmental Protection Law* and various environmental regulations may be subject to warnings, payment of damages and fines. Any entity undertaking construction work or manufacturing activities before the pollution and waste control and processing facilities are inspected and approved by the environmental protection department may be ordered to suspend production or operations and may be fined. The violators of relevant environment protection laws and regulations may be subject to criminal liability if violations resulted in severe loss of property, personal injuries or death.

Pursuant to *Law of the People's Republic of China on Evaluation of Environmental Effects and Environmental Protection Management Regulation for Construction Projects*, enterprises are required to take precautions against adverse effects on the environment after the implementation of operational plans and the completion of construction projects and to promote the coordinated development of the economy, society and environment.

In addition to the PRC environmental laws and regulations, China is a signatory to the 1992 United Nations Framework Convention on Climate Change and the 1998 Kyoto Protocol, which propose emission targets to reduce greenhouse gas emissions. The Kyoto Protocol came into force on 16 February 2005. At present, the Kyoto Protocol has not set any specific emission targets for certain countries, including China.

TAXATION AND FEES

Historically, business enterprises in China were, in general, subject to enterprise income tax at the rate of 33.0%. However, PRC state and local tax laws provide for a number of preferential tax treatment schemes applicable to various enterprises, industries and locations. Starting in April 2006, Jixi Machinery and Jiamusi Machinery were exempted from enterprise income tax as a result of a preferential tax treatment granted by their local tax authority due to their status as foreign-invested manufacturing enterprises.

On 16 March 2007, China passed the Enterprise Income Tax Law, which took effect on 1 January 2008, imposing a tax rate of 25.0% on all businesses. According to the notice on the implementation of the Enterprise Income Tax Law issued by the State Council on 26 December 2007, Jixi Machinery and Jiamusi Machinery will be subject to preferential tax rate of 12.5% from 1 January 2008 to 31 December 2010. From 1 January 2011, Jiamusi Machinery and Jixi Machinery will be subject to an enterprise income tax rate of 25.0%. In 2009, both Jixi Machinery and Jiamusi Machinery were granted the qualification as "High and New Technology Enterprise" by the State Administration of Taxation. This status must be applied for annually and, if granted, will reduce the enterprise income tax rate by 50% for the year of the grant.

In addition, the coal mining equipment industry is one of the 16 key sectors in the equipment manufacturing industry that the State Council has targeted for development. On 14 January 2007, the Ministry of Finance of PRC, NDRC, the General Administration of Customers and the National Tax Bureau effectively cancelled certain import tariffs or related import value-added tax on components to large scale mining equipments and the like. Domestic manufacturers of mining excavation equipment will benefit from the cancellation of this import tariff on components. The PRC encourages all domestic industries, including coal mining, to purchase domestic equipment and technology and has set target of localisation rates for the industry.

HISTORY AND DEVELOPMENT

Overview

The Resolute Fund, L.P., a private equity fund, indirectly controls our Company through the interests held by its five parallel funds in TJCC Holdings. Resolute Fund Partners, LLC, a Delaware limited liability company, is the general partner of The Resolute Fund, L.P. and each of the five parallel funds. The Jordan Company, L.P., a Delaware limited partnership, is the manager of The Resolute Fund, L.P. and each of five parallel funds. Our Company was incorporated in the Cayman Islands on 12 April 2006 in contemplation of the investments by The Resolute Fund, L. P. in the PRC, which were the acquisitions of Jiamusi Machinery and Jixi Machinery. Our Company is directly owned as to 91% by TJCC Holdings, an investment company directly controlled by the 5 parallel funds of The Resolute Fund, L. P.. The remaining 9.0% equity interest in our Company is held as to 6.3% by Mr. Rubo Li, 1.35% by Mr. Emory Williams and 1.35% by Williams Realty, respectively. Mr. Rubo Li, our non-executive Director, and Mr. Emory Williams, who resigned as Director in December 2009, had assisted The Resolute Fund, L. P. in identifying as potential attractive acquisitions and subsequently, participated in the acquisition negotiations of Jiamusi Machinery and Jixi Machinery. They were given minority interests in our Company as well as "founder participation" rights in the event of repurchase or redemption of our preferred shares as an incentive provided by The Resolute Fund, L. P. to start-up entrepreneurs and management business partners. See "Reorganisation — Preferred Shares" and "Reorganisation — Historical Related Party Transactions — Loans to Messrs. Rubo Li and Emory Williams and their respective related parties".

History of Our Operations

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

➢ ***Jiamusi Machinery and Jixi Machinery.*** In 2004, we began negotiations with Heilongjiang Coal Mining Machinery for the acquisitions of Jiamusi Machinery and Jixi Machinery. Heilongjiang Coal Mining Machinery was a state-owned enterprise, an independent third party and the then sole shareholder of each of Jiamusi Machinery and Jixi Machinery. On 12 April 2006, in contemplation of the acquisitions, our Company was incorporated. Pursuant to an equity transfer agreement dated 30 December 2005, we agreed to acquire the entire equity interest of Jiamusi Machinery and Jixi Machinery, and on 16 May 2006, we, through our subsidiary, IMM Mauritius, completed the acquisition of the entire equity interest of Jiamusi Machinery and Jixi Machinery for a cash consideration of RMB320 million and RMB41 million in expenses directly attributable to the acquisition. The acquisition was approved by the relevant government authorities, including, among others, Heilongjiang Provincial Investment Promotion Bureau (黑龍江省招商局). The consideration amount was determined based on the appraised net asset value of Jiamusi Machinery and Jixi Machinery in the asset valuation reports dated 25 April 2005 and prepared by the PRC certified valuer, namely, Heilongjiang Guotong Appraisal Co., Ltd. (黑龍江國通資產評估有限公司), which was confirmed and approved by the State-owned Assets Supervision and Administration Commission of Heilongjiang Provincial Government. As of 31 December 2006, a sum of approximately RMB33.8 million remained due by us to Heilongjiang Coal Mining Machinery. Since we did not have effective control of Jiamusi Machinery and Jixi Machinery prior to their acquisitions by us on 16 May 2006, it was agreed that the earnings of Jiamusi Machinery and Jixi Machinery between 1 January 2006 to 16 May 2006 in the amount of approximately RMB24.2 million and a management fee for the same period in the sum of approximately RMB9.6 million should be due and payable by us to Heilongjiang Coal Mining Machinery. This sum was fully paid by us in 2008.

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

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

On 3 December 2009, we entered into an equity transfer agreement to acquire the 25% equity interest held by Huainan Benniu in Huainan Longwall for a cash consideration of RMB51.4 million (equivalent to approximately HK$58.4 million), to be paid on or before 31 March 2010. The cash consideration was determined upon negotiations between the parties by reference to an estimated net income of Huainan Longwall for the year of 2009. Approval and registration procedures relating to the purchase were completed in 19 January 2010. Upon completion of our acquisition, Huainan Benniu will no longer be our connected person but will continue to act as a sales agent and distributor of Huainan Longwall.

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

➢ ***Joint venture investments.*** To further consolidate the relationship with our customers, in addition to our extensive network of wholly-owned sales and service centres, we have established three joint ventures with certain end customers to provide aftermarket sales and services.

  ➢ In September 2006, Jixi Machinery established Huainan Shunli in Huainan of Anhui Province and holds 25% equity interest in Huainan Shunli. The other shareholders of Huainan Shunli are independent third parties.

- ➢ In July 2007, Jiamusi Machinery established IMM Xinjiang in Urumqi of Xinjiang Autonomous Region and holds 15% equity interest in IMM Xinjiang. The other shareholders of IMM Xinjiang are independent third parties.

- ➢ In July 2008, Jiamusi Machinery established Tianlong Machinery in Ordos of Inner Mongolia Autonomous Region and holds 20% equity interest in Tianlong Machinery. The other shareholders of Tianlong Machinery are independent third parties, and include Shendong Tianlong Group Co., Ltd. and China National Coal Mining Equipment Co. Ltd..

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

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

OVERVIEW

We are undertaking a number of steps as part of our Reorganisation to settle all historical related party transactions and to repurchase the outstanding preferred shares. These steps include:

(i) repurchase of all outstanding preferred shares held by our controlling shareholder, TJCC Holdings;

(ii) settlement of all related party transactions and amounts payable and receivable in respect of such related party transactions, except the consulting arrangement with Mr. Rubo Li;

(iii) payment of US$10 million (equivalent to approximately HK$77.5 million), being the TJCC Services Transaction and Termination Fee (as defined below) to TJCC Services for (a) its extra services provided in advising us on the Reorganisation and (b) as compensation for terminating the Management Consulting Agreement seven years early; and

(iv) payment of a Contingent Dividend after completion of the audit of financial results of the Company for the year ended 31 December 2009.

PREFERRED SHARES

In 2006, to finance our acquisition of Jiamusi Machinery and Jixi Machinery, we issued preferred shares to TJCC Holdings for a total purchase price of US$64.0 million (equivalent to approximately HK$496.1 million). In 2007, we issued additional preferred shares to TJCC Holdings with a total purchase price of US$38.5 million (equivalent to approximately HK$298.4 million), of which US$14.6 million (equivalent to approximately HK$113.2 million) were committed but unpaid as of 31 July 2009 and which were subsequently fully paid up on 18 December 2009. Holders of our preferred shares are entitled to cumulative dividends compounded semi-annually at an annual rate of 10% per year upon declaration of such dividends by our Board. No dividends have been declared on such preferred shares, and our Board will not declare any dividends on the preferred shares prior to or in connection with the Reorganisation. As part of the Reorganisation, we and TJCC Holdings have agreed that all the preferred shares would be repurchased by us at their initial purchase price in an aggregate sum of US$102.5 million (equivalent to approximately HK$794.5 million).

TJCC Holdings is the only holder of our preferred shares. Messrs. Rubo Li and Emory Williams do not hold any of our preferred shares. However, in the event of a redemption, repurchase of or distribution on such preferred shares, Messrs. Rubo Li and Emory Williams, pursuant to a Founder Participation Agreement dated 16 May 2006, are entitled to participate on an as-if basis in receiving a "founder participation" on a portion of the purchase price of the preferred shares plus any dividends declared on such portion of the purchase price.(1) Messrs. Li and Williams were involved in our original formation, our acquisitions of Jiamusi Machinery and Jixi Machinery as well as our business development, working closely with The Jordan Company, L.P. and The Resolute Fund, L.P. The Founder Participation Agreement was part of the negotiated deal with Messrs. Li and Williams at the time and the amount of their "founder participation" was meant to reflect their 9% interest in the ordinary shares, which is within the typical range of 5 to 15% equity participation provided by The Jordan Company, L.P. to start-up entrepreneurs and management business partners so as to align the equity incentives and orientation of all parties.

(1) Pursuant to a Founder Participation Agreement entered into between the Company, Mr. Rubo Li and Mr. Emory Williams on 16 May 2006, Mr. Rubo Li, Mr. Emory Williams and Williams Realty could participate in certain agreed respects in the proceeds available for distribution by the Company to the holders of preferred shares of par value of US$10.00 per share (equivalent to approximately HK$77.5) of the Company, upon the redemption of the preferred shares of the Company and other specified events based on prescribed formula. Details of the formula in determining the amounts payable (i.e. US$4.86 million or approximately HK$37.7 million) to Messrs. Rubo Li and Emory Williams under the Founder Participation Agreement are set out as follows:

(i) if the preferred shares are redeemed or repurchased, following (1) payment in full of all indebtedness, obligations and liabilities of the Company (i.e. for the purpose of the repurchase as part of the Reorganisation, these include the intercompany loans and accrued interest payable to TJCC Holdings, outstanding management fees payable to TJCC Services and TJCC Services Transaction and Termination Fee payable by the Company as of 31 December 2009. See "Reorganisation Steps" below in the "Reorganisation" section.), including any transaction fees and expenses in connection therewith and (2) payment in full of the initial US$54.0 million (equivalent to approximately HK$418.5 million) of the initial subscription price or face value of the preferred shares (the "**Preferred Shares Participation Face Amount**") but not including any preferred dividends in respect of such preferred shares (the "**Preferred Dividend Participation Amount**"), Rubo Li and Emory Williams shall be entitled to receive an aggregate amount equal to 9% of the Preferred Shares Participation Face Amount (i.e. US$4.86 million or approximately HK$37.7 million), to be paid concurrently as and when the Preferred Shares Participation Face Amount is being paid (the "**Founders Initial Participation Amount**").

(ii) if dividends have been declared by our board in respect of the preferred shares, following payment of the Founders Initial Participation Amount and payment of the Preferred Dividend Participation Amount, Messrs. Rubo Li and Emory Williams would be entitled to receive an aggregate amount equal to 9% of the Preferred Dividend Participation Amount, to be paid concurrently as and when the Preferred Dividend Participation Amount is paid. Our Board will not declare any dividends on the preferred shares; therefore, Messrs. Li and Williams will not receive any Preferred Dividend Participation Amount. The preferred shares shall be purchased upon a negotiated purchase basis, and not a redemption. Messrs. Li and Williams have agreed to the foregoing.

As part of the Reorganisation, we repurchased an aggregate of approximately US$43.4 million (equivalent to approximately HK$336.4 million) of the preferred shares and will repurchase the balance of the preferred shares of approximately US$59.1 million (equivalent to approximately HK$458.1 million) upon completion of the Reorganisation.

HISTORICAL RELATED PARTY TRANSACTIONS

Loans to Messrs. Rubo Li and Emory Williams and Their Respective Related Parties

(a) Loans to HK Siwei

In 2006 and 2007, we and The Jordan Company, L.P. entered into extensive negotiations in connection with a potential acquisition of HK Siwei, which wholly owns Zhengzhou Siwei, a hydraulic roof support products manufacturer. HK Siwei is wholly owned by Mining Machinery Limited, an investment holding company incorporated in Mauritius, of which the sole registered shareholder is Mr. Emory Williams. In contemplation of the proposed acquisition of HK Siwei, we extended loans in the principal amount of approximately US$17.4 million (equivalent to approximately HK$134.9 million) to HK Siwei. Such loans bear interest at a rate of 8% per annum. As of 31 December 2009, HK Siwei owed us approximately US$19.9 million (equivalent to approximately HK$154.2 million) including US$17.4 million (equivalent to approximately HK$134.9 million) in principal and US$2.5 million (equivalent to approximately HK$19.4 million) in accrued and unpaid interest. Negotiation on the proposed acquisition of HK Siwei is currently suspended due to different views on valuation and other terms of any proposed acquisition by us of HK Siwei. As of the Latest Practicable Date, we have no plans to acquire HK Siwei.

According to the announcement dated 20 November 2009 made by ERA Holdings Global Limited ("ERA Holdings") (Stock Code: 8043), a company whose shares are listed on the GEM Board of Hong Kong Stock Exchange, relating to the proposed acquisition by ERA Holdings of the entire equity interest in HK Siwei from Mining Machinery Limited, Mining Machinery Limited is beneficially owned as to 21.38% by Mr. Emory Williams, his spouse and relatives, as to 52.95% by Mr. Rubo Li, his spouse and relatives, as to 19.67% by management of Zhengzhou Siwei, and as to 6.00% by three individuals who are independent from the other shareholders of Mining Machinery Limited.

(b) Loans to Mr. Rubo Li

On 16 May 2006, Mr. Rubo Li subscribed for 63 ordinary shares in our Company nil paid. In connection with the potential acquisition of HK Siwei, we extended loans of US$2.565 million (equivalent to approximately HK$19.9 million) to Mr. Rubo Li on 12 February 2007, part of which was used to pay off the outstanding purchase price of the 63 ordinary shares. Such loans were secured by a share pledge of the 63 ordinary shares held by Mr. Rubo Li in our Company. Such loans bear interest at a rate of 5% per annum. Upon the happening of an event of default, interest on the loans shall accrue at a rate of 7% per annum. As of 31 December 2009, Mr. Rubo Li was estimated to owe us approximately US$2.9 million (equivalent to approximately HK$22.5 million) including US$2.565 million (equivalent to approximately HK$19.9 million) in principal and US$0.370 million (equivalent to approximately HK$2.9 million) in accrued and unpaid interest. As part of the Reorganisation, such loans together with the outstanding interest will be transferred and assigned by our Company to TJCC Holdings, our immediate holding company, in consideration for cancellation of the same amount of shareholder's loans due from our Company to TJCC Holdings. Upon completion of the assignment, no further sum is due and owed by Mr. Rubo Li to the Company.

(c) Loan to Mr. Emory Williams

We have advanced a loan to Mr. Emory Williams (a former Director who resigned on 4 December 2009), in the principal sum of US$13,500 (equivalent to approximately HK$104,635.8) pursuant to a promissory note dated 16 May 2006 in connection with the purchase by Mr. Emory Williams of 13.5 ordinary shares of our Company. Such loan was secured by a share pledge of the 13.5 ordinary shares held by Mr. Emory Williams in our Company. Such loan bears interest at a rate of 5% per annum. As of 31 December 2009, Mr. Emory Williams was estimated to owe us approximately US$15,778 (equivalent to approximately HK$122,292.1) including US$13,500 (equivalent to approximately HK$104,635.8) in principal and an outstanding interest on such loan of approximately US$2,278 (equivalent to approximately HK$17,656.3). Mr. Emory Williams resigned as a Director on 4 December 2009 to devote more of his time and efforts to other interests outside our Company. During his appointment as a director of the Company, Mr. Emory Williams participated in the overall management and development of the Company through monthly board meetings. Mr. Williams was not involved in the day-to-day executive management responsibility of the Company. His responsibilities focused primarily on providing advice and guidance as and when they were required from his perspective as an individual with widespread industry knowledge and contacts. There was no disagreement between Mr. Williams and the Company or its senior management in relation to his resignation. As part of the Reorganisation, the loan to Mr. Emory Williams together with the outstanding interest income will be transferred and assigned by our Company to TJCC Holdings, our immediate holding company, for cancellation of an equal amount of shareholder's loans due from our Company to TJCC Holdings. Upon completion of the assignment, no further sum is due and owed by Emory Williams to our Company.

(d) Loan to Williams Realty

Williams Realty is a Florida limited liability company established in 1978, the entire equity interest of which is owned by Emory Williams (a former Director and our Connected Person who resigned on 4 December 2009) and his family. Williams Realty is an associate of Mr. Emory Williams and therefore a connected person of us. Pursuant to a promissory note dated 16 May 2006 in connection with the purchase of 13.5 ordinary shares in our Company by Williams Realty, we have advanced a loan to Williams Realty in the principal sum of US$13,500 (equivalent to approximately HK$104,635.8). Such loan was secured by a share pledge of the 13.5 ordinary shares purchased by Williams Realty. Such loan bears interest at a rate of 5% per annum. As of 31 December 2009, Williams Realty was estimated to owe us approximately US$15,778 (equivalent to approximately HK$122,292.1), including US$13,500 (equivalent to approximately HK$104,635.8) in principal and an outstanding interest on such loan of approximately US$2,278 (equivalent to approximately HK$17,656.3).

With respect to the provision of loans by us to Mr. Rubo Li, Mr. Emory Williams and Williams Realty for their subscription for our shares, our Cayman Islands counsel has advised that there are no statutory provisions prohibiting such financial assistance under Cayman Islands law. However, the Directors must exercise their fiduciary duties in a proper way when determining whether to provide assistance or not. Subject to the foregoing, the provision of loans by us to our shareholders for the subscription of our Shares does not contravene the Articles of Association of our Company.

Loans to TJCC Services

TJCC Services is retained by us as a consultant to render consulting services to us pursuant to a management consulting agreement dated 16 May 2006. For more information on the services provided by TJCC Services to us, please refer to "— Historical Related Party Transactions — Payment for Management Consulting Services" below. To fund their businesses and operations, we made various advances in an aggregate principal amount of approximately US$17.3 million (equivalent to approximately HK$134.1 million) to TJCC Services. As of 31 December 2009, the outstanding interest on such loans was approximately US$2.2 million (equivalent to approximately HK$17.0 million) and the aggregate outstanding amount principal and interest was approximately US$19.5 million (equivalent to approximately HK$151.1 million).

Intercompany Loans from TJCC Holdings

On various dates prior to the Reorganisation, TJCC Holdings provided intercompany loans to us of approximately US$23.9 million (equivalent to approximately HK$185.2 million) as of 31 December 2009. We used the proceeds of such loans to fund (i) the proposed acquisition of HK Siwei; (ii) general corporate purposes (including to fund advances to TJCC Services); and (iii) our working capital needs. Interest rates on such loans vary. As of 31 December 2009, the outstanding interest on such loans was approximately US$2.8 million (equivalent to approximately HK$21.7 million) and the outstanding amount principal and interest was US$26.7 million (equivalent to approximately HK$206.9 million).

Payment for Management Consulting Services

Pursuant to the management consulting agreement (the "**Management Consulting Agreement**") dated 16 May 2006 entered into between us and TJCC Services, we retained TJCC Services as a consultant to render consulting services with respect to our acquisitions, divestitures and investments, our financial and business affairs, our relationship with lenders, stockholders and other third-party associates or affiliates, and the expansion of our businesses. We agreed to pay TJCC Services (i) a management fee of US$2.5 million (equivalent to approximately HK$19.4 million) per year for the management services it provided; and (ii) in the event TJCC Services provides services outside the ordinary course of business, an additional agreed-to fee for extraordinary services rendered plus reimbursement of expenses. The US$2.5 million (equivalent to approximately HK$19.4 million) management fee is consistent with the management fee charged by The Jordan Company, L.P., the manager of The Resolute Fund, L.P., and its affiliates, to other portfolio companies of The Resolute Fund, L.P.. In addition, TJCC Services has paid all compensation and expenses of Messrs. Kee-Kwan Allen Chan and Youming Ye, our Directors, and provided consulting services in connection with the expansion of our business during the Relevant Period.

Services provided by TJCC Services include those provided by Messrs. Kee-Kwan Allen Chan and Youming Ye as our Directors as well as Mr. Kee-Kwan Allen Chan as our Chief Executive Officer. Prior to the Reorganisation, Mr. Kee-Kwan Allen Chan receives compensation from TJCC Services for his day-to-day management of our Company. Mr. Chan has provided services only to us, and not to other investment portfolio companies of The Resolute Fund, L.P.. Prior to the Reorganisation, Mr. Youming Ye receives compensation from TJCC Services for the management services he provides to us. In addition, Mr. Ye has been responsible for negotiating various business transactions for us and communicating with government officials on regulatory matters. Mr. Ye has also provided services to other investment portfolio companies of The Resolute Fund, L. P. managed by The Jordan Company, L. P. TJCC Services has paid for the travel expenses and certain other expenses of Mr. Thomas H. Quinn, Ms. Lisa M. Ondrula, and Mr. John W. Jordan II for their visits to China to inspect our operations on-site, as well as for the expenses of the personnel engaged in the negotiations for the acquisition of HK Siwei. In addition, prior to the Reorganisation, TJCC Services has provided management consulting services to The Jordan Company, L.P. and its investment portfolio companies for its investments or potential investments in China. Each of Mr. Kee-Kwan Allen Chan and Mr. Youming Ye holds 40.0% of the outstanding ordinary shares of TJCC Services, as well as 3.5% and 4.25% of the outstanding ordinary shares of TJCC Holdings respectively. The remaining 20% of the ordinary shares of TJCC Services are owned by Mr. Andrew Rice, a member of the Operations Management Group of The Jordan Company, L.P. Mr. Andrew Rice has not been and will not be our Director. Mr. Rice also holds 2.0% of the outstanding ordinary shares of TJCC Holdings.

As part of our Reorganisation, all management fees due and owing under the Management Consulting Agreement will be offset against amounts due to us from TJCC Services. The estimated amount due to TJCC Services under the Management Consulting Agreement at 31 December 2009 was US$7.7 million (equivalent to approximately HK$59.7 million).

TJCC Services Transaction and Termination Fee

In connection with our Reorganisation, TJCC Services has provided services outside its ordinary course of business to us, such as advising on the Reorganisation. As compensation for (i) these extraordinary services and (ii) for terminating the management consulting arrangement seven years early, TJCC Services will receive a US$10.0 million (equivalent to approximately HK$77.5 million) transaction and termination fee (the "TJCC Services Transaction and Termination Fee") upon completion of the Reorganisation. This fee amount is consistent with the level of extraordinary transaction fees on similar transactions charged by The Jordan Company, L.P., the manager of The Resolute Fund, L. P., and its affiliates, to other portfolio companies of its investment funds. In addition, the payment of TJCC Services Transaction and Termination Fee results in the termination of the balance of the term of the management consulting arrangement, including the annual management fee of US$2.5 million (equivalent to approximately HK$19.4 million). Compensation for early termination of this arrangement is also consistent with early termination and similar management fee agreements by The Jordan Company, L.P. and its affiliates. As part of a separate agreement, TJCC Services has agreed to pay approximately 9% of the TJCC Services Transaction and Termination Fee to Mr. Rubo Li, Mr. Emory Williams and Williams Realty as follows: US$630,000 (equivalent to approximately HK$4.9 million) to Mr. Rubo Li, US$135,000 (equivalent to approximately HK$1.0 million) to Mr. Emory Williams and US$135,000 (equivalent to approximately HK$1.0 million) to Williams Realty.

The following table sets forth a summary of the balances of the related party transactions as of 31 December 2009.

Preferred Shares	**Outstanding amount (as of 31 December 2009)**
	(US$)
Outstanding preferred shares to be repurchased from TJCC Holdings	$ 59.1 million

Receivables pursuant to the Related Party Transactions (including accrued interest)	**Outstanding amount immediately prior to the Reorganisation (as of 31 December 2009)**
	(US$)
Loans to Messrs. Rubo Li and Emory Williams and Their Respective Related Parties	$ 22.8 million
Loans to HK Siwei	$ 19.9 million
Loans to Rubo Li	$ 2.9 million
Loans to Emory Williams	$0.016 million
Loans to Williams Realty	$0.016 million
Loans to TJCC Services	$ 19.5 million
Sub-total	**$ 42.3 million**

Payables pursuant to Related Party Transactions	**Outstanding amount immediately prior to the Reorganisation (as of 31 December 2009)**
	(US$)
Intercompany loans payable to TJCC Holdings, including accrued interest	$ 26.7 million
Outstanding management fees payable to TJCC Services	$ 7.7 million
TJCC Services Transaction and Termination Fee	$ 10.0 million
Sub-total	**$ 44.4 million**

For further information of related party transactions, see "Connected Transactions" and "Relationship with Our Controlling Shareholders".

REORGANISATION STEPS

As part of our Reorganisation, we expect to undertake a number of steps to terminate substantially all of the related party transactions and settle any outstanding amounts related to these transactions.

Reorganisation Steps Prior to 25 January 2010

Prior to 25 January 2010, we had repurchased a portion of the preferred shares and will settle the related party transactions (other than the TJCC Services Transaction and Termination Fee) as follows:

(i) On 17 December 2009, IMM Mauritius initiated a liquidation and the remaining assets (approximately US$5.0 million (equivalent to approximately HK$38.8 million) in cash) was distributed to the Company on 17 December 2009 (the "Mauritius Distribution"). The Directors confirmed that there are no material gains or losses arising from the liquidation of IMM Mauritius;

(ii) On 17 December 2009, we repurchased US$10.0 million of the preferred shares from TJCC Holdings with available cash.

(iii) On 23 December 2009 and on 31 December 2009, TJCC IMM Jiamusi declared dividends of approximately US$15.8 million and US$41.8 million (equivalent to approximately HK$122.6 million and HK$324.1 million) respectively, to our Company (collectively "Jiamusi Dividend"). The Directors confirmed that the Company is under net asset position and does have distributable reserves upon receipt of the dividends from TJCC IMM Jiamusi.

(iv) On 23 December 2009, we repurchased approximately US$33.4 million (equivalent to approximately HK$258.9 million) of preferred shares. The consideration for the repurchase consisted of the following: (a) the assignment by us to TJCC Holdings of loan and interest receivables, payable to us by TJCC Services, in the aggregate amount of approximately US$7.9 million (equivalent to approximately HK$61.2 million), and (b) US$25.5 million (equivalent to approximately HK$197.6 million) in cash (funded with (1) the proceeds of the Jiamusi Dividend, (2) the Mauritius Distribution and (3) available cash). After giving effect to the foregoing, approximately US$59.1 million (equivalent to approximately HK$458.1 million) of preferred shares remains issued and outstanding.

(v) Pursuant to an Omnibus Assignment and Assumption Agreement (the "Assignment and Assumption Agreement"), on 31 December 2009, we assigned loan and interest receivables, payable by HK Siwei, Mr. Rubo Li, Mr. Emory Williams and Williams Realty, estimated to be in an aggregate amount of approximately US$22.9 million (equivalent to approximately HK$177.5 million) as of 31 December 2009 to TJCC Holdings. As consideration for such assignment, TJCC Holdings forgave and discharged approximately US$22.9 million (equivalent to approximately HK$177.5 million) of the total intercompany loans and interests of US$26.7 million (equivalent to approximately HK$206.9 million) owed by us to TJCC Holdings. After giving effect to the foregoing, we owed TJCC Holdings intercompany loans and interest in the aggregate amount of US$3.9 million (equivalent to approximately HK$30.2 million).

(vi) On 31 December 2009, we assigned to TJCC Holdings a sum of US$3.8 million (equivalent to approximately HK$29.5 million) out of the aggregate amount of US$19.5 million (equivalent to approximately HK$151.1 million) loan and interest receivables payable by TJCC Services. As consideration for the assignment, TJCC Holdings forgave and discharged US$3.8 million (equivalent to approximately HK$29.5 million) of intercompany loans and interest owed by us to TJCC Holdings. After giving effect to the foregoing, we do not owe any intercompany loans to TJCC Holdings.

(vii) On 31 December 2009, we forgave and discharged intercompany loans and interests in the amount of approximately US$7.7 million (equivalent to approximately HK$59.7 million) owed by TJCC Services to us and TJCC Services forgave and discharged approximately US$7.7 million (equivalent to approximately HK$59.7 million) in accrued management fees owed by us. After giving effect to the foregoing, (i) we do not owe any management fees to TJCC Services and (ii) TJCC Services does not owe us any intercompany loans.

(viii) Pursuant to the resolution of the board of directors of TJCC IMM Jiamusi on 24 January 2010, TJCC IMM Jiamusi declared a dividend of RMB[●] million (equivalent to approximately US$[●] million or HK$[●] million) to our Company.

(ix) On 24 January 2010, we declared and approved a contingent dividend of not less than approximately US$[●] million and not more than US$[●] million (equivalent to approximately HK$[●] million and [●] million respectively). The dividend will be paid contingent upon the completion of the Reorganisation.

(x) TJCC Services will assign its employment arrangements or agency relationships, as applicable, with the following individuals to the Company:

(a) Mr. Kee-Kwan Allen Chan (the Chief Executive Officer and executive Director, who allocates and will continue to allocate 100% of his business time to our Company and receive 100% of his annual compensation from us);

(b) Mr. Youming Ye (an executive Director, who will allocate 65% of his business time to the Company and receive 65% of his annual compensation from us); and

(c) Ms. Lisa M. Ondrula (a non-executive Director, who will allocate 60% of her business time to the Company and receive 60% of her annual compensation from us).

Following such assignment, we expect to be obligated to pay compensation to the aforementioned individuals in an aggregate amount not to exceed US$2.0 million (equivalent to approximately HK$15.5 million) per annum (including travel and entertainment expenses).

After giving effect to the transactions set forth above, (a) US$59.1 million (equivalent to approximately HK$458.1 million) of preferred shares will remain issued and outstanding, (b) HK Siwei, Messrs. Rubo Li, Emory Williams and Williams Realty do not owe any loans to us, (c) we do not owe any intercompany loans to TJCC Holdings, (d) we do not owe any management fees to TJCC Services, (e) TJCC Services does not owe any intercompany loans to us, (f) we will owe the TJCC Services Transaction and Termination Fee of US$10 million (equivalent to approximately

HK$77.5 million), (g) we will be obligated to pay compensation in an aggregate amount to the individuals set out in (x) above in an aggregate amount of not exceeding US$2.0 million (equivalent to approximately HK$15.5 million) per annum (including travel and entertainment expenses), and (h) we shall have declared the contingent dividend described in (ix) above. For the avoidance of doubt, after giving effect to the transactions set forth above, all balances due to/from the connected persons have been fully settled prior to the 25 January 2010, except for (a) US$59.1 million (equivalent to approximately HK$458.1 million) of preferred shares issued to TJCC Holdings, (b) the TJCC Services Termination and Transaction Fee of US$10 million (equivalent to approximately HK$77.5 million) and (c) the contingent dividend described in (ix) above.

Reorganisation Steps after 25 January 2010

We intend to carry on the following steps after 25 January 2010:

(i) We will pay the TJCC Services Transaction and Termination Fee of US$10.0 million (equivalent to approximately HK$77.5 million) to TJCC Services. As part of a separate agreement, TJCC Services has agreed to pay 9% of the TJCC Services Transaction and Termination Fee in the sum of US$0.9 million (equivalent to approximately HK$7.0 million) to Mr. Rubo Li, Mr. Emory Williams and Williams Realty. In addition, Mr. Rubo Li, Mr. Emory Williams and Williams Realty have directed us to pay this amount to TJCC Holdings as partial payment of the loans owed to TJCC Holdings by HK Siwei, Rubo Li, Emory Williams and Williams Realty. After giving effect to the foregoing, all related party transactions between the Company and TJCC Services will be settled in full and the management consulting arrangement between TJCC Services and the Company will terminate.

(ii) We will apply approximately US$59.1 million (equivalent to approximately HK$458.1 million) to the repurchase of the outstanding preferred shares.

(iii) Pursuant to the "founder participation", approximately US$4.9 million (equivalent to approximately HK$38.0 million) is payable by us to Messrs. Rubo Li and Messrs. Emory Williams upon the repurchase of the outstanding preferred shares. Messrs. Rubo Li and Emory Williams have directed us to pay this amount to TJCC Holdings as a partial payment of the loans owed to TJCC Holdings by HK Siwei, Rubo Li, Emory Williams and Williams Realty.

(iv) After making the foregoing payments described in items (i) through (iii) above, we will settle a Contingent Dividend in full with certain cash inflow.

Other Arrangements with Mr. Rubo Li

In addition to his appointment as a Director since 16 May 2006, Mr. Rubo Li has been also retained as a consultant pursuant to a consulting agreement dated 16 May 2006, which was renewed by an amended consulting agreement dated 1 May 2009. On 4 December 2009, the amended consulting agreement was replaced with a new consulting agreement. As a consultant, he is retained to serve in an advisory capacity to our business, including (i) advising us on our growth strategy and allowing us to leverage his extensive knowledge of, and contacts in the Chinese coal mining industry; (ii) sourcing investment opportunities in China for our expansion and growth; and (iii) introducing customers to Jiamusi Machinery and Jixi Machinery. A summary of the major terms of his appointment is as follows:

➢ *Term*. From 4 December 2009 to 1 May 2011; and

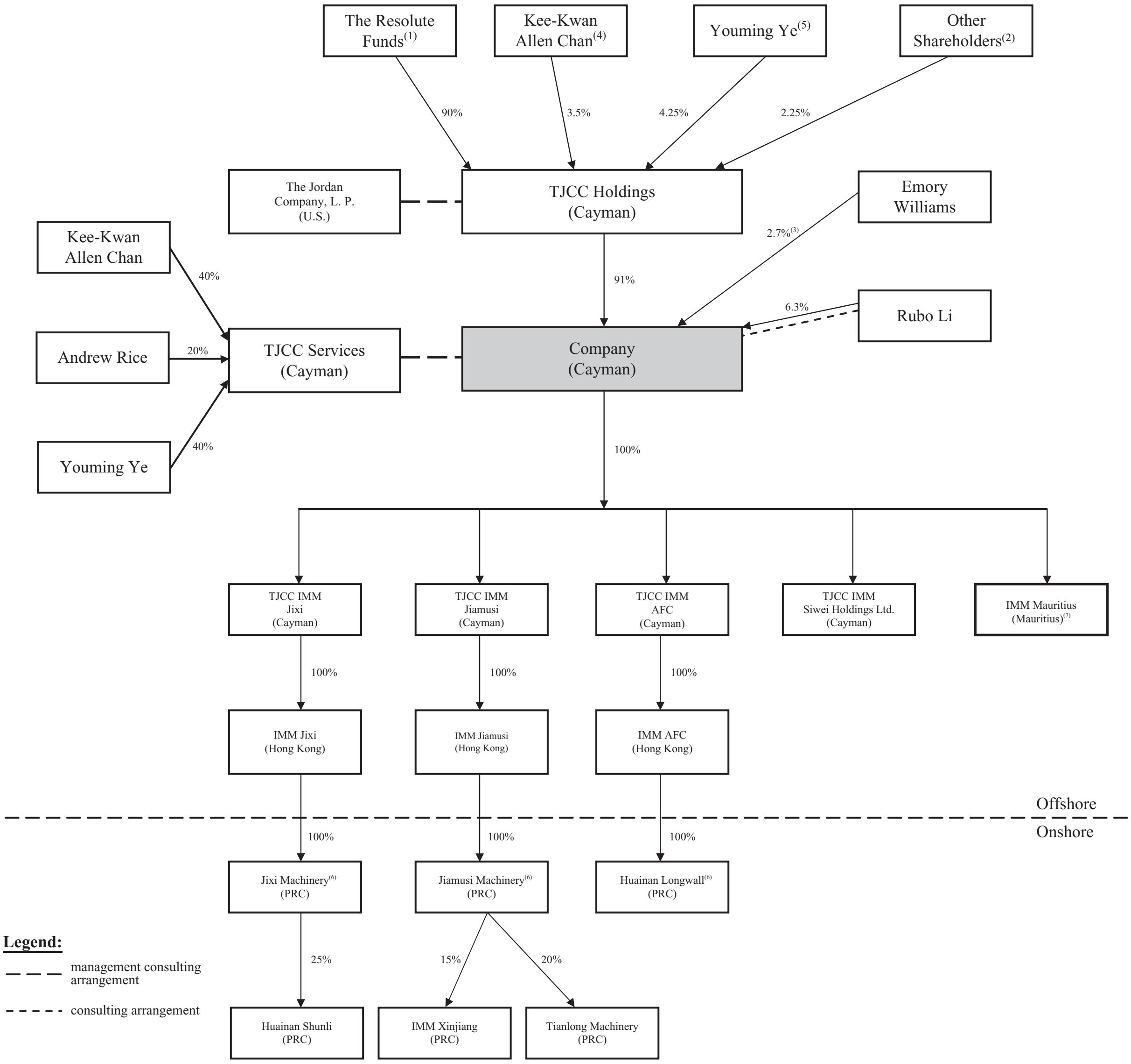
➢ *Payments*. We have agreed to pay Mr. Rubo Li compensation of US$21,000 per month (equivalent to approximately HK$162,766.8). The new consulting agreement does not provide for a performance bonus opportunity.

Pursuant to a consultant subscription agreement dated 16 May 2006, Mr. Rubo Li has (i) undertaken not to compete, directly or indirectly, with our business during the period from 16 May 2006 and ending 16 May 2011 and (ii) granted us, for a period commencing on 16 May 2006 and ending on 16 May 2011, an exclusive right of first offer and an exclusive right of first refusal to purchase, acquire or participate in the business of Zhengzhou Siwei (the operating subsidiary of HK Siwei). Mr. Rubo Li was required to give the above undertaking and rights due to his control in HK Siwei in his capacity as a director of HK Siwei. Similar rights were granted by Mr. Emory Williams to us. Our negotiation on the proposed acquisition of HK Siwei is currently suspended.

On 9 October 2009, ERA Holdings Global Limited (stock code: 8043), a company whose shares are listed on the GEM Board of Hong Kong Stock Exchange, has, through its wholly-owned subsidiary, entered into an agreement with Mining Machinery Limited (an investment holding company incorporated in Mauritius, which controls 100% equity interest in Zhengzhou Siwei through its wholly-owned subsidiary, HK Siwei) (the "ERA Agreement") to acquire the entire issued share capital of HK Siwei. The completion of this acquisition is subject to certain conditions, including existing agreements among Mr. Rubo Li, Mr. Emory Williams and us in relation to the grant of right of first offer and right of first refusal to purchase, acquire or participate in the business of Zhengzhou Siwei. While we continue to evaluate the ERA Agreement as mentioned above, as of the Latest Practicable Date, we did not expect nor have any current plan to acquire HK Siwei nor exercise any right of first offer nor right of first refusal properly provided to us in connection with the ERA Agreement.

CORPORATE STRUCTURE

The following chart sets forth our Group's corporate structure immediately prior to the completion of the Reorganisation.



(1) Consisting of (i) 79.83% directly held by The Resolute Fund SIE (BVI); (ii) 3.78% directly held by The Resolute Fund Netherlands, PV I, L.P. (U.S.); (iii) 3.15% directly held by The Resolute Fund Netherlands PV II, L.P. (U.S.); (iv) 3.15% directly held by The Resolute Fund Singapore PV, L.P. (U.S.); and (v) 0.09% directly held by The Resolute Fund NQP, L.P. (U.S.).

(2) Consisting of one employee of TJCC Services and one employee of The Jordan Company (China). They subscribed for the newly issued ordinary shares at a nominal value of US$1,000 per share (equivalent to approximately HK$7,750.8) and became members of TJCC Holdings on 16 May 2006 and 27 August 2009 respectively.

(3) Consisting of (i) 1.35% directly held Mr. Emory Williams; and (ii) 1.35% directly held by Williams Realty, an entity controlled by the family of Mr. Emory Williams.

(4) Mr. Kee-Kwan Allen Chan subscribed for the newly issued ordinary shares at a nominal value of US$1,000 per share (equivalent to approximately HK$7,750.8) and became members of TJCC Holdings on 16 May 2006.

(5) Mr. Youming Ye subscribed for the newly issued ordinary shares at a nominal value of US$1,000 per share (equivalent to approximately HK$7,750.8) and became members of TJCC Holdings on 16 May 2006.

(6) The principal operating subsidiaries of the Group.

(7) On 17 December 2009, IMM Mauritius initiated a liquidation and will be liquidated upon completion of the liquidation procedures.

The table below sets out the principal business activity for each of the Group's companies:

Name of company	Principal business activity
TJCC IMM Jixi	Investment holding
TJCC IMM Jiamusi	Investment holding
TJCC IMM AFC	Investment holding
TJCC IMM Siwei Holdings Ltd.	Investment holding
IMM Mauritius	Investment holding
IMM Jixi	Investment holding
IMM Jiamusi	Investment holding
IMM AFC	Investment holding
Jixi Machinery	Design, manufacture and provision of maintenance and after-sale services of shearer products and related parts
Jiamusi Machinery	Design, manufacture and provision of maintenance services of roadheader products and related parts
Huainan Longwall	Design, manufacture, sale and provision of repairs, maintenance and after-sale services for armoured-face conveyors and related products

OVERVIEW

We are a leading designer and manufacturer of underground longwall coal mining equipment in China. A complete underground longwall mining system consists of four core pieces of equipment, namely roadheaders, shearers, armoured-face conveyors and hydraulic roof supports. We are a market leader in China in designing and manufacturing roadheaders and shearers, the two pieces of equipment which we believe to be the most technologically sophisticated in the underground longwall mining system, and we are quickly growing our armoured-face conveyor business. By capitalising on our capabilities, the extended history of our operations (as reflected in a large installed base) and a track record of innovation, we believe that we are uniquely positioned to become among the first complete longwall system solution providers in China.

The following is a brief overview of our current product segments:

➢ *Roadheader products*. We are a leading roadheader supplier in China, with a 27% market share based on units sold in 2008, according to China National Coal Machinery Industry Association, or CMIA. According to the same source, we also had the largest installed base of roadheaders as of 31 December 2008, based on the aggregate number of units sold from 2005 to 2008. Jiamusi Machinery, our subsidiary that designs and manufactures our roadheader products, traces its history back to 1957 and manufactured the first roadheader in China in 1976. We currently offer 24 series of roadheaders, classified by installed cutting power under the categories of light-duty, medium-duty and heavy-duty. We believe our EBZ350 series roadheaders have the highest installed cutting power among roadheaders manufactured in China today.

➢ *Shearer products*. We are the largest longwall shearer supplier in China, with a 27% market share based on units sold in 2008, according to CMIA. According to the same source, we also had the largest installed base of shearers as of 31 December 2008, based on the aggregate number of units sold from 2005 to 2008. Jixi Machinery, our subsidiary that designs and manufactures our shearer products, traces its history back to 1936 and manufactured the first shearer in China in 1953. We offer a full line of shearers to operate under a wide range of coal bed conditions, from ultra-thin coal seams of 0.65 metres to thick seams of 6 metres. We believe that we are one of the few manufacturers in China with the capability to design and manufacture shearers with total power output over 2,000KW.

➢ *Armoured-face conveyors and related products*. We established our Huainan Longwall subsidiary in 2007 as a joint venture in which we initially held a 75% equity interest. Huainan Benniu, our joint venture partner at the time, was principally engaged in the manufacture and sale of mining machinery, conveyor machinery including armoured-face conveyors, and related spare parts. As part of the joint venture arrangement, Huainan Benniu contributed substantially all of its assets for the remaining 25% interest in Huainan Longwall. Capitalising on Huainan Benniu's customer base, we generated significant sales of armoured-face conveyors and related products in 2008, which we exceeded within the first seven months of 2009. We entered into an agreement with Huainan Benniu to purchase the remaining 25% equity interest of Huainan Longwall in December 2009. Approvals and registration procedures relating to the purchase were completed on 19 January 2010, and we expect the consideration for the purchase to be paid in March 2010.

➢ *Aftermarket parts and services*. We offer a wide range of aftermarket services, including onsite service repairs, overhauls and a supply of spare parts through an extensive network of service centres and parts depots in key mining districts which are close to our customers.

We primarily sell our products through independent distributors and sales agents who then sell them to end-customers who are coal producers. Our sales to end-customers, including direct sales and sales through agents, accounted for approximately 40% of our total revenue for the seven months ended 31 July 2009. Our end customer base includes all of the 50 largest coal producers in China (as ranked by China Coal News in August 2009), which collectively accounted for approximately 60% of the total coal produced in China in 2008. To further solidify our relationships with our targeted end customers, we have established three joint ventures with leading PRC coal producers including Shendong Tianlong Group Co., Ltd. and China National Coal Mining Equipment Co. Ltd. to provide aftermarket services in key coal mining regions. Our distribution and service network consists of 37 wholly-owned service centres and various distributors, sales agents and parts depots. Our sales and service points are located in the 13 largest coal production bases in China, each with an annual coal production of more than 100 million tonnes and collectively representing 60% of the total coal production in China in 2008.

Our products are well-recognised in China for their quality and advanced technology and have won numerous awards nationally. For example, our EBZ100 roadheader won the National Quality Gold Metal in 1986, which was the only occasion on which such award was granted in history. Our MG132/315-WD shearer was awarded the first prize in technology advancement in 2007 by the Heilongjiang provincial government. As part of our product development efforts, we work closely with our end customers in designing, manufacturing and testing new lines of products that meet their specific demands. As of 31 July 2009, we employed 2,590 manufacturing and technical personnel, which represented 75.1% of our full-time employees.

In addition to our advantageous market position and capabilities, we believe that the current industry and regulatory environment will significantly contribute to our growth. Substantially all of China's coal reserves can be economically extracted only through underground mining. Compared to room and pillar mining, longwall mining is fully mechanised and as a result, increases operating efficiency and safety. To promote safety and efficiency, the PRC Government has closed more than 12,000 small mines as of the end of 2008 and encouraged the consolidation and mechanisation of the remaining small and medium mines. PRC Government policy has mandated that state-owned large-scale mines achieve 95% mechanisation rates, and that medium-scale mines achieve 80% mechanisation rates, by 2010.

Our Company was established on 12 April 2006 and acquired the 100% equity interest in Jiamusi Machinery and Jixi Machinery on 16 May 2006. For the 2006 Consolidated Period, our revenue totaled RMB545.9 million and our profit for the period totaled RMB60.2 million. From 2007 to 2008, our revenue increased from RMB857.6 million to RMB1,279.7 million, or an increase of 49.2%, and our profit for the year decreased from RMB149.8 million to RMB146.2 million, or a decrease of 2.4% primarily reflecting significantly higher tax expense due to the expiration of a tax holiday at Jiamusi Machinery and Jixi Machinery. In the seven months ended 31 July 2009 compared to the same period in 2008, our revenue increased from RMB702.6 million to RMB873.0 million, or an increase of 24.3%, and our profit for the same period increased from RMB94.9 million to RMB138.4 million, or an increase of 45.8%.

COMPETITIVE STRENGTHS

We believe that the following strengths distinguish us from our competitors and contribute to our ability to compete effectively in the future:

Market leadership in key products

We are a leading designer and manufacturer of underground longwall coal mining equipment in China. Having designed and manufactured the first roadheader and shearer in China, we remain China's market leader in these two products, with a market share of 27% in roadheaders and 27% in shearers based on units sold in 2008, according to CMIA. We believe that roadheaders and shearers, compared to armoured-face conveyors and hydraulic roof supports, are more technologically sophisticated, and from our experience, generally offer more attractive gross margins. We believe that our market positions in these two key products, coupled with our fast-growing business in armoured-face conveyors and related products, position us well to becoming one of the first complete longwall system solution providers in China.

Largest installed base of roadheaders and shearers in China

According to CMIA, we had the largest installed base of roadheaders and shearers as of 31 December 2008, based on the respective aggregate number of units sold from 2005 to 2008, and assuming that all units remained in service as of 31 December 2008. As of 31 December 2008, Jiamusi Machinery had an installed base of 1,115 roadheaders, which is the largest in China and 35.5% more than the second largest domestic roadheader supplier. As of the same date, Jixi Machinery had an installed base of 576 shearers which is the most in China and 54.8% more than the second largest domestic shearer supplier. Due to the harsh coal mining environment, roadheaders, shearers and other longwall mining equipment requires frequent parts replacement and maintenance. In addition, longwall equipment is completely replaced with new equipment every three to five years. We expect our large installed base will lead to strong demand for spare parts, aftermarket service and replacement original-equipment-manufacturer sales. We expect our strong customer relationships will also lead to original-equipment-manufacturer orders from new mines and new coal working faces as customers continue to build new coal production capacity to meet the growing demand for coal in China.

Extensive distribution and service network covering a broad customer base

Our extensive distribution and service network in China provides us with sales and marketing coverage, as well as a broad range of aftermarket services, including spare parts, maintenance and repair services, refurbishing and overhaul services. This network consists of 37 wholly-owned service centres, 23 third-party distributors and sales agents and 55 parts depots. Our distribution and service network covers the 13 largest coal production bases in China, each with a production capacity of over 100 million tonnes and collectively representing 60% of the total coal production in China in 2008. Our end customer base includes all of the 50 largest coal producers in China (as ranked by China Coal News in August 2009), which collectively accounted for approximately 60% of the total coal produced in China in 2008. To further solidify our relationships with our targeted end customers, we have established joint ventures with affiliates of leading PRC coal producers, including Shendong Tianlong Group Co., Ltd., China National Coal Mining Equipment Co., Ltd., and Huainan Shunli Machine Co., Ltd. to provide aftermarket parts and services in key coal mining regions. In light of the ongoing consolidation of the PRC coal mining industry, we believe that our distribution and service network, coupled with our joint ventures and other strategic cooperative relationships with key end customers, will contribute significantly to our efforts in solidifying our position in China's coal mining machinery market.

Strong product development capability

A critical factor to our success to date is our ability to continue making technological advancements in developing new products to meet the demands of the market. As of 31 July 2009, we had 377 technicians, or 10.8% of our total full-time employees, working in various aspects of coal mining equipment product development, such as mining engineering, mechanical design and manufacturing, electrical engineering and electronics, mechanics and hydraulics. For products that require significant customisation, particularly shearers, we work closely with our customers from the initial design stage to develop products that address their specific needs. As a reflection of our efforts, we currently offer 24 series of roadheaders, including the EBZ350 series, which we believe to have the highest installed cutting power among roadheaders manufactured in China today. We also offer a full line of shearers to operate under a wide range of coal bed conditions, from ultra-thin coal seams of 0.65 metre to thick seams of 6 metres. We believe that we are one of the few manufacturers in China with the capability to design and manufacture shearers with total power output over 2000KW.

Commitment to reliability, safety and productivity

We are firmly committed to designing and manufacturing products that set high standards for reliability, safety and productivity. To this end, we have implemented rigorous and comprehensive quality management procedures to our entire production process. We have received 17 national and provincial awards for the quality and technology of our products. For example, our EBZ100 roadheader won the National Quality Gold Metal in 1986, which was the only occasion on which such award was granted in history. Our MG132/315-WD shearer was awarded the first prize in technology advancement in 2007 by the Heilongjiang provincial government. In particular, our 2040KW shearer maintains the national record for its total power output as of 31 July 2009, according to CMIA. Our commitment to provide products of high reliability, safety and productivity enables us to build our customers' confidence in us and enhance the reputation of our products.

Experienced management team with a proven track record

Our management team combines extensive international experience with in-depth local knowledge in China. Our Chief Executive Officer, Chief Financial Officer and President have an average of 25 years of experience in managing businesses for large corporations. Our senior management team has an average industry experience of over 26 years in the coal mining equipment industry. We plan to provide our management team members with performance-based incentive schemes such as a share option plan to motivate their performance and to align their interest with that of our shareholders. Under the leadership of our management team, we have expanded into armoured-face conveyors and related products business, broadened our product offerings in roadheaders and shearers, and made strategic investments in a number of joint ventures with targeted end customers. We believe that this management team has the vision as well as the industry knowledge and experience to continue to capture market opportunities and effectively implement our future growth strategy.

BUSINESS STRATEGY

Our long-term objective is to become the leading underground longwall equipment designer and manufacturer in China. To that end, we intend to implement a business strategy with the following key aspects:

Expand capacity to capture growth opportunities and increase efficiency

We expect the demand for coal mining equipment to grow significantly as a result of a number of industry and regulatory factors. Accordingly, we believe that the current environment offers favourable opportunities for production capacity expansion. Expanding production capacity will also enhance our ability to in-source processes such as castings and surface processing that are currently out-sourced but can be processed more cost-effectively in-house, thereby improving our margins and production efficiency. We also expect that this increasing level of vertical integration will reduce our sales cycle and shorten our response time to changes in our customer's demands. Additional production capacity will also enable us to expand sales into areas which have been constrained by capacity in the past, including international sales, spare parts sales and sales to smaller privately held mines. Our new production facilities located in Huainan are expected to commence production of our armoured-face conveyor in June 2010 and the production capacity is expected to increase by 50%. The new production facilities in Huainan and planned upgrades to our current facilities will allow us to increase our overall production capacity, enhance our product quality and diversity, further integrate our production process as well as to expand into new products segments. We expect that our upgraded production facilities will enable us to produce approximately 444 roadheaders, 246 shearers, and 250 units of armoured-face conveyors annually by the end of 2010, and 528 roadheaders, 296 shearers and 340 armoured-face conveyors annually by the end of 2011. We expect to enter into new product segments, including other longwall coal mining related products, to complement our existing business within the next two years.

Capture aftermarket sales opportunities

Revenue from aftermarket parts and services represented 17.1% of our total revenue in 2008. We believe there is a significant growth opportunity in the aftermarket sales market in China. In particular, we expect that our large and growing installed base, fostered by the current favourable industry and regulatory environment, will contribute to the growth in sales of our aftermarket parts and services in absolute terms. In addition, as we began sales of armoured-face conveyors and related products in 2008, we expect an increase in sales of aftermarket parts and services as a proportion of our revenue in this segment as these products begin to require servicing and parts replacements. To increase sales of aftermarket parts and services as a proportion of our overall revenue, we intend to implement a number of initiatives, including (i) expanding our production capacity in manufacturing spare parts and providing overhaul services; and (ii) placing more of our service locations in close proximity to the coal mines we service to provide services that meet our customers' specific requirements, thereby allowing for reduction in equipment downtime and enhancing productivity.

Expand our capability to provide complete longwall system solutions

As a market leader in the roadheader and shearer products in China, we believe that we have the two most critical building blocks in place and are uniquely positioned to becoming a complete longwall system solution providers in China. In addition to our fast-growing armoured-face conveyors business, we intend to actively explore acquisition and joint venture opportunities to expand into manufacturing of hydraulic roof supports, the fourth major equipment used in longwall mining. In the longer term, we also intend to expand our product lines from working face level to other equipment used in underground mining operations such as belt conveyors, mobile transformers explosion proof motors, control systems, electrical systems lifts and other underground coal mining equipment. We believe that developing the capability to provide complete longwall systems is essential to strengthening our market position and maintaining our future growth. As of the Latest Practicable Date, we had no specific acquisition plans and had not identified any acquisition targets.

Expand distribution and service network and strengthen relationships with key customers

We intend to continue to expand our distribution, and service network by establishing distribution and service centres in close proximity to major coal producers. From 2007 to 2008, we established joint venture service centres with major coal producers in major coal production bases such as the Xinjiang Autonomous Region, Huainan in Anhui Province and Ordos in Inner Mongolia Autonomous Region. We plan to continue to explore opportunities to form strategic alliances, partnerships and other relationships with major coal producers by establishing service centres in all of the 13 coal production bases. In addition, we plan to significantly expand our direct sales team in order to strengthen our relationships with end customers.

Further enhance product development capability

We believe our product development capability is key to our success. We intend to increase the level of cooperation with our customers to provide products tailored to the specific needs of our customers. We also intend to increase the level of cooperation and interaction among our product development teams in various locations and for various product lines with a view to providing integrated underground longwall mining equipment that work seamlessly together. In addition, we intend to upgrade our research facilities and purchase additional advanced equipment to enhance our research and development capability. For example, we intend to establish the first longwall mining test lab in China, which will significantly enhance our capability to develop innovative and high quality coal mining machinery products. We also intend to attract and retain the most talented individuals in the industry to meet the needs of our expansion by offering competitive remuneration packages.

OUR PRODUCTS AND SERVICES

In a typical longwall mining operation, a block of coal 100 to 300 metres wide and one to three kilometres long is cut from a seam that may be 500 metres or more underground. This cutting is performed by excavating two parallel three to three-and-a-half kilometres long tunnels the width of the coal block to be mined into a coal seam. The tunnel excavation is performed using a machine called a roadheader. Once the two parallel tunnels have been connected by a third tunnel at the back of the block, the longwall mining begins. A longwall mining system, which is generally considered to form the cutting surface, or the working face, of a coal mine, consists of three main parts: the shearer, the armoured-face conveyor and the roof support. The shearer performs the cutting of the coal from the coal face. Roof supports allow miners to have a relatively safe structure under which to work. The armoured-face conveyor carries the raw coal away from the working face to a crusher, and then to a series of belt conveyors that eventually carry the coal out of the mine. After the shearer makes a complete pass along the mine face, the entire longwall mining system moves forward to work further along the mine face.

We design, manufacture and service roadheader products, shearer products and armoured-face conveyors and related products. We also provide aftermarket parts and services. The following table sets forth our revenue percentage by product segment for the periods indicated.

	For the period from 12 April 2006 to 31 December 2006	For the year ended 31 December		For the seven months ended 31 July	
		2007	2008	2008	2009
Roadheader products	48.3%	48.3%	44.7%	48.6%	48.0%
Shearer products	35.8%	30.4%	27.2%	26.9%	21.9%
Armoured-face conveyors and related products	—	—	11.0%	6.7%	16.8%
Aftermarket parts and services	15.9%	21.3%	17.1%	17.8%	13.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The following table sets forth the average selling price and units sold of our products by product segment for the periods indicated.

	Period from 12 April to 31 December		For the year ended 31 December				For the seven months ended 31 July			
	2006		2007		2008		2008		2009	
	Sales volume (Units)	Average selling price	Sales volume (Units)	Average selling price	Sales volume (Units)	Average selling price	Sales volume (Units)	Average selling price	Sales volume (Units)	Average selling price
	(in millions of RMB, except for units)									
Product Segment:										
Roadheaders:										
Light	5	0.8	18	0.8	18	0.8	13	0.7	7	0.8
Medium	139	1.6	197	1.6	245	1.6	147	1.6	145	1.9
Heavy	11	3.1	26	3.2	40	3.9	26	3.5	37	3.8
Shearers:										
Ultra-thin seam	25	1.3	32	1.2	47	1.1	25	1.1	27	1.2
Thin seam	12	1.6	25	1.4	25	1.3	15	1.3	9	1.4
Medium seam	50	2.3	46	2.1	87	2.2	45	2.2	51	2.1
Thick seam	5	5.7	17	5.4	13	5.2	8	5.3	8	4.7
Armoured-face conveyors and related products:										
Crushers	—	—	—	—	21	0.3	11	0.3	25	0.3
Loaders	—	—	—	—	26	1.2	13	1.0	30	1.2
Conveyors	—	—	—	—	45	2.1	18	1.7	47	2.1
Sliding plow	—	—	—	—	1	2.6	—	—	1	2.6
Automated control systems	—	—	—	—	10	0.4	1	0.4	6	0.4

Roadheader Products

We are a leading supplier in China, with a 27% market share based on units sold in 2008, according to CMIA. We also have the largest installed base from 2005 to 2008, as measured by the units sold during the period. Jiamusi Machinery, our subsidiary that designs and manufactures our roadheader products, traces its history back to 1957, and manufactured the first roadheader in China in 1976.

The selection of roadheaders depends on the geological conditions of the mining projects and particularly, the hardness of the strata to be tunnelled. We currently offer 24 series of roadheaders, classified by installed cutting power under the categories of light-duty, medium-duty and heavy-duty, to meet mining demands in a wide range of working conditions. In addition, although our roadheader products are widely used in underground coal mines as tunnelling equipment, they can also be used for other applications such as railway, roadway and subway construction. We have the capability to provide customised products in accordance with our end-customer's requirements for products that incorporate a combination of functions such as interchangeable cutting direction, round tunnelling and dust control systems.

The following images show some of the roadheaders manufactured by us.

EBZ300 roadheader, with a cutting power of 300kw.

EBZ260 roadheader, with a cutting power of 260kw.

EBZ230 roadheader, with a cutting power of 230kw.

EBZ200A roadheader, with a cutting power of 200kw.

EBZ150A roadheader, with a cutting power of 150kw.

EBZ135 roadheader, with a cutting power of 135kw.

EBZ100E roadheader, with a cutting power of 100kw.

EBZ55 roadheader, with a cutting power of 55kw.

The following table sets forth certain key features of our roadheader products by product category.

Category	Key features
Light-duty	Our light-duty roadheaders, which have installed cutting power of up to 55KW, are designed to cut soft to medium hard strata and can be used in coal mining, railway, roadway and standard civil engineering.
Medium-duty	Our medium-duty roadheaders, which have installed cutting power ranging from 100KW to 160KW, are designed to excavate tunnels in soft coal and semi-coal strata as well as in railway, roadway and water conservancy engineering.
Heavy-duty	Our heavy-duty roadheaders, which have installed cutting power ranging from 200KW to 350KW, are designed to excavate tunnels in hard rock strata as well as in railway, roadway and other infrastructure construction.

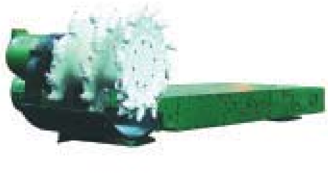
In recent years, our main products have been medium-duty roadheaders which operate in a wide variety of mining conditions. The focus of our product development efforts is on heavy-duty roadheaders, which are more technologically demanding than light duty and medium-duty roadheaders and as a result, offer more attractive profit margins. As a result of our efforts, we have designed and manufactured the EBZ350 series, which we believe to have the highest installed cutting power among roadheaders manufactured in China today.

Shearer Products

We are the largest shearer supplier in China, with a 27% market share based on units sold in 2008, according to CMIA. We also have the largest installed base from 2005 to 2008, as measured by units sold during the period. Jixi Machinery, our subsidiary that designs and manufactures our shearer products, traces its history back to 1936 and manufactured the first shearer in China in 1953.

The selection of the shearers is frequently based on the thickness of the coal seams for which the shearers are to be used. Based on the thickness of the seams they extract, shearers can be generally categorised into ultra-thin seam shearers, thin seam shearers, medium seam shearers and thick seam shearers. We offer a full line of shearers to operate under a wide range of coal bed conditions, from ultra-thin coal seams of 0.65 metre to thick seams of 6 metres. In addition, we are one of the few manufacturers in China with the capability to design and manufacture shearers with total power output over 2000KW. We believe the market for shearer manufacturing has a high entry barrier because it requires a high level of (i) customisation as a result of the significant variance in geological conditions in coal mines, (ii) aftermarket maintenance, and (iii) engineers who are experienced and knowledgeable in coal mine exploration and geology.

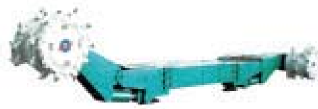
The following images show some of the shearers manufactured by us.



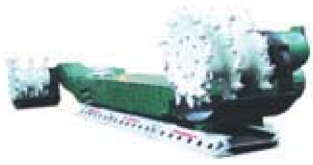
MG2×40/102-TWD Shearer

MG2×65/312-WD Shearer

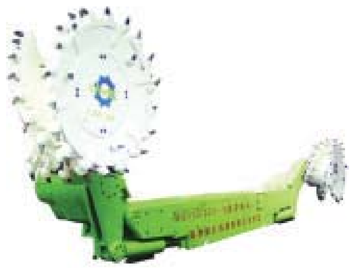
MG2×100/460-WD Shearer



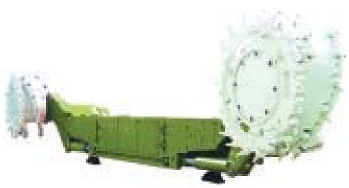
MG2×150/700-WD Shearer



MG100/240-BW Shearer



MG132/320-W Shearer

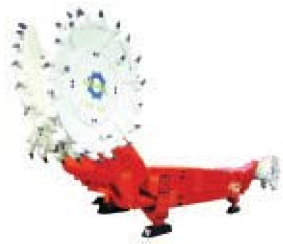


MG160/390-WD Shearer

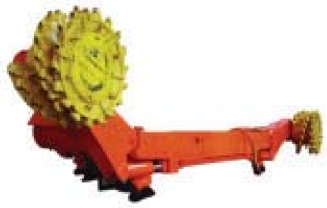
MG300/355-NWD Shearer

MG300/701-WD Shearer

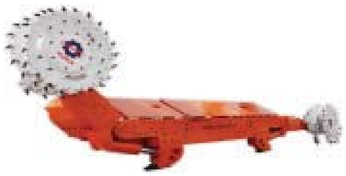
MG300/730-WD Shearer



MG400/940-WD Shearer



MG500/1180-WD Shearer



MG700/1660-WD Shearer

MG800/2040-WD Shearer

The following table sets forth certain key features of our shearer products by product category.

Category	Key features
Ultra-thin seam	Our ultra-thin seam shearers, with total power output ranging from 102KW to 230KW, are designed to operate in coal seams with thickness ranging from 0.65 metre to 1.55 metres.
Thin seam	Our thin seam shearers, with total power output ranging from 240KW to 700KW, are designed to operate in coal seams with thickness ranging from 0.95 metre to 2.05 metres.
Medium seam	Our medium seam shearers, with total power output ranging from 320KW to 1400KW, are designed to operate in coal seams with thickness ranging from 1.3 metres to five metres.
Thick seam	Our thick seam shearers, with total power output ranging from 1660KW to 2630KW, are designed to operate in coal seams with thickness ranging from 1.8 metres to six metres.

Medium seam shearers have historically generated the most sales among the four types of shearers. In recent years, fostered by the rising prices of coal which makes exploitation of thin and ultra-thin coal seams increasingly profitable, coupled with the increasingly stringent PRC Government requirements with respect to the extraction ratio of coal mining operations, we have experienced an increase in demand for thin seam shearers and ultra thin seam shearers. In response to these market trends, we have increased our product development efforts in these products.

Armoured-Face Conveyors and Related Products

We established our Huainan Longwall subsidiary in 2007 as a joint venture in which we initially held a 75% equity interest. Huainan Benniu, our former joint venture partner, was principally engaged in the production and sales of mining machinery, conveyor machinery including armoured-face conveyors, and related parts and, as part of the joint venture, contributed substantially all of its assets of Huainan Benniu, including facilities and equipment for the remaining 25% interest in Huainan Longwall. Please refer to "History — History and Development — History of our operations" for more information on the background of Huainan Benniu and details of the joint venture. Capitalising on Huainan Benniu's established customer base, we generated significant sales in 2008, which we exceeded within the first seven months of 2009. Prior to November 2007, Huainan Longwall's sole activities were those in connection with the setting up of the then joint venture with Huainan Benniu. We began production of armoured-face conveyors and related products at Huainan Longwall in November 2007 and sales commenced in January 2008. During the Relevant Period, Huainan Benniu was engaged as one of the distributors and sales agents of Huainan Longwall. We entered into an agreement with Huainan Benniu to purchase the remaining 25% equity interest of Huainan Longwall in December 2009. Approvals and registration procedures relating to the purchase were completed on 19 January 2010, and we expect the consideration for the purchase to be paid in March 2010. Huainan Benniu will act as our sales agent for armoured-face conveyors and related products and as distributor for spare parts.

Armoured-face conveyors are used in longwall mining operations to support the shearers and transport the coal cut from the coal face by the shearers. Our armoured-face conveyors product line consists of 43 products with power capacities ranging from 75KW to 1,400KW and linepans ranging from 0.63 metre to 1.0 metre. In addition to designing and manufacturing armoured-faced conveyors, our product portfolio in this segment includes crushers, loaders, conveyors, sliding plows, and automated control systems.

The following images show some of the armoured-face conveyors and related products manufactured by us.

SG(B, D, Z)630 scraper conveyor

SGZ764(730) scraper conveyor

SGZ800(830,900) scraper conveyor

SGZ1000/1400 conveyor

SZ(Z, D, B) bridge stage loader

Sliding plow

PML hammer crusher

Stage loader

Aftermarket Parts and Services

In addition to the design, manufacturing and sale of original equipment, we offer a wide range of aftermarket services, including onsite service repairs, overhauls and supply of spare parts. To deliver our aftermarket services in a timely manner, we have established 37 wholly-owned service centres and 55 parts depots in key coal mining districts around China in close proximity to where our major end customers are concentrated. Our service centres are staffed by technicians trained to perform repair and maintenance on all of our major equipment items, as well as those of some of our major competitors, including imported equipment, in an effort to expand our customer base. We also maintain an inventory of key components at our service centres to meet our end customers' repair needs on a timely basis.

Our end customer base includes all of the 50 largest coal producers in China (as ranked by China Coal News in August 2009), which collectively accounted for approximately 60% of the total coal produced in China in 2008. To further solidify our relationships with our targeted end customers, we have established three joint ventures with leading PRC coal producers including Shendong Tianlong Group Co., Ltd. and China National Coal Mining Equipment Co. Ltd. to provide aftermarket services in key coal mining regions. In 2007, we established IMM Xinjiang, a joint venture company in Xinjiang Autonomous Region, which has over 40% of the proved coal reserves in China and is emerging as a major coal production district in the western part of China. Our investment in IMM Xinjiang enables us to partner with a major coal producer to provide integrated equipment supply and services to coal producers in the covered region. Subsequent to establishing IMM Xinjiang, we have established two additional joint ventures, namely Tianlong Machinery and Huainan Shunli, to provide aftermarket parts and services to our customers close to their locations. We plan to continue to explore similar opportunities with major coal producers to capitalise on the market demand for integrated aftermarket parts and services as well as to further strengthen relationship with key coal customers.

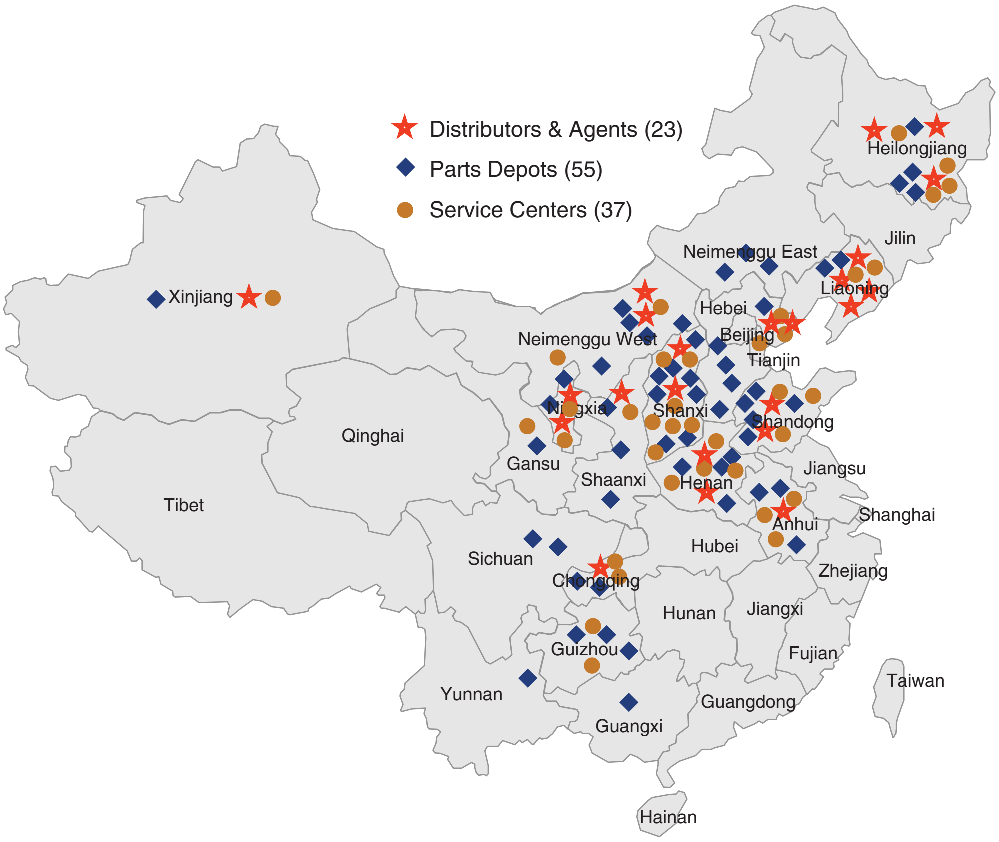
SALES AND MARKETING

Sales and Distribution Channels

Currently, we primarily distribute our products and services through our independent distributors and sales agents. Our entire senior management team is involved in the selling process and maintains relationships with the management of key end customers, especially the large state owned enterprises. Our sales headquarters is responsible for managing our sales and distribution network and overall planning for and coordination of the sales and marketing activities of our subsidiaries, distributors and sales agents. Our regional sales centres are responsible for coordinating, monitoring and supervising the sales and marketing activities of our distributors and sales agents in their regions as well as conducting any in-house sales and marketing activities. Among our three principal products, our shearers are generally sold through sales agents. Our armoured-face conveyors and related products are primarily sold through sales agents and secondarily, through distributors. Our roadheaders are primarily sold through distributors and secondarily, through sales agents. We sell our spare parts through distributors and enable them to take stock of spare parts in order to ensure that our end-customers are able to receive prompt maintenance services. As part of our strategy to strengthen customer relationships with our key end customers, we established direct sales departments in 2009 to commence direct sales.

As of 31 July 2009, we had a sales and marketing team of 299 members, consisting of 23 employees in our sales headquarters and 276 employees in the sales and marketing departments of the subsidiaries. As of the same date, we also had 23 independent distributors and sales agents. We also have agents in Russia, India, Australia and several other countries.

The following map shows our sales and marketing network in China as of 31 July 2009.



We enter into exclusive arrangements with our distributors and sales agents. As part of these arrangements, each of our distributors and sales agents is allowed to distribute and service only products manufactured by us and only within a certain geographical region. Our distributorship agreements with our distributors are generally for one year and are renewable based on performance. Typically, for sales through distributors, we sell our products to the distributors, who then re-sell our products to our end-customers based on pricing guidelines provided by us. Our end-customers pay the distributors for our products. On the other hand, for sales through agents we enter into contracts directly with our end-customers who pay us directly for the products. Commission to our sales agents is determined by either (i) the difference between our standard sale price and the actual amount received from our end-customers; or (ii) a fixed percentage of the transaction amount. The commission for sales agents is determined by taking in account various factors such as the profit margin, the competitive nature of our products and the nature of our end-customers. We pay our sales agents a commission once we receive payment from our end-customers. For both sales through distributors and sales through sales agents, we generally deliver our products directly to our end-customers except for spare parts, which in most cases are delivered directly to distributors. Sales revenue is recognised upon delivery of our products to our end-customers. We conduct onsite visits to provide technical and engineering support for the entire sales and after market process, including support for the initial bidding, design and engineering required for customised equipment, delivery and installation, customer training in the operation and maintenance of the equipment and aftermarket service, repair and parts. We do not negotiate with, or submit bids to, end-customers directly. This is done by our independent distributors and agents. Historically, our relationships with our distributors and agents have been stable, generally averaging approximately four years and two years, respectively, as of 31 July 2009. The responsibilities of our distributors and agents are similar, because, in addition to sales and marketing, our distributors and sales agents generally provide aftermarket parts and services and are required to coordinate with our sales headquarters and regional sales managers in order to make equipment sales. In providing sales and marketing as well as aftermarket parts and services, our distributors and sales agents are supported by our technical personnel who deliver and install our products. These technical personnel are our employees and their costs are borne by us. Our internal sales departments generally cover sales and services in relatively new market areas and regions that are otherwise not covered by our network of distributors and sales agents.

Our sales model, which focuses on sales through distributors and sales agents, distinguishes us from a number of our key competitors which sell products directly to end customers. We believe that our sales model facilitates our efforts to:

➢ manage our product prices, as our products are sold to distributors at fixed prices;

➢ expand our sales and distribution network in a cost-effective manner; and

➢ provide better aftermarket services as our distributors and agents are located in close proximity to our end customers, thereby expediting service response times and reducing potential downtime for end customers.

The following table sets forth our revenue by distribution channel for the periods indicated.

	For the period from 12 April to 31 December		For the years ended 31 December				For the seven months ended 31 July			
	2006		2007		2008		2008		2009	
	Sales Revenue	%	Sales Revenue	%	Sales Revenue	%	Sales Revenue	%	Sales Revenue	%
	(in millions of RMB, except for percentages)									
Distributors	257.7	47%	572.5	67%	849.3	66%	488.6	69%	519.7	60%
Agents	21.3	4%	270.6	31%	419.7	33%	208.0	30%	348.7	39%
End customers	266.9	49%	14.5	2%	10.7	1%	6.0	1%	4.7	1%
Total	**545.9**	**100%**	**857.6**	**100%**	**1,279.7**	**100%**	**702.6**	**100%**	**873.0**	**100%**

Sales Cycle

Our sales cycle may vary significantly from product to product. We generally maintain an inventory of roadheaders, which are available for immediate delivery. Our typical sales cycle for other products generally ranges from two to four months, and primarily consists of the following stages:

➢ *Identifying potential orders*. Our end customers generally purchase coal mining equipment through bidding processes. Such process often begins with the potential end customer publishing a notice listing the type of product to be procured and the requirements for the product. If interested, we typically conduct an onsite visit to understand the technical requirements. The potential end customer often also conducts an onsite visit to our facility to inspect our qualifications and production capacity. After such visits, our bid is then prepared and submitted by our sales agents and distributors. For direct sales to our end-customers, we submit our bids directly.

➢ *Signing of sales contract*. If we win the bid, we enter into a sales contract with the end customer or distributor, as applicable.

➢ *Production*. Similar to other equipment manufacturers, our production process generally consists of design, preparation, processing, assembly and testing.

➢ *Delivery*. We generally make delivery of our products onsite at our manufacturing plants when the customers accept the products. At the customer's request, we may arrange shipment by rail or truck to the customer's designated destination. In the cases of sales through distributors, our distributors are generally responsible for the cost of delivering the products to the end customers.

Credit and Warranty Policies

Generally, our contracts with our customers state that we will receive an initial payment of 30% of the total contract price within seven days of entering into the sales contract, 30% of the total contract price within seven days after the delivery of our products, and another 30% of the total contract price within one month after the delivery of our products. Under these contracts, the remaining 10% of the total contract price is retained by our customer and paid to us within seven days after the expiration of the warranty period of our products, if our customer is satisfied that our products are free from defects. Our warranty period is typically 12 months. We believe our return policy is consistent with the relevant PRC laws and regulations governing product quality, consumer rights and interests. We have not received requests for return of products during the Relevant Period.

Like many of our competitors in the coal mining equipment industry, we face challenges in the collection of accounts receivable. Although our sales contracts generally require payment on an instalment basis prior to delivery, we generally allow our customers to make full payment for our products after delivery. Payments by our customers are typically settled by way of bank notes and telegraphic transfer. However, the length of period in which we allow a customer to pay varies significantly based on a number of factors, including our relationship with the customer, the customer's credit profile and history, value of the contract and prevailing market conditions. We regularly review the status of our trade receivables to determine their recoverability and the adequacy of our provisions made on such trade receivables. See "Risk Factors — Risks Relating to Our Business and Industry — Our historical outstanding trade receivables and the turnover days of our trade receivables have been relatively high, and our discounted bills and factor programmes may not be effective."

We provide a standard warranty period for original equipment units and spare parts. Our warranty period is generally one year for an original equipment unit, and varies significantly for spare parts depending on type and life cycle. For the 2006 Consolidated Period, 2007, 2008 and the seven months ended 31 July 2009, our product warranty provision amounted to RMB5.6 million, RMB9.2 million, RMB17.1 million and RMB9.0 million, respectively. Our management estimates the warranty provision based on the historical cost data for repairs and maintenance and sales revenue.

CUSTOMERS

Substantially all of our revenue has been derived from sales to PRC customers. Our customer base primarily consists of PRC coal producers and distributors. Our end customers include all of the top 50 coal production enterprises in terms of production capacity, located in over 13 provinces and regions throughout China. Sales to our five largest customers accounted for 47%, 56%, 43% and 49% of our total revenue in 2006, 2007, 2008 and the seven months ended 31 July 2009, respectively. During the same period, sales to our single largest customer accounted for 13%, 16%, 13%, and 14% of our total revenue, respectively.

The following table sets forth our revenue derived from sales to our five largest customers for the periods indicated.

	Period from 12 April to 31 December	For the year ended 31 December		For the seven months ended 31 July
	2006	2007	2008	2009
	% of revenue	% of revenue	% of revenue	% of revenue
Name of Customer				
Heilongjiang Longmay Mining Group Co., Ltd.	13	11	7	14
Shanxi Guangfa Coal Mining Machinery Co., Ltd.	13	12	13	13
Diaobingshan Jiamei Machinery Sales Co., Ltd.	6	8	9	9
Shandong Jiamei Roadheader Sales Co., Ltd.	—	9	—	7
Ningxia Jiamei Machinery Sales Co., Ltd.	8	—	8	6
Shuozhou Longmay Coal Mining Machinery Sales Co., Ltd.	7	16	6	—

To manage our credit risk in light of our relatively high customer concentration, we have established a credit department responsible for reviewing and monitoring the credit profiles of our agents, distributors and end-customers. All of our five largest customers during these periods were independent third parties, and primarily consisted of distributors. None of our Directors, executive officers, associates or shareholders holding more than 5% of our issued share capital had any interest in any of our five largest customers in 2006, 2007, 2008 and the seven months ended 31 July 2009.

MATERIALS AND SUPPLIERS

Electrical parts and steel are the main components and materials for our coal mining equipment manufacturing operations. Other components and materials used in our production process include hydraulic parts, electric motors, automated control systems and bearings. Some of the component parts we use in manufacturing our products are outsourced to local suppliers and subcontractors.

We procure our raw materials used in our production both through direct supply arrangements and processing subcontracting arrangements. Under our direct supply arrangements, we procure parts and components directly from suppliers and make payment to the suppliers either fully in advance or within 60 days of product inspection and receipt of invoices. Under our processing subcontracting arrangements, we provide raw materials together with the designs and standards of the parts and components we require to our external suppliers and purchase the complying parts and components from the external suppliers. We generally pay our external suppliers after the receipt of invoices. As is often the case in the coal mining machinery industry, the payment term stated in the contract may vary significantly from the actual payment terms allowed by our external supplier.

We engage approximately 35 independent subcontractors to work primarily on castings and surface processing. We believe that we are not dependent on any one of our subcontractors because there are a relatively high number of subcontractors that are available to us for any single subcontracting process, primarily casting and surface processing. We select our subcontractors based on a variety of criteria, such as their credit period, quality of their work, production capacity and the payment terms offered to us. The major terms and conditions of such subcontracting arrangements include:

- the processed parts and components must comply with our requirements as to the product type, material, and volume as set out in the agreement;
- the subcontractor is responsible for the delivery of the processed parts and components;
- any delay in the delivery of the parts and components from the subcontractor will result in a penalty of 3% of the contract price per day;
- the warranty period is 12 months from the date of usage; and
- the processed parts and components shall comply with national standards, including ISO9001.

We plan to expand our production capacity to enhance our ability to in-source processes such as castings and surface processing that are currently out-sourced because we believe they can be processed more cost-effectively in-house, thereby improving our production efficiency and product margins. For further information, see "Business — Business Strategy — Expand capacity to capture growth opportunities and increase efficiency".

We have generally maintained stable relationships with our main suppliers of raw materials. The principal materials and components used in our production processes are available in the market from multiple suppliers, and accordingly we do not anticipate that we would experience any disruption or difficulty if we were unable to make purchases from any of our major suppliers. As of the Latest Practicable Date, we have not experienced any major interruption in the supply of key materials or components.

Our cost of procurement from our five largest suppliers as a percentage of our total purchases for the years ended 31 December 2006, 2007, 2008 and the seven months ended 31 July 2009 was 24.5%, 21.4%, 21.9% and 27.8%, respectively. Our cost of procurement from our largest supplier as a percentage of our total purchases for the years ended 31 December 2006, 2007, 2008 and the seven months ended 31 July 2009 was 13%, 16%, 13% and 14%, respectively. All of the above five largest suppliers are independent third parties. None of the Directors, executive officers, their respective associates or any shareholders of our Company that owns more than 5% of our issued capital, to the knowledge of our Directors, owned any interest in any of the above five largest suppliers as of the Latest Practicable Date.

PRODUCT DEVELOPMENT

We allocate significant resources to the continuous improvement of our design, engineering, and product development capabilities. Our product and development team focuses on designing new products and enhancing manufacturing processes of existing products, in each case based on end customers' requirements, resolving technical difficulties arising from the production process, and providing aftermarket technical services to our customers.

Because all of our product development efforts are customer-oriented, our technicians maintain close contact with our end customer base to better understand how our equipment serves them and to anticipate their future needs. We also test our new products in our end customers' mining operations before commercial production. With our strong product development capabilities, we seek to retain technological leadership in a market where the engineering and design specifications for our equipment are continuously evolving and advancing. We believe that our end customers recognise our ability to develop customised solutions and approach us with suggestions on improving our equipment. This creates another feedback channel for customer input that allows us to further tailor our products to their needs.

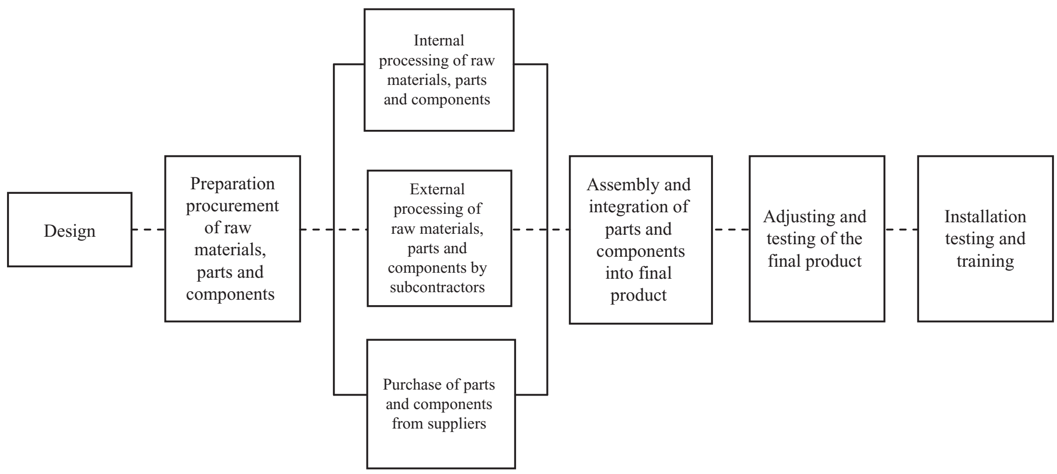
As of 31 July 2009, we had more than 263 professionals, including industry and manufacturing engineers, and engineering technicians, engaged in design, engineering, research and development. Our total expenditures for product development in 2006, 2007, 2008 and the seven months ended 31 July 2009 amounted to approximately RMB24.9 million, RMB49.2 million, RMB36.8 million, and RMB26.8 million, respectively, representing 4.6%, 5.7%, 2.9% and 3.1% of our total revenue, respectively.

To enhance our research efforts, we have formed strategic alliances with major academic institutions and coal manufacturers within and outside of China. We have collaborated with academic institutions and leading companies, such as China Coal Research Institute Shanghai Ltd., Lu'an Mining Industry Group Co., Ltd, and Liaoning Technical University, to develop automated equipment that would improve production safety.

In the next five years, we intend to focus on developing and innovating new technologies for heavy-duty roadheaders, remote controlled and ultra-thin shearers, armoured-face conveyors with wide linepans, as well as integrated underground longwall mining systems.

PRODUCTION AND INSTALLATION PROCESS

The following diagram illustrates the major production process of our products:



We seek to manufacture all of our product's high value components in our facilities with the exception of a small number of technical and standardised components that we outsource to local suppliers or engage subcontractors to process these components. The production process for each of our product lines comprises six major steps, including design, preparation, processing, assembly, testing, and installation and aftermarket service, although the production process for each product line varies depending on the nature and requirements of the products and processing capability of the facility manufacturing the products. A summary of our production process is set forth below:

- ***Design.*** We design our products according to the requirements of our customers before we commence production.

- ***Preparation.*** At the preparation stage, we procure raw materials and parts used in our production process. Our principal raw material for each of our product lines is steel. Other raw materials include plastic and rubber. Our procured parts vary depending on the product lines:

    - For roadheader production, the procured parts are mainly electric and hydraulic parts and bearings.

    - For shearer production, the procured parts are mainly electric parts, bearings, hydraulic parts and standardised components.

    - For armoured-face conveyor production, the procured parts and components are mainly electric and control systems.

- ***Processing.*** Raw materials are processed into parts to be assembled. The processing generally includes cutting raw materials into desired shapes, forging, welding, heat processing, and machine processing. Our roadheader and shearer production facilities have vertically integrated production processes which enable us to carry out casting, forging, riveting, welding, machine processing and heat processing in our facilities.

- ***Assembly.*** The finished parts and procured parts are assembled to make the finished product.

- ***Testing.*** Before each product is warehoused or delivered to the customer, it is tested to ensure it meets our and customer's quality standards.

- ***Installation and aftermarket service.*** We regularly provide training to our technicians to ensure the provision of proper installation and high quality aftermarket services to our customers. A technician will attend to our customer within 24 hours of our receipt of notice from the customer.

PRODUCTION FACILITIES AND PRODUCTION CAPACITY

Our existing production facilities are located in Jiamusi City and Jixi City in Heilongjiang Province, with an aggregate gross site area of approximately 538,719.4 sq.m., and we are in the process of constructing our new production facilities in Huainan City in Anhui Province, PRC, with an aggregate gross site area of approximately 168,528.7 sq.m. The construction is expected to be completed in April 2010. Our new production facilities located in Huainan City are expected to commence production of our armoured-face conveyors in June 2010 and the production capacity is expected to increase by approximately 50%. These new production facilities will allow us to increase our overall production capacity, enhance our product quality and diversity, further integrate our production process as well as to expand into new products segments. We expect that our upgraded production facilities will enable us to produce approximately 444 roadheaders, 246 shearers, and 250 units of armoured-face conveyors annually by the end of 2010, and 528 roadheaders, 296 shearers and 340 armoured face conveyors annually by the end of 2011. We expect to enter into new product segments to complement our existing business within the next two years. We purchase our production equipment from domestic and overseas suppliers. As of 31 July 2009, we have over 998 units of production machinery, on which we carry out regular maintenance.

The following table sets forth our actual product volume compared to our production capacity as well as our utilisation rate for the periods indicated.

	Period from 12 April to 31 December 2006			For the year ended 31 December						For the seven months ended 31 July 2009		
				2007			2008					
	Actual	Capacity(1)	%(2)	Actual	Capacity(1)	%(2)	Actual	Capacity(1)	%(2)	Actual	Capacity(1)	%(2)
Roadheaders	178	204	87%	258	288	90%	315	336	94%	192	210	91%
Shearers	95	110	86%	129	156	83%	179	192	93%	103	119	87%
Armoured-face conveyors and related products	—	—	—	—	—	—	124	135	92%	93	95	98%
Total	273	314	87%	387	444	87%	618	663	93%	388	424	92%

(1) Production capacity is based on the Director's estimate of full production capacity and current working conditions, discounted for downtime for scheduled maintenance, and planned production line reconfiguration between production runs. We estimate our production capacity as 90% of the Director's estimate of full production capacity.

(2) Utilisation rate. Calculated as actual production volume divided by production capacity.

QUALITY CONTROL

We are focused on designing and manufacturing quality products. To this end, we have implemented rigorous quality control measures throughout various aspects of our business. Each of our facilities except our Huainan Longwall facility has obtained ISO9001:2000 certification for the quality control of its management system. Huainan Longwall is in the process of applying for such certification. We have implemented Total Quality Management practices, a business management strategy aimed at enhancing quality awareness in all organisational processes, throughout our business, from equipment design to aftermarket services. Our employees undergo continuous quality control training.

To ensure the quality of raw materials and components we purchase, we have implemented a selection process to qualify our suppliers. We continuously monitor the quality of the raw materials supplied and conduct a comprehensive evaluation of our suppliers. We regularly inspect our production facilities, and carry out visual inspection and performance tests at each stage of the production process. Quality inspection teams conduct random sample testing of semi-finished and finished products to ensure the products comply with our internal standards. We also conduct regular checks, repairs and maintenance of our manufacturing machinery to ensure stable, safe and reliable operation.

In recognition of the quality and technology of our products, we have received 17 honours and awards for our products. In particular, in 1986 Jiamusi Machinery received the National Quality Gold Medal for our EBZ100 roadheader, which is the only National Quality Gold Medal that has been awarded to domestic coal mining equipment manufacturer in PRC's coal mining equipment industry in history. Furthermore, we won the first prize for technology advancement awarded by the

Heilongjiang Provincial government for our MG132/315-WD shearer in 2007, as well as nine other technology advancement awards issued by the PRC Government at the national- and provincial-levels. We designed and manufactured China's first domestically-built roadheader and shearer. In 2008, we introduced the EBZ260 series shearers, which have the highest cutting capacity in China as well as the EBZ350 series, which we believe to have the highest installed cutting power among roadheaders manufactured in China.

At our Jixi shearer facility, we have an advanced mechanical closed cut loading part test station which is able to test shearers with total power output of over 2,000KW. This test station allows us to test the cutting capabilities of high total power output shearers, which enables us to design these types of machines. We also have an advanced electric shielding haulage part loading test station which enables us to conduct four quadrant energy feedback tests. Such test enables us to produce shearers with excellent braking capacity, which will help us improve the suitability, mobility and safety of our shearers.

As of the Latest Practicable Date, we have not experienced any material sales returns by customers and have not experienced any product liability or other legal claims involving problems relating to the quality of our products.

INTELLECTUAL PROPERTY

We rely on patents, trademarks and contractual rights to protect our intellectual property rights. Our intellectual property rights are critical to our businesses. As of the Latest Practicable Date, we held seven trademarks and 22 utility model patents and had two additional patent applications and 12 trademark applications pending the approval from the relevant authorities on intellectual property. From time to time, we submit patent applications for products and technologies that we have developed to actively protect our intellectual property rights.

We have entered into trademark license agreements with our distributors and agents, pursuant to which our distributors and agents have the right to use our trademark "IMM" in connection with the sale and promotion of our equipment. These license agreements are renewable at our option on an annual basis.

We have not engaged in any litigation or legal proceedings for violation of intellectual property rights, nor are we aware of any violation of the same. Details of our intellectual property rights are set out in the section headed "Statutory and General Information — Further information about our business" in Appendix VII of this document.

COMPETITION

The coal mining equipment industry in China is relatively fragmented but currently undergoing consolidation. According to CMIA, there are over 6,000 PRC mining equipment manufacturers in China, excluding a large number of small manufacturers and fabrication and repair shops. Our products compete on the basis of performance, reliability, suitability, compatibility with other long-wall mining equipment, pricing, technology and the quality of aftermarket services. In the future, we expect manufacturers to increasingly compete on the basis of ability to provide complete longwall system solutions. See "Risk Factors — Risks Relating to Our Business and Industry — We operate in a highly competitive industry"

Our primary competitors are the major PRC and international mining equipment manufacturers. The following table sets forth our primary PRC competitors by product segment.

Product Segment	Manufacturer
Roadheader products	Sany Heavy Equipment Co., Ltd. Taiyuan Institute of China Coal Research Institute Shijiazhuang Coal Mining Machinery Ltd.
Shearer products	Xi'an Coal Mining Machinery Plant China Taiyuan Mining Machinery Group Co., Ltd. Wuxi Shengda Machinery Co., Ltd.
Armoured-face conveyors and related products	China Coal Zhangjiakou Coal Mining Machinery Co., Ltd. Ningxia Tiandi Benniu Industrial Group Co., Ltd. Shanxi Coal Mine Machinery Manufacturing Co., Ltd.

Our primary international competitors include Bucyrus Inc. and Joy Mining Machinery Company. We believe that international competitors do not currently represent a substantial threat to our competitive position due to their relative disadvantages in terms of price, delivery period and sales and service network. We believe we are narrowing the gap between our products and those offered by our international competitors in terms of technology and quality.

REAL PROPERTIES

Our main production facilities are located in Jiamusi City and Jixi City in Heilongjiang Province, and we are in the process of constructing our new production facilities in Huainan City of Anhui Province, PRC. We have obtained the land use right certificates of the land and most of the building ownership of the buildings of our production facilities located in Jiamusi City and Jixi City. We are constructing our production facilities in Huainan City and, in the meantime, are carrying out our production in Huainan City on rented premises and facilities. Additionally, we have rented four office units in Shenyang City, one office unit in Beijing and two residential units in Beijing for use in connection with our business.

As of the Latest Practicable Date, we occupied (i) 9 parcels of land with a total site area of approximately 707,248.0 sq.m. for which we have obtained all the land use rights; (ii) 169 units or buildings with an aggregate gross floor area of 204,398.5 sq.m., for which we have obtained building ownership certificates for 164 units of buildings with an aggregate gross floor area of approximately 199,704.3 sq.m. Such land and buildings are occupied by us for production and business uses. An industrial complex with a total gross floor area of approximately 26,857.0 sq. m. upon completion is under construction on the 2 parcels of land in Huainan City, Anhui Province with an aggregate site area of approximately 168,528.7 sq. m., of which we have obtained land use right certificates.

Savills Valuation and Professional Services Limited, an independent property assessor, valued our owned property interests at approximately RMB324.0 million as of 30 November 2009. The text of the valuer's letter, summary of values and valuation certificates prepared by Savills Valuation and Professional Services Limited in connection with its valuation are set out in "Appendix IV — Property Valuation" included in this document.

Owned Land

We have obtained land use rights of 9 parcels of land with a total site area of approximately 707,248.0 sq.m.. The land use rights held by us comprised:

➢ 7 parcels of granted land with a total site area of approximately 538,719.4 sq. m., for which the relevant subsidiaries of the Company have obtained the relevant granted land use rights certificates. Of these 7 parcels of land, 6 parcels with a total site area of approximately 273,919.0 sq. m. are occupied by our subsidiary in Jixi City and the remaining parcel with a site area of approximately 264,800.4 sq. m. is occupied by our subsidiary in Jiamusi City; and

➢ 2 parcels of granted land with a total site area of approximately 168,528.7 sq. m. in Huainan City, with buildings under construction. The land in Huainan City is for use by our wholly-owned subsidiary Huainan Longwall upon completion of the construction of production facilities.

Owned Buildings and Units

The buildings we own include:

➢ 163 buildings with a total gross floor area of approximately 199,564.6 sq. m., for which we have obtained the relevant building ownership certificates. All these buildings were built on land for which we have obtained proper land use rights;

➢ 1 unit with a total gross floor area of approximately 139.7 sq. m. in Xiangyang District, Jiamusi City, for which our relevant subsidiary has obtained proper building ownership certificate; and

➢ 5 buildings with a total gross floor area of approximately 4,694.1 sq. m., for which our Company or the subsidiaries of our Company do not have proper building ownership certificates.

We have made application with the relevant PRC Government authorities for the buildings that have not obtained valid building ownership certificates under the applicable relevant laws and regulations. As of the Latest Practicable Date, we have been granted most of such certificates and are waiting for those of the outstanding 5 buildings. The total gross floor area of the buildings with defective titles accounts for only 2.3% of all the buildings owned by us. We are advised by our PRC legal counsel, King & Wood, that the buildings without proper building ownership certificates may be regarded as unauthorised construction and we may be asked to demolish such buildings within a designated period of time. Since the buildings with defective titles are mainly used as staff lounges, warehouse for machinery parts or dormitory buildings for employees rather than manufacturing sites, we consider them not crucial and are able to find alternatives if we are requested by the government to demolish any one of them. Even in such cases, the relocation will not have a material adverse impact on our operation.

Buildings Under Construction

Currently, we are developing two parcels of land in Huainan City of Anhui Province with an aggregate site area of approximately 168,528.7 sq. m. for use by our wholly-owned subsidiary, Huainan Longwall for industrial use. Upon completion, the developments will consist of an industrial complex with a total gross area of approximately 26,857.0 sq. m. We have obtained the relevant approvals for commencement of the first stage of construction on the two parcels of land.

Leased Properties

As stated above, while the construction of the production facilities of Huainan Longwall is underway, we have leased from Huainan Benniu certain buildings with a total gross floor area of approximately 21,176.0 sq.m. for production and business use by Huainan Longwall in the meantime. The lease is a term commencing from 21 November 2007 to 31 December 2009 which can be renewed for a six month period ending 30 June 2010, subject to earlier termination if the construction of the new production plant is completed earlier at an annual rent of RMB3 million.

Additionally, we have also rented four office units in Shenyang City and one office unit in Beijing with an aggregate floor area of approximately 555.7 sq. m. and two residential units in Beijing with an aggregate floor area of approximately 169.0 sq. m. for use in connection with our business. We are seeking the landlords' cooperation in applying for registration of the lease of the office unit (330 sq. m.) and two residential units (169 sq.m.) in Beijing with the relevant PRC Government authority. We are advised by our PRC legal counsel, King & Wood, that, in the rarest and worst cases, the relevant government authorities may order the responsible party to complete the registration and impose penalties, and it is still unclear as to whether the lessor or the lessee should be deemed as such responsible party and there is no clear specification regarding the magnitude of the possible administrative penalties that may be imposed on the lessees. We consider the chance that we are subject to administrative penalties is low and the lack of registration will not affect the validity or performance of these leases. As the aggregate floor area of the unregistered leased properties is small and those properties are not used as manufacturing sites, we consider them not crucial. The non-registration of the lease agreements will not have a material adverse impact on our operations.

OCCUPATIONAL HEALTH AND SAFETY

The PRC Government imposes a number of regulatory requirements on occupational health and safety. For further information, see "Regulation — The Coal Mining Equipment Manufacturing Industry — Safety" in this document. We regard occupational heath and safety as one of our important social responsibilities and believe that adopting safe practices is the best way to ensure employee safety. We post safety reminders throughout our production facilities, require the use of protective gear in our workshops and conduct regular training sessions for employees on accident prevention and safety management. We require our employees to undergo equipment operation and safety training, pass a test demonstrating their understanding and obtain the occupation certificate issued by the State before they are permitted to handle specialised equipment such as pressure vessels, hoisting equipment, boiler furnaces and welding machines.

We also impose safety measures as well as conduct regular and unscheduled internal safety inspections at all stages of our operations in order to minimise the possibility of work-related accidents and injuries. We provide various healthcare benefits and insurance to our employees in accordance with applicable laws and regulations as well as safety education. We have established safety standards in connection with matters, such as purchasing, installation and operation of new equipment, construction of new facilities and renovation of existing facilities.

Other than the three products whose safety marks are under renewal, all of our principal operating subsidiaries have obtained and maintained product safety marks for each type of our products from the SACMS. For further information, see "Regulation — Safety".

ENVIRONMENTAL MATTERS

Our operations in the PRC are subject to relevant environmental protection standards under the PRC environmental laws and regulations, including: (i) *The Environmental Protection Law of the PRC*; (ii) *The Water Pollution Prevention Law of the PRC*; (iii) *Regulations on the Pollutant Emission Permits promulgated by the State Environmental Protection Administration*; (iv) *the PRC Law for Prevention and Control of Environmental Noise Pollution*; (v) *the Air Pollution Control Act of the PRC*; (vi) *the Environment Impact Assessment Act of the PRC*; and (vii) *the Clearer Production Promotion Law of the PRC* among others.

Our roadheader and shearer facilities have obtained ISO14001:2004 certification for its environmental management system and our armoured-face conveyors facility is in the process of obtaining the certification.

We conduct environmental feasibility studies and environmental impact assessments for all of our new production or expansion projects and install pollution control facilities whenever necessary to ensure our compliance with applicable environmental protection standards and requirements.

We believe we are currently in compliance in all material respects with applicable national, provincial and municipal environmental laws and regulations and we have obtained all the relevant government approvals in relation to our operations. Our production facilities discharge pollutants such as waste water, smoke emissions, solid waste and noise during our production processes. We have implemented a set of procedures and solutions in our production facilities to ensure that our emissions meet government requirements and we constantly work to eliminate or reduce the environmental pollutants discharged by our facilities. As of the Latest Practicable Date, we had not been the subject of any material environmental complaint or administrative penalties with respect to environmental violations. In this regard, our PRC legal counsel, King & Wood, has confirmed that, during the Relevant Period, we complied with all applicable environmental laws and regulations in all material respects.

INSURANCE

Pursuant to general practice in the PRC coal mining machinery industry, we are required to obtain fire, liability or other property insurance for the property, equipment or inventory in relation to our operations. We carry pension, medical, unemployment insurance, occupational injury and maternity insurance for our employees in compliance with the relevant PRC laws and regulations.

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 China. As of the Latest Practicable Date, we have not received any material claims from our customers regarding any of our products.

EMPLOYEES

As of 31 December 2006, 2007, and 2008, we had 3,155, 3,329, and 3,640 employees, respectively. Currently, all members of our work force are employed under employment contracts which specify the employee's position, responsibilities, remuneration and grounds for termination pursuant to the PRC Labour Law and relevant regulations. Our employees are selected through a competitive process. As of 31 July 2009, our Company had 3,489 employees, approximately 13.0% of whom hold bachelor or higher education degrees.

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

	As of 31 July 2009	
	Number of employees	% of total
Manufacturing personnel	2,213	63.4
Technical personnel (including R&D)	377	10.8
Sales and marketing personnel	299	8.6
Administrative personnel	279	8.0
Others	125	3.6
Financial personnel	71	2.0
Procurement	125	3.6
Total	3,489	100.0

The remuneration package for our employees generally includes salaries and bonuses. We conduct periodic performance reviews for all of our employees and their salaries and provide our employees with performance-based bonuses. Employees also receive welfare benefits, including medical care, housing subsidies, retirement, occupational injury insurance and other miscellaneous benefits as required by the PRC law. In addition, we contribute to various pension funds organised by municipal and provincial governments for our employees in compliance with applicable laws and regulations. In recognition of our human resource practice and employee retention efforts, Jiamusi Machinery received the National Award for Excellence from the All China Federation of Trade Unions in 2007.

LEGAL COMPLIANCE AND PROCEEDINGS

Save as disclosed in the section headed "Business — Real Properties" and "Regulation — The Coal Mining Equipment Manufacturing Industry — Safety" in this document, our PRC legal counsel, King & Wood has confirmed that our Group has complied with relevant laws and regulations in all material respects and has obtained all necessary licenses, approvals and permits from relevant regulatory authorities which are material for the Group's operations in the PRC.

We may from time to time be involved in contract disputes or legal proceedings arising from the ordinary course of our business. As of the Latest Practicable Date, neither we nor any of our subsidiaries is a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition, or results of operations, taken as a whole. So far as we are aware, as of the Latest Practicable Date, no such material litigation, arbitration or administrative proceedings are threatened.

MANAGEMENT

Board of Directors

The management of our business and affairs is supervised by our Board of Directors, which consists of 12 members.

Our Board of Directors is accountable to the shareholders, and the powers it may exercise includes but is not limited to the following:

The functions and authorities of the Board include, among other things:

(a) convening shareholders' meetings and reporting its work to shareholders' at such meeting;

(b) implementing shareholders' resolutions;

(c) making decisions on our business plans and investment proposals;

(d) reviewing and approving annual financial budgets and final accounts;

(e) formulating profit distribution plans;

(f) formulating proposals relating to the increase or reduction of our Company's registered capital, the issuance of bonds or other securities and listing plans;

(g) formulating proposals for material acquisitions, share repurchases by our Company, or mergers, divisions, dissolutions or transformations;

(h) making decisions on internal and external investment, assets disposal and acquisition, asset mortgage, external guarantee, entrusted financing, and connected transactions within the scope authorised in the shareholders' general meetings of our Company;

(i) deciding on internal management structure;

(j) proposing the appointment or dismissal of our reporting accountants at shareholders' general meetings of our Company; and

(k) exercising other powers authorised at the shareholders' general meeting of our Company or by the Articles of Association.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our Directors and senior management.

Name	Age	Position
Directors		
Thomas H. QUINN	62	Executive Director and Chairman of the Board
Kee-Kwan Allen CHAN	56	Executive Director
Kwong Ming Pierre TSUI	45	Executive Director
Yinghui WANG	53	Executive Director
Youming YE	50	Executive Director
Rubo LI	52	Non-executive Director
John W. JORDAN II	62	Non-executive Director
Lisa M. ONDRULA	40	Non-executive Director
Yiming HU	46	Independent Non-executive Director
Xuezheng WANG	60	Independent Non-executive Director
Zhenduo YUAN	67	Independent Non-executive Director
Fung Man WAI	61	Independent Non-executive Director
Senior Management		
Kee-Kwan Allen CHAN	56	Chief Executive Officer
Kwong Ming Pierre TSUI	45	Chief Financial Officer
Yinghui WANG	53	President
Zhongfeng LI	43	Vice President of Strategic Development and Human Resources
Zishan LI	57	Vice President of Sales
Xu GUO	52	Vice President of Marketing
Chunzhao ZHANG	61	Chief Executive Officer of Jiamusi Machinery
Wenbin WANG	57	President of Jiamusi Machinery
Hengjun QI	46	President of Jixi Machinery

The business address of each Director and senior management member is 3rd floor, Tower A, Aimer Plaza, Wangjing Development Zone, Chaoyang District Beijing 100102, the People's Republic of China.

A description of the business experience and present position of each of our Directors and senior management members is provided below.

Directors

Executive directors

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

Mr. Kee-Kwan Allen CHAN (陳其坤), 56, is our Chief Executive Officer and executive Director. He is responsible for the Group's overall business development, strategic planning and daily operation of our Company. He is also responsible for the overall corporate development and the internal management system of our Group. Mr. Chan joined The Jordan Company, L.P. as the President of Operation in January 2006 and our Company in May 2006, and has been with our Company ever since. Mr. Chan has also served as a director of Jiamusi Machinery and Jixi Machinery since May 2006, and Huainan Longwall since June 2007. Mr. Chan has over 27 years of experience in the machinery manufacturing industry. Prior to joining our Company, Mr. Chan worked for General Electric Company ("GE") for 17 years holding various positions, starting as an engineer in their aerospace business from September 1979 to October 1996 and concluding as the Managing Director, Asia Pacific, of GE's Motors and Industrial Systems business based in Singapore from April 1992 to October 1996. He also held management positions in various industrial companies: he was the president at GET Manufacturing, Inc. from October 1996 to March 1998; president of Asia Pacific of Ingersoll-Rand Company and chairman of Ingersoll-Rand (China) Investment Ltd. from March 1999 to September 2004; and president for SIRVA Asia Pacific Pty Ltd. from October 2004 to December 2005. Mr. Chan obtained a Bachelor of Science degree in Mechanical Engineering from University of Lowell, U.S. in 1977, and a Master of Science degree in Mechanical Engineering from the Massachusetts Institute of Technology, U.S. in 1979. Mr. Chan was appointed as our Director on 16 May 2006.

Mr. Kwong Ming Pierre TSUI (徐廣明), 45, is our Chief Financial Officer and will be appointed as executive Director. He is responsible for financial aspects of our Company including overseeing all finance and accounting issues for our Group, overall strategic financial planning and analysis for our Group and supervising the implementation of the annual, quarterly and monthly financial plans of our Group. Mr. Tsui has been with our Company since April 2006. He has also been the chief financial officer of Jixi Machinery and Jiamusi Machinery since May 2006. Mr. Tsui has over 13 years of financial management experience in the machinery manufacturing industry. Mr. Tsui served in important financial management positions for various companies: the financial controller of CarnaudMetalbox Huapeng (Wuxi) Closures Co., Ltd. (a metal closure manufacturer) from December 1996 to September 1998, director for financial service of Lucent Technologies (China) Ltd. (a telecommunication equipment manufacturer) from October 1999 to April 2003 and the China controller of Ingersoll-Rand (China) Investment Ltd. (a diversified equipment manufacturer) from May 2003 to November 2005. Mr. Tsui has over 18 years of professional experience in finance, accounting and internal audit. He is a member of the Hong Kong Institute of Certified Public Accountants since

1995 and the American Institute of Certified Public Accountants since 1995. Mr. Tsui obtained a Bachelor's degree in Accounting and Finance from University of Lancaster U.K. in 1990, a Bachelor of Laws degree from University of Wolverhampton, U.K. in 1999, a Master's degree in Accounting and Finance from the London School of Economics & Political Science, U.K. in 1999 and a Master's degree in Business Administration from University of Southern California, U.S. in 2009. Mr. Tsui was appointed as a Director on 24 January 2010.

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

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

Non-executive directors

Mr. Rubo LI (李汝波), 52, is our non-executive Director. Mr. Li is also a director of Jiamusi Machinery, Jixi Machinery and Huainan Longwall. He has been our Director since May 2006. Mr. Li is one of the founders and a former Vice Chairman of our Company. He has been engaged as a consultant to the Company pursuant to a consulting agreement as amended by an amended consulting agreement since 16 May 2006. Mr. Li has over 12 years of experience in operation management in the mining equipment machinery manufacturing industry and over seven years of experience in the coal mining industry. He was a mining engineer in the infrastructure construction department of China National Coal Ministry (中國煤炭工業部) from 1982 to 1985. From June 1996 to June 2006, he was the chairman and chief executive officer of G.F. Transnational Inc. and invested in a number of concrete plank companies, concrete enterprises and a block machine manufacturer. Mr. Li also has served as chairman and chief executive officer of GFT Group Holding Limited since 1998. He has extensive experience in establishing business platforms in China and has established 11 joint ventures in the manufacturing industry. Mr. Li is a director of Mining Machinery Limited, a company incorporated in Mauritius, which controlled 100% equity interest in Zhengzhou Siwei through its wholly-owned subsidiary HK Siwei. Mr. Li is also a shareholder with 59.7% equity interest of Jiaozuo Metech Mechanical Manufacturing Co., Ltd. (焦作美泰科機械製造有限公司). Mr. Li obtained a Bachelor's degree in Surface Mining from Fuxin Mining Institute, PRC (currently known as Liaoning Technical University) in 1981, and a Master's degree in Mining Engineering from South Dakota School of Mines, U.S. in 1998. Mr. Li was appointed as our Director on 16 May 2006.

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

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

Independent non-executive directors

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

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

Mr. Zhenduo YUAN (苑振鐸), 67, will be appointed as our independent non-executive Director. Mr. Yuan has more than 30 years of experience in the coal mining industry. He served various positions in the Liaoning Province Nanpiao Mining Affairs Bureau (遼寧省南票礦務局) during the period from September 1961 to December 1983, starting from a technician, engineer, deputy head and concluding as the head of the Liaoning Province Nanpiao Mining Affairs Bureau from August 1980 to December 1983. Mr. Yuan was the deputy general manager of Northeast Inner Mongolia

Coal Mining Industry Allied Company (東北內蒙古煤炭工業聯合公司) from March 1984 to March 1994, and the director-general of the Liaoning Province Coal Industry Administrative Bureau (遼寧煤炭工業管理局) and the Liaoning Administrative Bureau of Coal Mine Safety (遼寧省煤礦安全監察局) from April 1994 to February 2002. From March 2002 to April 2008, Mr. Yuan was the standing committee member of the Liaoning Province's Political Consultative Conference (中國人民政治協商會議遼寧省委員會). Mr. Yuan graduated from a mining course at the Liaoning Province Beipiao High Level Professional College (遼寧省北票高等職業學院) in 1961, and from the Beijing Coal Mining Administrators College (北京煤炭管理幹部學院) completing the course in Political Work Management in July 1986. Mr. Yuan is a senior engineer and enjoys special government allowance of the State Council. Mr. Yuan was appointed as our independent non-executive Director on 24 January 2010.

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

Senior Management

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

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

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

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

Mr. Zishan LI (李子山), 57, has been our Vice President (Sales) since 20 June 2006. Mr. Li has been with our Company since June 2006, and is currently responsible for supervising the sales and international business aspect of our Company. Mr. Li has more than 37 years of experience in the mining equipment machinery manufacturing industry. He served various positions at the predecessor of Jiamusi Machinery for about 37 years, in particular, he was director of the sales department from June 1999 to February 2000, assistant to plant manager from February 2000 to February 2001, deputy plant manager from February 2001 to October 2001, acting executive deputy plant manager from October 2001 to April 2002. Mr. Li was also the vice chairman, the deputy general secretary of the communist party committee and general manager of Jiamusi Machinery from April 2002 to June 2006.

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

Mr. Chunzhao ZHANG (張春照), 61, has been the chief executive officer of Jiamusi Machinery since 5 June 2009. He is responsible for the overall business development and daily management of

Jiamusi Machinery. Mr. Zhang served as the chairman and secretary of the communist party committee of the predecessor of Jiamusi Machinery from May 2002 to June 2006. Mr. Zhang joined Jiamusi Machinery in June 2006 and served as the president of Jiamusi Machinery from June 2006 to June 2009. Mr. Zhang has more than 42 years of experience in the mining equipment machinery manufacturing industry. He started his career at Jiamusi Coal Mining Machinery Factory (佳木斯煤機廠) (the predecessor of Jiamusi Machinery) since August 1967 and has worked there for almost 40 years. During his time at Jiamusi Coal Mining Machinery Factory, he served in various positions. Mr. Zhang was assistant to factory manager, deputy factory manager and factory manager from December 1994 to May 2002. Mr. Zhang studied at Jiamusi Coal Mining Machinery Technology College (佳木斯煤機技術學校) from August 1965 to August 1967 and graduated from Jiamusi City Technology College (佳木斯市職工大學) completing the course in Business Management in December 1988.

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

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

JOINT COMPANY SECRETARIES

Mr. Wai Fung NGAI (魏偉峰), *FCIS, FCS(PE), CPA, ACCA*, 47, is our joint company secretary. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently the vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its Membership Committee. Mr. Ngai is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified

Accountants in the United Kingdom. Mr. Ngai holds a Master of Corporate Finance Degree from the Hong Kong Polytechnic University, Master of Business Administration Degree from Andrews University of the United States and a Bachelor of Laws (with Honours) Degree from the University of Wolverhampton, the United Kingdom. He is also undertaking a Ph.D. course (thesis stage) in Finance at the Shanghai University of Finance and Economics. Mr. Ngai was been appointed as our joint company secretary on 30 November 2009.

Mr. Ngai currently acts in the capacity of independent non-executive director of six Hong Kong listed companies, company secretary for five other Hong Kong listed companies and joint company secretary for eight Hong Kong listed companies. As a director and head of listing services of KCS Hong Kong Limited, Mr. Ngai is leading a team of professional staff, which offers on-going professional company secretarial and compliance services to listed companies and thus provides day-to-day support to Mr. Ngai in his role as joint company secretary of our Company.

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

AUDIT COMMITTEE

The Company will establish an audit committee in compliance with applicable rules and regulations. The audit committee will consist of three members, namely Dr. Hu Yiming, Ms. Lisa M. Ondrula, and Dr. Wang Xuezheng. Two of the committee members will be our independent non-executive Directors. The chairman of the audit committee will be Dr. Hu Yiming. The primary functions of the audit committee are to review and supervise the financial reporting process and internal control system of our Company, nominate and monitor external auditors and provide advice and comments to our Directors.

REMUNERATION COMMITTEE

Our Company will establish a remuneration committee in compliance with applicable rules and regulations. The remuneration committee will consist of 3 members, namely Mr. Thomas H. Quinn, Dr. Fung Man (Norman) Wai and Mr. Zhenduo Yuan. A majority of the committee members will be our independent non-executive Directors. The chairman of the remuneration committee will be Mr. Thomas H. Quinn. The primary functions of the remuneration committee are to make recommendations on our the Company's policy and structure of all remuneration of our Directors and senior management, determine the specific remuneration packages of our executive Director and senior management, and make recommendations on the remuneration of our non-executive Directors.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Certain of our Directors and senior management receive compensation in the form of salaries, housing allowances, other allowances, benefits in kind (including our contribution to the pension scheme for our Directors) and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. The remuneration package will be extended to include options granted or to be granted under the Share Option Scheme. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

The aggregate amount of remuneration paid to our Directors during each of the fiscal years 2006, 2007 and 2008 was approximately RMB18.0 million, RMB14.1 million and RMB9.3 million, respectively. In addition, each of Mr. Kee-Kwan Allen Chan and Mr. Youming Ye holds 40.0% equity interest in TJCC Services. During the Relevant Period, we paid TJCC Services a management fee of US$2.5 million (equivalent to approximately HK$19.4 million) per year for the services it provided, pursuant to a management consulting agreement. Under their respective employment agreement with TJCC Services, each of Mr. Kee-Kwan Allen Chan and Mr. Youming Ye was entitled to certain compensations per year. Upon the Reorganisation, the management consulting agreement with TJCC Services will be terminated, and Mr. Kee-Kwan Allen Chan and Mr. Youming Ye, each as our executive Director, will receive compensation directly from our Company.

Our remuneration committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

During the Relevant Period, no remuneration was paid by us to, or receivable by, our Directors as an inducement to join or upon joining us. No compensation was paid by us to, or receivable by, our Directors or past Directors for each of the years ended 31 December 2006, 2007 and 2008 for the loss of any office in connection with the management of the affairs of any member of our Group.

During the Relevant Period, four out of the five highest paid employees of our Company were Directors. The aggregate amount of salaries, housing allowances, other allowances, benefits in kind (including our contribution to the pension scheme) or any discretionary bonuses paid by our Group to the highest paid non-director employee for the three years ended 31 December 2008 and seven months period ended 31 July 2009 were approximately RMB0.771 million, RMB2.6 million, RMB3.5 million and RMB2.3 million, respectively.

Under the compensation arrangements currently in force, the aggregate remuneration (including benefit in kind) payable to our Directors for the year ended 2009 is estimated to be approximately RMB11.7 million.

SHARE OPTION SCHEME

Our Company will conditionally adopt the Share Option Scheme, the purpose of which is to motivate such selected classes of participants (as more particularly described in Appendix VII to this document) to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and to retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. The principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix VII to this document.

OUR CONTROLLING SHAREHOLDERS

Prior to the Reorganisation, The Resolute Fund, L.P., a private equity fund, controls indirectly (through the interests held by five parallel funds of The Resolute Fund, L.P. in TJCC Holdings) in an aggregate 91.0% of the issued share capital of our Company. There are more than 75 limited partners in The Resolute Fund, L.P.. Resolute Fund Partners, LLC, a Delaware limited liability company. Two of our Directors, Mr. John W. Jordan II and Mr. Thomas H. Quinn, are two of the equity holders of Resolute Fund Partners, LLC which is the general partner of The Resolute Fund, L.P. and each of the five parallel funds. The Resolute Fund, L.P. currently expects to continue to be a shareholder of the Company, through its five parallel funds, following the completion of the Reorganisation. The Resolute Fund, L.P. and TJCC Holdings are our Controlling Shareholders.

INFORMATION ON OUR CONTROLLING SHAREHOLDERS

TJCC Holdings Ltd.

TJCC Holdings Ltd. is an exempted company incorporated under the laws of the Cayman Islands and owned as to 79.83%, 3.78%, 3.15%, 3.15% and 0.09% by The Resolute Fund SIE, L.P. (a limited partnership established under the laws of the British Virgin Islands), The Resolute Fund Netherlands, PV I, L.P., The Resolute Fund Netherlands, PV II, L.P., The Resolute Fund Singapore PV, L.P. and The Resolute Fund NQP, L.P. (all being Delaware limited partnerships) (collectively referred to as the "**Resolute Funds**"), respectively. Each of Mr. Kee-Kwan Allen Chan and Mr. Youming Ye, two of our Directors, holds 3.50% and 4.25% equity interest of TJCC Holdings, respectively. TJCC Holdings Ltd. is an investment holding company. Each of the Resolute Funds is a parallel fund of The Resolute Fund, L.P. Each of the Resolute Funds is commonly controlled by The Resolute Fund, L.P. and managed by The Jordan Company, L.P. Pursuant to the management consulting agreement dated 16 May 2006 entered into between TJCC Holdings and The Jordan Company, L.P., The Jordan Company, L.P. was retained as a consultant to provide business and financial advice to TJCC Holdings.

The Resolute Fund, L.P.

The Resolute Fund, L.P., a Delaware limited partnership founded in 2002, is a private equity fund with capital commitments of approximately US$1.5 billion (equivalent to approximately HK$11.6 billion) and more than 75 limited partners comprised of institutional and other investors, who are independent from, not connected or associated with, and not acting in concert with the general partner or manager of The Resolute Fund, L.P.. The Resolute Fund, L.P. and the Resolute Funds are not required to return invested capital to their investors upon request. The Resolute Fund, L.P. has invested in a diversified portfolio of middle-market businesses. The objective of The Resolute Fund, L.P. is to provide investors with superior long-term capital appreciation by investing in a diversified portfolio of equity securities and targeting companies that are well established, historically profitable and well-managed niche players in their respective industries. The Resolute Fund, L.P. invested in the Company through the intermediate holding company, TJCC Holdings. Resolute Fund Partners, LLC, in its capacity as the general partner of The Resolute Fund, L.P. and each of the Resolute Funds, has appointed The Jordan Company, L.P. as the manager of The Resolute Fund, L.P. and each of the Resolute Funds. The investment strategy of The Resolute Fund, L.P. is to seek long term capital appreciation through primarily North American private equity and equity-linked investments in established, well-managed and consistently profitable businesses with enterprise values between US$50 million (equivalent to approximately HK$387.5 million) and US$500 million (equivalent to approximately HK$3,875.4 million). The investment horizon of investments made by The Resolute Fund, L.P. is generally 4-7 years.

The Jordan Company, L.P.

The Jordan Company, L.P. is a Delaware limited partnership. It is a New York-based private investment firm whose predecessors were founded in February 1982 and has been pursuing its private investment efforts for 26 years. The Jordan Company, L.P. is the manager of The Resolute Fund, L.P. and each of the Resolute Funds, pursuant to a management agreement dated 1 January 2003 whereby The Jordan Company, L.P. agrees to provide portfolio management and administrative services to the above funds. The investment approach of The Jordan Company, L.P. is to acquire companies in partnership with management at reasonable valuations and to support these investments with a hands-on, value-added operational strategy to generate superior investment returns. Its hands-on strategy focuses on operational improvements to enhance internal growth and strategic acquisitions. Its value-added approach supports a strong relationship with talented managers. The Jordan Company, L.P. has invested and sponsored equity and equity-linked capital in more than 90 portfolio companies. It targets companies with a history of revenue growth, high operating margins and limited capital requirements. Mr. John W. Jordan II, one of our Directors, is a founder, equity holder and managing principal of The Jordan Company, L.P. Mr. Thomas H. Quinn, one of our Directors, is a founder, equity holder and managing principal of The Jordan Company, L.P.

Relationship between The Jordan Company, L.P. and the Company

The table below describes the relationship of certain directors of the Company with The Jordan Company, L.P.:

Name	Position in The Jordan Company, L.P.	Positions in the Company
Mr. John W. Jordan II	Chairman and Managing Principal	Non-executive Director
Mr. Thomas H. Quinn	Managing Principal	Executive Director, Chairman of the Board
Ms. Lisa M. Ondrula	Member of the Operations Management Group	Non-executive Director

The Company is of the view that these concurrently held positions will not affect the independence of the Board due to the following:

(i) Though Mr. John W. Jordan II, Mr. Thomas H. Quinn and Ms. Lisa M. Ondrula are involved in the management of the Company, their roles mainly focus on providing guidance and direction to the Company, assisting the Board in strategy and policy formulation.

(ii) The day-to-day management of the Company is carried out by the executive Directors, namely, Mr. Kee-Kwan Allen Chan, Mr. Kwong Ming Pierre Tsui, Mr. Yinghui Wang, and Mr. Youming Ye and various members of the senior management of the Company with Mr. Thomas H. Quinn overseeing the performance of the operation and management of the Group. The aforesaid executive Directors and members of the senior management form the core management group of the Company which has been responsible for the daily management of the Company, including assisting the Board in deriving sound management decisions, carrying out the decisions of the Board, performing overall strategic financial planning and analysis for the Group, overseeing the business development, project development and management, finance and accounting issues, the sales and financial aspects of management of the business and other essential operations of the Company.

Mr. Kee-Kwan Allen Chan and Mr. Youming Ye were historically members of the Operations Management Group of The Jordan Company, L.P. Messrs. Chan and Ye will resign from these positions prior to the completion of Reorganisation.

Competing Interests

We are engaged in the designing and manufacturing of underground longwall coal mining equipment in China. Substantially all of our revenue has been derived from sales to PRC customers, which primarily consisted of PRC coal producers and distributors.

Other than the Group, none of The Jordan Company, L.P. or the Resolute Funds or the investment portfolio companies of The Resolute Fund, L.P. is engaged in the designing or manufacturing of coal mining equipment. Other than (i) Kinetek De Sheng (Foshan) Motor Co., Ltd, Wuxi Zhongxiu Kinetek Elevator Technology Co., Ltd., Guangzhou Kinetek Jinghe Machine Co. Ltd., Changzhou Kinetek Motor Master Co., Ltd., and Foshan Kinetek Commercial Trading Company Limited (collectively, "**Kinetek**"), investments by one of the investment portfolio companies of The Resolute Fund, L.P., which are engaged in the manufacturing and sale of controls, electric motors, gears, and drive systems for various commercial and industrial applications, and (ii) Sensus - Precision Die Casting (Yangzhou) Co., Ltd., Beijing United Gas Meters Co. Ltd. (China), Sensus Manufacturing Shanghai Ltd. and Sensus Metering Systems (Fuzhou) Co., Ltd. (collectively, "**Sensus**"), investments by one of the investment portfolio companies of The Resolute Fund, L.P., which are engaged in the manufacturing of water, gas, heat and electric meters and providing related communications systems, the manufacturing of pipe joining and repair products for water and gas utilities and the supply of precision manufactured aluminium die castings, the Group is the only investment of The Resolute Fund, L.P. in China as of the Latest Practicable Date.

For the above reasons, the Directors consider that the business of the Group is different from the business of the investment portfolio companies of the Controlling Shareholders, in terms of location, customers, products and purposes.

Mr. Rubo Li, one of our Directors, is a director of Mining Machinery Limited, a company incorporated in Mauritius, which controls 100% equity interest in Zhengzhou Siwei through its wholly-owned subsidiary, HK Siwei.

Zhengzhou Siwei is a hydraulic roof support products manufacturer. The Company and The Jordan Company, L.P. entered into extensive negotiations in 2006 and 2007 with Mr. Rubo Li and Mr. Emory Williams (a former Director who resigned on 4 December 2009 and also a shareholder and director of Mining Machinery Limited) in connection with the potential acquisition of HK Siwei. Negotiation on the proposed acquisition of HK Siwei is currently suspended. On 9 October 2009, ERA Holdings Global Limited (stock code: 8043), a company whose shares are listed on the GEM Board of Hong Kong Stock Exchange, has, through its wholly-owned subsidiary, entered into an agreement with Mining Machinery Limited (an investment holding company incorporated in Mauritius, which controls 100% equity interest in Zhengzhou Siwei through its wholly-owned subsidiary, HK Siwei) to acquire the entire issued share capital of HK Siwei. The completion of this acquisition is subject to certain conditions, including existing agreements among Mr. Rubo Li, Mr. Emory Williams and the Company in relation to the grant of right of first offer and right of first refusal to purchase, acquire or participate in the business of Zhengzhou Siwei. While the Company continues to evaluate the ERA agreement as mentioned above, as of the Latest Practicable Date, the Company did not expect nor have any current plan to acquire HK Siwei nor exercise any right of first offer nor right of first refusal properly provided to us in connection with the ERA agreement.

A complete underground longwall mining system consists of four core pieces of equipments, namely roadheader, shearer, armoured-face conveyors and hydraulic roof support. We design and manufacture three of the four core pieces of coal mining equipments, namely, roadheaders, shearers and armoured-face conveyors. In longwall mining operations, hydraulic roof supports are used to support the mine roof so as to protect the mining equipment such as shearer and armoured-face conveyer and mining personnel under them. In a typical longwall mining operation, the tunnel excavation is performed by using a roadheader. The cutting of the coal is performed by a shearer. The armoured-face conveyer carries the raw coal away from the working face to a crusher, and then by a series of belt conveyors to outside the mine. The hydraulic roof supports are to support the mine roof. The businesses of Zhengzhou Siwei as a hydraulic roof support products manufacturer are complementary to the business and equipments manufactured by the Company and its subsidiaries. The business of Zhengzhou Siwei therefore is not in competition with that of the Group.

Mr. Rubo Li is also a shareholder with 59.7% equity interest of Jiaozuo Metech Mechanical Manufacturing Co., Ltd. (焦作美泰科機械製造有限公司), a mechanical manufacturing company which is not engaged in the manufacturing of any coal mining equipment. The business of such company is not in competition with our business.

The Directors are of the view that none of the Controlling Shareholders, The Jordan Company, L.P., or the Directors had any interest in any business that directly or indirectly competes with the business of the Company as of the Latest Practicable Date. Notwithstanding this, the Resolute Fund, L.P., as our Controlling Shareholder and The Jordan Company, L.P. as the manager of The Resolute Fund, L.P., entered into the Non-Competition Undertaking (referred to below) by agreeing not to compete, either directly or indirectly, with the Company. With the implementation of the protective measures as described in "Non-Competition Undertaking" below, the Directors believe that we will not face competition from the Controlling Shareholders.

Non-Competition Undertaking

The Company entered into a Non-Competition Undertaking with our Controlling Shareholders, and each of the five Resolute Funds (namely, The Resolute Fund SIE L.P., The Resolute Fund Netherlands, PV I, L.P., The Resolute Fund Netherlands, PV II, L.P., The Resolute Fund Singapore PV, L.P. and The Resolute Fund NQP, L.P.) on 24 January 2010, under which our Controlling Shareholders and the Resolute Funds agreed not to compete with us in the business of designing and manufacturing of underground longwall coal mining equipment in China.

Each of the Controlling Shareholders and the Resolute Funds has undertaken in the Non-Competition Undertaking that it will, during the term of the Non-Competition Undertaking, not compete with us, directly or indirectly, whether on its own or jointly with other entities in any activities or businesses which compete with our business of designing and manufacturing of underground longwall coal mining equipment in China.

In order to properly manage any potential or actual conflict of interest between us and our Controlling Shareholders and each of the Resolute Funds, we have adopted the following corporate governance measures:

(i) our independent non-executive Directors shall review, at least annually, the compliance with and enforcement of the terms of the Non-Competition Undertaking by the Controlling Shareholders and the Resolute Funds;

(ii) we will disclose the annual declarations by the Controlling Shareholders and each of the Resolute Funds on compliance with and the Non-Competition Undertaking in the annual report of the Company; and

(iii) each of the Controlling Shareholders and the Resolute Funds undertake to provide all information necessary for the annual review described in (i) above.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and each of the Resolute Funds, their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

The Non-Competition Undertaking took effect on 24 January 2010 and shall remain effective until the date on which The Resolute Fund, L.P. directly or indirectly beneficially holds less than 30% of the issues share capital of the Company.

Consultant Subscription Agreements

Pursuant to two consultant subscription agreements dated 16 May 2006, Mr. Rubo Li (our Director) and Mr. Emory Williams (our former Director who resigned on 4 December 2009) have undertaken not to compete, directly or indirectly, with the Group's business during the period from 16 May 2006 to 16 May 2011.

INDEPENDENCE FROM THE RESOLUTE FUND, L.P.

Having considered the following factors, we are satisfied that we can conduct our business independently from The Resolute Fund, L.P. and its associates after the completion of the Reorganisation:

Management Independence

The Board will comprise 12 Directors. One non-executive Director, namely, Mr. John W. Jordan II, and one executive Director, namely Mr. Thomas H. Quinn are also the managing principals of The Jordan Company L.P. Ms. Lisa M. Ondrula, another non-executive Director, serves as a member of the Operations Management Group of The Jordan Company, L.P.. Other than Mr. John W. Jordan II, Mr. Thomas H. Quinn and Ms. Lisa M. Ondrula, none of the Directors or senior management members of the Company hold any position in The Resolute Fund, L.P. or its manager, The Jordan Company, L.P.

Since the respective roles of Mr. John W. Jordan II and Ms. Lisa M. Ondrula are non-executive in nature and although Mr. Thomas H. Quinn is an executive Director and the Chairman of the Board, the Directors expect that any conflicts of interest situation involving The Resolute Fund, L.P., The Jordan Company, L.P. or their respective associates will be minimal or unlikely to arise. In the event of any conflicts of interest, we believe that we have sufficient and effective control mechanisms to enable the Directors to discharge their duties appropriately, avoid potential conflicts of interest and safeguard the interests of shareholders as a whole because The Resolute Fund, L.P., each of the Resolute Funds, and The Jordan Company, L.P. entered into the Non-Competition Undertaking by agreeing not to compete, either directly or indirectly, with us.

Based on the above, the Directors are satisfied that our Board as a whole, together with our senior management team are able to perform the managerial role in our Group independently.

Operation Independence

The Resolute Fund, L.P. is a private equity fund and The Jordan Company, L.P. is its manager. We and The Resolute Fund, L.P. and its manager, The Jordan Company, L.P. do not have any common or shared facilities or resources. In terms of our business operations, we are independent of our Controlling Shareholders and its manager. We hold all relevant licenses that are material to our business operations and have sufficient operation capacity in terms of capital, equipment and employees to operate our business independently from The Resolute Fund, L.P..

The Directors are of the view that there is no operational dependency by us on The Resolute Fund, L.P..

Financial Independence

The amounts due from us to our intermediate holding company and our Controlling Shareholders and their respective associates, and the loan guarantees provided by TJCC Holdings will be fully settled and released upon the completion of the Reorganisation. We have sufficient capital and banking facilities to operate our business independently, and have adequate internal resources, a strong credit profile to support our daily operations and independent access to third party financing. See "Financial Information — Liquidity and Capital Resources — Working Capital."

We have our own finance department and have established our own internal control and accounting systems, and independent treasury function for cash receipts and payments. We have an independent bank account, have made independent tax registrations and have employed a sufficient number of dedicated financial accounting personnel.

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the section headed "Share Option Scheme" in Appendix VII to this document.

CONNECTED TRANSACTIONS

1. Discontinued Connected Transactions

Prior to the the completion of Reorganisation, the Company had a number of transactions with persons who would be regarded as connected persons. To minimise such transactions, the Company has discontinued the following transactions:

➢ Loans to HK Siwei

Mr. Emory Williams, one of our shareholders and our former Director (who resigned on 4 December 2009 in order to devote a substantial amount of time and efforts to other interests outside of the Company), is the registered sole shareholder of Mining Machinery Limited, an investment holding company incorporated in Mauritius. Mining Machinery Limited, through its wholly-owned subsidiary, HK Siwei, controls 100% equity interest in Zhenzhou Siwei. HK Siwei is therefore a connected person of the Company. According to an announcement dated 20 November 2009 made by ERA Holdings Global Limited ("ERA Holdings") (stock code: 8043), a company whose shares are listed on the GEM Board of Hong Kong Stock Exchange, Mining Machinery Limited is beneficially owned as to 21.38% by Mr. Emory Williams, his spouse and relatives, as to 52.95% by Mr. Rubo Li, his spouse and relatives, as to 19.67% by the management of Zhengzhou Siwei, and as to 6.00% by three individuals who are independent from the other shareholders of Mining Machinery Limited. Historically, we had advanced loans to HK Siwei for a proposed acquisition of HK Siwei, which did not materialise. Negotiation on the proposed acquisition of HK Siwei is currently suspended. On 9 October 2009, ERA Holdings has, through its wholly-owned subsidiary, entered into an agreement with Mining Machinery Limited ("ERA Agreement") to acquire the entire issued share capital of HK Siwei, subject to certain conditions, including existing agreements among Mr. Rubo Li, Mr. Emory Williams and our Company in relation to the grant of right of first offer and right of first refusal to purchase, acquire or participate in the business of Zhengzhou Siwei. While we continue to evaluate the ERA Agreement as mentioned above, as of the Latest Practicable Date, we did not expect nor have any current plan to acquire HK Siwei nor exercise any right of first offer nor right of first refusal properly provided to us in connection with the ERA Agreement.

Our loans to HK Siwei bear interest at a rate of 8% per annum. The loans advanced by us to HK Siwei for the three years ended 31 December 2008 were nil, approximately US$10.2 million (equivalent to approximately HK$79.1 million) and approximately US$7.2 million (equivalent to approximately HK$55.8 million) respectively. Such loans were secured by (i) a share pledge of all the issued shares of HK Siwei in favour of our Company, (ii) a pledge of all Shares owned by Mr. Rubo Li, (iii) a pledge of all Shares owned by Mr. Emory Williams and (iv) a pledge of all Shares owned by Williams Realty. Immediately prior to the Reorganisation as of 31 December 2009, the aggregate principal amount of our loans to HK Siwei was estimated to be approximately US$17.4 million (equivalent to approximately HK$134.9 million), and an estimated sum of approximately US$2.5 million (equivalent to approximately HK$19.4 million) being accrued interest on the loans, remained outstanding. As part of the Reorganisation, such loans together with the outstanding interest income will be transferred and assigned by our Company to TJCC Holdings, our immediate holding company, for cancellation of an equal amount of shareholder's loans due from our Company to TJCC Holdings. Upon completion of the assignment, no further sum is due and owed by HK Siwei to our Company.

- Loans to Mr. Rubo Li, our Director

  Our Company advanced loans to Mr. Rubo Li, one of our Directors, in the sums of nil, approximately US$2.565 million (equivalent to approximately HK$19.9 million) and nil respectively for the three years ended 31 December 2008 in connection with a proposed acquisition. Such loans were secured by a share pledge of the 63 ordinary shares held by Mr. Rubo Li in our Company. Such loans bear interest at a rate of 5% per annum. Upon the happening of an event of default, interest on the loans shall accrue at a rate of 7% per annum. Immediately prior to the Reorganisation as of 31 December 2009, Mr. Rubo Li was estimated to owe our Company approximately US$2.565 million (equivalent to approximately HK$19.9 million) in principal and US$0.370 million (equivalent to approximately HK$2.9 million) in accrued and unpaid interest. As part of the Reorganisation, such loans together with the outstanding interest will be transferred and assigned by our Company to TJCC Holdings, our immediate holding company, in consideration for cancellation of an equal amount of shareholder's loans due from our Company to TJCC Holdings. Upon completion of the assignment, no further sum is due and owed by Mr. Rubo Li to the Company.

- Loan to Mr. Emory Williams, our former Director

  Our Company has advanced a loan to Mr. Emory Williams, a former Director who resigned on 4 December 2009 in the principal sum of US$13,500 (equivalent to approximately HK$104,635.8) pursuant to a promissory note dated 16 May 2006 in connection with the purchase by Mr. Emory Williams of 13.5 ordinary shares in the Company. Such loan was secured by a share pledge of the 13.5 ordinary shares to us. The loan bears interest at a rate of 5% per annum. Immediately prior to the Reorganisation as of 31 December 2009, the outstanding interest on such loan was approximately US$2,278 (equivalent to approximately HK$17,656.3). As part of the Reorganisation, this loan together with the outstanding interest income will be transferred and assigned by our Company to TJCC Holdings, our immediate holding company, for cancellation of an equal amount of shareholder's loans due from our Company to TJCC Holdings. Upon completion of the assignment, no further sum is due and owed by Emory Williams to our Company.

- Loan to Williams Realty

  Williams Realty is a Florida limited liability company established in 1978, the entire equity interest of which is owned by, Mr. Emory Williams (a former Director who retired from our Board on 4 December 2009) and his family. Williams Realty is an associate of Mr. Emory Williams and therefore a connected person of our Company. Pursuant to a promissory note dated 16 May 2006 in connection with the purchase of 13.5 ordinary shares in our Company by Williams Realty, we advanced a loan to Williams Realty in the principal sum of US$13,500 (equivalent to approximately HK$104,635.8). Such loan was secured by a share pledge of the 13.5 ordinary shares held by Williams Realty to us. Such loan bears interest at a rate of 5% per annum. Immediately prior to the Reorganisation as of 31 December 2009, the outstanding interest on such loan was approximately US$2,278 (equivalent to approximately HK$17,656.3). As part of the Reorganisation, this loan together with the outstanding interest income will be transferred and assigned by our Company to TJCC Holdings, our immediate holding company, for cancellation of an equal amount of shareholder's loans due from our Company to TJCC Holdings. Upon completion of the assignment, no further sum is due and owed by Williams Realty to our Company.

➢ Loans to TJCC Services

TJCC Services is an associate of our Directors, Mr. Kee-Kwan Allen Chan and Mr. Youming Ye, each of whom respectively has a 40% equity interest in TJCC Services. Our Company advanced loans to TJCC Services in the aggregate principal amount of approximately US$17.3 million (equivalent to approximately HK$134.1 million). Such loans bear interest at a rate of 8% per annum. The accrued interest as of 31 December 2009 was approximately US$2.2 million (equivalent to approximately HK$17.0 million). TJCC Services provides financial, advisory, consulting and other services to our Company and the loans were used by TJCC Services to fund their business and operations. As part of the Reorganisation, TJCC Services will settle all the loans and accrued interest due and owing to our Company.

➢ Termination of the Management Consulting Agreement with TJCC Services

Prior to the Reorganisation, TJCC Services provided consulting services to our Company and our subsidiaries under a Management Consulting Agreement dated 16 May 2006 at an annual consulting fee of US$2.5 million (equivalent to approximately HK$19.4 million) for a term of 10 years from 16 May 2006, which shall be renewed automatically for successive one-year terms thereafter. TJCC Services shall provide consulting services in connection with the acquisitions, divestitures and investments, the financial and business affairs, and the expansion of the businesses of the Company and its subsidiaries. Further, pursuant to the Management Consulting Agreement, if TJCC Services provides services to our Company outside the ordinary course of business, our Company shall pay an additional amount equal to the value of such extraordinary services rendered by TJCC Services as may be separately agreed to between TJCC Services and our Company and reimburse TJCC Services for out-of-pocket expenses incurred by TJCC Services in the performance of services to our Company and its subsidiaries. TJCC Services is an associate of our Directors, Mr. Kee-Kwan Allen Chan and Mr. Youming Ye, each of them respectively has a 40% equity interest in TJCC Services. The consulting fees accrued by our Company to TJCC Services for the three years ended 31 December 2008 were approximately US$1.6 million (equivalent to approximately HK$12.4 million), approximately US$2.5 million (equivalent to approximately HK$19.4 million) and approximately US$2.5 million (equivalent to approximately HK$19.4 million) respectively. Immediately prior to the Reorganisation on 31 December 2009, approximately US$7.7 million (equivalent to approximately HK$59.7 million) was estimated to be owed by our Company to TJCC Services. As part of the Reorganisation, all outstanding consulting fees and expenses due and owing to TJCC Services will be settled. TJCC Services has provided services outside its ordinary course of business to the Company, such as advising on the Reorganisation. For this purpose and as compensation for terminating the management consulting arrangement seven years early, TJCC Services shall receive a US$10.0 million (equivalent to approximately HK$77.5 million), being the TJCC Services Transaction and Termination Fee upon completion of the Reorganisation.

➢ Expiration of the Consulting Agreement with Mr. Emory Williams

Prior to the Reorganisation, our Company entered into a consulting agreement with Mr. Emory Williams, our former Director, to engage him to provide advisory services to our Company. The consulting agreement expired on 31 March 2008 and was not renewed. The consulting fees paid by the Company to Mr. Emory Williams for the three years ended 31 December 2008 were approximately US$0.1 million (equivalent to approximately HK$0.8 million), US$0.01 million (equivalent to approximately HK$0.08 million) and approximately US$0.02 million (equivalent to approximately HK$0.2 million) respectively.

➢ Shareholder's loans from TJCC Holdings

On various dates prior to the Reorganisation, TJCC Holdings provided various shareholder's loans to our Company in an aggregate principal sum of approximately US$23.9 million (equivalent to approximately HK$185.2 million). Immediately prior to the Reorganisation as of 31 December 2009, loans advanced by TJCC Holdings to our Company for the three years ended 31 December 2008 were nil, approximately US$10.2 million (equivalent to approximately HK$79.1 million) and approximately US$7.2 million (equivalent to approximately HK$55.8 million) in principal and nil, US$0.02 million (equivalent to approximately HK$0.16 million) and approximately US$1.13 million (equivalent to approximately HK$8.8 million) in accrued interest respectively. The proceeds of the shareholder's loans were used by our Company to fund (i) proposed acquisition of HK Siwei; (ii) general corporate purposes (including to fund loans to TJCC Services) and (iii) the net working capital needs of our Company. Such loans bear interest at different rates. As of 31 December 2009, the interest expense outstanding was estimated to be approximately US$2.8 million (equivalent to approximately HK$21.7 million). As stated above, as part of the Reorganisation, the loans to HK Siwei and the loans to Mr. Rubo Li will be assigned to TJCC Holdings in cancellation for an equal amount of the shareholder's loan by TJCC Holdings to our Company. The remaining balance of the shareholder's loan by TJCC Holdings will be settled as part of the proposed Reorganisation.

2. Continuing Connected Transactions

EXEMPTED CONTINUING CONNECTED TRANSACTION

The following connected transaction will constitute exempted continuing connected transaction for the Company under relevant rules and regulations and will be exempted from reporting, announcement and independent shareholders' approval requirements under relevant rules and regulations. The following transaction are undertaken on normal commercial terms or terms more favourable to our Group. The applicable percentage ratios (other than profit ratio) of the following transaction on an annual basis are less than 0.1%.

Consulting Agreement with Mr. Rubo Li

Prior to the completion of Reorganisation, we entered into a consulting agreement with Mr. Rubo Li, our non-executive Director, to engage him to provide advisory services to us, which agreement was renewed by an amended consulting agreement in May 2009 for another term of one year. On 4 December 2009, the amended consulting agreement was replaced with a new consulting agreement, pursuant to which Mr. Rubo Li will render to our Company, in his capacity as independent contractor, such advisory and consulting services to our Company from time to time and on an occasional basis as reasonably requested by our Company. The consulting fees are US$21,000 per month (equivalent to approximately HK$162,766.8). The consulting agreement is for a term commencing from 4 December 2009 and ending on 1 May 2011. Either party may terminate the consulting agreement for any reason with sixty (60) days written notice. The amended consulting agreement does not provide for a performance bonus opportunity. In addition, pursuant to a consulting subscription agreement dated 16 May 2006, Mr. Rubo Li has undertaken not to engage, directly or indirectly, in any business transaction with the Group unless such relationship is disclosed to our Company.

Mr. Rubo Li is our non-executive Director and is therefore a connected person of our Company.

Since each of the applicable percentage ratios (other than the profits ratio) is less than 0.1%, the transaction under the consulting agreement constitutes *de minimus* continuing connected transaction, which are exempted from the reporting, announcement and independent shareholders' approval requirements applicable under relevant rules and regulations.

Our Directors, including the independent non-executive Directors, consider that above exempted continuing connected transaction is conducted on normal commercial terms and is fair and reasonable and in the interests of our Company and our Shareholders as a whole and is in the ordinary and usual course of our business.

Our Company was established on 12 April 2006 and acquired 100% equity interest in Jiamusi Machinery and Jixi Machinery on 16 May 2006. During the period from 12 April 2006 to 15 May 2006, our sole activities were those undertaken in connection with the acquisition of Jiamusi Machinery and Jixi Machinery. We did not conduct significant operating activities during such period, and accordingly, did not recognised any revenue or cost of sales.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of the Group for period from 12 April 2006 to 31 December 2006, the two years ended 31 December 2008 and the seven months ended 31 July 2009, and the unaudited financial statements of the Group for the seven months ended 31 July 2008, in each case, together with the accompanying notes, included elsewhere in this document. These consolidated financial statements have been prepared in accordance with IFRS, which differ in certain significant respects from generally accepted accounting principles in certain other countries. For further information, see "Appendix I — Accountants' Report of International Mining Machinery Holdings Limited." As the period covered by the 2006 Consolidated Period is different from the periods covered by the two years ended 31 December 2008 and the seven months ended 31 July 2009 respectively, the information for the 2006 Consolidated Period is not directly comparable to information as that for the years ended 31 December 2007 and 2008.

Since Jiamusi Machinery and Jixi Machinery came under the control of the Company from 16 May 2006, the financial information of Jiamusi Machinery and Jixi Machinery could not be included in the same consolidated financial statements of the Group as that for the 2006 Consolidated Period, the two years ended 31 December 2008 and the seven months ended 31 July 2009. The Company has accordingly set out the financial information for Jiamusi Machinery and Jixi Machinery in separate financial statements in Appendices IA and IB to this document.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. 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 below as well as in "Risk Factors" and elsewhere in this document.

OVERVIEW

We are a leading designer and manufacturer of underground longwall coal mining equipment in China. A complete underground longwall mining system consists of four core pieces of equipment, namely roadheaders, shearers, armoured-face conveyors and hydraulic roof supports. We are a market leader in China in designing and manufacturing roadheaders and shearers, the two pieces of equipment which we believe to be the most technologically sophisticated in the underground longwall mining system, and we are quickly growing our armoured-face conveyor business. By capitalising on our capabilities, the extended history of our operations (as reflected in a large installed base) and a track record of innovation, we believe that we are uniquely positioned to become among the first complete longwall system solution providers in China.

The following is a brief overview of our current product segments:

➢ *Roadheader products*. We are a leading roadheader supplier in China, with a 27% market share based on units sold in 2008, according to China National Coal Machinery Industry

Association, or CMIA. According to the same source, we also had the largest installed base of roadheaders as of 31 December 2008, based on the aggregate number of units sold from 2005 to 2008. Jiamusi Machinery, our subsidiary that designs and manufactures our roadheader products, traces its history back to 1957 and manufactured the first roadheader in China in 1976. We currently offer 24 series of roadheaders, classified by installed cutting power under the categories of light-duty, medium-duty and heavy-duty. We believe our EBZ350 series roadheaders have the highest installed cutting power among roadheaders manufactured in China today.

➢ *Shearer products*. We are the largest longwall shearer supplier in China, with a 27% market share based on units sold in 2008, according to CMIA. According to the same source, we also had the largest installed base of shearers as of 31 December 2008, based on the aggregate number of units sold from 2005 to 2008. Jixi Machinery, our subsidiary that designs and manufactures our shearer products, traces its history back to 1936 and manufactured the first shearer in China in 1953. We offer a full line of shearers to operate under a wide range of coal bed conditions, from ultra-thin coal seams of 0.65 metres to thick seams of 6 metres. We believe that we are one of the few manufacturers in China with the capability to design and manufacture shearers with total power output over 2,000KW.

➢ *Armoured-face conveyors and related products*. We established our Huainan Longwall subsidiary in 2007 as a joint venture in which we initially held a 75% equity interest. Huainan Benniu, our joint venture partner at the time, was principally engaged in the manufacture and sale of mining machinery, conveyor machinery including armoured-face conveyors, and related spare parts. As part of the joint venture arrangement, Huainan Benniu contributed substantially all of its assets for the remaining 25% interest in Huainan Longwall. Capitalising on Huainan Benniu's customer base, we generated significant sales of armoured-face conveyors and related products in 2008, which we exceeded within the first seven months of 2009. We entered into an agreement with Huainan Benniu to purchase the remaining 25% equity interest of Huainan Longwall in December 2009. Approvals and registration procedures relating to the purchase were completed on 19 January 2010, and we expect the consideration for the purchase to be paid in March 2010.

➢ *Aftermarket parts and services*. We offer a wide range of aftermarket services, including onsite service repairs, overhauls and a supply of spare parts through an extensive network of service centres and parts depots in key mining districts which are close to our customers.

Our Company was established on 12 April 2006 and acquired the 100% equity interest in Jiamusi Machinery and Jixi Machinery on 16 May 2006. For the 2006 Consolidated Period, our revenue totaled RMB545.9 million and our profit for the period totaled RMB60.2 million. From 2007 to 2008, our revenue increased from RMB857.6 million to RMB1,279.7 million, or an increase of 49.2%, and our profit for the year decreased from RMB149.8 million to RMB146.2 million, or a decrease of 2.4%, primarily reflecting significantly higher tax expense due to the expiration of a tax holiday at Jiamusi Machinery and Jixi Machinery. In the seven months ended 31 July 2009 compared to the same period in 2008, our revenue increased from RMB702.6 million to RMB873.0 million, or an increase of 24.3%, and our profit for the same period increased from RMB94.9 million to RMB138.4 million, or an increase of 45.8%.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe the most significant factors that affect our business and results of operations include:

➢ *Development in the coal mining industry*. The sale of coal mining equipment is subject to cyclical fluctuations and to 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, our customers' replacement or repair cycles, consolidation in the mining industry and competitive pressures. The supply of and demand for coal may be affected by factors such as the level of coal production and coal mining activity, the expected cost of developing new reserves and the cost of conducting coal mining operations. Substantially all of our sales historically have been derived from China, and as a result, an economic slowdown in China could curtail demand for coal and coal mining equipment.

➢ *Product mix*. Our product segments and products within a particular segment generally have different gross margins. For instance, historically, we have experienced lower margins in our armoured-face conveyor and related products segment than our roadheader and shearer segments. Furthermore, within our roadheader segment, we have generally experienced higher gross margins on our heavy-duty roadheader products than light duty roadheader products. Some of our product segments may experience higher rates of growth than other segments, which may affect our product mix and revenue mix. Changes in our product mix and revenue mix, in turn, may affect our overall gross margins and other aspects of business performance.

➢ *Changes in sales model*. Our sales models vary significantly among our product segments. Historically, our shearer products have been generally, and our armoured-face conveyors and related products have been primarily, sold through sales agents. For our roadheader products, our sales model has changed to one primarily relying on distributor sales during the Relevant Period. We have implemented these changes by taking into account a number of factors, such as the credit risks of the distributors as compared to the end customers and whether the covered region is a relatively mature market or a new market. Our revenue recognised on sales through sales agents includes sales commissions, which are recognised as part of selling and distribution costs. In contrast, our revenue recognised on sales to distributors does not reflect distributor markups when our products are resold to our end customers. In addition, the level of commissions paid to our sales agents vary significantly among our product segments. As a result, changes in our sales model historically have affected our gross margin on roadheader products, and may continue to affect our operating results as our sales models for different product segments are further refined.

➢ *Competitive dynamics*. Although all of our products are designed to operate in underground longwall coal mining, the competitive dynamics among our product segments may vary significantly. For example, in general, a significant proportion of the end customers of our roadheader products are operators of large coal mines. In contrast, the end customer base of our shearer products is highly diversified, and includes a significant number of small-mine operators. From our experience, small-mine operators are often more price-sensitive than their larger counterparts. As a result, we generally face greater pricing pressure on our shearer products than our roadheader products. As consolidation of the coal mining industry in China continues, and if the number of small-mine operators continues to decline, we expect the pricing pressure on our shearer products to stabilise.

➢ *Raw material prices*. Raw material cost has been one of the largest components of our cost of sales. The principal raw material used in our products is steel and steel-based components.

Accordingly, changes in the availability and price of steel and steel-based components have a significant impact on our cost of sales and results of operations. We primarily purchase our steel and steel-based components in China, where the price of steel has historically fluctuated significantly.

➢ *Production capacity and efficiency*. Our future growth depends on our ability to continue to expand our production capacity and to enhance our production efficiency. Expanding production capacity will also enhance our ability to in-source processes such as castings and surface processing that are currently outsourced but can be processed more cost-effectively in-house, thereby improving our production efficiency and product margins.

➢ *Regulatory environment*. Many of our end customers are underground mining companies in China. The operations of these mining companies are subject to or impacted by a wide array of regulations, including environmental, health and safety laws and regulations. PRC laws and regulations in these areas continue to evolve, and changes in these laws and regulations may affect our business and operating results. In addition, as part of the PRC Government's aim to improve operating efficiency and safety, the PRC coal mining industry is undergoing an industry consolidation. In light of this trend, it has become increasingly important for our future growth and business performance that we compete successfully in retaining and attracting customers and end customers.

In addition to the foregoing, our results of operations are also affected by general factors, including exchange rate fluctuations, changes in preferential tax treatment and competition. For more information on these and other factors and developments that may affect us, see "Risk Factors" and "Industry Overview".

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill. We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The estimation of the expected future cash flows from cash-generating unit could change significantly should the cash-generating unit fails to sustain the estimated growth. The carrying amount of goodwill as of 31 December 2006, 2007 and 2008 and 31 July 2009 was RMB101.2 million.

Impairment of property, plant and equipment. The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of these assets, or, where appropriate, the cash generating unit to which they belong, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires us to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

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

Useful lives of intangible assets. We determine the estimated useful lives and related amortisation charges for our intangible assets. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

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

Net realisable value of inventories. Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The costs of raw materials comprise the purchasing costs of the materials and other costs incurred in bringing the materials to their present locations and conditions. The costs of work in progress and finished goods comprise direct materials, direct labour and an appropriate proportion of manufacturing overheads. Write-down of inventories to net realisable value is made based on the estimated selling prices, less estimated costs to be incurred through completion and disposal. These estimates are based on current market conditions and the historical experience of selling products of a similar nature. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying amounts of inventories and the write-down/reversal in the period for which such estimate was changed.

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

Warranty expenses. We generally offer a twelve-month warranty for our original equipment units, during which free warranty service for the repair and maintenance of parts or components under normal usage is provided to customers. Our management estimates the warranty provision based on the historical cost data for repairs and maintenance and sales revenue.

DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

Revenue

Our revenue consists of sales of coal mining equipment products and parts and rendering of overhaul and other repair services on such products. Revenue represents the net invoiced value of the goods sold after value-added taxes, where applicable.

The following table sets forth our revenue by product segment for the periods indicated.

	Pre-acquisition period				The Group									
	Jiamusi Machinery		Jixi Machinery		Period from 12 April to 31 December		For the year ended 31 December				For the seven months ended 31 July			
	For the period from 1 January 2006 to 15 May 2006				2006		2007		2008		2008		2009	
					(in millions of RMB, except percentages)									
Product segment:														
Roadheader products	161.1	92.4%	—	—	263.7	48.3%	414.6	48.3%	571.9	44.7%	341.7	48.6%	419.2	48.0%
Shearer products	—	—	107.7	80.3%	195.6	35.8%	260.3	30.4%	348.5	27.2%	188.9	26.9%	191.1	21.9%
Armoured-face conveyors and related products	—	—	—	—	—	—	—	—	140.1	11.0%	46.9	6.7%	146.5	16.8%
Aftermarket parts and services	13.3	7.6%	26.4	19.7%	86.6	15.9%	182.7	21.3%	219.2	17.1%	125.2	17.8%	116.2	13.3%
Total	**174.4**	**100.0%**	**134.1**	**100.0%**	**545.9**	**100.0%**	**857.6**	**100.0%**	**1,279.7**	**100.0%**	**702.6**	**100.0%**	**873.0**	**100.0%**

Cost of Sales

Our cost of sales consists of raw materials costs, manufacturing costs and direct labour costs. Raw materials costs primarily include our cost for the purchase of steel, outsourced parts and electric components. Manufacturing costs primarily include consumables, maintenance expenses and depreciation relating primarily to plant and equipment we own. Direct labour costs primarily include compensation and benefits we provide to manufacturing employees. The following table sets forth the components of our cost of sales for the periods indicated.

	Period from 12 April to 31 December		Year ended 31 December				Seven months ended 31 July			
	2006		2007		2008		2008		2009	
	(in millions of RMB, except percentages)									
Cost of sales:										
Raw materials	221.9	73.5%	368.9	73.1%	615.6	76.5%	326.8	76.9%	430.2	78.7%
Manufacturing costs	57.0	18.9%	95.1	18.9%	132.0	16.4%	68.2	16.1%	78.7	14.4%
Direct labour	23.0	7.6%	40.4	8.0%	57.0	7.1%	29.7	7%	38.0	6.9%
Total	301.9	100.0%	504.4	100.0%	804.6	100.0%	424.7	100.0%	546.9	100.0%

The following table sets forth our breakdown of cost of raw materials for the periods indicated.

	Period from 12 April to 31 December		For the year ended 31 December				For the seven months ended 31 July			
	2006		2007		2008		2008		2009	
	Amount	% of Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales	Amount	% of Cost of Sales
	(in millions of RMB, except percentages)									
Steel:	39.5	13%	68.8	13%	140.6	18%	63.1	15%	96.6	18%
Bar	19.2	6%	32.2	6%	53.1	7%	23.3	5%	32.4	6%
Plank	18.0	6%	32.0	6%	76.7	10%	33.9	8%	58.6	11%
Tubing	1.6	1%	3.4	1%	9.2	1%	4.3	1%	3.9	1%
Others	0.8	—	1.3	—	1.5	—	1.6	—	1.7	—
Outsourced parts:	46.8	16%	86.3	17%	164.1	20%	87.8	21%	112.1	21%
Electric components:	63.9	21%	95.7	19%	139.8	17%	76.0	18%	100.6	18%
Hydraulic parts:	40.2	13%	63.9	13%	88.1	11%	56.0	13%	68.5	13%
Others:	31.6	11%	54.2	11%	83.0	11%	44.0	10%	52.4	9%

Our cost of steel depends on the market price for steel, which is subject to fluctuations in both domestic and international commodities markets. In particular, we experienced increases in steel prices from 2006 to the third quarter of 2008 due to an increase in steel demand in PRC during that period.

Other Income and Gains

Our other income and gains mainly comprise sales of scrap materials and gains on disposal of property, plant and equipment.

Selling and Distribution Costs

Our selling and distribution costs mainly include commissions paid to sales agents, staff costs comprising salaries and other benefits for employees involved in selling and marketing activities, transportation costs for delivery of our products to our customers, expenses for providing repair and maintenance services and other operating expenses, including travel expenses and advertising expenses, and other miscellaneous expenses.

Administrative Expenses

Administrative expenses mainly consist of professional fees, overhead cost, staff salaries and benefits including welfare expenses, bonuses paid to our employees, management fees and consulting fees. For the 2006 Consolidated Period, our administrative expenses primarily consisted of various fees paid to parties in relation to the acquisition of Jiamusi Machinery and Jixi Machinery, namely (i) consulting fees in the amount of RMB23.9 million paid to The Jordan Company, L.P., and (ii) expenses in the amount of RMB25.6 million, which includes salaries and bonuses of directors and employees who worked on the acquisition and payments made to independent third party consultants for consulting services. We accrued management fees to TJCC Services, a related party, during the Relevant Period, and we paid consulting fees to Rubo Li and Emory Williams during the Relevant Period. These fee agreements will be terminated upon completion of the Reorganisation.

Other Expenses

Other expenses mainly consist of expenses incurred in provision for obsolete inventories, impairment provision for doubtful debts, certain financial expenses and non-operational expenses, and other miscellaneous expenses.

Finance Revenue

Finance revenue mainly consists of interest income from our loans to certain related parties during the Relevant Period and our deposits in banks.

Finance Costs

Finance costs mainly consist of interest on bank borrowings and interest arising from borrowings from certain related parties during the Relevant Period, as well as interest arising from discounted bills.

Tax

Tax expense primarily consists of provisions for PRC income tax. Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and, accordingly, is exempt from payment of Cayman Islands income tax. Our subsidiary in Mauritius is not subject to any income tax in Mauritius. No provision for Hong Kong profits tax has been made as we had no assessable profits derived from or earned in Hong Kong.

Our subsidiaries incorporated in the PRC are subject to PRC enterprise income tax. In accordance with the relevant income tax laws and regulations of the PRC, Jiamusi Machinery and Jixi Machinery were exempted from enterprise income tax for two years commencing from the first profit-making year, which was 2006, and were entitled to a 50.0% reduction in their enterprise income tax for the subsequent three years. Therefore, from 1 January 2008 to 31 December 2010, the applicable enterprise income tax rate for Jiamusi Machinery and Jixi Machinery is 12.5%. Huainan Longwall does not enjoy any preferential tax treatment and its applicable enterprise income tax rate is 25.0% beginning 1 January 2008.

CONSOLIDATED RESULTS OF OPERATIONS

The follow table sets forth a summary of our income statement data for the years ended 31 December 2006, 2007 and 2008, and seven months ended 31 July 2008 and 2009, as derived from the Accountants' Report in Appendix I. To better demonstrate our financial performance for the full year in 2006, we also present below certain financial data of Jiamusi Machinery and Jixi Machinery prior to our acquisition for the period from 1 January 2006 to 15 May 2006, under the heading "Pre-acquisition period". The results of operations of Jiamusi Machinery and Jixi Machinery for the period from 16 May 2006 through 31 December 2006 were consolidated into our consolidated results of operations for the 2006 Consolidated Period. See Appendices IA and IB for further information. Operating results in any historical period may not be indicative of the results that may be expected in any future period.

	Pre-acquisition Period				Consolidated Income Statement									
	Jiamusi Machinery		Jixi Machinery		The Group									
	For the period from 1 January 2006 to 15 May 2006				Period from 12 April to 31 December		For the year ended 31 December				For the seven months ended 31 July			
					2006		2007		2008		2008		2009	
					(in millions of RMB, except percentages)									
Revenue	174.4	100.0%	134.1	100.0%	545.9	100.0%	857.6	100.0%	1,279.7	100.0%	702.6	100.0%	873.0	100.0%
Cost of sales	(82.5)	(47.3)%	(86.1)	(64.2)%	(301.9)	(55.3)%	(504.4)	(58.8)%	(804.6)	(62.9)%	(424.7)	(60.4)%	(546.9)	(62.6)%
Gross profit	91.9	52.7%	48.0	35.8%	244.0	44.7%	353.2	41.2%	475.1	37.1%	277.9	39.6%	326.2	37.4%
Other income and gains	10.0	5.7%	28.6	21.3%	0.02	—	5.6	0.7%	7.7	0.6%	5.0	0.7%	1.3	0.1%
Selling and distribution costs	(18.7)	(10.7)%	(8.3)	(6.2)%	(36.1)	(6.6)%	(72.7)	(8.5)%	(118.3)	(9.2)%	(54.3)	(7.7)%	(57.5)	(6.6)%
Administrative expenses	(16.0)	(9.2)%	(13.2)	(9.8)%	(128.2)	(23.5)%	(130.2)	(15.2)%	(167.8)	(13.1)%	(101.7)	(14.5)%	(88.6)	(10.1)%
Other expenses	(7.2)	(4.1)%	(6.7)	(5.0)%	(15.3)	(2.8)%	(14.6)	(1.7)%	(10.0)	(0.8)%	(6.1)	(0.9)%	(6.6)	(0.8)%
Finance revenue	0.04	—	0.006	—	1.9	0.3%	4.7	0.5%	14.6	1.1%	7.4	1.1%	10.3	1.2%
Finance costs	(2.1)	(1.2)%	(3.6)	(2.7)%	(6.6)	(1.2)%	(7.3)	(0.9)%	(17.1)	(1.3)%	(10.6)	(1.5)%	(10.2)	(1.2)%
Share of (loss)/ profits of an associate	—	—	—	—	—	—	0.1	—	0.8	0.1%	(0.06)	—	(0.02)	—
Profit before tax	57.8	33.2%	44.8	33.4%	59.6	10.9%	138.9	16.2%	185.2	14.5%	117.6	16.7%	174.8	20.0%
Tax	(14.4)	(8.3)%	(8.9)	(6.6)%	0.6	0.1%	10.9	1.3%	(39.0)	(3.0)%	(22.7)	(3.2)%	(36.4)	(4.2)%
Profit for the year/ period	43.4	24.9%	36.0	26.8%	60.2	11.0%	149.8	17.5%	146.2	11.4%	94.9	13.5%	138.4	15.9%

The following table sets forth, for the periods indicated, revenue and gross profit (by amount and as a percentage of revenue) and gross margin information by product segment for the Group as well as Jiamusi Machinery and Jixi Machinery prior to our acquisition.

	Pre-acquisition period				The Group									
	Jiamusi Machinery		Jixi Machinery		Period from 12 April to 31 December		Year ended 31 December				Seven months ended 31 July			
	For the period from 1 January 2006 to 15 May 2006				2006		2007		2008		2008		2009	
					(in millions of RMB, except percentages)									
Segment revenue:														
Roadheader products	161.1	92.4%	—	—	263.7	48.3%	414.6	48.3%	571.9	44.7%	341.7	48.6%	419.2	48.0%
Shearer products	—	—	107.7	80.3%	195.6	35.8%	260.3	30.4%	348.5	27.2%	188.9	26.9%	191.1	21.9%
Armoured-face conveyors and related products	—	—	—	—	—	—	—	—	140.1	11.0%	46.9	6.7%	146.5	16.8%
Aftermarket parts and services	13.3	7.6%	26.4	19.7%	86.6	15.9%	182.7	21.3%	219.2	17.1%	125.2	17.8%	116.2	13.3%
Total	174.4	100.0%	134.1	100.0%	545.9	100.0%	857.6	100.0%	1,279.7	100.0%	702.6	100.0%	873.0	100.0%
Segment gross profit:														
Roadheader products	87.7	95.4%	—	—	131.8	54.0%	195.8	55.4%	263.2	55.4%	161.1	58.0%	187.7	57.5%
Shearer products	—	—	41.1	85.6%	70.1	28.7%	96.3	27.3%	106.6	22.4%	59.1	21.3%	53.0	16.3%
Armoured-face conveyors and related products	—	—	—	—	—	—	—	—	17.5	3.7%	10.2	3.7%	37.0	11.3%
Aftermarket parts and services	4.2	4.6%	6.9	14.4%	42.1	17.3%	61.1	17.3%	87.8	18.5%	47.5	17.0%	48.5	14.9%
Total	91.9	100.0%	48.0	100.0%	244.0	100.0%	353.2	100.0%	475.1	100.0%	277.9	100.0%	326.2	100.0%
Segment gross margin:														
Roadheader products		54.4%		—		50.0%		47.2%		46.0%		47.1%		44.8%
Shearer products		—		38.2%		35.8%		37.0%		30.6%		31.3%		27.7%
Armoured-face conveyors and related products		—		—		—		—		12.5%		21.7%		25.3%
Aftermarket parts and services		31.5%		26.1%		48.6%		33.4%		40.1%		37.9%		41.7%
Total		52.7%		35.8%		44.7%		41.2%		37.1%		39.6%		37.4%

Seven Months Ended 31 July 2009 Compared to Seven Months Ended 31 July 2008

Revenue

Our revenue increased by RMB170.4 million, or 24.3%, from RMB702.6 million in the seven months ended 31 July 2008 to RMB873.0 million in the seven months ended 31 July 2009, reflecting increases in sales of roadheader products and armoured-face conveyors and related products, partially offset by a decrease in sales of aftermarket parts and services.

Roadheader products. Our revenue from roadheader products increased by RMB77.5 million, or 22.7%, from RMB341.7 million in the seven months ended 31 July 2008 to RMB419.2 million in the seven months ended 31 July 2009, primarily reflecting a combination of (i) an increase in the sales volume of heavy-duty roadheaders, and (ii) an increase in the overall average selling price of our roadheaders. We believe that the increase in the sales volume of heavy-duty roadheaders primarily reflected an increase in market demand for our heavy-duty roadheader products as well as our increasing focus on the development of these products. The increase in the average selling price of our roadheaders reflected, among other factors, an increase in the percentage of revenue derived from sales of heavy-duty roadheaders, from which we derived higher average selling prices than medium-duty and light-duty roadheaders.

Shearer products. Our revenue from shearer products increased by RMB2.2 million, or 1.2%, from RMB188.9 million in the seven months ended 31 July 2008 to RMB191.1 million in the seven months 31 July 2009, primarily reflecting an increase in the sales of ultra-thin seam shearers and medium seam shearers, resulting from an increase in the market demand for such products.

Armoured-face conveyors and related products. Our revenue from armoured-face conveyors and related products increased by RMB99.6 million from RMB46.9 million in the seven months ended 31 July 2008 to RMB146.5 million in the seven months 31 July 2009, reflecting increases in the sales volume of these products. The increase in sales volume primarily reflected our successful efforts in 2008 to ramp up operations at Huainan Longwall.

Aftermarket parts and services. Our revenue from aftermarket parts and services decreased by RMB9.0 million, or 7.2%, from RMB125.2 million in the seven months ended 31 July 2008 to RMB116.2 million in the seven months ended 31 July 2009. The decrease primarily reflected a decrease in revenue from aftermarket sales in shearer products, which we believe in turn reflected the impact of the recent financial crisis, which affected the utilisation of our shearer original equipment sold to our end customers.

Cost of sales

Cost of sales increased by RMB122.2 million, or 28.8%, from RMB424.7 million in the seven months ended 31 July 2008 to RMB546.9 million in the seven months ended 31 July 2009, primarily reflecting an increase in our revenue as we continued to expand our business and operations.

The cost of raw materials increased by RMB103.4 million, or 31.6%, from RMB326.8 million in the seven months ended 31 July 2008 to RMB430.2 million in the seven months ended 31 July 2009, primarily reflecting cost increases in major components of our raw materials costs, such as steel, outsourced parts and electrical components. We believe the increase in cost of raw materials reflected a general increase in the cost of steel as well as the increasing technical sophistication in the configuration of the parts and components we chose to utilise. The increase in steel cost was affected by the ramping up of our armoured-face conveyors and related products business in 2008, which required significant amounts of steel as raw material. Manufacturing costs increased by RMB10.5 million, or 15.4%, from RMB68.2 million in the seven months ended 31 July 2008 to RMB78.7 million in the seven months ended 31 July 2009. Direct labour costs increased by RMB8.3 million, or 27.9%, from RMB29.7 million in the seven months ended 31 July 2008 to RMB38.0 million in the seven months ended 31 July 2009, primarily reflecting an increase in the number of our manufacturing employees.

Gross profit and gross margin

Gross profit increased by RMB48.3 million, or 17.4%, from RMB277.9 million in the seven months ended 31 July 2008 to RMB326.2 million in the seven months ended 31 July 2009. Our gross profit margin decreased from 39.6% in the seven months ended 31 July 2008 to 37.4% in the seven months ended 31 July 2009, primarily reflecting a combination of (i) an increase in the percentage of revenue derived from armoured-face conveyors and related products, on which our gross margin historically has been lower than other product segments; and (ii) decreases in gross margins for our roadheader products and shearer products.

Gross margin of our roadheader products decreased from 47.1% in the seven months ended 31 July 2008 to 44.8% in the seven months ended 31 July 2009, primarily reflecting an increase in competition in the roadheader products market.

Gross margin of our shearer products decreased from 31.3% in the seven months ended 31 July 2008 to 27.7% in the seven months ended 31 July 2009, primarily reflecting decreases in the gross margins of our medium seam and thick seam shearer products, which we believe in turn reflected increasing competition in these products.

Gross profit margin of our armoured-face conveyors and related products increased from 21.7% in the seven months ended 31 July 2008 to 25.3% in the seven months ended 31 July 2009, primarily reflecting an increase in economies of scale of our production as we ramped up our operations at Huainan Longwall in 2008.

Gross profit margin of our aftermarket parts and services increased from 37.9% in the seven months ended 31 July 2008 to 41.7% in the seven months ended 31 July 2009, primarily reflecting an increase in the sales of our higher margin spare parts for roadheaders, shearers and armoured-face conveyors.

Other income and gains

Other income and gains decreased by RMB3.7 million, or 74.0%, from RMB5.0 million in the seven months ended 31 July 2008 to RMB1.3 million in the seven months ended 31 July 2009, primarily reflecting a decrease of RMB3.1 million in gain on sale of scrap materials.

Selling and distribution costs

Selling and distribution costs increased by RMB3.2 million, or 5.9%, from RMB54.3 million in the seven months ended 31 July 2008 to RMB57.5 million in the seven months ended 31 July 2009, primarily reflecting increases in commissions paid to sales agents, transportation costs and warranty provision, partially offset by decreases in travel expenses and advertising expenses.

Commissions paid to sales agents increased by RMB3.4 million, or 16.9%, from RMB20.1 million in the seven months ended 31 July 2008 to RMB23.5 million in the seven months ended 31 July 2009, primarily reflecting increasing sales of our armoured-face conveyors and related products, which we generally sell through sales agents, coupled with increasing sales of our roadheader products through sales agents as compared to distributors. The increase in cost of freight and warranty provision primarily reflected an increase in our sales volume as our business continued to expand. The decreases in our travel expenses and advertising expenses primarily reflected our increasing focus on cost management.

Administrative expenses

Administrative expenses decreased by RMB13.1 million, or 12.9%, from RMB101.7 million in the seven months ended 31 July 2008 to RMB88.6 million in the seven months ended 31 July 2009, primarily reflecting decreases in professional fees which primarily consist of auditing expenses and legal fees.

Professional fees decreased by RMB13.9 million from RMB18.7 million in the seven months ended 31 July 2008 to RMB4.8 million in the seven months ended 31 July 2009. These expenses in the seven months ended 31 July 2008 primarily related to our preparation for a potential initial public offering in the first half of 2008, which was subsequently postponed for market reasons. In the seven months ended 31 July 2009 we recorded management fees of RMB10.0 million, compared to RMB10.3 million in the seven months ended 31 July 2008.

Other expenses

Other expenses increased from RMB6.1 million in the seven months ended 31 July 2008 to RMB6.6 million in the seven months ended 31 July 2009.

Finance revenue

Finance revenue increased by RMB2.9 million from RMB7.4 million in the seven months ended 31 July 2008 to RMB10.3 million in the seven months ended 31 July 2009, primarily reflecting increased lending to two related parties, namely TJCC Services and HK Siwei.

Finance costs

Finance costs decreased by RMB0.4 million from RMB10.6 million in the seven months ended 31 July 2008 to RMB10.2 million in the seven months ended 31 July 2009, primarily reflecting a decrease in interest cost arising from discounted bills.

Share of loss of associates

Share of loss of an associate decreased from RMB63,000 in the seven months ended 31 July 2008 to RMB24,000 in the seven months ended 31 July 2009, reflecting our share of loss of Tianlong Machinery and Huainan Shunli in which we hold a 20% and 25% equity interest, respectively.

Profit before tax

As a result of foregoing, our profit before tax increased by RMB57.2 million, or 48.6%, from RMB117.6 million in the seven months ended 31 July 2008 to RMB174.8 million in the seven months ended 31 July 2009.

Tax

Our tax expense increased by RMB13.7 million, or 60.4%, from RMB22.7 million in the seven months ended 31 July 2008 to RMB36.4 million in the seven months ended 31 July 2009. Our effective tax rate was approximately 19.3% and 20.8% in the seven months ended 31 July 2008 and 31 July 2009, respectively.

Profit for the period

As a result of foregoing, our profit for the period increased by RMB43.5 million, or 45.8%, from RMB94.9 million in the seven months ended 31 July 2008 to RMB138.4 million in the seven months ended 31 July 2009.

Our net profit margin increased from 13.5% in the seven months ended 31 July 2008 to 15.9% in the seven months ended 31 July 2009.

Year Ended 31 December 2008 Compared to Year Ended 31 December 2007

Revenue

Our revenue increased by RMB422.1 million, or 49.2%, from RMB857.6 million in 2007 to RMB1,279.7 million in 2008, reflecting increases in sales at each of our three product segments.

Roadheader products. Our revenue from roadheader products increased by RMB157.3 million, or 37.9%, from RMB414.6 million in 2007 to RMB571.9 million in 2008, primarily reflecting a combination of (i) an increase in the sales volume of medium-duty and heavy-duty roadheaders and (ii) an increase in the average selling price of our roadheaders. We believe that the increase in the sales volume of medium-duty and heavy-duty roadheaders reflected the increase in demand resulting from, among other things, the ongoing consolidation of the coal mining industry in China and the accompanying consolidation of coal mining operations. The increase in the average selling price of our roadheader products from 2007 to 2008 primarily reflected an increase in the percentage of revenue derived from heavy-duty and medium-duty roadheaders, which generally have higher average selling prices than light-duty roadheaders. The average price of our heavy-duty roadheader products also increased, which we believe reflected our product development efforts to improve the quality and functionality of these products.

Shearer products. Our revenue from shearer products increased by RMB88.2 million, or 33.9%, from RMB260.3 million in 2007 to RMB348.5 million in 2008, primarily reflecting an increase in the sales volume of medium seam shearers and ultra-thin seam shearers, partially offset by a decrease in the average selling price. The increase in sales volume of medium seam shearers and ultra-thin seam shearers primarily reflected the increase in demand for those products. The decrease in the average selling price of our shearer primarily reflected a decrease in the average selling price of thick seam shearers, which reflected increasing competition in this product category.

Armoured-face conveyors and related products. We began production of armoured-face conveyors and related products at Huainan Longwall in 2008 and generated revenue of RMB140.1 million in the same year.

Aftermarket parts and services. Our revenue from aftermarket parts and services increased by RMB36.5 million, or 20.0%, from RMB182.7 million in 2007 to RMB219.2 million in 2008, primarily reflecting increases in aftermarket sales in our armoured-face conveyors related products and shearer products as our installed base in these products continued to expand.

Cost of sales

Cost of sales increased by RMB300.2 million, or 59.5%, from RMB504.4 million in 2007 to RMB804.6 million in 2008, primarily reflecting an increase in our revenue as we continued to expand our business and operations, including our newly established armoured-face conveyors and related products business.

The cost of raw materials increased by RMB246.7 million, or 66.9%, from RMB368.9 million in 2007 to RMB615.6 million in 2008, primarily reflecting cost increases in major components of our raw materials costs, such as steel, outsourced parts and electrical components. We believe the increase in cost of raw materials reflected a general increase in the cost of steel as well as the increasing technical sophistication in the configuration of the parts and components we chose to utilise. The increase in steel cost was affected by the ramping up of our armoured-face conveyors and related products business in 2008, which required significant amounts of steel as raw material. Manufacturing costs increased by RMB36.9 million, or 38.8%, from RMB95.1 million in 2007 to RMB132.0 million in 2008. Direct labour increased by RMB16.6 million, or 41.1%, from RMB40.4 million in 2007 to RMB57.0 million in 2008, primarily due to an increase in the number of manufacturing employees.

Gross profit and gross margin

Gross profit increased by RMB121.9 million, or 34.5%, from RMB353.2 million in 2007 to RMB475.1 million in 2008. Our gross profit margin decreased from 41.2% in 2007 to 37.1% in 2008, primarily reflecting a combination of (i) an increase in the percentage of revenue derived from armoured-face conveyors and related products, on which the gross margin has been lower than other product segments; and (ii) a decrease in gross margin for our shearer products.

Gross margin of our roadheader products decreased from 47.2% in 2007 to 46.0% in 2008, primarily reflecting a decrease in the percentage of gross profit derived from heavy-duty roadheaders, on which we historically have derived a higher gross margin than light-duty and medium-duty roadheaders.

Gross margin of our shearer products decreased from 37.0% in 2007 to 30.6% in 2008. We believe the decrease primarily reflected increasing competition in China's shearer market as well as the effect of the recent financial crisis.

Gross profit margin of our armoured-face conveyors and related products was 12.5% in 2008.

Gross profit margin of our armoured-face conveyors and related products in the second half of 2008 was affected by a combination of (i) our efforts to increase market share in this relatively new business through competitive pricing; and (ii) an increase in raw material cost, reflecting a general increase in steel prices.

Gross profit margin of our aftermarket parts and services increased from 33.4% in 2007 to 40.1% in 2008, primarily reflecting an increase in the sales of higher margin spare parts of roadheaders.

Other income and gains

Other income and gains increased by RMB2.1 million from RMB5.6 million in 2007 to RMB7.7 million in 2008, primarily reflecting an increase in gain on sale of scrap materials in 2008 and gain on disposal of equipment.

Selling and distribution costs

Selling and distribution costs increased by RMB45.6 million, or 62.7%, from RMB72.7 million in 2007 to RMB118.3 million in 2008, primarily reflecting increases in commissions paid to agents, warranty provision, transportation expenses, freight-out and salaries and wages.

Commissions paid to agents increased by RMB20.9 million, or 70.1%, from RMB29.8 million in 2007 to RMB50.7 million in 2008, primarily due to an increase in our overall sales, and in particular, the commencement of sales of our armoured-face conveyors and related products, which we primarily sell through sales agents. Warranty provision increased by RMB7.9 million from RMB9.2 million in 2007 to RMB17.1 million in 2008, primarily reflecting the warranty provision made on our armoured-face conveyors and related products, of which we commenced sales in 2008. Cost of freight-out increased by RMB5.2 million from RMB4.3 million in 2007 to RMB9.5 million in 2008, primarily due to the increase in our sales. Salaries and wages increased by RMB4.4 million primarily reflecting the hiring of additional sales and marketing employees.

Administrative expenses

Administrative expenses increased by RMB37.6 million, or 28.9%, from RMB130.2 million in 2007 to RMB167.8 million in 2008, primarily reflecting an increase in professional fees and salaries, wages and bonus.

Professional fees increased from RMB4.7 million in 2007 to RMB23.7 million in 2008, primarily reflecting our preparation for a potential initial public offering in the first half of 2008. Salaries, wages and bonus increased by RMB16.4 million, primarily due to an increase in the number of administrative employees and an increase in their average salaries. We recorded management fees of RMB17.3 million in 2008, compared to RMB19.0 million in 2007.

Other expenses

Other expenses decreased from RMB14.6 million in 2007 to RMB10.0 million in 2008, primarily due to certain financial expenses, non-operating expenses and other miscellaneous expenses, which was partially offset by an increase in the provision for inventory.

Finance revenue

Finance revenue increased from RMB4.7 million in 2007 to RMB14.6 million in 2008, primarily reflecting an increase in interest income on our loans to TJCC Services and HK Siwei resulted from an increase in the principal on these loans.

Finance costs

Finance costs increased by RMB9.8 million from RMB7.3 million in 2007 to RMB17.1 million in 2008, primarily reflecting an increase in loan interest. Loan interest increased by RMB9.6 million from RMB4.9 million in 2007 to RMB14.5 million in 2008, primarily reflecting increased borrowing from TJCC Holdings.

Share of profits of associates

Our share of profits of associates increased from RMB0.1 million in 2007 to RMB0.8 million in 2008, primarily due to the profits made by Tianlong Machinery which was established in July 2008.

Profit before tax

As a result of foregoing, our profit before tax increased by RMB46.3 million, or 33.3%, from RMB138.9 million in 2007 to RMB185.2 million in 2008.

Tax

We had a tax expense of RMB39.0 million in 2008, compared to a tax credit of RMB10.9 million in 2007. Our effective tax rate was 21.1% in 2008. Jiamusi Machinery and Jixi Machinery were subject to an enterprise income tax rate of 12.5% in 2008, but were exempted from enterprise income tax in 2007. Huainan Longwall, which commenced operations in 2008, was subject to an enterprise income tax rate of 25.0% in 2008.

Profit for the year

As a result of foregoing, our profit for the year decreased by RMB3.6 million, or 2.4%, from RMB149.8 million in 2007 to RMB146.2 million in 2008.

Our net profit margin decreased from 17.5% in 2007 to 11.4% in 2008.

Year Ended 31 December 2007 and 2006 Consolidated Period

The following is a discussion of our operating results during the 2006 Consolidated Period and the full year ended 31 December 2007. Because the two periods are of different lengths, our operating results during these two periods are not directly comparable. Accordingly, you are cautioned not to infer any comparison between the results for the two accounting periods, or to place undue reliance on the following discussion. To better demonstrate our financial performance for the full year in 2006, we have included elsewhere in this "Financial information" section certain operating results of Jiamusi Machinery and Jixi Machinery prior to our acquisition for the period from 1 January 2006 to 15 May 2006.

Revenue

Our revenue totaled RMB545.9 million in the 2006 Consolidated Period and RMB857.6 million in 2007.

Our revenue from roadheader products totaled RMB263.7 million in the 2006 Consolidated Period and RMB414.6 million in 2007. Our revenue from shearer products totaled RMB195.6 million in the 2006 Consolidated Period and RMB260.3 million in 2007. Revenue from aftermarket parts and services totaled RMB86.6 million in the 2006 Consolidated Period and RMB182.7 million in 2007. We did not derive revenue from sales of armoured-face conveyors and related products prior to 2008.

Cost of sales

Cost of sales totaled RMB301.9 million in the 2006 Consolidated Period and RMB504.4 million in 2007.

The cost of raw materials totaled RMB221.9 million in the 2006 Consolidated Period and RMB368.9 million in 2007. Manufacturing costs totaled RMB57.0 million in the 2006 Consolidated Period and RMB95.1 million in 2007. Direct labour cost totaled RMB23.0 million in the 2006 Consolidated Period and RMB40.4 million in 2007.

Gross profit and gross margin

Gross profit totaled RMB244.0 million in 2006 and RMB353.2 million in 2007. Our gross profit margin was 44.7% in 2006 and 41.2% in 2007.

Gross margin of our roadheader products was 50.0% in the 2006 Consolidated Period and 47.2% in 2007. Gross margin of our shearer products was 35.8% in the 2006 Consolidated Period and 37.0% in 2007. Gross margin of our aftermarket parts and services was 48.6% in the 2006 Consolidated Period and 33.4% in 2007. We believe that the declining trend in the gross margins of these product segments primarily reflected the continuing increase in competition in these products.

Other income and gains

Other income and gains totaled RMB0.02 million in the 2006 Consolidated Period and RMB5.6 million in 2007.

Selling and distribution costs

Selling and distribution costs totaled RMB36.1 million in the 2006 Consolidated Period and RMB72.7 million in 2007.

Commissions paid to sales agents totaled RMB1.4 million in the 2006 Consolidated Period and RMB29.8 million in 2007. Warranty provision totaled RMB5.6 million in the 2006 Consolidated Period and RMB9.2 million in 2007. Cost of freight totaled RMB2.0 million in the 2006 Consolidated Period and RMB4.4 million in 2007.

Administrative expenses

Administrative expenses totaled RMB128.2 million in the 2006 Consolidated Period and RMB130.2 million in 2007.

For the 2006 Consolidated Period, our administrative expenses primarily consist of various fees paid to parties in relation to the acquisition of Jiamusi Machinery and Jixi Machinery, namely (i) consulting fees in the amount of RMB23.9 million paid to The Jordan Company, L.P., and (ii) expenses in the amount of RMB25.6 million, which includes salaries and bonuses of directors and employees who worked on the acquisition and payments made to independent third party consultants for consulting services. Professional fees amounted to RMB2.5 million in the 2006 Consolidated Period and RMB4.7 million in 2007. The professional fees in the 2006 Consolidated Period primarily related to our Company's acquisition of Jiamusi Machinery and Jixi Machinery. Salaries and wages totaled RMB29.6 million in 2006 and RMB44.0 million in 2007.

Other expenses

Other expenses totaled RMB15.3 million in the 2006 Consolidated Period and RMB14.6 million in 2007.

Provision for inventory totaled RMB3.5 million in the 2006 Consolidated Period and RMB2.3 million in 2007. Other miscellaneous expenses totaled RMB1.5 million in the 2006 Consolidated Period and RMB9.0 million in 2007.

Finance revenue

Finance revenue totaled RMB1.9 million in the 2006 Consolidated Period and RMB4.7 million in 2007.

Finance costs

Finance costs totaled RMB6.6 million in the 2006 Consolidated Period and RMB7.3 million in 2007. Bank loan interests totaled RMB5.5 million in the 2006 Consolidated Period and RMB4.9 million in 2007.

Share of profits of associates

Share of profits of associates was nil in the 2006 Consolidated Period and RMB0.1 million in 2007, reflecting our investment in Huainan Shunli.

Profit before tax

As a result of the foregoing, our profit before tax totaled RMB59.6 million in the 2006 Consolidated Period and RMB138.9 million in 2007.

Tax

We had a tax credit of RMB0.6 million in the 2006 Consolidated Period and RMB10.9 million in 2007. Jiamusi Machinery and Jixi Machinery were exempted from corporate income tax in the 2006 Consolidated Period and 2007.

Profit for the year

As a result of the foregoing, our profit for the year totaled RMB60.2 million in the 2006 Consolidated Period and RMB149.8 million in 2007.

Our net profit margin increased from 11.0% in the 2006 Consolidated Period to 17.5% in 2007.

DISCUSSION OF CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

Inventories

The following table sets forth the components of our inventory balances as of the dates indicated as well as our turnover days of inventory for the periods indicated.

	As of and for the year ended 31 December			As of and for the year-to-date period ended 31 July
	2006	2007	2008	2009
	(in millions of RMB, except turnover days)			
Raw materials	111.4	125.5	102.8	94.1
Work in progress	85.4	157.5	200.4	168.3
Finished goods	49.2	88.0	154.6	128.5
Provision for obsolete inventories	(43.8)	(46.1)	(44.2)	(30.6)
Total	**202.1**	**324.8**	**413.6**	**360.3**
Turnover days of inventory (in days)[(1)]	176[(2)]	191	168	149

(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. For the purposes of calculating turnover days of inventory for the 2006 Consolidated Period, we have assumed the opening balances of inventory equal the closing balances and there are 263 days for the 2006 Consolidated period calculating from 12 April 2006 (the date of incorporation of our Company) to 31 December 2006.

(2) Our Company had no operating activities from 12 April 2006 to 15 May 2006. If calculated to exclude this period, or 33 days, then the turnover days of inventory for the 2006 Consolidated Period would have been 154 days.

From 1 August 2009 to 31 December 2009, we utilised RMB269.4 million of our inventory balance as of 31 July 2009. The relatively low subsequent usage was attributable to, among other factors, delays in the delivery of finished goods to customers coming under new management as a result of the current industry consolidation in China. See "Risk Factors — Risks relating to our business and industry — PRC coal mining industry consolidation may adversely affect our business operations". In addition, the commencement of operation at some of the coal mines of our end customers were delayed, and as a result, these customers requested a delay in the delivery of our products. Our Directors believe that the existing provision for obsolete inventories is adequate.

The increases in the inventory balance from 31 December 2006 to 31 December 2007 primarily reflected the expansion of our operations, including the acquisition of inventory from Huainan Benniu, our former joint venture partner for our armoured-face conveyor business. However, we did not commence sales of armoured-face conveyors and related products until 2008, which affected the turnover days of inventory for 2007. The increase in inventory balance from 31 December 2006 to 31 December 2008 primarily reflected an increase in our production of roadheader and shearer products in 2008 in anticipation of increased sales volumes in 2009. The decrease in inventory balance from 31 December 2008 to 31 July 2009 primarily reflected increased sales volumes during this period. We believe that the decrease in the turnover days of inventory from 31 December 2007 to 31 July 2009 primarily reflected our increased focus on inventory management.

Trade and Bills Receivables

The following table sets forth our trade and bills receivables outstanding as of the balance sheet dates indicated as well as our turnover days for our trade receivables for the periods indicated.

	As of and for the year ended 31 December			As of and for the year-to-date period ended 31 July
	2006	2007	2008	2009
	(in millions of RMB, except turnover days)			
Bill receivables	89.8	81.3	119.8	172.9
Trade receivables	316.2	538.5	624.9	875.2
Impairment provision	(24.1)	(24.2)	(25.0)	(25.8)
Total trade receivables, net of provision	**292.1**	**514.4**	**599.9**	**849.4**
Turnover days of trade receivables (in days)(1)	141(2)	172	159	175

(1) Turnover days of trade receivables for the relevant period/year is calculated by dividing the average of the opening and closing balances of trade receivables for the relevant period/year by revenue and then multiplying this figure by the number of days in the relevant period/year. For the purposes of calculating turnover days of trade receivables for the 2006 Consolidated Period, we assume the opening balances of trade receivables equal the closing balances and there are 263 days for the 2006 Consolidated period calculating from 12 April 2006 (the date of incorporation of our Company) to 31 December 2006.

(2) Our Company had no operating activities from 12 April 2006 to 15 May 2006. If calculated to exclude this period, or 33 days, then the turnover days of trade receivables for the 2006 Consolidated Period would have been 123 days.

Of our trade receivables outstanding as of 31 December 2006, 2007, 2008 and 31 July 2009, RMB80.0 million, RMB271.2 million, RMB339.4 million and RMB315.4 million, respectively, were past due but not impaired. These receivables relate to a number of independent customers, including large state-owned coal mining enterprises who have significant bargaining power on the timing of payments but have a generally positive credit profile. Based on past experience, the Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. We do not hold any collateral over these balances.

From 1 August 2009 to 31 December 2009, we collected RMB558.9 million in trade receivables and RMB162.6 million in bills receivables which were outstanding as of 31 July 2009. The relatively low settlement of trade receivables during this period was attributable to, among other factors, delays in payments from our customers coming under new management as a result of the current industry consolidation. See "Risk Factors — Risks relating to our business and industry — PRC coal mining industry consolidation may adversely affect our business operations". The settlement of trade receivables during this period was also affected by some of our end customers' efforts to preserve cash resources for business expansion in light of the ongoing financial crisis. We believe that the existing provision for the impairment of trade receivables is adequate. Our Directors believe that we will be able to collect a significant portion of the trade receivables outstanding as of 31 July 2009 by the end of March 2010.

The continual increase in the balances of our trade receivables from 31 December 2006 to 31 July 2009 was primarily due to the expansion of our operations and the increase in our sales. We believe that the increase in the turnover days of trade receivables from 2006 to 2007 primarily reflected the increasingly competitive market environment. The turnover days of trade receivables in 2008 was affected by the relatively low turnover days of trade receivables on armoured-face conveyors and related products, as we ramped up sales of these products in 2008. The increase in turnover days of trade receivables for the seven-month period from 31 December 2008 to 31 July 2009 was mainly due to an increase in our revenue and the credit period extensions granted to some of our customers that were affected by the ongoing financial crisis.

The following table sets forth an aging analysis of our trade receivables, net of impairment provisions, as of the dates indicated.

	As of 31 December			As of 31 July
	2006	2007	2008	2009
	(in millions of RMB)			
Within 90 days	229.0	186.3	284.3	446.3
91 to 180 days	63.1	159.3	200.6	224.7
181 to 365 days	—	153.5	87.7	121.3
366 days to 2 years	—	15.3	27.3	56.0
Over 2 years	—	—	—	1.1
Total	292.1	514.4	599.9	849.4

Our trade receivables of RMB56.0 million as of 31 July 2009 aged from 366 days to 2 years relate to a number of independent customers that generally have a positive credit history. We have received partial or full settlements from these customers subsequent to 31 July 2009. These customers mainly consist of state-owned enterprises who are slow in payment but maintain good business relationships with the Group. Of RMB56.0 million of the trade receivable aged 366 days or longer as of 31 July 2009, RMB38.9 million had been settled by 31 December 2009. Based on past experience, our Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As it is often the case in the coal mining machinery industry, the credit term stated in the contract may vary significantly from the actual credit period allowed by the supplier. We believe that the actual turnover days of receivables are a more meaningful measure of credit period than the credit term stated in the contracts. We are of the view that the aging of trade receivables was in line with the Group's credit policy.

We have arrangements with banks to discount certain of its bills and trade receivables to banks with recourse. With respect to our trade receivables, we assign part of our trade receivables to PRC banks under factoring agreements and receive advances from the banks. Pursuant to such factoring agreement, we pay interest on the amount advanced to us, accrued on a monthly basis. Such interest rate is determined by reference to the benchmark borrowing rate of the Peoples Bank of China for the corresponding period. We also pay an administration fee equivalent to 1% of the amount advanced to us and an invoice processing fee at RMB200 per invoice to the bank. The bank reserves the right to claim recourse under certain circumstances, including, among others, refusal or delay in payment by our customers and any legal proceeding relating to the sales contract between our customer and us regardless of whether the result of such legal proceeding is adverse to us. During the Relevant Period, we have not experienced any exercise of rights to claim recourse by banks. In addition, a portion of our customers make payments by bank notes, with maturities generally under 180 days. We may discount a certain portion of such bank notes to banks prior to their maturities with interest charged by the banks. The interest rates charged for bills discounted to banks ranged from 0.14% to 0.18% per month for the seven months ended 31 July 2009. The amount of bills and trade receivables discounted to banks under such arrangement as of 31 December 2006, 2007, 2008 and 31 July 2009 amounted to RMB23.9 million, RMB32.7 million, RMB42.3 million and RMB108.6 million, respectively. The balance of bills receivable discounted to banks may vary significantly from period to period based on maturity date and the amount of bills receivable that mature on each such date.

Prepayments, Deposits and Other Receivables

The following table sets forth the current portion of our prepayments, deposits and other receivables as of the dates indicated.

	As of 31 December			As of 31 July
	2006	2007	2008	2009
	(in millions of RMB)			
Prepayments	22.2	41.7	57.7	42.8
Deposits and other receivables	4.7	17.5	12.4	14.0
Total	26.9	59.2	70.1	56.8

Prepayments primarily consist of advances to suppliers. The increase in prepayments from 31 December 2006 to 31 December 2008 primarily reflected a combination of (i) increased sales of our products; and (ii) an increase in purchases of components from international suppliers, many of which required significant advances for new customers. As our credit profile improves during this period, our international suppliers required lower advances, which contributed to a lower prepayment balance as of 31 July 2009.

Trade Payables

The following table sets forth our trade payables outstanding as of the balance sheet dates indicated as well as our turnover days of our trade payables for the periods indicated.

	As of and for the year ended 31 December			As of and for the year-to-date period ended 31 July
	2006	2007	2008	2009
	(in millions of RMB, except turnover days)			
Trade payables	194.3	315.5	418.4	440.7
Turnover days of trade payables (in days)[(1)]	169	184	166	166

(1) Turnover days of trade payables for the relevant period/year is calculated by dividing the average of the opening and closing balances of trade 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. For the purposes of calculating turnover days of trade payables for the 2006 Consolidated Period, we assume the opening balances of trade payables equal the closing balances and there are 263 days for the 2006 Consolidated period calculating from 12 April 2006 (the date of incorporation of our Company) to 31 December 2006.

(2) Our Company had no operating activities from 12 April 2006 to 15 May 2006. If calculated to exclude this period, or 33 days, then the turnover days of trade payables for the 2006 Consolidated Period would have been 148 days.

The continual increase in our trade payables from 31 December 2006 to 31 July 2009 primarily reflected the expansion of our operations. The relatively high turnover days of trade payables in 2007 reflected, among other factors, the increasingly competitive market environment, which also affected the turnover days of our trade receivables in 2007.

Other Payables and Accruals

The following table sets forth the components of our other payables and accruals as of the balance sheet dates indicated.

	As of 31 December			As of 31 July
	2006	2007	2008	2009
	(in millions of RMB)			
Advances from customers	11.2	24.1	84.7	64.0
Payroll payable	13.4	14.5	15.8	10.5
Value added tax payable	115.4	94.4	92.9	92.4
Accrual expenses	19.3	40.1	38.3	36.1
Welfare payable	2.2	7.8	10.5	10.7
Other payables	121.7	126.1	78.9	66.0
Total	**283.2**	**307.1**	**321.1**	**279.6**

The increase in advances from customers from 31 December 2007 to 31 December 2008 primarily reflected a combination of (i) the increase in advances from customers of our shearer products, particularly from new customers as we continue to expand our customer base; and (ii) advances from customers of our armoured-face conveyors and related products, of which we commenced sales in 2008.

Other payables primarily consist of fees that are payable to the PRC Government such as taxes other than income tax and value added tax, balances due to Heilongjiang Coal Mining Machinery Group Co., Ltd. in relation to the acquisition of Jiamusi Machinery and Jixi Machinery, payables for the purchase and construction of property, plant and equipment as well as other miscellaneous items. The decrease in other payables from 31 December 2006 to 31 July 2009 primarily reflected a combination of decreases in (i) tax payable other than income tax and value added tax (ii) balances due to Heilongjiang Coal Mining Machinery Group Co., Ltd. in relation to the acquisition of Jiamusi Machinery and Jixi Machinery.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

We have historically met our working capital needs primarily through a combination of (i) cash generated from operations; (ii) bank loans; and (iii) loans from shareholders and other related parties. We expect to meet our working capital needs primarily through a combination of (i) cash generated from operations; (ii) bank loans; and (iii) issuances of debt and equity securities. Taking into account our cash generated by operations and our credit facilities maintained with banks, our Directors are satisfied after due and careful inquiry that we have available sufficient working capital for the present requirements, which is for at least the next 12 months from the date of this document.

Our gearing ratio, calculated as net debt divided by the sum of net debt and capital, as of 31 December 2006, 2007, 2008 and 31 July 2009 was 86%, 70%, 61%, 58%, respectively. Net debts are defined to include interest-bearing loans, amounts due to holding company and preferred shares, less cash and cash equivalents. Capital represents total equity. The decrease in our gearing ratio from 31 December 2006 to 31 July 2009 reflected the higher rate of increase in our capital (which we believe primarily reflected the continuing expansion of our business) as compared to the rate of increase of our net debt during this period.

Net Current Assets

Our current assets primarily consist of trade and bills receivables, inventories and cash and cash equivalents. Our current liabilities primarily consist of trade and bills payables, other payables and accruals and interest-bearing loans. We had net current assets of RMB102.7 million, RMB291.6 million, RMB428.2 million, RMB40.3 million, and RMB126.0 million as of 31 December 2006, 2007 and 2008, 31 July 2009, and 30 November 2009, respectively. The table below sets forth our current assets, current liabilities and net current assets as of the date indicated.

	As of 31 December			As of 31 July	As of 30 November
	2006	2007	2008	2009	2009
					(unaudited)
	(RMB in millions)				
Current assets					
Inventories	202.1	324.8	413.6	360.3	329.6
Trade and bills receivables	381.8	595.6	719.7	1,022.3	1,085.0
Prepayments, deposits and other receivables	26.9	59.2	70.1	56.8	101.6
Cash and cash equivalents	138.5	95.7	80.9	175.7	103.1
Amounts due from shareholders	—	19.6	19.2	19.7	19.9
Amounts due from related parties	7.8	122.8	221.8	272.3	300.0
	757.2	1,217.7	1,525.4	1,907.1	1,939.2
Current liabilities					
Interest-bearing loans	96.3	120.5	113.8	250.2	215.3
Trade and bills payables	194.3	315.5	418.4	469.7	401.5
Other payables and accruals	283.2	307.1	321.1	279.6	292.5
Tax payable	78.4	67.0	52.9	30.1	46.3
Amount due to a holding company	—	74.6	126.8	160.2	177.9
Amounts due to shareholders	0.3	0.2	0.2	0.09	0.09
Amounts due to related parties	1.8	41.3	64.1	75.9	79.1
Preference shares	—	—	—	600.9	600.5
	654.5	926.1	1,097.2	1,866.8	1,813.2
Net current assets	102.7	291.6	428.2	40.3	126.0

Cash Flows

The following table sets forth our cash flows for the periods indicated.

	Period from 12 April to 31 December	Year ended 31 December		Seven months ended 31 July	
	2006	2007	2008	2008	2009
	(in millions of RMB)				
Net cash inflow/(outflow) from operating activities[1]	55.7	110.3	208.8	126.7	(29.2)
Net cash outflow from investing activities	(335.4)	(202.5)	(206.2)	(126.9)	(49.1)
Net cash inflow/(outflow) from financing activities	419.2	52.0	(17.1)	(33.2)	173.0
Net cash increase/(decrease) in cash and cash equivalents	139.4	(40.2)	(14.5)	(33.5)	94.8
Cash and cash equivalents at incorporation date/at beginning of period/year	—	138.5	95.7	95.7	80.9
Effective of foreign exchange rate changes	(0.9)	(2.6)	(0.3)	(0.3)	(0.001)
Cash and cash equivalents at the end of period/year	138.5	95.7	80.9	62.0	175.7

(1) The net cash inflow/(outflow) from operating activities for the period ended 31 December 2006, the two years ended 31 December 2008 and the seven months ended 31 July 2009 did not include cash received from bills receivables discounted to banks prior to maturity, which was reflected in cash inflow from financing activities. These discounted bills were received from our customers as payment of trade receivables and are a common form of payment in our industry.

Operating activities

Our cash from operating activities reflects the profit before tax, adjusted for (i) non-cash items which include primarily depreciation, amortisation of land use rights amortisation of intangible assets, loss on disposal of assets, write-down of inventories to net realisable value, provision for impairment of trade receivables, finance costs, finance revenue and share of profits in an associate, and (ii) effects of changes in working capital, such as changes in trade and bills receivables and changes in inventories.

We had a net cash outflow from operating activities of RMB29.2 million in the seven months ended 31 July 2009, primarily resulting from profit before tax of RMB174.8 million, as adjusted by (i) income statement items with non-cash effects of RMB17.5 million, (ii) an outflow of RMB170.1 million for working capital adjustments, and (iii) income tax paid of RMB51.4 million. Working capital adjustments generally included: (i) an increase in trade and bills receivables of RMB303.3 million primarily reflected the credit period extensions granted to some of our customers that were affected by the ongoing financial crisis, (ii) a decrease in inventories of RMB66.9 million mainly due to rapidly growing market demand for our products and better inventory control of our raw materials and work-in-progress, increased sales, and (iii) an increase in trade and bills payables of RMB51.3 million primarily due to increase in purchase of raw materials as a result of increased orders of our products.

We had a net cash inflow from operating activities of RMB208.8 million in 2008, primarily resulting from profit before tax of RMB185.2 million, as adjusted by (i) income statement items with non-cash effects of RMB51.3 million, (ii) an inflow of RMB19.6 million for working capital adjustments, and (iii) income tax paid of RMB47.3 million. Working capital adjustments generally included: (i) an increase in trade and bills receivables of RMB124.9 million primarily reflected the credit period extensions granted to some of our customers that were affected by the ongoing financial crisis, (ii) an increase in trade and bills payables of RMB103.0 million primarily due to increase in purchase of raw materials as a result of increased sales, and (iii) an increase in inventories of RMB86.9 million due to the increase in work in progress and finished goods, resulting from increase in orders of our products.

We had a net cash inflow from operating activities of RMB110.3 million in 2007, primarily resulting from profit before tax of RMB138.9 million, as adjusted by (i) income statement items with non-cash effects of RMB47.7 million, (ii) an outflow of RMB64.9 million for working capital adjustments, and (iii) income tax paid of RMB11.4 million. Working capital adjustments generally included: (i) an increase in trade and bills receivables of RMB205.0 million as a result of increased sales, (ii) an increase in inventories of RMB112.6 million due to the increase in raw materials, work in progress and finished goods, resulting from increase in orders of our products, and (iii) an increase in trade and bills payables of RMB121.1 million primarily due to increase in purchase of raw materials as a result of increased orders of our products.

We had a net cash inflow from operating activities of RMB55.7 million for the 2006 Consolidated Period, primarily resulting from profit before tax of RMB59.6 million, as adjusted by (i) income statement items with non-cash effects of RMB44.5 million, (ii) an outflow of RMB21.1 million for working capital adjustments, and (iii) income tax paid of RMB27.3 million. Working capital adjustments generally included: (i) an increase in trade and bills receivables of RMB66.3 million as a result of increased sales, and (ii) an increase in trade and bills payables of RMB42.5 million primarily due to increase in purchase of raw materials as a result of increased orders of our products.

Investing activities

Net cash flows from investing activities primarily reflected purchase of property, plant and equipment, purchases of intangible assets and amounts due from related parties such as TJCC services and HK Siwei, offset by proceeds from and disposal of property, plant and equipment and interest received.

We had a net cash outflow from investing activities of RMB49.1 million for the seven months ended 31 July 2009, which primarily reflected (i) an increase of RMB40.8 million in amounts due from related parties and (ii) purchase of property, plant and equipment of RMB10.2 million, partially offset by proceeds of RMB1.9 million received from disposal of property, plant and equipment.

We had a net cash outflow from investing activities of RMB206.2 million for 2008, which primarily reflected (i) an increase of RMB98.7 million in amounts due from related parties, (ii) purchase of property, plant and equipment of RMB67.0 million, (iii) acquisition of intangible assets of RMB24.1 million, and (iv) our investment of RMB20.0 million in Tianlong Machinery, an associate company, partially offset by (i) interest received of RMB2.0 million and (ii) proceeds from the disposal of property, plant and equipment of RMB1.2 million.

We had a net cash outflow from investing activities of RMB202.5 million for 2007, which primarily reflected (i) an increase of RMB109.7 million in amounts due from related parties, (ii) purchase of property, plant and equipment of RMB70.7 million and (iii) purchases of available-for-sale investments of RMB7.5 million, partially offset by (i) proceeds from the disposal of property, plant and equipment of RMB2.9 million and (ii) interest received of RMB2.1 million.

We had a net cash outflow from investing activities of RMB335.4 million for the 2006 Consolidated Period, which primarily reflected (i) acquisition of subsidiaries of RMB298.3 million and (ii) purchase of property, plant and equipment of RMB32.6 million, partially offset by (a) interest received of RMB1.9 million and (b) proceeds from disposal of items of property, plant and equipment of RMB0.9 million.

Financing activities

Net cash flow from financing activities includes primarily proceeds from capital contributions and borrowings from banks, offset by loan repayments and interest payments.

We had a net cash inflow from financing activities of RMB173.0 million in the seven months ended 31 July 2009, which primarily reflected new bank loans of RMB253.5 million and proceeds of capital contributions of RMB46.7 million from equity shareholders of, partially offset by (i) repayments of bank loans of RMB117.1 million and (ii) interest paid of RMB10.2 million.

We had a net cash outflow from financing activities of RMB17.1 million in the year ended 31 December 2008, which primarily reflected (i) repayment of bank loans of RMB87.8 million and (ii) interest paid of RMB10.4 million, partially offset by new bank loans of RMB81.1 million.

We had a net cash inflow from financing activities of RMB52.0 million in 2007, which primarily reflected (i) new bank loans of RMB84.0 million and (ii) proceeds from capital contribution of the equity holders of the parent of RMB41.9 million, partially offset by (i) repayments of bank loans of RMB68.7 million and (ii) interest paid of RMB5.2 million.

We had a net cash inflow from financing activities of RMB419.2 million for the 2006 Consolidated Period, which primarily reflected (i) proceeds from capital contribution of the equity holders of the parent of RMB507.1 million and (ii) new bank loans of RMB20.0 million, partially offset by (i) repayment of bank loans of RMB101.3 million and (ii) interest paid of RMB6.6 million.

Capital Expenditures

Our capital expenditures relate primarily to acquisition of land use rights, construction of plant and facilities, and purchases of plant, machinery, office equipment and motor vehicles. Our capital expenditures were RMB36.7 million in the 2006 Consolidated Period, RMB83.5 million in 2007, RMB30.2 million in 2008, and RMB24.2 million in the seven months ended 31 July 2009. Our capital expenditures in 2006 were primarily attributable to purchases of plant, machinery and office equipment. Our capital expenditures in 2007 and 2008 were primarily attributable to construction of our Huainan Longwall industrial complex.

In the past, we have funded our capital expenditures principally through (i) cash flows from operating activities; (ii) borrowings from shareholders and related parties; and (iii) short-term bank loans. We expect our capital expenditure to be significant for the remaining period in 2009 and in the year of 2010.

Borrowings

The following table sets forth our bank and other borrowings as of the balance sheet dates indicated.

	As of 31 December			As of 31 July
	2006	2007	2008	2009
	(in millions of RMB)			
Secured bank loans	92.6	56.7	113.8	250.2
Unsecured bank loans	3.8	63.8	—	—
Loan from Controlling Shareholders	—	74.6	126.8	160.2
Amount due to other shareholders	0.3	0.2	0.2	0.1
Amount due to related parties	1.8	41.3	64.1	75.9
Total	**98.5**	**236.6**	**304.9**	**486.4**

Bank borrowings

We borrow bank loans for working capital purposes, and all of our bank loans were payable within one year. As of 31 July 2009, our outstanding bank loans bore interest at a rate per annum ranging from 5.31% to 8.22%. As of 31 December 2008, our outstanding bank loans bore interest at a rate per annum ranging from 4.86% to 11.66%. As of 31 December 2007, our outstanding bank loans bore interest at a rate per annum ranging from 6.24% to 8.02%. As of 31 December 2006, our outstanding bank loans bore interest at a rate per annum ranging from 5.54% to 7.81%.

For secured bank loans, as of 31 July 2009, we pledged assets with a value of RMB347.6 million, comprising primarily buildings and land use rights, plant and machinery, and trade and bill receivables.

Related party borrowings

As of 31 July 2009, we had total loans of RMB160.2 million outstanding from TJCC Holdings, our controlling shareholder. These loans were unsecured, bearing an interest at a rate per annum of 8% per year, and payable on demand.

The amount due to other shareholders represents our payment obligations under the consulting agreements between us and each of Rubo Li and Emory Williams. Under these agreements, we have paid Rubo Li and Emory Williams a fixed fee of US$150,000 (equivalent to approximately HK$1,163,000) and US$75,000 per year (equivalent to approximately HK$581,000), respectively, for their consulting services.

The amount due to related parties primarily represents management fees payable to TJCC Services and trade payables due to Huainan Benniu. These borrowings were unsecured, interest free and repayable on demand.

We expect our related party borrowings to be settled immediately upon the completion of the Reorganisation.

Contractual Obligations

The following table sets forth our contractual obligations as of 31 July 2009.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in millions of RMB)				
Operating lease obligations	2.4	2.3	0.1	—	—
Commitments for the acquisition of property, plant and equipment	71.2	71.2	—	—	—
Total	73.6	73.5	0.1	—	—

Our operating lease obligations primarily consist of leases for office properties with terms from one to four years. Our commitments for acquisition of property, plant and equipment primarily consist of commitments to purchase machinery.

Contingent Liabilities

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

CAPITAL COMMITMENTS

The following table sets forth the components of our capital expenditures contracted for but not provided in the consolidated financial statements at the balance sheet dates indicated.

	As of 31 December			As of 31 July
	2006	2007	2008	2009
	(in millions of RMB)			
Contracted, but not provided for:				
Plant and machinery	15.4	18.2	56.2	71.2
Land use rights	—	—	16.0	—
	15.4	18.2	72.2	71.2

Our capital commitments as of 31 December 2006, 2007, 2008 and 31 July 2009 primarily related to commitments to purchase machinery. We intend to finance our outstanding capital commitments through a combination of cash flow from operations and unutilised banking facilities.

INDEBTEDNESS

The following table sets forth, for the periods indicated, certain information on our short-term borrowings and preference share liabilities.

	As of 31 December			As of 31 July	As of 30 November
	2006	2007	2008	2009	2009
	(in millions of RMB)				
Bank loans:					
Secured(1)	92.6	56.7	113.8	250.2	215.3
Unsecured	3.8	63.8	—	—	—
Subtotal	96.3	120.5	113.8	250.2	215.3
Preference share	499.8	541.2	554.2	600.9	600.5
Total	596.1	661.7	668.0	851.1	815.8

Note:

(1) We pledged our assets with a carrying amount of RMB306.0 million, comprising primarily buildings and land use rights, plant and machinery and trade and bill receivables to secure bank loans as of 30 November 2009.

As of 30 November 2009, the Group's utilised and unutilised banking facilities were approximately RMB68.5 million and RMB88.0 million, respectively.

Our Directors confirm that there have been no material changes in our indebtedness since 30 November 2009.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had no material off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks, including changes in commodity prices, foreign exchange rates, inflation and interest rates.

In 2008, triggered by the liquidity crisis in the capital markets, global economic conditions deteriorated. Although the PRC continued to have positive GDP growth in that year, the rate of growth slowed compared to the prior year, and major economic indicators, including employment rates, levels of consumer spending and exports, declined. In addition, many financial institutions worldwide tightened lines of credit, reducing funding available for near-term economic growth. In addition, the terms of such funding, when available, became more onerous and the cost of such funding increased. Further, capital markets activity declined, also contributing to general reductions in available funding for business expansion, and the equity and currency markets exhibited high levels of volatility. We will monitor the potential impact of global economic conditions and accompanying credit tightening, as well as the creditworthiness of our customers and suppliers, and the PRC Government's fiscal stimulus and its other involvement in the economic crisis. We are not able to currently predict, however, when economic and liquidity conditions will improve, or what the full impact of these conditions will be on our financial condition and results of operations.

Commodity Price Risk

We are exposed to price fluctuations for raw materials, particularly steel, which in the aggregate represented 13.0%, 14.0%, 17.0% and 17.7%, respectively, of our total cost of sales for the 2006 Consolidated Period, the years ended 31 December 2007 and 2008 and the seven months ended 31 July 2009. Fluctuations in the prices of these raw materials and outsourced parts have a significant effect on our results of operations. We do not engage in hedging activities designed or intended to hedge against fluctuations in the price of steel or other commodities and hedging instruments related to the price of outsourced parts are not available. Moreover, we have not entered into any long-term contracts for steel or any outsourced parts.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates primarily relates to our interest-bearing borrowings. As of 31 July 2009, we had RMB250.2 million in bank borrowings that bore variable interest rates ranging from 5.31% to 8.22%, with an average interest rate at such date of 6.77%.

Additional increases in interest rates could potentially result in an increase in our cost of borrowing, which could negatively affect our business and results of operations. The PBOC-published benchmark one-year lending rates in China as of 31 December 2006, 2007 and 2008 were 6.12%, 7.47% and 5.31%, respectively.

We do not anticipate a significant impact resulting from changes in interest rates, although our future interest income and interest expenses may fluctuate in line with changes in interest rates. We have not historically used, and do not expect to use in the future, any derivative financial instruments to manage our interest rate exposure.

Foreign Exchange Risk

Substantially all of our operations are located in China. Our subsidiaries in China conduct their principal activities in Renminbi. Although our financial assets are not subject to foreign currency risk, some of our borrowings are in foreign currency. The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. The conversion of Renminbi into foreign currencies, including the U.S. dollar and Hong Kong dollar, has been based on rates set by the PBOC. On 21 July 2005, the PRC Government changed its decade-old policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a significant appreciation of Renminbi against the U.S. dollar.

Inflation Risk

In 2006, 2007 and 2008, the Customer Price Index in China was 1.5%, 4.8% and 5.9%, respectively, according to the PRC National Bureau of Statistics. Our directors are of the view that inflation has not had a material effect on our results of operations.

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2009

We believe that on the bases as set out in Appendix III to this document, our estimated consolidated profit attributable to equity holders of the Company for the year ended 31 December 2009 is expected to be not less than RMB[●] million under IFRS.

PROPERTY INTERESTS AND PROPERTY VALUATION

Property Valuation

Savills Valuation and Professional Services Limited, an independent property valuer, has valued the Group's property interests as of 30 November 2009 and is of the opinion that the value of its property interests in aggregate was approximately RMB324 million as of 30 November 2009. There is a net revaluation surplus, representing the excess market value of the properties over their book value as of 31 July 2009. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set forth in Appendix IV to this document.

Reconciliation of appraised property values with net book values

Disclosure of the reconciliation between the valuation of the interests in properties attributable to the Group and such property interests in the Group's balance sheets as of 31 July 2009 contained in the Accountants' Report of International Mining Machinery Holdings Limited is set forth below:

	RMB'000
Buildings included in property, plant and equipment[(1)]	136,722
Land use rights[(1)]	142,650
Net book value as of 31 July 2009	279,372
Movement from 1 August 2009 to 30 November 2009	
Add: Addition during the period	1,417
Less: Depreciation and amortisation during the period	(3,591)
Net book value as of 30 November 2009	277,198
Valuation surplus	46,792
Valuation as of 30 November 2009	323,990

(1) For the purpose of this reconciliation, only properties with proper title certificates are included.

CONTINGENT DIVIDEND BASED ON DISTRIBUTABLE PROFITS AS OF 31 DECEMBER 2009

On 24 January 2010, our Board of Directors and the holders of our ordinary shares and preferred shares declared and approved the Contingent Dividend to the then holders of our ordinary shares, contingent upon the completion of the Reorganisation. The final amount of the Contingent Dividend is subject to certain expected cash inflow.

Our Cayman Islands counsel have confirmed and our Directors, based on the confirmation by our Cayman Islands counsel, have confirmed that the declaration of a range of dividend is in compliance with Cayman Islands law and the Company's Articles of Association.

Although we had no distributable reserves as of 31 July 2009, profits were available for distribution from our subsidiaries to us. As of the date of declaration of the Contingent Dividend on 24 January 2010, our subsidiary, TJCC IMM Jiamusi, had declared dividends with an aggregate amount of US$[●] million (equivalent to approximately HK$[●] million) to us. After taking into account the estimated expenses of the Company, withholding tax payable and other expenses for the relevant periods, we estimate that our distributable profits as of 31 December 2009 to be approximately US$[●] million (equivalent to approximately HK$[●] million), which is sufficient to pay for any Contingent Dividend amount within the range to be declared by our Board of Directors on 24 January 2010.

The Contingent Dividend will be determined based on certain expected cash inflow and our distributable profits as reflected in the audited financial statements of the Company for the financial year ended 31 December 2009. Our Group's retained earnings as of 31 July 2009 were approximately RMB[●] million (equivalent to approximately US$[●] million). Our estimated profits for the period from 1 August 2009 to 31 December 2009 based on the profit estimate for the year ended 31 December 2009 less the audited profits for the seven months ended 31 July 2009 is approximately RMB[●] million (equivalent to approximately US$[●] million). We will only pay the Contingent Dividend after completion of the annual audit for the financial year ended 31 December 2009. Our 2009 annual results announcement will disclose whether there is sufficient distributable profits to pay the amount of Contingent Dividend so determined. The amount of Contingent Dividend so determined will be paid into a designated account of the Company, which will be paid to the holders of our ordinary shares as at 24 January 2010 Ordinary Shareholders within 5 days after publication of the 2009 annual results announcement.

DIVIDEND POLICY

Our directors may declare dividends, if any, after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. The distribution of dividend for any financial year shall be subject to Shareholders' approval.

Our ability to declare future dividends will also depend on the availability of dividends, if any, received from our PRC operating subsidiaries. Pursuant to the PRC laws, dividends may only be paid out of distributable profits, defined as the retained earnings after tax payments as determined under the PRC GAAP less any recovery of accumulated losses and the required allocations to statutory reserves made by our PRC operating subsidiaries. In general, we will not declare dividends in a year where we do not have any distributable profits.

Taking into account the factors set forth above, we currently intend to distribute to our Shareholders approximately 20% of our annual distributable profit attributable to owners of our Company in respect of the financial year ending 31 December 2010 and each financial year thereafter. However, such intention does not amount to any guarantee or representation or indication that the Company must or will declare and pay dividends in such manner or declare or pay dividends at all. We declared on 24 January 2010 the Contingent Dividend. For details regarding the Contingent Dividend, please refer to "— Contingent Dividend Based on Distributable Profits as of 31 December 2009" above. The Contingent Dividend will be declared on a one-time basis. The amount of the Contingent Dividend is not indicative of our future profits or the dividends that we may declare or pay in the future.

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.

During the Relevant Period, we incurred certain related party transactions. See "Reorganisation", "Relationship with Our Controlling Shareholders", "Connected Transactions" and Notes 28 and 39 of Appendix I to this document for more information on the related party transactions entered between us and our related parties. We expect that the related party transactions, excluding our exempted continuing connected transactions with Mr. Rubo Li, will be terminated immediately upon the completion of the Reorganisation.

DISTRIBUTABLE RESERVES

As of 31 July 2009, the Company has no distributable reserves. As of the date of declaration of the contingent dividend on 24 January 2010, the distributable reserves of the Company are expected to be no less than approximately US$[●] million (equivalent to approximately HK$[●] million), including US$[●] million in dividends (equivalent to approximately HK$[●] million) for the period from 16 May 2006 to 31 December 2008 declared by TJCC IMM Jiamusi to us and US$[●] million dividend (equivalent to approximately HK$[●] million) for the year ended 31 December 2009 declared by TJCC IMM Jiamusi to us.

MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this document, there has been no material adverse change in our financial or trading position since 31 July 2009 (being the date to which our Company's latest consolidated audited financial results were prepared) and there is no event since 31 July 2009 which would materially affect the information shown in the Accountants' Report of International Mining Machinery Holdings Limited set out in Appendix I to this document.

FUTURE PLANS

See "Business — Business Strategy" for a detailed description of our future plans.

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

[Date]

The Board of Directors
International Mining Machinery Holdings Limited
[●]

Dear Sirs,

We set out below our report on the financial information of International Mining Machinery Holdings Limited (formerly known as "TJCC IMM Holdings Ltd.", the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and consolidated cash flow statements of the Group for the period from 12 April 2006 (date of incorporation) to 31 December 2006 and each of the two years ended 31 December 2007 and 2008 and the seven-month period ended 31 July 2009 (the "Relevant Periods"), the consolidated and company statements of financial position as at 31 December 2006, 2007 and 2008 and 31 July 2009, and a summary of significant accounting policies and other explanatory notes (the "Financial Information"), for inclusion in the document of the Company dated [●] January 2010 (the "document").

The Company was incorporated in the Cayman Islands on 12 April 2006 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, for the purpose of acting as a holding company of the subsidiaries now comprising the Group, details of which are set out in Note 1 of Section II below.

As at the date of this report, no statutory audited financial statements have been prepared by the Company and the subsidiaries incorporated in Mauritius and Cayman Islands since their respective dates of incorporation as there is no statutory requirement for them to provide statutory audited financial statements. We have, however, performed our own independent audit of all relevant transactions of the Company and these subsidiaries for the Relevant Periods. The statutory audited financial statements of the Company's subsidiaries established in Mainland China, the People's Republic of China (the "PRC"), were prepared in accordance with the relevant accounting principles and financial regulations applicable to the respective companies and were audited by auditors other than Ernst & Young, Certified Public Accountants, Hong Kong, the details of which are set out in Note 5 of Section II below.

The directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB") (the "IFRS Financial Statements"), which were audited by Ernst & Young Hua Ming.

The Financial Information has been prepared by the Directors based on the IFRS Financial Statements and in accordance with the basis set out in Note 2 of Section II below.

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. The directors of the respective companies of the Group are responsible for the preparation and true and fair presentation of the respective financial statements and, where appropriate, management accounts in accordance with the relevant accounting principles and financial regulations applicable to these companies. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion based on our audit on the Financial Information and to express a conclusion on financial information for the seven months ended 31 July 2008 (the "31 July 2008 Financial Information") based on our review.

Procedures performed in respect of the Financial Information

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Periods in accordance with HKSAs, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were deemed necessary to the IFRS Financial Statements in preparing this accountants report for inclusion in the document.

Procedures performed in respect of the 31 July 2008 Financial Information

For the purpose of this report, we have also performed a review of the 31 July 2008 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. A review consists principally of making enquiries of management and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs 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 31 July 2008 Financial Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2006, 2007, 2008 and 31 July 2009 and of the consolidated results and cash flows of the Group for each of the Relevant Periods in accordance with the accounting policies set out in Note 4.2 of Section II below.

Review conclusion in respect of the 31 July 2008 Financial Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 31 July 2008 Financial Information is not prepared, in all material aspects, in accordance with the accounting policies set out in Note 4.2 of Section II below.

I. FINANCIAL INFORMATION

Consolidated income statements

	Notes	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
REVENUE	7	545,878	857,633	1,279,693	702,624	873,018
Cost of sales		(301,898)	(504,387)	(804,564)	(424,730)	(546,858)
Gross profit		243,980	353,246	475,129	277,894	326,160
Other income and gains	7	17	5,570	7,743	5,014	1,254
Selling and distribution costs		(36,091)	(72,695)	(118,250)	(54,290)	(57,472)
Administrative expenses		(128,220)	(130,163)	(167,802)	(101,657)	(88,578)
Other expenses		(15,328)	(14,567)	(10,023)	(6,076)	(6,578)
Finance revenue	8	1,858	4,703	14,646	7,388	10,290
Finance costs	8	(6,603)	(7,314)	(17,058)	(10,624)	(10,211)
Share of profit/(loss) of associates	21	—	142	767	(63)	(24)
PROFIT BEFORE TAX	9	59,613	138,922	185,152	117,586	174,841
Income tax — income/(expense)	11	583	10,891	(38,990)	(22,669)	(36,401)
PROFIT FOR THE PERIOD/YEAR		60,196	149,813	146,162	94,917	138,440
Attributable to:						
Equity holders of the parent		60,196	151,436	150,354	96,162	135,643
Minority interests		—	(1,623)	(4,192)	(1,245)	2,797
		60,196	149,813	146,162	94,917	138,440
Earnings per share — Basic	13	66	156	155	99	139

Consolidated statements of comprehensive income

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the period/year	60,196	149,813	146,162	94,917	138,440
Other comprehensive expense:					
Exchange realignment	9,008	29,101	31,335	29,120	164
Total comprehensive income for the period/year	69,204	178,914	177,497	124,037	138,604
Attributable to:					
Equity holders of the parent	69,204	180,537	181,689	125,282	135,807
Minority interests	—	(1,623)	(4,192)	(1,245)	2,797
	69,204	178,914	177,497	124,037	138,604

Consolidated statements of financial position

	Notes	As at 31 December			As at 31 July
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	15	230,025	282,732	279,340	264,119
Land use rights	16	132,897	129,773	126,649	142,650
Goodwill	19	101,203	101,203	101,203	101,203
Other intangible assets	17	52,002	40,116	48,909	40,001
Available-for-sale investments	18	—	7,500	7,500	7,500
Investments in associates	21	500	642	21,281	20,932
Deferred tax assets	22	10,752	8,959	10,257	8,041
Prepayments, deposits and other receivables	25	1,147	1,886	38,674	27,298
		528,526	572,811	633,813	611,744
CURRENT ASSETS					
Inventories	23	202,136	324,805	413,645	360,287
Trade and bills receivables	24	381,849	595,606	719,689	1,022,267
Prepayments, deposits and other receivables	25	26,872	59,235	70,135	56,802
Cash and cash equivalents	26	138,472	95,698	80,933	175,693
Amounts due from shareholders	27	—	19,560	19,181	19,684
Amounts due from related parties	28	7,836	122,761	221,799	272,329
		757,165	1,217,665	1,525,382	1,907,062
CURRENT LIABILITIES					
Interest-bearing loans	30	96,332	120,452	113,760	250,221
Trade and bills payables	31	194,320	315,463	418,413	469,742
Other payables and accruals	32	283,234	307,071	321,120	279,615
Tax payable		78,414	66,974	52,881	30,075
Amount due to holding company	29	—	74,632	126,760	160,231
Amounts due to shareholders	27	321	205	156	85
Amounts due to related parties	28	1,830	41,296	64,108	75,928
Preference shares	34	—	—	—	600,903
		654,451	926,093	1,097,198	1,866,800
NET CURRENT ASSETS		102,714	291,572	428,184	40,262
TOTAL ASSETS LESS CURRENT LIABILITIES		631,240	864,383	1,061,997	652,006
NON-CURRENT LIABILITIES					
Deferred tax liabilities	22	54,984	42,300	49,395	54,980
Preference shares	34	499,757	541,158	554,180	—
		554,741	583,458	603,575	54,980
Net Assets		76,499	280,925	458,422	597,026
EQUITY					
Equity attributable to equity holders of the parent:					
Ordinary share capital	33	73	78	78	78
Reserves	35	76,426	257,464	439,153	574,960
		76,499	257,542	439,231	575,038
Minority interests		—	23,383	19,191	21,988
Total Equity		76,499	280,925	458,422	597,026

Consolidated statements of changes in equity

	Equity attributable to equity holders of the parent							
	Ordinary share capital	Share premium account	Statutory reserve fund	Retained earnings	Exchange fluctuation reserve	Total	Minority interests	Total equity
	RMB'000 (Note 33)	RMB'000 (Note 35)	RMB'000 (Note 35)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At date of incorporation, 12 April 2006	—	—	—	—	—	—	—	—
Issue of shares	73	7,222	—	—	—	7,295	—	7,295
Total comprehensive income for the period	—	—	—	60,196	9,008	69,204	—	69,204
Transfer from retained earnings	—	—	10,092	(10,092)	—	—	—	—
As at 31 December 2006 and 1 January 2007	73	7,222	10,092	50,104	9,008	76,499	—	76,499
Issue of shares	5	501	—	—	—	506	—	506
Total comprehensive income for the year	—	—	—	151,436	29,101	180,537	(1,623)	178,914
Incorporation of a subsidiary	—	—	—	—	—	—	25,006	25,006
Transfer from retained earnings	—	—	15,890	(15,890)	—	—	—	—
As at 31 December 2007 and 1 January 2008	78	7,723	25,982	185,650	38,109	257,542	23,383	280,925
Total comprehensive income for the year	—	—	—	150,354	31,335	181,689	(4,192)	177,497
As at 31 December 2008 and 1 January 2009	78	7,723	25,982	336,004	69,444	439,231	19,191	458,422
Total comprehensive income for the period	—	—	—	135,643	164	135,807	2,797	138,604
As at 31 July 2009	78	7,723	25,982	471,647	69,608	575,038	21,988	597,026
As at 1 January 2008	78	7,723	25,982	185,650	38,109	257,542	23,383	280,925
Total comprehensive income for the period	—	—	—	96,162	29,120	125,282	(1,245)	124,037
As at 31 July 2008	78	7,723	25,982	281,812	67,229	382,824	22,138	404,962

Consolidated cash flow statements

	Notes	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		59,613	138,922	185,152	117,586	174,841
Adjustments for:						
Depreciation of items of property, plant and equipment	9	14,462	27,902	32,854	18,757	18,453
Amortisation of land use rights	9	1,953	3,124	3,124	1,823	1,972
Amortisation of other intangible assets	9	7,429	11,886	15,269	6,934	8,908
(Gain)/loss on disposal of items of property, plant and equipment	9	871	5	(463)	(92)	1,034
Write-down/(reversal) of inventories to net realisable value	8	3,505	2,286	(1,948)	3,453	(13,550)
Provision for impairment of trade receivables	8	11,558	54	835	—	766
Finance costs	8	6,603	7,314	17,058	10,624	10,211
Finance revenue	8	(1,858)	(4,703)	(14,646)	(7,388)	(10,290)
Share of (loss)/profit of associates		—	(142)	(767)	63	24
		104,136	186,648	236,468	151,760	192,369
(Increase) in trade and bills receivables		(66,283)	(205,011)	(124,918)	(186,572)	(303,344)
Decrease/(increase) in prepayments and other receivables		19,213	(32,363)	(10,900)	(65,990)	11,106
(Increase)/decrease in inventories		4,565	(112,625)	(86,892)	(59,252)	66,908
Increase in trade payables		42,544	121,143	102,950	158,658	51,329
(Decrease)/increase in other payables and accruals		(23,268)	50,001	64,522	100,184	(41,338)
Increase in amount due to a holding company		—	74,632	52,128	48,513	33,471
Increase in amounts due to related parties and shareholders		2,151	39,350	22,763	7,720	11,749
		83,058	121,775	256,121	155,021	22,250
Income tax paid		(27,343)	(11,440)	(47,286)	(28,326)	(51,406)
Net cash inflow/(outflow) from operating activities		55,715	110,335	208,835	126,695	(29,156)

Consolidated cash flow statements — (Continued)

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of items of property, plant and equipment	(32,575)	(70,713)	(66,994)	(44,742)	(10,240)
Purchase of items of intangible assets	—	—	(24,062)	—	—
Purchase of associates	(500)	—	(20,000)	—	—
Proceeds from disposal of items of property, plant and equipment	928	2,886	1,206	97	1,930
Acquisition of subsidiaries	(298,269)	—	—	—	—
Purchases of available-for-sale investments	—	(7,500)	—	—	—
Increase in amounts due from related parties	(6,891)	(109,725)	(98,718)	(84,222)	(40,828)
(Increase)/decrease in amount due from a shareholder	—	(19,560)	379	735	(503)
Interest received	1,858	2,079	2,037	1,197	589
Net cash outflow from investing activities	(335,449)	(202,533)	(206,152)	(126,935)	(49,052)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from capital contribution — equity holders of the parent	507,052	41,908	—	—	46,719
New bank loans	20,000	84,000	81,060	92,861	253,523
Repayment of bank loans	(101,298)	(68,680)	(87,752)	(115,452)	(117,062)
Interest paid	(6,603)	(5,228)	(10,449)	(10,624)	(10,211)
Net cash inflow/(outflow) from financing activities	419,151	52,000	(17,141)	(33,215)	172,969
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	139,417	(40,198)	(14,458)	(33,455)	94,761
Cash and cash equivalents at incorporation date/at beginning of year/period	—	138,472	95,698	95,698	80,933
Effect of foreign exchange rate changes	(945)	(2,576)	(307)	(290)	(1)
CASH AND CASH EQUIVALENTS AT END OF PERIOD/YEAR	138,472	95,698	80,933	61,953	175,693

Statements of financial position of the Company

		As at 31 December			As at 31 July
	Notes	2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Investments in subsidiaries	20	369,857	345,981	323,719	323,610
CURRENT ASSETS					
Cash and cash equivalents	26	71,021	8,212	1,617	5,458
Amounts due from subsidiaries	28	1,098	77,851	79,509	128,862
Amounts due from shareholders	27	—	19,560	19,181	19,684
Amounts due from related parties	28	7,836	122,761	210,960	244,508
		79,955	228,384	311,267	398,512
CURRENT LIABILITIES					
Amount due to a holding company	29	—	74,632	126,760	160,231
Amounts due to shareholders	27	321	205	156	85
Amount due to related parties	28	1,830	19,974	35,775	45,727
Preference shares	34	—	—	—	600,903
		2,151	94,811	162,691	806,946
NET CURRENT ASSETS / (LIABILITIES)		77,804	133,573	148,576	(408,434)
TOTAL ASSETS LESS CURRENT LIABILITIES		447,661	479,554	472,295	(84,824)
NON-CURRENT LIABILITIES					
Preference shares	34	499,757	541,158	554,180	—
Net liabilities		(52,096)	(61,604)	(81,885)	(84,824)
EQUITY					
Ordinary share capital	33	73	78	78	78
Reserves	35	(52,169)	(61,682)	(81,963)	(84,902)
Total deficits		(52,096)	(61,604)	(81,885)	(84,824)

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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

On 14 April 2006, the Company acquired the entire issued share capital of International Mining Machinery Ltd. ("IMM"), a company incorporated in Mauritius. On 16 May 2006, IMM acquired the entire equity interests of Jiamusi Coal Mining Machinery Co., Ltd. ("Jiamusi Machinery") and Jixi Coal Mining Machinery Co., Ltd. ("Jixi Machinery"), companies registered in the PRC, from Heilongjiang Coal Mining Machinery Group Co., Ltd. ("HCMMG"). Pursuant to the acquisition above, Jiamusi Machinery and Jixi Machinery became wholly-owned, principal subsidiaries of the Company, as set out in Note 5 of Section II below.

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

2. BASIS OF PREPARATION

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

For the consolidated Financial Information, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

The Financial Information has been prepared in accordance with IFRSs which comprise standards and interpretations approved by the IASB that are applicable to the Relevant Periods, except for any new or revised standards and interpretations that are not yet effective for the accounting period beginning on 1 January 2009 and the disclosure requirements of the Hong Kong Companies Ordinance.

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

3. NET CURRENT LIABILITIES

As at 31 July 2009, the net current liabilities and deficit in assets of the Company amounted to RMB408,434,000 and RMB84,824,000, respectively. The Directors have prepared the Financial

Information on a going concern basis notwithstanding the net current liabilities and deficit in assets of the Company because the holding company, TJCC Holdings Ltd. has undertaken to provide continuing financial support to enable the Company to meet its liabilities as and when they fall due.

Pursuant to the resolution of the directors of TJCC IMM Jiamusi passed on [23 December 2009] and [31 December 2009], TJCC IMM Jiamusi declared special dividends of US$[●] (equivalent to approximately RMB[●]) and US$[●] (equivalent to approximately RMB[●]), respectively, to the Company. The Directors confirm that the Company is under net asset position upon declaration of the dividends from TJCC IMM Jiamusi.

4.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in this Financial Information.

IFRS 1 (Revised)	*First-time Adoption of IFRSs*[1]
IFRS 3 (Revised)	*Business Combinations*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 18	*Transfers of Assets from Customers*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[3]
IAS 32 Amendment	*Classifications of Rights Issues*[4]
IAS 24 (Revised)	*Related Party Transactions*[5]
IFRS 9	*Financial Instruments*[6]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for transfer of assets from customers received on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

IASB has issued *Improvements to IFRS 5* which primarily with a view to removing inconsistencies and clarify wording and is effective for the annual periods on or after 1 July 2009.

Except for amendments to IFRS 2 which are effective for annual periods beginning on or after 1 January 2010, the above new and revised IFRSs are effective for annual periods beginning on or after 1 July 2009.

Apart from the above, the IASB has also issued *Improvements to IFRSs 2009** which sets out amendments to 12 Standards and Interpretations resulting from its annual improvements project

* The improvements to IFRSs 2009 includes amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.
# Included in improvements to IFRSs 2008.

published in April 2009. Except for the amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 which are effective for annual periods beginning on or after 1 July 2009, the remaining amendments are effective for annual periods beginning on or after 1 January 2010.

IFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first time-time adopters. As the Group is not a first-time adopter of IFRS, the amendments will not have any financial impact on the Group.

The IFRS 1 Amendments provide relief from the full retrospective application of IFRS for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the exiting exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of IFRS, the amendments will not have any financial impact on the Group.

The revised IFRS 3 introduces a number of changes in accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The revised IAS 27 requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. The changes introduced by the revised IFRS 3 and revised IAS 27 are to be applied prospectively and will affect the accounting of future acquisitions and transactions with minority interests.

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

IFRIC 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. This new interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Reporting Period* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The interpretation is unlikely to have any material financial impact on the Group.

IFRIC 18 provides guidance on the accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. As the Group has no transfers of assets from customers during the Relevant Periods, the interpretation is unlikely to have any significant financial impact on the Group.

The amendments to IFRS 2 clarify the scope and the accounting for group cash-settled share-based payment transactions in the separate financial statements. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 — Group and Treasury Share Transactions*. The amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by their interpretation.

The IAS 32 Amendment revises the definition of financial liabilities such that right, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. As the Group currently has no such rights, options or warrants in issue, the amendments is unlikely to have any financial impact on the Group.

The revised IAS 24 clarifies and simplifies the definition of a related party. The revised standard also provides a partial exemption for government-related entities to disclose details of all transactions and balances with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The revision is unlikely to have any financial impact on the Group.

IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefit*. The revision is unlikely to have any financial impact on the Group.

The new IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. It will be effective for annual periods beginning on or after 1 January 2013, with early adoption permitted.

IFRIC 19 addresses the accounting by an entity when the terms of financial liability are renegotiated and resulted in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not renegotiated the terms of a financial liability and issued equity to settle the financial liability, the interpretation is unlikely to have any material financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs and IFRICs upon initial application. Except for the Revised IFRS 3 and IAS 27 which will have an impact on future business combinations and transactions with minority interests, the Group anticipates that these new and revised IFRSs and IFRICs are unlikely to have any significant impact on the Group's results of operations and financial position.

4.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conforms with IFRSs, are set out below:

These policies have been consistently applied to all the years/periods presented.

Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

Subsidiaries

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

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

Associates

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

The Group's investments in associates are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment loss. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statements and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition. Goodwill arising on acquisition is recognised in the consolidated statements of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identifiable asset on the consolidated statements of financial position. The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

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

(a) Sale of goods

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

(b) Rendering of services

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

(c) Interest income

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, *i.e.*, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the income statements in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in Renminbi ("RMB"), which is the Group's presentation currency. Each entity within the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas entities within the Group are currencies other than RMB. As at the reporting date, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the reporting date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statements.

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

Government grants

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statements or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

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

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

Dividends

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statements in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

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

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

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

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

Intangible assets (other than goodwill)

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

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

Intangible assets include customer bases which were acquired through acquisitions of subsidiaries and are recognised according to their fair values on the acquisition date. Customer bases are amortised over their estimated useful lives of five years based on management's estimates.

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

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

Research and development costs

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

Land use rights

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

Impairment of non-financial assets other than goodwill

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

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

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

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the reporting date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statements. The net fair value gain or loss recognised in the income statements do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" above.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statements when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statements.

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

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (*i.e.*, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statements. Loans and receivables together with any

associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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

Available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statements, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statements.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statements.

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

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

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

➢ the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to holding company, amounts due to related parties and interest-bearing bank loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statements.

Gains and losses are recognised in the consolidated income statements when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statements. The net fair value gain or loss recognised in the income statements does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

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

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

Cash and cash equivalents

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

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

Inventories

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

Net realisable value is based on estimated selling prices, less estimated costs to be incurred to completion and disposal.

Provisions

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

When the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included in finance cost in the income statements.

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

Leases

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

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

Retirement benefits

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

3.3 SUMMARY OF ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The estimation of the expected future cash flows from cash-generating unit could change significantly should the cash-generating units fail to sustain the estimated growth. The carrying amount of goodwill as at 31 December 2006, 2007 and 2008 and 31 July 2009 was RMB101,203,000. Further details are given in Note 19.

(ii) Impairment of trade receivables

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

(iii) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 3.2: Impairment of non-financial assets other than goodwill. The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iv) Useful lives of property, plant and equipment

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

(v) Useful lives of intangible assets

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

(vi) Net realisable value of inventories

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

(vii) Deferred tax assets

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

(viii) Warranty expenses

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

5. PARTICULARS OF COMPANIES COMPRISING THE GROUP AND ASSOCIATES

Particulars of the companies comprising the Group and associates at 31 July 2009 are set out below.

Name of company	Place and date of incorporation/ registration and operations	Nominal value of registered/ paid-up capital	Attributable equity interest of the Company		Principal activities
			Direct	Indirect	
			%	%	
Subsidiaries					
International Mining Machinery Limited[(1)]	Mauritius 14 April 2006	US$1	100	—	Investment holding
TJCC IMM Siwei Holdings Ltd.[(1)]	Cayman Islands 16 February 2007	US$1	100	—	Investment holding
TJCC IMM Jiamusi Holdings Ltd.[(1)]	Cayman Islands 26 January 2007	US$1	100	—	Investment holding
TJCC IMM Jixi Holdings Ltd.[(1)]	Cayman Islands 26 January 2007	US$1	100	—	Investment holding
TJCC IMM AFC Holdings Ltd.[(1)]	Cayman Islands 16 February 2007	US$1	100	—	Investment holding

Name of company	Place and date of incorporation/ registration and operations	Nominal value of registered/ paid-up capital	Attributable equity interest of the Company Direct	Attributable equity interest of the Company Indirect	Principal activities
			%	%	
International Mining Machinery Jiamusi Holdings Limited[2]	Hong Kong 31 January 2007	HK$10	—	100	Investment holding
International Mining Machinery Jixi Holdings Limited[2]	Hong Kong 31 January 2007	HK$10	—	100	Investment holding
International Mining Machinery AFC Holdings Limited[2]	Hong Kong 22 February 2007	HK$10	—	100	Investment holding
Jiamusi Coal Mining Machinery Co., Ltd.[3][a]	PRC/Mainland China 4 September 2002	RMB69,980,000	—	100	Manufacture and sale of coal mining machinery
Jixi Coal Mining Machinery Co., Ltd.[3][a]	PRC/Mainland China 19 September 2001	RMB92,380,000	—	100	Manufacture and sale of coal mining machinery
Huainan Long Wall Coal Mining Machinery Co., Ltd.[4][b]	PRC/Mainland China 27 June 2007	RMB100,000,000	—	75	Manufacture and sale of coal mining machinery
Associates					
Huainan Shunli Coal Mining Machinery Repairing Co., Ltd.[5][c]	PRC/Mainland China 29 November 2006	RMB2,000,000	—	25	Repair service for coal mining machinery
Neimenggu Tianlong Coal Mining Machinery Repairing Co., Ltd.[6][d]	PRC/Mainland China 17 July 2008	RMB100,000,000	—	20	Repair service for coal mining machinery

Notes:

(1) No audited financial statements have been prepared for companies incorporated in the Cayman Islands and Mauritius, as they are not subject to any statutory audit requirements in their jurisdictions of establishment.

(2) The statutory financial statements for the period/year ended 31 December 2007 and 2008 were audited by Ernst & Young, Certified Public Accountants registered in Hong Kong.

(3) The statutory financial statements for the years ended 31 December 2006, 2007 and 2008 were audited by Heilongjiang Donglian Certified Public Accountants Co., Ltd. (黑龍江東聯會計師事務所有限公司), Certified Public Accountants registered in Mainland China.

(4) The statutory financial statements for the period/year ended 31 December 2007 and 2008 were audited by Huainan Jiusheng Certified Public Accountants (淮南九盛會計師事務所), Certified Public Accountants registered in Mainland China.

(5) The statutory financial statements for the years ended 31 December 2007 and 2008 were audited by Anhui Zhongxin Certified Public Accountants (安徽眾信會計師事務所), Certified Public Accountants registered in Mainland China.

(6) The statutory financial statements for the period ended 31 December 2008 were audited by Eerduosi Hongzheng Certified Public Accountants (鄂爾多斯鴻正會計師事務所), Certified Public Accountants registered in Mainland China.

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

(a) On 16 May 2006, the Group acquired a 100% equity interest in Jiamusi Machinery and Jixi Machinery from HCMMG for a total consideration of RMB361,268,000. The results of Jixi Machinery and Jiamusi Machinery were consolidated from the date of acquisition. Although Jiamusi Machinery and Jixi Machinery were re-registered as Foreign-investment Enterprises ("FIEs") on 11 April 2006 and 10 April 2006 respectively, the acquisition was not completed until 16 May 2006, where all the terms set out in the equity transfer agreement dated 30 December 2005 signed between HCMMG and the Group had been fulfilled.

(b) On 5 June 2007, International Mining Machinery AFC Holdings Limited ("IMM AFC"), a wholly-owned subsidiary of the Group, entered into an agreement with Huainan Benniu Machinery Co., Ltd. ("Benniu"), to establish Huainan Long Wall Coal Mining Machinery Co., Ltd. ("Huainan Long Wall") which is principally engaged in the manufacture and sale of armoured face conveyors. Huainan Long Wall was registered as a FIE in accordance with the PRC Corporation Law on 27 June 2007. The Group contributed RMB75,000,000 in cash and owns a 75% equity interest in Huainan Long Wall. Benniu contributed machinery, equipment and inventories valued at RMB25,000,000 and owns a 25% equity interest in Huainan Long Wall. On 3 December 2009, IMM AFC, entered into an equity transfer agreement with Benniu in respect of the acquisition of the remaining 25% equity interest in Huainan Long Wall for a purchase consideration of RMB51,400,000. Huainan Long Wall will become a wholly-owned subsidiary of the Group upon successful completion of the acquisition.

(c) On 26 September 2006, the Group entered into an agreement with Huainan Shunli Machinery Co., Ltd. and Hefei Bosenfu Trade Co., Ltd. to establish Huainan Shunli Coal Mining Machinery Repairing Co., Ltd. which is principally engaged in the repaired services of coal mining machineries and was registered as a limited liability company in accordance with the PRC Corporation Law. The Group contributed RMB500,000 in cash and owns a 25% equity interest in Huainan Shunli Coal Mining Machinery Repairing Co., Ltd.. Huainan Shunli Machinery Co., Ltd. and Hefei Bosenfu Trade Co., Ltd. contributed RMB800,000 and RMB700,000 and own a 40% and 35% equity interest in Huainan Shunli Coal Mining Machinery Repairment Co., Ltd., respectively.

(d) On 17 July 2008, the Group entered into an agreement with Shendong Tianlong Group Co., Ltd. and China Coal Mine Machinery Equipment Co., Ltd., to establish Neimenggu Tianlong Coal Mining Machinery Repairing Co., Ltd. ("NTCMMR") which is principally engaged in the repaired services of coal mining machinery and was registered as a limited liability company in accordance with the PRC Corporation Law. The Group contributed RMB20,000,000 in cash and owns a 20% equity interest in NTCMMR. Shendong Tianlong Group Co., Ltd. and China Coal Mine Machinery Equipment Co., Ltd. contributed RMB60,000,000 and RMB20,000,000 and own a 60% and 20% equity interest in NTCMMR, respectively.

6. SEGMENT INFORMATION

The group is organised into three business units based on their products and services and has three reportable operating segments as follows:

(a) Roadheader products and aftermarket parts and services

Engaged in design, manufacture and sales of roadheader products and aftermarket services which include onsite service repairs as well as overhaul and supply of spare parts to customers.

(b) Shearer products and aftermarket parts and services

Engaged in design, manufacture and sales of shearer products aftermarket services which include onsite service repairs, overhaul and supply of spare parts to customers.

(c) Armoured-face conveyors and related products and aftermarket parts and services

Engaged in manufacture and sales of armoured-face conveyors and related spare parts and aftermarket services which include onsite service repairs, overhaul and supply of spare parts to customers.

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

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

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

The reportable segment's measure of profit or loss and revenues and the reconciliations of the reported segment results to the Group's profit or loss and revenues for the period from 12 April 2006 (date of incorporation) to 31 December 2006 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-face conveyors and related products and aftermarket parts and services	Group
	RMB'000	RMB'000	RMB'000	RMB'000
Gross segment revenue	295,982	249,896	—	545,878
Inter-segment revenue	—	—	—	—
Revenue	295,982	249,896	—	545,878
Segment profit	87,682	34,743		122,425
Unallocated operating costs*				(62,812)
Profit before income tax				59,613
Income tax				583
Profit for the year				60,196
Items included in the measure of segment profit:				
Research and development costs	2,379	9,973	—	12,352
Depreciation of items of property, plant and equipment	7,216	7,246	—	14,462
Amortisation of land use rights	969	984	—	1,953
Amortisation of other intangible assets	6,190	1,239	—	7,429
Impairment of trade receivables	3,192	8,366	—	11,558
Write-down of inventories to net realisable value	1,370	2,135	—	3,505
Product warranty provision	1,318	4,323	—	5,641
Loss on disposal of items of property, plant and equipment	124	747	—	871

* Unallocated operating costs mainly represent central administration costs, directors' remuneration and certain financing costs (including finance revenue and finance costs) which are managed on a group basis and are not allocated to operating segments.

The reportable segment's measure of profit or loss and revenues and the reconciliations of the reported segment results to the Group's profit or loss and revenues for the year ended 31 December 2007 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-face conveyors and related products and aftermarket parts and services	Group
	RMB'000	RMB'000	RMB'000	RMB'000
Gross segment revenue	511,555	346,078	—	857,633
Inter-segment revenue	—	—	—	—
Revenue	511,555	346,078	—	857,633
Segment profit or (loss)	142,220	23,039	(6,493)	158,766
Unallocated operating costs*				(19,844)
Profit before income tax				138,922
Income tax				10,891
Profit for the year				149,813
Items included in the measure of segment profit:				
Research and development costs	9,991	16,435	—	26,426
Depreciation of items of property, plant and equipment	13,543	14,357	2	27,902
Amortisation of land use rights	1,549	1,575	—	3,124
Amortisation of other intangible assets	9,905	1,981	—	11,886
Impairment of trade receivables	—	54	—	54
Write-down of inventories to net realisable value	2,286	—	—	2,286
Product warranty provision	3,082	6,150	—	9,232
(Gain)/loss on disposal of items of property, plant and equipment	(161)	166	—	5

* Unallocated operating costs mainly represent central administration costs, directors' remuneration and certain financing costs (including finance revenue and finance costs) which are managed on a group basis and are not allocated to operating segments.

The reportable segment's measure of profit or loss and revenues and the reconciliations of the reported segment results to the Group's profit or loss and revenues for the year ended 31 December 2008 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-face conveyors and related products and aftermarket parts and services	Group
	RMB'000	RMB'000	RMB'000	RMB'000
Gross segment revenue	684,105	447,557	148,031	1,279,693
Inter-segment revenue	—	—	—	—
Revenue	684,105	447,557	148,031	1,279,693
Segment profit or (loss)	201,717	34,937	(17,818)	218,836
Unallocated operating costs*				(33,684)
Profit before income tax				185,152
Income tax				(38,990)
Profit for the year				146,162
Items included in the measure of segment profit:				
Research and development costs	14,543	10,298	1,412	26,253
Depreciation of items of property, plant and equipment	13,353	16,616	2,885	32,854
Amortisation of land use rights	1,549	1,575	—	3,124
Amortisation of other intangible assets	9,904	1,982	3,383	15,269
Impairment of trade receivables	204	631	—	835
Reversal of write-down of inventories to net realisable value	—	(1,948)	—	(1,948)
Product warranty provision	5,690	7,704	3,701	17,095
(Gain)/loss on disposal of items of property, plant and equipment	(677)	214	—	(463)

* Unallocated operating costs mainly represent central administration costs, directors' remuneration and certain financing costs (including finance revenue and finance costs) which are managed on a group basis and are not allocated to operating segments.

The reportable segment's measure of profit or loss and revenues and the reconciliations of the reported segment results to the Group's profit or loss and revenues for the seven-month period ended 31 July 2008 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-face conveyors and related products and aftermarket parts and services	Group
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Gross segment revenue	398,682	254,481	49,461	702,624
Inter-segment revenue	—	—	—	—
Revenue	398,682	254,481	49,461	702,624
Segment profit or (loss)	122,121	25,174	(5,128)	142,167
Unallocated operating costs*				(24,581)
Profit before income tax				117,586
Income tax				(22,669)
Profit for the period				94,917
Items included in the measure of segment profit:				
Research and development costs	7,804	6,671	601	15,076
Depreciation of items of property, plant and equipment	7,634	9,708	1,415	18,757
Amortisation of land use rights	904	919	—	1,823
Amortisation of other intangible assets	5,778	1,156	—	6,934
Impairment of trade receivables	—	—	—	—
Write-down of inventories to net realisable value	—	3,453	—	3,453
Product warranty provision	2,739	4,374	1,236	8,349
(Gain) on disposal of items of property, plant and equipment	(92)	—	—	(92)

* Unallocated operating costs mainly represent central administration costs, directors' remuneration and certain financing costs (including finance revenue and finance costs) which are managed on a group basis and are not allocated to operating segments.

The reportable segment's measure of profit or loss and revenues and the reconciliations of the reported segment results to the Group's profit or loss and revenues for the seven-month period ended 31 July 2009 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-face conveyors and related products and aftermarket parts and services	Group
	RMB'000	RMB'000	RMB'000	RMB'000
Gross segment revenue	475,879	235,706	161,433	873,018
Inter-segment revenue	—	—	—	—
Revenue	475,879	235,706	161,433	873,018
Segment profit	150,024	14,342	19,328	183,694
Unallocated operating costs*				(8,853)
Profit before income tax				174,841
Income tax				(36,401)
Profit for the period				138,440
Items included in the measure of segment profit:				
Research and development costs	7,603	8,293	921	16,817
Depreciation of items of property, plant and equipment	6,984	9,691	1,778	18,453
Amortisation of land use rights	904	918	150	1,972
Amortisation of other intangible assets	—	6,934	1,974	8,908
Impairment of trade receivables	—	766	—	766
Write-down/(reversal of write-down) of inventories to net realisable value	2,561	(16,111)	—	(13,550)
Product warranty provision	2,639	3,936	2,419	8,994
(Gain)/loss on disposal of items of property, plant and equipment	(89)	1,123	—	1,034

* Unallocated operating costs mainly represent central administration costs, directors' remuneration and certain financing costs (including finance revenue and finance costs) which are managed on a group basis and are not allocated to operating segments.

The segment assets and liabilities as at 31 December 2006 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-face conveyors and related products and aftermarket parts and services	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	724,000	510,431	—	(28,253)	1,206,178
Unallocated assets					79,513
Total assets					1,285,691
Segment liabilities	313,199	422,338	—	(28,253)	707,284
Unallocated liabilities					501,908
Total liabilities					1,209,192

The segment assets and liabilities as at 31 December 2007 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-Face Conveyors and related products and aftermarket parts and services	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	948,787	605,292	124,159	(38,885)	1,639,353
Unallocated assets					151,123
Total assets					1,790,476
Segment liabilities	386,955	494,788	30,640	(38,885)	873,498
Unallocated liabilities					636,053
Total liabilities					1,509,551

The segment assets and liabilities as at 31 December 2008 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-face conveyors and related products and aftermarket parts and services	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,089,027	694,745	205,778	(62,659)	1,926,891
Unallocated assets					232,304
Total assets					2,159,195
Segment liabilities	357,953	559,187	129,029	(62,659)	983,510
Unallocated liabilities					717,263
Total liabilities					1,700,773

The segment assets and liabilities as at 31 July 2009 are as follows:

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Armoured-Face Conveyors and related products and aftermarket parts and services	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,203,291	799,746	317,264	(71,687)	2,248,614
Unallocated assets					270,192
Total assets					2,518,806
Segment liabilities	348,657	652,388	185,101	(71,687)	1,114,459
Unallocated liabilities					807,321
Total liabilities					1,921,780

Reportable segments' assets are reconciled to total assets as follows:

	31 December			31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,206,178	1,639,353	1,926,891	2,248,614
Unallocated assets				
Cash and cash equivalents	71,677	8,802	2,163	6,000
Amounts due from shareholders (note 27)	—	19,560	19,181	19,684
Amounts due from related parties	7,836	122,761	210,960	244,508
	79,513	151,123	232,304	270,192
Total assets per consolidated balance sheets	1,285,691	1,790,476	2,159,195	2,518,806

Reportable segments' liabilities are reconciled to total assets as follows:

	31 December			31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Segment liabilities	707,284	873,498	983,510	1,114,459
Unallocated liabilities				
Amount due to holding company (note 29)	—	74,632	126,760	160,231
Amounts due to shareholders (note 27)	321	205	156	85
Amounts due to related parties	1,830	19,974	35,775	45,727
Preference shares	499,757	541,158	554,180	600,903
Other corporate liabilities	—	84	392	375
	501,908	636,053	717,263	807,321
Total liabilities per consolidated balance sheets	1,209,192	1,509,551	1,700,773	1,921,780

Information about major customers

During the period from 12 April 2006 (date of incorporation) to 31 December 2006, the Group made sales to two customers of RMB70,570,000 and RMB68,971,000, respectively, which individually exceeded 10% of the Group's total revenue for that period.

During the year ended 31 December 2007, the Group made sales to three customers of RMB139,149,000, RMB103,708,000, and RMB94,936,000, respectively, which individually exceeded 10% of the Group's total revenue for that year.

During the year ended 31 December 2008, the Group made sales to one customer of RMB170,564,000, which individually exceeded 10% of the Group's total revenue for that year.

During the seven months ended 31 July 2009, the Group made sales to two customers of RMB119,937,000 and RMB115,466,000, respectively, which individually exceeded 10% of the Group's total revenue for that period.

During the seven months ended 31 July 2008 (unaudited), the Group made sales to one customer of RMB109,796,000, which individually exceeded 10% of the Group's total revenue for that period.

7. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold and various types of government surcharges, where applicable.

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue					
Sale of Roadheader Products	263,673	414,642	571,897	341,659	419,174
Sale of Shearer Products	195,598	260,251	348,531	188,860	191,137
Sale of Armoured-face conveyors and related products	—	—	140,105	46,934	146,472
Aftermarket parts and services	86,607	182,740	219,160	125,171	116,235
	545,878	857,633	1,279,693	702,624	873,018
Other income and gains					
Waiver of unpaid trade debts by a creditor	—	2,325	303	—	—
Sale of scrap materials	—	2,873	5,819	3,964	825
Gain on disposal of items of property, plant and equipment	—	—	463	92	—
Others	17	372	1,158	958	429
	17	5,570	7,743	5,014	1,254

8. FINANCE REVENUE AND FINANCE COSTS

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Finance revenue					
Interest income	1,858	4,703	14,646	7,388	10,290
Finance costs					
Loan interest	5,503	4,866	14,495	8,767	9,290
Interest arising from discounted bills	1,100	2,448	2,563	1,857	921
Total finance costs	6,603	7,314	17,058	10,624	10,211

9. PROFIT BEFORE TAX

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

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of inventories sold	301,566	500,861	802,596	423,238	541,221
Cost of services provided	332	3,526	1,968	1,492	5,637
Employee benefits expense (including directors remuneration as set out in Note 10)					
Wages and salaries	75,696	102,053	131,725	73,585	75,740
Pension scheme contributions	10,455	15,189	17,215	10,032	10,432
	86,151	117,242	148,940	83,617	86,172
Research and development costs	12,352	26,426	26,253	15,076	16,817
Auditors' remuneration	40	152	2,360	1,377	1,307
Depreciation of items of property, plant and equipment (Note 15)	14,462	27,902	32,854	18,757	18,453
Amortisation of land use rights (Note 16)	1,953	3,124	3,124	1,823	1,972
Amortisation of other intangible assets (Note 17)	7,429	11,886	15,269	6,934	8,908
Impairment of trade receivables (Note 24)	11,558	54	835	—	766
Minimum lease payments under operating lease	—	527	3,575	2,535	2,451
Write-down/(reversal) of inventories to net realisable value	3,505	2,286	(1,948)	3,453	(13,550)
Product warranty provision	5,641	9,232	17,095	8,349	8,994
Loss/(gain) on disposal of items of property, plant and equipment	871	5	(463)	(92)	1,034

10. DIRECTORS' REMUNERATION

Directors' remuneration during the Relevant Periods is as follows:

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, allowances and benefits in kind	12,419	11,071	8,748	4,969	5,375
Performance related bonuses*	5,572	3,074	554	554	2,356
Retirement benefit scheme contributions	—	—	—	—	—
	17,991	14,145	9,302	5,523	7,731

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

(a) Executive directors

The remuneration of each of the directors for the period from 12 April 2006 (date of incorporation) to 31 December 2006 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors				
Thomas H. Quinn	—	—	—	—
Youming Ye	6,343	2,388	—	8,731
Kee-Kwan Allen Chan	4,957	1,592	—	6,549
John W. Jordan II	—	—	—	—
Emory Williams	373	796	—	1,169
David W. Zalaznick	—	—	—	—
Rubo Li a/k/a John Lee	746	796	—	1,542
	12,419	5,572	—	17,991

The remuneration of each of the directors for the year ended 31 December 2007 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors				
Thomas H. Quinn	—	—	—	—
Youming Ye	3,208	607	—	3,815
Kee-Kwan Allen Chan	6,164	1,897	—	8,061
John W. Jordan II	—	—	—	—
Emory Williams	562	190	—	752
David W. Zalaznick	—	—	—	—
Rubo Li a/k/a John Lee	1,137	380	—	1,517
	11,071	3,074	—	14,145

The remuneration of each of the directors for the year ended 31 December 2008 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors				
Thomas H. Quinn	—	—	—	—
Youming Ye	2,385	554	—	2,939
Kee-Kwan Allen Chan	5,194	—	—	5,194
John W. Jordan II	—	—	—	—
Emory Williams	130	—	—	130
David W. Zalaznick	—	—	—	—
Rubo Li a/k/a John Lee	1,039	—	—	1,039
	8,748	554	—	9,302

The remuneration of each of the directors for the seven-month period ended 31 July 2008 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit scheme contributions	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Name of directors				
Thomas H. Quinn	—	—	—	—
Youming Ye	1,215	554	—	1,769
Kee-Kwan Allen Chan	3,094	—	—	3,094
John W. Jordan II	—	—	—	—
Emory Williams	130	—	—	130
David W. Zalaznick	—	—	—	—
Rubo Li a/k/a John Lee	530	—	—	530
	4,969	554	—	5,523

The remuneration of each of the directors for the seven-month period ended 31 July 2009 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors				
Thomas H. Quinn	—	—	—	—
Youming Ye	1,780	478	—	2,258
Kee-Kwan Allen Chan	2,990	854	—	3,844
John W. Jordan II	—	—	—	—
Emory Williams	6	—	—	6
David W. Zalaznick	—	—	—	—
Rubo Li a/k/a John Lee	599	1,024	—	1,623
	5,375	2,356	—	7,731

Except for Mr. Emory Williams and Mr. Rubo Li a/k/a John Lee, none of the executive directors of the Company received emoluments from the Group during the years ended 31 December 2006, 2007, 2008 and period ended 31 July 2009. The emoluments of Mr. Youming Ye and Mr. Kee-Kwan Allen Chan are compensated by way of management fee payable by the Company to TJCC Services Ltd. ("TJCC Services"), part of which is related to their services arising from their individual capacity as senior management of the Company. Mr. Youming Ye and Mr. Kee-Kwan Allen Chan are also acting as the directors and shareholders of TJCC Services. The portion of the remuneration directly attributable to their services to the Company has been included in directors' remuneration.

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

On 4 December 2009, Mr. Emory Williams resigned as a director of the Company.

There was no arrangement under which directors waived or agreed to waive any remuneration during the Relevant Periods.

(b) Five highest paid employees

An analysis of the five highest paid employees within the Group during the Relevant Periods is as follows:

	Number of employees				
	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
				(unaudited)	
Directors	4	4	3	3	3
Non-directors	1	1	2	2	2
	5	5	5	5	5

Details of directors' remuneration are set out in Note 10(a) of Section II above.

Details of the remuneration of the above non-directors, highest paid employees are as follows:

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, allowances and benefits in kind	771	2,239	3,449	2,117	1,903
Performance related bonuses	—	378	—	—	351
Retirement benefit scheme contributions	—	—	2	—	2
	771	2,617	3,451	2,117	2,256

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

	Number of employees				
	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
				(unaudited)	
Nil to HK$1,000,000	1	—	—	1	1
HK$1,000,001 to HK$1,500,000	—	—	1	1	—
HK$1,500,001 to HK$2,000,000	—	—	—	—	1
Over HK$2,000,000	—	1	1	—	—
	1	1	2	2	2

During the Relevant Periods, no director or highest paid individual waived or agreed to waive any emoluments and no emoluments were paid by the Group to the non-directors and highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

11. TAX

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

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

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

The provision for Mainland China current income tax is based on statutory rate of 25% (2006 and 2007:33%) of the assessable profit of the Group as determined in accordance with PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are exempted for tax at preferential rates

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

The share of tax attributable to associates for each of the two years ended 31 December 2007 and 2008 and the seven-month period ended 31 July 2008 and 2009, respectively, are included in "Share of profit/(loss) of associates" on the face of the consolidated income statements.

The major components of income tax charge/credit for the Relevant Periods are as follows:

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax					
—Income tax in the PRC for the period/ year	—	—	33,193	18,157	28,600
—Deferred tax (Note 22)	(583)	(10,891)	5,797	4,512	7,801
Total tax (credit)/charge for the period/ year	(583)	(10,891)	38,990	22,669	36,401

A reconciliation of the income tax expense applicable to profit before tax and the share of profit of associates multiplied by the applicable statutory rate for the country in which the Company and its majority of subsidiaries are domiciled (*i.e.*, the PRC) to the effective tax rate for each of the Relevant Periods is as follows:

	For the period from 12 April 2006 (date of incorporation) to December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	59,613	138,780	184,385	117,649	174,865
Tax at an applicable tax rate (33% in 2006 and 2007, 25% in 2008 and seven months ended at 31 July 2009)	19,672	45,797	46,096	29,412	43,716
Income tax deduction for use of manufacturing equipment made in the PRC	—	—	(2,503)	(2,459)	—
Lower tax rate for certain loss making entities at different jurisdictions	20,042	4,612	6,307	5,789	1,682
Tax concession for certain subsidiaries*	(55,194)	(60,581)	(32,412)	(19,522)	(20,242)
Expenses not deductible for tax(i)	14,897	8,532	11,907	3,597	4,320
Tax losses not recognised	—	1,324	—	—	—
Withholding tax on undistributed earnings	—	—	9,595	5,852	6,925
Effect of change in enacted tax rate used for the recognition of deferred tax(ii)	—	(10,575)	—	—	—
Tax (credit)/charge at the Group's effective rate	(583)	(10,891)	38,990	22,669	36,401

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

Notes:

(i) Expenses not deductible for taxes mainly comprised certain amount of impairment for trade receivables and accrual of other expenses not deductible for tax purposes.

(ii) On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"), which became effective from 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Pursuant to the grandfathering arrangement under the New CIT Law, Jiamusi Machinery and Jixi Machinery will continue to enjoy the existing tax holiday. Thereafter, it will be subject to the new CIT rate of 25%.

In accordance with IAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Therefore, the tax rate of 25% is adopted in the calculation of deferred taxes which are expected to be realised or settled after 1 January 2008. For Jiamusi Machinery and Jixi Machinery, deferred tax assets and liabilities are measured at 12.5% or 25% depending on whether the assets are expected to be realised or the liabilities settled in 2008 to 2010 or 2011 and subsequently, respectively.

12. DIVIDENDS

No dividends have been paid or declared by the Company during the Relevant Periods.

13. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit for the period/year attributable to equity holders of the parent for each of the Relevant Periods, and the number of ordinary shares in issue.

The calculation of basic earnings per share is based on:

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Profit for the period/year attributable to the equity holders of the parent	60,196	151,436	150,354	96,162	135,643
Number of ordinary shares	910	973	973	973	973

No diluted earnings per share amounts are presented for any of the Relevant Periods as no diluting events occurred during the Relevant Periods.

14. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

Retirement benefits

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

Accommodation benefits

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

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At date of incorporation, 12 April 2006	—	—	—	—	—	—
Additions	1,137	16,949	8,975	2,792	6,875	36,728
Transfers	4,485	5,744	—	—	(10,229)	—
Acquisition of subsidiaries (Note 36)	110,107	79,392	3,599	7,269	9,280	209,647
Disposals	(639)	(3,494)	(543)	(305)	—	(4,981)
At 31 December 2006 and 1 January 2007	115,090	98,591	12,031	9,756	5,926	241,394
Additions	3,246	15,558	10,032	1,220	53,441	83,497
Transfers	2,577	23,891	—	—	(26,468)	—
Disposals	(1,324)	(9,012)	(1,766)	(1,634)	—	(13,736)
At 31 December 2007 and 1 January 2008	119,589	129,028	20,297	9,342	32,899	311,155
Additions	481	3,392	4,461	1,609	20,262	30,205
Transfers	41,967	8,130	—	—	(50,097)	—
Disposals	(293)	(3,241)	(359)	(90)	—	(3,983)
At 31 December 2008 and 1 January 2009	161,744	137,309	24,399	10,861	3,064	337,377
Additions	763	713	658	369	3,693	6,196
Transfers	1,579	942	—	—	(2,521)	—
Disposals	(2,805)	(6,769)	(912)	(468)	—	(10,954)
At 31 July 2009	161,281	132,195	24,145	10,762	4,236	332,619

Group

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation:						
At date of incorporation, 12 April 2006	—	—	—	—	—	—
Charge for the period	3,853	7,824	1,112	1,673	—	14,462
Disposals	(507)	(1,924)	(507)	(155)	—	(3,093)
At 31 December 2006 and 1 January 2007	3,346	5,900	605	1,518	—	11,369
Charge for the year	6,574	14,604	4,048	2,676	—	27,902
Disposals	(1,023)	(6,838)	(1,689)	(1,298)	—	(10,848)
At 31 December 2007 and 1 January 2008	8,897	13,666	2,964	2,896	—	28,423
Charge for the year	7,020	17,741	5,745	2,348	—	32,854
Disposals	(54)	(2,779)	(347)	(60)	—	(3,240)
At 31 December 2008 and 1 January 2009	15,863	28,628	8,362	5,184	—	58,037
Charge for the period	4,519	9,463	3,310	1,161	—	18,453
Disposals	(1,071)	(5,772)	(777)	(370)	—	(7,990)
At 31 July 2009	19,311	32,319	10,895	5,975	—	68,500

Group

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net book value:						
At 31 December 2006	111,744	92,691	11,426	8,238	5,926	230,025
At 31 December 2007	110,692	115,362	17,333	6,446	32,899	282,732
At 31 December 2008	145,881	108,681	16,037	5,677	3,064	279,340
At 31 July 2009	141,970	99,876	13,250	4,787	4,236	264,119

Group

The net book value of property, plant and equipment pledged as security for interest-bearing bank loans granted to the Group is as follows (Note 30):

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	—	—	54,957	68,361
Plant and machinery	43,730	42,679	18,325	48,565
Total	43,730	42,679	73,282	116,926

As at 31 July 2009, the Group has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a carrying amount of RMB24,847,000. Until the receipt of the certificates, the Group has no right to assign or pledge these buildings.

16. LAND USE RIGHTS

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At cost:				
At date of incorporation/at beginning of period/year	—	134,850	134,850	134,850
Acquisition of subsidiaries (Note 36)	134,850	—	—	—
Additions	—	—	—	17,973
At end of period/year	134,850	134,850	134,850	152,823
Accumulated amortisation:				
At date of incorporation/at beginning of period/year	—	1,953	5,077	8,201
Charge for the period/year	1,953	3,124	3,124	1,972
At end of period/year	1,953	5,077	8,201	10,173
Net book value:				
At end of period/year	132,897	129,773	126,649	142,650
Net book value pledged (Note 30)	—	—	126,649	122,037

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

17. OTHER INTANGIBLE ASSETS

	Customer bases	Patent	Know how	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At date of incorporation, 12 April 2006	—	—	—	—
Acquisition of subsidiaries (Note 36)	59,431	—	—	59,431
At 31 December 2006 and 1 January 2007	59,431	—	—	59,431
Additions	—	—	—	—
At 31 December 2007 and 1 January 2008	59,431	—	—	59,431
Additions	—	19,052	5,010	24,062
At 31 December 2008 and 1 January 2009	59,431	19,052	5,010	83,493
Additions	—	—	—	—
At 31 July 2009	59,431	19,052	5,010	83,493
Accumulated amortisation:				
At date of incorporation, 12 April 2006	—	—	—	—
Charge for the period	7,429	—	—	7,429
At 31 December 2006 and 1 January 2007	7,429	—	—	7,429
Charge for the year	11,886	—	—	11,886
At 31 December 2007 and 1 January 2008	19,315	—	—	19,315
Charge for the year	11,886	2,382	1,001	15,269
At 31 December 2008 and 1 January 2009	31,201	2,382	1,001	34,584
Charge for the period	6,934	1,389	585	8,908
At 31 July 2009	38,135	3,771	1,586	43,492
Net book value:				
At 31 December 2006	52,002	—	—	52,002
At 31 December 2007	40,116	—	—	40,116
At 31 December 2008	28,230	16,670	4,009	48,909
At 31 July 2009	21,296	15,281	3,424	40,001

Customer bases were acquired through a business combination as set out in Note 36.

18. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity investment, at cost	—	7,500	7,500	7,500

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

19. GOODWILL

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At cost:				
At date of incorporation/ at beginning of the period/year	—	101,203	101,203	101,203
Acquisition of subsidiaries (Note 36)	101,203	—	—	—
At end of period/year	101,203	101,203	101,203	101,203

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

➢ Roadheader products and aftermarket parts and services; and

➢ Shearer products and aftermarket parts and services.

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

	Roadheader products and aftermarket parts and services	Shearer products and aftermarket parts and services	Total
	RMB'000	RMB'000	RMB'000
31 December 2006	99,669	1,534	101,203
31 December 2007	99,669	1,534	101,203
31 December 2008	99,669	1,534	101,203
31 July 2009	99,669	1,534	101,203

The recoverable amount of the CGUs are determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period with cash flows beyond the five-year period assumed to be stable. The discount rate applied to the cash flow projections is 15% for each of the Relevant Periods. The growth rate does not exceed the projected long-term average growth rate for the mining industry in Mainland China.

Key assumptions were used in the value in use calculation of the CGUs for 31 December 2006, 31 December 2007, 31 December 2008 and 31 July 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

20. INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	369,857	345,981	323,719	323,610

Investments in subsidiaries represent the cost of the entire interests in International Mining Machinery Limited, TJCC IMM Siwei Holdings Ltd., TJCC IMM Jiamusi Holdings Ltd., TJCC IMM Jixi Holdings Ltd., and TJCC IMM AFC Holdings Ltd.

Details of investments in subsidiaries are set out in Note 5 of Section II.

21. INVESTMENTS IN ASSOCIATES

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	500	642	21,281	20,932

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

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	2,000	5,402	106,872	102,777
Non-current assets	—	316	51,686	62,483
Current liabilities	—	(3,150)	(53,030)	(60,986)
Net assets	2,000	2,568	105,528	104,274
Revenue	—	4,315	16,687	7,859
Total expense	—	(3,473)	(12,021)	(7,669)
Tax	—	(274)	(1,194)	(144)
Profit after tax	—	568	3,472	46

Details of investments in associates are set out in Note 5 of Section II.

22. DEFERRED TAX

The following is the deferred tax assets/(liabilities) recognised and their movements during the Relevant Periods:

Deferred tax assets

	Accelerated tax on intangible asset amortisation	Accelerated tax on property, plant and equipment depreciation	Provision against obsolete inventories	Losses available for offsetting against future taxable profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At date of incorporation, 12 April 2006	—	—	—	—	—
Acquisition of subsidiaries (Note 36)	—	4,093	6,076	—	10,169
Deferred tax credited to the income statement during the period (Note 11)	—	86	497	—	583
Gross deferred tax assets at 31 December 2006 and 1 January 2007	—	4,179	6,573	—	10,752
Deferred tax credited to the income statement during the year (Note 11)	—	30	286	—	316
Effect in tax rate change (Note 11)	—	(1,013)	(1,096)	—	(2,109)
Gross deferred tax assets at 31 December 2007 and 1 January 2008	—	3,196	5,763	—	8,959
Deferred tax credited to the income statement during the year (Note 11)	301	494	(244)	747	1,298
Gross deferred tax assets at 31 December 2008 and 1 January 2009	301	3,690	5,519	747	10,257
Deferred tax credited to the income statement during the period (Note 11)	39	506	(2,014)	(747)	(2,216)
Gross deferred tax assets at 31 July 2009	340	4,196	3,505	—	8,041

The Group had unutilised tax losses of approximately RMB2,990,000 at 31 December 2008 that can be carried forward for five years from the year in which the losses arose for offsetting against future taxable profits of the tax entity in which the losses arose. The amount of deferred tax assets recognised in respect of such losses was approximately RMB747,000 at 31 December 2008.

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries	Undistributed profits of PRC subsidiaries	Total
	RMB'000	RMB'000	RMB'000
At date of incorporation, 12 April 2006	—	—	—
Acquisition of subsidiaries (Note 36)	54,984	—	54,984
Gross deferred tax liabilities at 31 December 2006 and 1 January 2007	54,984	—	54,984
Deferred tax credited to the income statement during the year (Note 11)	(12,684)	—	(12,684)
Gross deferred tax liabilities at 31 December 2007 and 1 January 2008	42,300	—	42,300
Deferred tax charged/(credited) to the income statement during the year (Note 11)	(2,500)	9,595	7,095
Gross deferred tax liabilities at 31 December 2008 and 1 January 2009	39,800	9,595	49,395
Deferred tax charged/(credited) to the income statement during the period (Note 11)	(1,340)	6,925	5,585
Gross deferred tax liabilities at 31 July 2009	38,460	16,520	54,980

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

23. INVENTORIES

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	111,402	125,452	102,786	94,082
Work in progress	85,368	157,497	200,383	168,329
Finished goods	49,188	87,964	154,636	128,486
	245,958	370,913	457,805	390,897
Less: Provision for obsolete inventories	(43,822)	(46,108)	(44,160)	(30,610)
	202,136	324,805	413,645	360,287

24. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	316,168	538,536	624,909	875,173
Bills receivable	89,807	81,250	119,795	172,875
Less: Impairment provision	(24,126)	(24,180)	(25,015)	(25,781)
	381,849	595,606	719,689	1,022,267

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

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

An aged analysis of trade receivables as at 31 December 2006, 2007 and 2008 and 31 July 2009 based on the invoice date, net of provisions, is as follows:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding balances with ages:				
Within 90 days	228,982	186,281	284,268	446,284
91 to 180 days	63,060	159,329	200,618	224,732
181 to 365 days	—	153,465	87,686	121,286
1 to 2 years	—	15,281	27,322	55,953
Over 2 years	—	—	—	1,137
	292,042	514,356	599,894	849,392

Movements in the provision for impairment of trade receivables during each of the relevant periods are as follows:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At date of incorporation/at beginning of the year/period	—	24,126	24,180	25,015
Impairment of trade receivables (Note 9)	11,558	54	835	766
Acquisition of subsidiaries	12,568	—	—	—
At end of period/year	24,126	24,180	25,015	25,781

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

The carrying amounts of trade and bills receivables pledged as security for interest-bearing bank loans granted to the Group is as follows (Note 30):

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	—	—	20,156	28,676
Bills receivable	23,900	32,700	22,135	79,972
Total	23,900	32,700	42,291	108,648

The analysis of trade receivables that were not considered to be impaired is as follow:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	212,043	243,112	260,449	533,978
Past due but not impaired less than 90 days	65,271	151,467	210,869	181,795
91 to 180 days	9,858	69,213	93,285	64,439
181 to 365 days	4,870	50,564	22,685	48,173
1 to 2 years	—	—	12,606	21,007
	292,042	514,356	599,894	849,392

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

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

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current portion				
Prepayments for land use rights	—	—	15,420	—
Prepayments for purchases of property, plant and equipment	1,147	1,886	23,254	27,298
	1,147	1,886	38,674	27,298
Current portion				
Prepayments	22,164	41,697	57,712	42,765
Deposits and other receivables	4,708	17,538	12,423	14,037
	26,872	59,235	70,135	56,802
Total	28,019	61,121	108,809	84,100

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

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

26. CASH AND CASH EQUIVALENTS

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	138,472	95,698	80,933	175,693
Denominated in RMB	66,795	86,896	78,770	169,693
Denominated in US$	71,677	8,802	2,163	6,000
	138,472	95,698	80,933	175,693

Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values. The RMB is not freely convertible into other currencies, however, under Mainland China Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	71,021	8,212	1,617	5,458
Denominated in US$	71,021	8,212	1,617	5,458

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

27. AMOUNT DUE TO AND FROM SHAREHOLDERS

Group and Company

		As at 31 December			As at 31 July
	Note	2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from shareholder					
Rubo Li a/k/a John Lee	(i)	—	19,560	19,181	19,684

Notes:

(i) The loan to Mr. Rubo Li a/k/a John Lee of US$2,678,000 (equivalent to approximately RMB19,560,000), US$2,806,000 (equivalent to approximately RMB19,181,000) and US$2,881,000 (equivalent to approximately RMB19,684,000) as at 31 December 2007 and 2008 and 31 July 2009 respectively, is secured by the pledge of 63 ordinary shares of the Company, bears interest at a rate of 5% per annum and repayable on demand.

		As at 31 December			As at 31 July
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Amount due to shareholders	(ii)	321	205	156	85

(ii) According to the consulting agreements signed on 16 May 2006, the Company is liable to pay Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams US$150,000 per annum and US$75,000 per annum, respectively, for consulting services rendered to the Company. These agreements expired on 31 March 2008. Mr. Rubo Li a/k/a John Lee's agreement was extended to 31 March 2009.

The Directors confirm that the balances with shareholders will be settled prior to the completion of the Reorganisation.

28. BALANCES WITH RELATED PARTIES AND SUBSIDIARIES

Group

		As at 31 December			As at 31 July
	Notes	2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties					
TJCC Services Ltd. ("TJCC Services")	(i)	7,836	48,129	84,182	112,228
International Mining Machinery Siwei holdings Ltd. ("HK Siwei")	(ii)	—	74,632	126,778	132,280
Benniu	(iii)	—	—	10,839	27,821
		7,836	122,761	221,799	272,329

		As at 31 December			As at 31 July
	Notes	2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties					
TJCC Services	(iv)	1,830	19,974	35,775	45,727
Benniu	(v)	—	21,322	28,333	30,201
		1,830	41,296	64,108	75,928

Company

	Notes	As at 31 December 2006	2007	2008	As at 31 July 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries					
International Mining Machinery Limited ("IMM")	(vi)	1,098	3,212	4,159	5,786
TJCC IMM AFC Holdings Ltd.	(vii)	—	74,639	75,350	123,076
		1,098	77,851	79,509	128,862

	Notes	As at 31 December 2006	2007	2008	As at 31 July 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a related party					
TJCC Services	(iv)	1,830	19,974	35,775	45,727

	Notes	As at 31 December 2006	2007	2008	As at 31 July 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties					
TJCC Services	(i)	7,836	48,129	84,182	112,228
HK Siwei	(ii)	—	74,632	126,778	132,280
		7,836	122,761	210,960	244,508

Notes:

(i) Balances due from TJCC Services are non-trade in nature. The balances are unsecured, bear interest at a rate of 8% per annum and are repayable on demand.

(ii) Balance due from HK Siwei is non-trade in nature. The balance was secured by the pledge of the shares of the Company held by Williams Realty Co., LLC, Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams. Both Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams are the shareholders and directors of the Company and Williams Realty Co., LLC is a company controlled by Mr. Emory Williams. The balances due from HK Siwei bears interest at a rate of 8% per annum and are repayable on demand.

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

(iv) Balances due to TJCC Services are non-trade in nature. The balances are unsecured, interest-free and have no fixed terms of repayment.

(v) Included in balances due to Benniu are amounts of RMB21,322,000, RMB780,000 and RMB101,000 respectively as at 31 December 2007, 2008 and 31 July 2009, which are trade in nature, unsecured, interest-free and have no fixed term of repayment. The remaining balances with Benniu are non-trade in nature, unsecured, interest-free and have no fixed term of repayment.

(vi) The amount due from the subsidiary is in relation to the consulting fees paid on behalf of IMM, a subsidiary, to Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams. Both Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams are the shareholders and directors of the Company. The balance is unsecured, interest-free and repayable on demand.

(vii) The amount due from the subsidiary is not-trade in nature, unsecured, bears interest at a rate of 8% per annum and is repayable on demand.

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

The Directors confirmed that the non-trade balances with related parties will be settled prior to the Reorganisation.

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

29. BALANCES WITH HOLDING COMPANY

Group and Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
TJCC Holdings Ltd.	—	74,632	126,760	160,231

Loans due to the holding company denominated in US$ were US$10,217,000 equivalent to approximately RMB74,632,000, US$18,548,000 equivalent to approximately RMB126,760,000 and US$23,452,000 equivalent to approximately RMB160,231,000 as at 31 December 2007 and 2008, and 31 July 2009, respectively. These loans are unsecured, bear interest at a rate of 8% per annum and are repayable on demand.

The Directors confirm that the balances with holding company will be settled prior to the Reorganisation.

30. INTEREST-BEARING LOANS

Group

	Notes	As at 31 December			As at 31 July
		2006	2007	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000
Bank loans:					
Secured	(a)	92,580	56,700	113,760	250,221
Unsecured	(b)	3,752	63,752	—	—
Total		96,332	120,452	113,760	250,221
The bank loans bearing interest at rates per annum in the range of		3.24% to 7.81%	3.48% to 8.02%	2.76% to 11.66%	1.68% to 8.22%

The above bank loans were all repayable within one year.

The carrying amounts of the Group's current bank loans approximate to their fair values.

Notes:

(a) The Group's bank loans are secured by the pledge of the following:

		As at 31 December			As at 31 July
	Notes	**2006**	**2007**	**2008**	**2009**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Building and land use rights	(i)	—	—	71,500	124,026
Plant and machinery	(ii)	68,680	24,000	4,000	25,474
Trade and bills receivables	(iii)	23,900	32,700	38,260	100,721
		92,580	56,700	113,760	250,221

(i) Loans were secured by the Group's building and land use rights, which had an aggregate carrying value of RMB54,957,000 and RMB126,649,000, respectively, as at 31 December 2008 and RMB68,361,000 and RMB122,037,000, respectively, as at 31 July 2009, as set out in Notes 15 and 16.

(ii) Loans were secured by the Group's plant and machinery, which had an aggregate carrying value of RMB43,730,000, RMB42,679,000, RMB18,325,000 and RMB48,565,000 as at 31 December 2006, 2007, 2008 and 31 July 2009 respectively, as set out in Note 15.

(iii) Loans were secured by the Group's bills receivable with an aggregate carrying value of RMB23,900,000 as at 31 December 2006 and RMB32,700,000 as at 31 December 2007. The loans are secured by the Group's trade and bill receivables with an aggregate carrying value of RMB20,156,000 and RMB22,135,000, respectively as at 31 December 2008, and an aggregate carrying value of RMB 28,676,000 and RMB79,972,000, respectively as at 31 July 2009, as set out in Note 24.

(b) Loan of RMB3,752,000 as at 31 December 2006 and 2007 was unsecured and repayable on demand. Loan of RMB60,000,000 as at 31 December 2007 was unsecured and repayable within one year.

31. TRADE AND BILLS PAYABLES

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	194,320	315,463	418,413	440,697
Bills payable	—	—	—	29,045
	194,320	315,463	418,413	469,742

An aged analysis of outstanding trade payables at 31 December 2006, 2007 and 2008, and 31 July 2009, based on the invoice date, is as follows:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	116,260	169,656	247,433	220,878
91 to 180 days	35,996	59,925	82,237	94,160
181 to 365 days	5,970	32,510	33,451	61,697
1 to 2 years	8,410	13,208	19,711	23,567
2 to 3 years	954	6,837	6,744	10,563
Over 3 years	26,730	33,327	28,837	29,832
	194,320	315,463	418,413	440,697

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

32. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	11,207	24,149	84,670	64,029
Payroll payable	13,446	14,481	15,755	10,474
Value added tax payable	115,405	94,420	92,938	92,355
Accrued expenses	19,327	40,148	38,305	36,079
Welfare payable	2,177	7,777	10,520	10,706
Other payables	121,672	126,096	78,932	65,972
	283,234	307,071	321,120	279,615

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

33. ORDINARY SHARE CAPITAL

Group and Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised:				
2,500 ordinary share of US$10 each				
Issued and fully paid:				
As at date of incorporation/1 January	—	73	78	78
Issued share capital	80	5	—	—
Unpaid share capital	(7)	—	—	—
	73	78	78	78

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

	As at 31 December			As at 31 July
	2006	2007	2008	2009
Issued and fully paid:				
As at date of incorporation/1 January	—	910	973	973
Issued share capital	1,000	63	—	—
Unpaid share capital	(90)	—	—	—
Ordinary share capital of US$10 each	910	973	973	973

As at date of incorporation, the authorised ordinary share capital of the Company is US$25,000 divided into 2,500 ordinary shares with a nominal value of US$10 each.

On 16 May 2006, 1,000 ordinary shares were issued at US$1,000 per share in which 910 shares were fully paid up as at 31 December 2006. The share premium arising from the issuance of ordinary shares in 2006 amounted to US$900,900 (equivalent to approximately RMB7,222,000).

As at 31 December 2006, the shares issued to Mr. Rubo Li a/k/a John Lee, Mr. Emory Williams and Williams Realty Co., LLC of 63 shares, 13.5 shares and 13.5 shares respectively were not fully paid up.

As at 31 December 2007, 63 ordinary shares issued to Mr. Rubo Li a/k/a John Lee were fully paid up in cash at US$1,000 per share. The share premium arising from the 63 ordinary shares in 2007 amounted to US$62,370 (equivalent to approximately RMB501,000). As at 31 December 2007, 2008 and 31 July 2009, a total number of 37 shares issued to Mr. Emory Williams and Williams Realty Co., LLC remained unpaid.

During the Relevant Periods, the receivables from Mr. Rubo Li a/k/a John Lee and Mr. Emory Williams in relation to their unpaid share capital are presented as a contra to their share capital.

The Directors confirm that the unpaid ordinary shares will be settled prior to the Reorganisation.

34. PREFERENCE SHARES

Group and Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Preference shares	499,757	541,158	554,180	600,903

On 16 May 2006, a total of 1,000 preference shares with a nominal value of US$10 each were issued for cash at US$64,000 per share.

On 12 December 2007, an additional 601.5625 preference shares with a nominal value of US$10 each were issued for cash at US$64,000 per share.

Among the issued preference shares, the number of preference shares not fully paid up as at 31 December 2007 and 2008, and 31 July 2009 totaled 444 (amounting to US$28,415,500), 335 (amounting to US$21,415,500) and 227 (amounting to US$14,549,709), respectively. For the purpose of presentation, the unpaid preference shares were presented as a set-off to the amount due from the holding company. The Directors confirmed that the unpaid preference shares will be fully paid-up prior to the Reorganisation.

Holders of the preference shares shall be entitled to receive dividends at the rate of 10% per annum at the issue price of the preference shares. The dividends are declared at the discretion of the Company. The holders of each preference shares shall not have any voting rights.

The preference shares are redeemable upon the occurrence of an event as defined in the Articles of Associations of the Company. An event (hereinafter referred as this "Event") includes substantial liquidity event, fundamental changes or default. The preference shares has been treated as liability in the statements of the financial position as an Event is not within the control of the Company. The Directors confirm that the preference shares will be fully repurchased at their initial purchase price upon Reorganisation, details of which are set out in Note 5 of Section II below.

35. RESERVES

(a) Group

Share premiums

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

In 2007, an additional share premium of US$62,370 (equivalent to approximately RMB501,000) was recorded arising from the increase of the issued ordinary shares.

Statutory surplus reserve and statutory reserve fund

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

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

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

Statutory public welfare fund (the "PWF")

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

Distributable reserves

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

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

(b) Company

Statements of changes in equity of the Company

	Ordinary share capital	Share premium	Accumulated losses	Exchange fluctuation realignment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At date of incorporation, 12 April 2006	—	—	—	—	—
Issue of shares	73	7,222	—	—	7,295
Total comprehensive income for the period	—	—	(60,351)	960	(59,391)
As at 31 December 2006 and 1 January 2007	73	7,222	(60,351)	960	(52,096)
Issue of shares	5	501	—	—	506
Total comprehensive income for the year	—	—	(13,848)	3,834	(10,014)
As at 31 December 2007 and 1 January 2008	78	7,723	(74,199)	4,794	(61,604)
Issue of shares	—	—	—	—	—
Total comprehensive income for the year	—	—	(24,574)	4,293	(20,281)
As at 31 December 2008 and 1 January 2009	78	7,723	(98,773)	9,087	(81,885)
Issue of shares	—	—	—	—	—
Total comprehensive income for the period	—	—	(2,961)	22	(2,939)
As at 31 July 2009	78	7,723	(101,734)	9,109	(84,824)
As at 1 January 2008	78	7,723	(74,199)	4,794	(61,604)
Issue of shares	—	—	—	—	—
Total comprehensive income for the period	—	—	(20,584)	4,606	(15,978)
As at 31 July 2008	78	7,723	(94,783)	9,400	(77,582)

36. BUSINESS COMBINATIONS AND ACQUISITION OF SUBSIDIARIES

On 16 May 2006, the Company acquired 100% interest in Jiamusi Machinery and Jixi Machinery from HCMMG at a total consideration of RMB361,268,000.

The fair values of the identifiable assets and liabilities of the above acquisition as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	Previous carrying amount
	RMB'000	RMB'000
Property, plant and equipment (Note 15)	209,647	139,154
Land use rights (Note 16)	134,850	32,505
Other intangible assets (Note 17)	59,431	—
Deferred tax assets (Note 22)	10,169	10,169
Deferred tax liabilities (Note 22)	(54,984)	—
Cash and cash equivalents	38,771	38,771
Trade and bills receivables	340,050	340,050
Prepayments, deposits and other receivables	25,695	25,695
Inventories	210,206	210,206
Interest-bearing bank loans	(191,096)	(191,096)
Trade payables	(138,331)	(138,331)
Other payables and accruals	(278,587)	(278,587)
Tax payable	(105,756)	(105,756)
Total net assets acquired	260,065	82,780
Goodwill on acquisition (Note 19)		101,203
Total consideration		361,268
Satisfied by:		
Cash consideration paid		337,040
Cash consideration unpaid*		24,228
		361,268

* The remaining unpaid consideration to the former holding company of Jiamusi Machinery and Jixi Machinery had no fixed term of repayment. The unpaid consideration was subsequently settled partly in cash and partly against the balances due from the former holding company according to a settlement agreement signed in 2008.

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	Total
	RMB'000
Cash consideration	361,268
Cash and cash equivalents acquired	(38,771)
	322,497

Since the date of acquisition, Jiamusi Machinery and Jixi Machinery contributed RMB545,879,000 to the Group's revenue and RMB134,627,000 to the consolidated profit of the Group for the period ended 31 December 2006.

Had the combination taken place at the beginning of the period ended 31 December 2006, the revenue of the Group and the profit of the Group for the period would have been RMB854,417,000 and RMB214,031,000, respectively.

37. OPERATING LEASE ARRANGEMENTS

As lessee

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

At the reporting dates, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within a year	93	383	3,512	2,256
In the second to fifth years, inclusive	944	893	117	134
	1,037	1,276	3,629	2,390

38. COMMITMENTS

In addition to the operating lease commitments detailed above, the Group had the following capital commitments at the reporting dates:

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Plant and machinery	15,431	18,233	56,190	71,205
Land use rights	—	—	16,032	—
	15,431	18,233	72,222	71,205

39. RELATED PARTY TRANSACTIONS

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

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Nature of transactions					
Non-recurring transactions					
Purchases of other intangible assets					
Benniu (Note i)	—	—	24,062	—	—
Consulting fee					
The Jordan Company, L.P. (Note ii)	23,880	—	—	—	—
Emory Williams (Note x)	1,169	752	130	130	6
	25,049	752	130	130	6
Purchases of goods					
Benniu (Note (iii))	—	21,432	780	780	101
Sale of products					
Benniu (Note iii)	—	—	51,841	30,244	20,426
Sales commission					
Benniu (Note iii)	—	—	1,499	411	3,677
Operating lease of office buildings					
Benniu (Note iii)	—	331	3,000	1,750	1,750
Interest Income					
TJCC Services (Notes iv & vi)	28	2,544	5,044	2,670	4,161
HK Siwei (Notes v & vi)	—	183	7,841	3,907	5,547
Rubo Li a/k/a John Lee (Note vii)	—	853	891	529	509
	28	3,580	13,776	7,106	10,217
Interest expense					
TJCC Holdings Ltd. (Note viii)	—	183	7,830	4,170	6,179
Management fee					
TJCC Services (Note ix)	12,438	18,967	17,314	10,313	9,965
Loans received from holding company					
TJCC Holdings Ltd. (Note viii)	—	74,456	49,864	49,864	27,289
Loans provided to related parties					
TJCC Services (Notes iv & vi)	7,809	39,831	34,628	21,025	23,887
HK Siwei (Notes v, vi & xi)	—	77,361	49,864	49,864	—
Rubo Li a/k/a John Lee (Note vii)	—	18,739	—	—	—
	7,809	135,931	84,492	70,889	23,887
Guarantee of loan provided by shareholders					
Williams Realty Co., LLC, Rubo Li a/k/a John Lee and Emory Williams (Note xi)	—	77,361	127,225	127,225	118,834
Recurring transactions					
Consulting fee					
Rubo Li a/k/a John Lee (Note x)	1,542	1,517	1,039	530	1,623

Notes:

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

(ii) This is in relation to the consulting fee paid to the Jordan Company, L.P. in respect of the acquisition of Jiamusi Machinery and Jixi Machinery.

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

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

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

(vi) The loans provided to the related parties are unsecured, bear interest at a rate of 8% per annum and are repayable on demand. The Directors confirmed that the loans provided to related parties will be settled prior to Reorganisation.

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

(viii) The loans provided by the holding company are unsecured, bear interest at a rate of 8% per annum and are repayable on demand. The Directors confirmed that the loans provided by holding company will be settled prior to the Reorganisation.

(ix) According to the management consulting agreement entered between TJCC Services Ltd. and the Group, the Group agreed to pay consulting service fee to TJCC Services Ltd. for rendering consulting services on corporate affairs.

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

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

The Directors are of the view that all related party transactions set out above were entered in the ordinary course of business of the Group and on normal commercial terms.

(b) Outstanding balances with related parties:

Details of the Group's balances with its related parties at each of the dates of statement of financial position together with maximum outstanding balances due from related parties during the particular year/period are disclosed in Note 27, Note 28 and Note 29 to the Financial Information.

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

	For the period from 12 April 2006 (date of incorporation) to 31 December	Year ended 31 December		Seven-month period ended 31 July	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Basic salaries and other benefits	20,911	18,411	15,313	9,039	12,244
Retirement benefit scheme contributions	25	46	46	23	34
	20,936	18,457	15,359	9,062	12,278

40. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

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

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

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

Interest rate risk

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

Foreign currency risk

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

Credit risk

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

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

Significant concentration of credit risk

Concentration of credit risk exists when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group has a significant concentration of credit risk with customers in the mining sector who operate in Mainland China, with the top five customers accounting for 50%, 51%, 39% and 37% of the Group's trade receivables as at 31 December 2006, 2007, 2008 and 31 July 2009, respectively, and 47%, 56%, 43% and 49% of the Group's sales for the period from 12 April 2006 (date of incorporation) to 31 December 2006, year ended 31 December 2007 and 2008 and period ended 31 July 2009, respectively.

Liquidity risk

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

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

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group

31 December 2006	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing loans	3,752	71,580	21,000	—	—	96,332
Trade and bills payables	42,758	151,562	—	—	—	194,320
Other payables and accruals	247,799	24,228	—	—	—	272,027
Amounts due to the related parties	1,830	—	—	—	—	1,830
Amounts due to shareholders	321	—	—	—	—	321
	296,460	247,370	21,000	—	—	564,830

31 December 2007	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing loans	3,752	25,700	91,000	—	—	120,452
Trade and bills payables	86,634	228,829	—	—	—	315,463
Other payables and accruals	258,694	24,228	—	—	—	282,922
Amount due to holding company	74,632	—	—	—	—	74,632
Amounts due to the related parties	41,296	—	—	—	—	41,296
Amounts due to shareholders	205	—	—	—	—	205
	465,213	278,757	91,000	—	—	834,970

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

31 July 2009	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing loans	—	64,972	185,249	—	—	250,221
Trade and bills payables	231,117	204,011	33,149	1,465	—	469,742
Other payables and accruals	215,015	571	—	—	—	215,586
Amount due to holding company	160,231	—	—	—	—	160,231
Amounts due to the related parties	75,928	—	—	—	—	75,928
Amounts due to shareholders	85	—	—	—	—	85
	682,376	269,554	218,398	1,465	—	1,171,793

Company

31 December 2006	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to the shareholders	321	—	—	—	—	321
Amount due to a related party	1,830	—	—	—	—	1,830
	2,151	—	—	—	—	2,151

31 December 2007	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to holding company	74,632	—	—	—	—	74,632
Amounts due to the shareholders	205	—	—	—	—	205
Amount due to a related party	19,974	—	—	—	—	19,974
	94,811	—	—	—	—	94,811

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

31 July 2009	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to holding company	160,231	—	—	—	—	160,231
Amounts due to shareholders	85	—	—	—	—	85
Amount due to a related party	45,727	—	—	—	—	45,727
	206,043	—	—	—	—	206,043

Capital management

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

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

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

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

Group

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing loans	96,332	120,452	113,760	250,221
Amount due to holding company	—	74,632	126,760	160,231
Preference Shares	499,757	541,158	554,180	600,903
Less: Cash and cash equivalents	(138,472)	(95,698)	(80,933)	(175,693)
Net debt	457,617	640,544	713,767	835,662
Total equity	76,499	280,925	458,422	597,026
Capital and net debt	534,116	921,469	1,172,189	1,432,688
Gearing ratio	86%	70%	61%	58%

41. FINANCIAL INSTRUMENTS

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

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Available-for-sale investments	—	7,500	7,500	7,500
Loans and receivables				
Trade and bills receivables	381,849	595,606	719,689	1,022,267
Financial assets included in prepayments, deposits and other receivables	4,708	17,538	12,423	14,037
Amount due from a shareholder	—	19,560	19,181	19,684
Amounts due from related parties	7,836	122,761	221,799	272,329
Cash and bank balances	138,472	95,698	80,933	175,693
	532,865	858,663	1,061,525	1,511,510

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Financial liabilities at amortised cost				
Trade and bills payables	194,320	315,463	418,413	469,742
Financial liabilities included in other payables	272,027	282,922	236,450	215,586
Interest-bearing bank loans	96,332	120,452	113,760	250,221
Amount due to holding company	—	74,632	126,760	160,231
Amounts due to shareholders	321	205	156	85
Amounts due to related parties	1,830	41,296	64,108	75,928
	564,830	834,970	959,647	1,171,793

Company

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Loans and receivables				
Cash and bank balances	71,021	8,212	1,617	5,458
Amount due from a shareholder	—	19,560	19,181	19,684
Amounts due from subsidiaries	1,098	77,851	79,509	128,862
Amounts due from related parties	7,836	122,761	210,960	244,508
	79,955	228,384	311,267	398,512

	As at 31 December			As at 31 July
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Financial liabilities at amortised cost				
Amount due to holding company	—	74,632	126,760	160,231
Amounts due to shareholders	321	205	156	85
Amount due to a related party	1,830	19,974	35,775	45,727
	2,151	94,811	162,691	206,043

III. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 July 2009 and up to the date of this accountants' report:

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

(2) [Pursuant to the resolution of the board of directors of TJCC IMM Jiamusi passed on [23 December 2009] and [31 December 2009], TJCC IMM Jiamusi declared special dividends of US$[●] (equivalent to approximately RMB[●]) and US$[●] (equivalent to approximately RMB[●]) respectively, to the Company. The Directors confirm that the Company is under net asset position and has distributable reserves upon declaration of the dividends from TJCC IMM Jiamusi to the Company. Details of the special dividends declared are set out in the section headed "Reorganisation" in this document.]

(3) [Pursuant to the resolution of the board of directors of IMM Mauritius passed on 17 December 2009, IMM Mauritius initiated a liquidation and the remaining cash of approximately US$5,000,000 (equivalent to approximately RMB34,160,000) was distributed to the Company. The Directors consider that there will be no material gains or losses arising from the liquidation of IMM Mauritius.]

(4) [Pursuant to the resolutions of the directors of the Company passed on 17 December 2009 and 23 December 2009, respectively, the Company repurchased its preference shares at their initial cost of US$10,000,000 (equivalent to approximately RMB68,319,000) and US$33,423,000 (equivalent to approximately RMB228,343,000), respectively. Pursuant to the resolution of the board of directors of the Company on 24 January 2010, the Company redeemed its remaining preference shares at a consideration of US$63,938,000 (equivalent to approximately RMB436,818,000), consisting of the initial preference shares cost of US$59,078,000 (equivalent to approximately RMB403,615,000) and founder participation rights amount of US$4,860,000 (equivalent to approximately RMB33,203,000). Hence, the Directors estimated that the loss on repurchase of preference shares would be amounting to US$4,860,000 (equivalent to approximately RMB33,203,000)], which will reduce the net profit for the year ending 31 December 2010. Details of the repurchase of preference shares are set out in the section headed "Reorganisation" in this document.

(5) Pursuant to the resolution of the Board of Directors of TJCC IMM Jiamusi passed on 24 January 2010, TJCC IMM Jiamusi declared a dividend of USD [●] (equivalent to RMB200,175,000) to the Company.

(6) [On [24 January 2010], a written resolution of the directors of the Company was passed to approve the payment of US$10,000,000 (equivalent to approximately RMB68,319,000) as a transaction and termination fee in relation to the termination of TJCC Services Management Consulting Agreement. The payment of the transaction and termination fee will reduce the net profit for the year ending 31 December 2010 by US$10,000,000 (equivalent to approximately RMB68,319,000). Details of the transaction and termination fee are set out in the section headed "Reorganisation" in this document.]

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group in respect of any period subsequent to 31 July 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

[LOGO]

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

[Date]

The Board of Directors
TJCC IMM Holdings Limited
[●]

Dear Sirs,

We set out below our report on the financial information of Jiamusi Coal Mining Machinery Co., Ltd. ("Jiamusi Machinery") including the income statement, the statement of changes in equity and cash flow statement of Jiamusi Machinery for the period from 1 January 2006 to 15 May 2006 (the "Relevant Period"), the statement of financial position as at 15 May 2006, and a summary of significant accounting policies and other explanatory notes (the "Financial Information") for inclusion in the document of International Mining Machinery Holdings Limited (the "Company") dated [date] (the "document").

Jiamusi Machinery was incorporated as a domestic limited liability company in the People's Republic of China (the "PRC") on 4 September 2002. On 11 April 2006, Jiamusi Machinery was re-registered as a wholly foreign-owned enterprise following the acquisition of 100% equity interest in Jiamusi Machinery by International Mining Machinery Limited ("IMM"), a subsidiary of the Company, from Heilongjiang Coal Mining Machinery Group Company Limited (the "Heilongjiang Group"), the former holding company of Jiamusi Machinery. Consequently, the Company became the holding company of the Jiamusi Machinery thereon.

Jiamusi Machinery is principally engaged in the manufacture and sale of mining machinery in Mainland China. The registered office and the principal place of business of Jiamusi Machinery are located at 218 Jiefang Road, Xiangyang district, Jiamusi, the PRC. Prior to the re-registration as a wholly foreign-owned enterprise, the Heilongjiang Group held 100% of the equity interest of Jiamusi Machinery and therefore was its holding company up to 15 May 2006. Jiamusi Machinery has adopted 31 December as its financial year end date.

No audited financial statements of Jiamusi Machinery were prepared in accordance with the relevant accounting rules and financial regulations in the PRC for the Relevant Period.

The directors of Jiamusi Machinery (the "Directors") have prepared the financial statements of Jiamusi Machinery for the Relevant Period, in accordance with International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), which were audited by us in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance.

The Financial Information has been prepared by the Directors on the basis set out in Note 1 of Section II below.

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion based on our audit on the Financial Information in the Relevant Period.

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Period in accordance with HKSA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Jiamusi Machinery as at 15 May 2006 and of the results and cash flows of Jiamusi Machinery for the Relevant Period in accordance with the accounting policies set out in Note 2.2 of Section II below.

I. FINANCIAL INFORMATION

Income statement

For the period from 1 January 2006 to 15 May 2006

	Notes	RMB'000
REVENUE	4	174,407
Cost of sales		(82,514)
Gross profit		91,893
Other income and gains	4	9,961
Selling and distribution costs		(18,737)
Administrative expenses		(16,035)
Other expenses		(7,190)
Finance revenue	5	44
Finance costs	5	(2,090)
PROFIT BEFORE TAX	6	57,846
Income tax-expense	9	(14,404)
PROFIT FOR THE PERIOD		43,442
Attributable to:		
Equity holder of Jiamusi Machinery		43,442

"Profit for the period" represents the "total comprehensive income" for the Relevant Period presented. Accordingly, no statement of comprehensive income is presented.

Statement of financial position

As at 15 May 2006

	Notes	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	13	72,021
Land use rights	14	13,011
Deferred tax assets	15	2,709
Prepayments, deposits and other receivables	16	797
		88,538
CURRENT ASSETS		
Inventories	17	88,261
Trade and bills receivables	18	227,315
Prepayments, deposits and other receivables	16	11,675
Cash and cash equivalents	19	33,180
		360,431
CURRENT LIABILITIES		
Interest-bearing loans	20	84,254
Trade payables	21	58,408
Other payables and accruals	22	79,987
Tax payable		83,649
		306,298
NET CURRENT ASSETS		54,133
TOTAL ASSETS LESS CURRENT LIABILITIES		142,671
NET ASSETS		142,671
EQUITY		
Equity attributable to the equity holder of Jiamusi Machinery		
Paid-up capital	23	69,980
Reserves	24	72,691
Total equity		142,671

Statement of Changes in Equity

For the period from 1 January 2006 to 15 May 2006

	Equity attributable to the equity holder of Jiamusi Machinery				
	Paid-up capital	**Capital reserve**	**Statutory reserve Fund**	**Retained earnings**	**Total equity**
	RMB'000	**RMB'000 (Note 24)**	**RMB'000 (Note 24)**	**RMB'000**	**RMB'000**
At 1 January 2006	69,980	16,417	9,401	3,431	99,229
Profit for the period	—	—	—	43,442	43,442
Transfer from retained earnings	—	—	3,267	(3,267)	—
At 15 May 2006	69,980	16,417	12,668	43,606	142,671

Cash Flow Statement

For the period from 1 January 2006 to 15 May 2006

	Notes	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		57,846
Adjustments for:		
Finance costs	5	2,090
Finance revenue	5	(44)
Loss on disposal of items of property, plant and equipment	6	149
Depreciation of items of property plant and equipment	6	2,606
Amortisation of land use rights	6	123
Impairment of trade receivables	6	5,876
Write-down of inventories to net realisable value	6	1,030
		69,676
Decrease in inventories		4,550
Increase in trade and bills receivables		(37,589)
Increase in prepayments, deposits and other receivables		(2,023)
Decrease in trade payables		9,741
Decrease in other payables and accruals		(30,157)
Cash generated from operations		(5,284)
Income tax paid		—
Net cash outflow from operating activities		(5,284)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	5	44
Purchases of items of property, plant and equipment		(1,484)
Net cash outflow from investing activities		(1,440)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash inflow from financing activities		—
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,724)
Cash and cash equivalents at beginning of the period		39,904
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		33,180

II. NOTES TO FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The Financial Information incorporates the financial statements of Jiamusi Machinery for the period from 1 January 2006 to 15 May 2006 to present the results and financial position of Jiamusi Machinery before IMM obtained control.

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB that are applicable to the Relevant Period and the disclosure requirements of the Hong Kong Companies Ordinance, except for any new or revised standards and interpretations that are not yet effective for the accounting period beginning on 1 January 2009, and the disclosure requirements of the Hong Kong Companies Ordinance.

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

2.1 APPLICATION OF NEW AND REVISED IFRSs AND IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Period, Jiamusi Machinery has consistently early adopted IASs, IFRSs, amendments and the related IFRICs (hereinafter collectively referred to as "new IFRSs"), which are effective for the accounting period beginning on January 1, 2009, except for IAS 39 & IFRS 7 (Amendments) Reclassification of Financial Assets, which are effective from July 1, 2008 but should not be applied before July 1, 2008, throughout the Relevant Period.

Jiamusi Machinery has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in this Financial Information.

IFRS 1 (Revised)	*First-time Adoption of IFRSs*[1]
IFRS 3 (Revised)	*Business Combinations* [1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 18	*Transfers of Assets from Customers*[2]
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment — *Group Cash-settled Share-based Payment Transactions*[3]
IAS 32 Amendment	Classifications of Rights Issues[4]
IAS 24 (Revised)	Related Party Transactions[5]
IFRS 9	Financial Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for transfer of assets from customers received on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

Jiamusi Machinery is in the process of making an assessment of the impact of these new and revised IFRSs and IFRICs upon initial application. The directors of Jiamusi Machinery anticipate that these new and revised IFRSs and IFRICs are unlikely to have any significant impact on Jiamusi Machinery's results of operations and financial position.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by Jiamusi Machinery in arriving at the Financial Information set out in this report, which conforms with the IFRSs, are set out below:

Revenue recognition

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

(a) Sale of goods

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

(b) Rendering of services

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

(c) Interest income

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, *i.e.*, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of these assets. The capitalisation of such borrowing costs cease when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

The functional and presentation currency of Jiamusi Machinery is RMB.

Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date. All differences are taken to the income statement. Non-monetary items that are measured in items of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

Government grants

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Dividends

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

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

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

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

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

Intangible assets (other than goodwill)

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

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

Research and development costs

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

Land use rights

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

Impairment of non-financial assets other than goodwill

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

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

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

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Jiamusi Machinery assesses whether a contract contains an embedded derivative when Jiamusi Machinery first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Jiamusi Machinery determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the reporting date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" above.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets
Jiamusi Machinery assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (*i.e.*, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Jiamusi Machinery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that Jiamusi Machinery will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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

Available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In addition, Jiamusi Machinery evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

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

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

➢ Jiamusi Machinery retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

➢ Jiamusi Machinery has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where Jiamusi Machinery has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Jiamusi Machinery's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Jiamusi Machinery could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of Jiamusi Machinery's continuing involvement is the amount of the transferred asset that Jiamusi Machinery may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of Jiamusi Machinery's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade payables, other payables and accruals and interest-bearing loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

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

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

Cash and cash equivalents

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

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

Inventories

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

Net realisable value is based on estimated selling prices, less estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when Jiamusi Machinery has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included in finance costs in the income statement.

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

Leases

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

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

Retirement benefits

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

Related parties

A party is considered to be related to Jiamusi Machinery if:

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

(b) the party is an associate;

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

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

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

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

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

2.3 SUMMARY OF ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

(i) Impairment of trade receivables

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

(ii) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires Jiamusi Machinery to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Useful lives of property, plant and equipment

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

(iv) Net realisable value of inventories

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

(v) Deferred tax assets

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

(vi) Warranty expenses

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

3. SEGMENT INFORMATION

Jiamusi Machinery's turnover and profit for the Relevant Period were mainly derived from the sale of mining machinery to customers in the Mainland China. The principal assets employed by Jiamusi Machinery are located in Mainland China. Accordingly, Jiamusi Machinery's operating activities are attributable to a single business segment and location, and no segment information has been presented for the Relevant Period.

4. REVENUE, OTHER INCOME AND GAINS

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

	RMB'000
Revenue	
Sales of Roadheader products	161,085
Aftermarket parts and services	13,322
	174,407
Other income and gains	
Interest expenses waived by banks*	9,895
Others	66
	9,961

* During the period ended 15 May 2006, Jiamusi Machinery entered into a written agreement with the Industrial and Commercial Bank of China ("ICBC"). Pursuant to the agreement, ICBC waived the overdue interest on loans due by Jiamusi Machinery amounting to RMB9,895,000, accumulated from previous years.

5. FINANCE REVENUE AND FINANCE COSTS

	RMB'000
Finance revenue	
Interest income	44
Finance costs	
Loan interest	2,000
Interest arising from discounted bills	90
Total finance costs	2,090

6. PROFIT BEFORE TAX

Jiamusi Machinery's profit before tax is arrived at after charging:

	RMB'000
Cost of inventories sold	73,420
Cost of service provided	9,094
Employee benefit expense (including Directors' remuneration as set out in Note 7)	
Wages and salaries	15,032
Pension scheme contributions	1,649
	16,681
Research and development costs	119
Auditors' remuneration	215
Depreciation of items of property, plant and equipment (Note 13)	2,606
Amortisation of land use rights (Note 14)	123
Impairment of trade receivables (Note 18)	5,876
Write-down of inventories to net realisable value	1,030
Product warranty provision	177
Loss on disposal of items of property, plant and equipment	149

7. DIRECTORS' REMUNERATION

Directors' remuneration for the period from 1 January 2006 to 15 May 2006, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, is as follows:

	RMB'000
Salaries, allowances and benefits in kind	523
Retirement benefit scheme contributions	16
	539

The remuneration of each of the directors for the period from 1 January 2006 to 15 May 2006 is set out below:

	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000
Name of directors			
Mr. Chunzhao Zhang	119	4	123
Mr. Zishan Li	119	3	122
Mr. Shijun Gao	95	3	98
Mr. Fenglin Wang	95	3	98
Mr. Xiaoguang Huang	95	3	98
	523	16	539

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

8. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within Jiamusi Machinery during the Relevant Period is as follows:

	Number of employees
Director	1
Non-directors	4
	5

Details of the remuneration of the above non-directors, highest paid employees are as follows:

	RMB'000
Salaries, allowances and benefits in kind	405
Retirement benefit scheme contributions	13
	418

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

	Number of employees
Nil to RMB1,000,000	4

During the Relevant Period, no directors or highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by Jiamusi Machinery to the non-directors, highest paid individuals as an inducement to join or upon joining Jiamusi Machinery or as compensation for loss of office.

9. TAX

Jiamusi Machinery was initially registered as a PRC domestic enterprise and subject to PRC corporate income tax ("CIT") on the taxable income as reported in its PRC statutory accounts adjusted in accordance with the relevant PRC income tax rules governing the domestic enterprises. The applicable CIT rate was 33%.

Jiamusi Machinery was converted from a PRC domestic enterprise to a foreign investment enterprise ("FIE") on 11 April 2006. According to the applicable PRC income tax law governing the FIEs and foreign enterprises, a FIE is subject to a statutory income tax rate of 33%, comprising of 30% state tax plus 3% local tax. Additionally, a manufacturing FIE may be entitled to a five-year tax holiday (*i.e.* two-year CIT full exemption followed by a three-year 50% CIT exemption) starting from its first profitable year. Pursuant to a written approval dated 10 July 2006 issued by the local in-charged tax authority, with effect from 11 April 2006, Jiamusi Machinery was recognised as a manufacturing FIE and therefore entitled to enjoy the five-year tax holiday. As Jiamusi Machinery recorded taxable profit for the year ended 31 December 2006, the five-year tax holiday period commenced in 2006. Therefore, Jiamusi Machinery was exempted from CIT for the years ended 31 December 2006 (full CIT exemption started from 11 April 2006 when Jiamusi Machinery became a FIE) and 31 December 2007 and would entitle to a 50% exemption of CIT for the years ended/ending 31 December 2008, 2009 and 2010.

The major components of income tax expense for the Relevant Period are as follows:

	RMB'000
Current tax	
— Income tax in Mainland China for the period	11,877
— Deferred tax (Note 15)	2,527
Total tax expenses for the period	14,404

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rate for the country in which Jiamusi Machinery is domiciled to the income tax expense/(income) at the effective tax rate is as follows:

	RMB'000
Profit before tax	57,846
Tax at the applicable tax rate (33%)	19,089
Income not subject to tax*	(8,386)
Expenses not deductible for tax	1,112
Effect in tax rate change	2,589
Tax charge at the Jiamusi Machinery's effective rate	14,404

* Pursuant to a written approval dated 10 July 2006 issued by the local in-charged tax authority, Jiamusi Machinery was recognised as a manufacturing FIE with effect from 11 April 2006 onwards. Therefore, income for the Relevant Period generated from 11 April 2006 onwards was exempted from tax.

10. DIVIDENDS

No dividends have been paid or declared by Jiamusi Machinery during the Relevant Period.

11. EARNINGS PER SHARE

Information of earnings per share is not presented as such information is not meaningful given the purpose of this report.

12. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

Retirement benefits

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

Accommodation benefits

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2006	58,971	78,546	4,959	5,145	—	147,621
Addition	—	—	—	—	687	687
Transfers	—	260	21	—	(281)	—
Disposals	(185)	(454)	(72)	(69)	—	(780)
At 15 May 2006	58,786	78,352	4,908	5,076	406	147,528
Accumulated depreciation:						
At 1 January 2006	24,655	43,406	3,197	2,274	—	73,532
Charge for the period	466	1,547	212	381	—	2,606
Disposals	(121)	(381)	(70)	(59)	—	(631)
At 15 May 2006	25,000	44,572	3,339	2,596	—	75,507
Net book value:						
At 15 May 2006	33,786	33,780	1,569	2,480	406	72,021

At 15 May 2006, Jiamusi Machinery's buildings with net book value of approximately RMB 22,727,000 were pledged as security for interest-bearing loans granted to Jiamusi Machinery as set out in Note 20 to the Financial Information.

14. LAND USE RIGHTS

	RMB'000
At cost:	
At the beginning and end of the period	16,417
Accumulated amortisation:	
At the beginning of the period	(3,283)
Charge for the period	(123)
At end of period	(3,406)
Net book value:	
At the end of period	13,011

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

At 15 May 2006, Jiamusi Machinery's land use rights with a net carrying amount of approximately RMB13,011,000 were pledged to bank for interest-bearing loans as set out in Note 20 to the Financial Information.

15. DEFERRED TAX ASSETS

The following is the deferred tax assets recognised and their movements during the Relevant Period:

	Decelerated tax property, plant and equipment depreciation	Provision against obsolete inventories	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	998	4,238	5,236
Deferred tax credited/(charged) to the income statement during the period (Note 9)	(93)	155	62
Effect in tax rate change (Note 9)	(277)	(2,312)	(2,589)
Gross deferred tax assets at 15 May 2006	628	2,081	2,709

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	RMB'000
Non-current portion	
Prepayments for purchases of property, plant and equipment	797
Current portion	
Prepayments	10,895
Deposits and other receivables	780
	11,675
Total	12,472

The carrying amounts of the prepayments, deposits and other receivables approximate to their fair values.

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

17. INVENTORIES

	RMB'000
Raw materials	32,486
Work in progress	42,862
Finished goods	26,785
	102,133
Less: Provision for obsolete inventories	(13,872)
	88,261

18. TRADE AND BILLS RECEIVABLES

	RMB'000
Trade receivables	163,380
Bills receivable	69,811
Less: Impairment provision	(5,876)
	227,315

Jiamusi Machinery grants different credit periods to customers. The credit period of individual customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate. Certain customers are required to make partial payment before or upon delivery. In the opinion of the Directors, Jiamusi Machinery has effectively granted an average credit period of 30 days to 180 days to the customers after taking into account the practice of the industry in which Jiamusi Machinery conducted its business. Jiamusi Machinery seeks to maintain strict control over its outstanding receivables and keep close monitoring on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. Jiamusi Machinery's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

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

An aged analysis of trade receivables as at 15 May 2006 based on the invoice date, net of provision, is as follows:

	RMB'000
Outstanding balances with ages:	
Within 90 days	110,245
91 to 180 days	46,611
181 to 365 days	51
1 to 2 years	597
	157,504

Movement in the provision for impairment of trade receivables during the period ended 15 May 2006 is as follows:

	RMB'000
At 1 January 2006	—
Impairment of trade receivables (Note 6)	5,876
At 15 May 2006	5,876

The provision for impairment of trade receivables of Jiamusi Machinery during the period ended 15 May 2006 was individually impaired trade receivables.

The carrying amounts of the trade and bills receivables approximate to their fair values. The bills receivable were all mature within 180 days from the reporting date.

As at 15 May 2006, bills receivable of RMB25,956,000 were pledged to bank for interest-bearing bank loans as set out in Note 20 to the Financial Information.

The analysis of trade receivables that were neither individually no collectively considered to be impaired is as follow:

	Total	Neither past due nor impaired	Past due but not impaired		
			< 90 days	91 to 180 days	181 to 360 days
		RMB'000	RMB'000	RMB'000	RMB'000
At 15 May 2006	157,504	128,744	24,604	3,939	217

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with Jiamusi Machinery. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Jiamusi Machinery does not hold any collateral or other credit enhancements over these balances.

19. CASH AND CASH EQUIVALENTS

	RMB'000
Cash and bank balances	33,180

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

20. INTEREST-BEARING LOANS

	Note	RMB'000
Bank loans:		
Secured	(a)	84,254
Repayable within one year		84,254
The bank loans bear interest at rates per annum in the range of		6.90% to 8.28%

The carrying amounts of Jiamusi Machinery's borrowings approximate to their fair values.

(a) As at 15 May 2006, loans of RMB84,254,000 were of which:

(i) loans of RMB25,956,000 were secured by Jiamusi Machinery's bills receivable, with an aggregate carrying value of RMB25,956,000 as set out in Note 18 to the Financial Information; and

(ii) loans of RMB58,298,000 in 2006 were secured by Jiamusi Machinery's buildings and land use rights, which had carrying values on 15 May 2006 of approximately RMB22,727,000 and RMB13,011,000, respectively, as set out in Note 13 and Note 14 to the Financial Information.

21. TRADE PAYABLES

	RMB'000
Trade payables	58,408

An aged analysis of the trade payables as at 15 May 2006, based on the invoice date, is as follows:

	RMB'000
Outstanding balances with ages:	
Within 90 days	41,017
91 - 180 days	793
181 - 365 days	1,159
1 - 2 years	451
2 - 3 years	247
Over 3 years	14,741
	58,408

The trade payables are non-interest-bearing and are normally settled on terms of 0 to 180 days. The carrying amounts of the trade payables approximate to their fair values.

22. OTHER PAYABLES AND ACCRUALS

	RMB'000
Advances from customers	4,634
Payroll payable	2,637
Welfare payable	457
Other payable	49,683
Accrued expenses	1,897
Value-added tax payable	20,679
	79,987

The carrying amounts of the accrued liabilities and other payables approximate to their fair values.

Other payables are non-interest-bearing and have an average term of three months.

23. PAID-UP CAPITAL

	RMB'000
Registered and paid-up capital	69,980

24. RESERVES

(a) Capital reserve

The capital reserve represents the land use right granted by the government in 1995. The land use right was valued at RMB 16,417,000 and was approved by the Heilongjiang Coal Industry Administrative Bureau.

(b) Surplus reserve

Statutory surplus reserve and statutory reserve fund

In accordance with Jiamusi Machinery Law of the PRC and the respective articles of association of the Companies incorporated in the PRC (the "PRC Companies"), each of such PRC Companies was required to allocate 10% of its profits after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR can be capitalised as paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Subsequent to the re-registration of Jiamusi Machinery as a FIE on 11 April 2006, allocation to the SSR is no longer required. According to the relevant PRC regulations applicable to FIE Jiamusi Machinery is required to allocate certain portion (not less than 10%), as determined by the board of directors, of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of the registered capital.

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

25. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

	RMB'000
Salaries, allowances and benefits in kind	1,095
Retirement benefit scheme contributions	36
	1,131

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been the Relevant Period, Jiamusi Machinery's policy that no trading in financial instruments shall be undertaken.

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

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

Foreign currency risk
Since Jiamusi Machinery operates in Mainland China and its transactions are carried out in RMB, Jiamusi Machinery's financial assets and liabilities are not subject to foreign currency risk. Jiamusi Machinery has not entered into any hedging transactions to manage the potential fluctuation in foreign currency as the Directors consider that Jiamusi Machinery has no significant foreign currency risk.

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

With respect to credit risk arising from the other financial assets of Jiamusi Machinery, which comprise cash and cash equivalents, trade and bills receivables, Jiamusi Machinery's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Significant concentration of credit risk
Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to Jiamusi Machinery's total credit exposure. Significant concentration of credit risk arises from exposure to substantial amounts due from companies involved in the mining sector and operating in the PRC, with the top six customers accounting for 91% of the trade receivables as at 15 May 2006 and 86% of the sales for the Relevant Period.

Liquidity risk
Jiamusi Machinery monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

Jiamusi Machinery's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The maturity profile of Jiamusi Machinery's financial liabilities as at the reporting date, based on the contractual undiscounted payments, was as follows:

	On demand	Less than 3 months	3 to 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing loans	58,298	14,424	11,532	84,254
Trade payables	16,599	41,016	793	58,408
Other payables and accruals	75,353	—	—	75,353
	150,250	55,440	12,325	218,015

Capital management

The primary objective of Jiamusi Machinery's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

Jiamusi Machinery manages its capital structure and makes adjustments to it, in light of changes in economic condition. To maintain or adjust the capital structure, Jiamusi Machinery may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing purpose during the Relevant Period.

Jiamusi Machinery monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Jiamusi Machinery's net debt includes interest-bearing loans less cash and cash equivalents. Capital includes total equity of Jiamusi Machinery.

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

	RMB'000
Interest-bearing loans	84,254
Less: Cash and cash equivalents	(33,180)
Net debt	51,074
Total equity	142,671
Capital and net debt	193,745
Gearing ratio	26%

27. FINANCIAL INSTRUMENTS

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

	RMB'000
Financial assets	
Loan and receivables	
Trade and bills receivables	227,315
Financial assets included in prepayments, deposits and other receivables	780
Cash and cash equivalents	33,180
	261,275
Financial liabilities	
Financial liabilities at amortised cost	
Trade payables	58,408
Financial liabilities included in other payables and accruals (Note 22)	75,353
Interest-bearing loans	84,254
	218,015

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Jiamusi Machinery in respect of any period subsequent to 15 May 2006.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

[LOGO]

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

[Date]

The Board of Directors
TJCC IMM Holdings Limited
[●]

Dear Sirs,

We set out below our report on the financial information of Jixi Coal Mining Machinery Co., Ltd. ("Jixi Machinery") including the income statement, the statement of changes in equity and cash flow statement of Jixi Machinery for the period from 1 January 2006 to 15 May 2006 (the "Relevant Period"), the statement of financial position as at 15 May 2006, and a summary of significant accounting policies and other explanatory notes (the "Financial Information") for inclusion in the document of International Mining Machinery Holdings Limited (the "Company") dated [date] (the "document").

Jixi Machinery was incorporated as a domestic limited liability company in the People's Republic of China (the "PRC") on 4 September 2002. On 10 April 2006, Jixi Machinery was re-registered as a wholly foreign-owned enterprise following the acquisition of 100% equity interest in Jixi Machinery by International Mining Machinery Limited ("IMM"), a subsidiary of the Company, from Heilongjiang Coal Mining Machinery Group Company Limited (the "Heilongjiang Group"), the former holding company of Jixi Machinery. Consequently, the Company became the holding company of Jixi Machinery thereon.

Jixi Machinery is principally engaged in the manufacture and sale of mining machinery in Mainland China. The registered office and the principal place of business of Jixi Machinery are located at Hong Qi Road 2, Ji Guan District, Jixi, Heilongjiang, the PRC. Prior to the re-registration as a wholly foreign-owned enterprise, the Heilongjiang Group held 100% of the equity interest of Jixi Machinery and therefore was its holding company up to 15 May 2006. Jixi Machinery has adopted 31 December as its financial year end date.

No audited financial statements of Jixi Machinery were prepared in accordance with the relevant accounting rules and financial regulations in the PRC for the Relevant Period.

The directors of Jixi Machinery (the "Directors") have prepared the financial statements of Jixi Machinery for the Relevant Period, in accordance with International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), which were audited by us in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance.

The Financial Information has been prepared by the Directors on the basis set out in Note 2 of Section II below.

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion based on our audit on the Financial Information in the Relevant Period.

For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Period in accordance with HKSA, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Jixi Machinery as at 15 May 2006 and of the results and cash flows of Jixi Machinery for the Relevant Period in accordance with the accounting policies set out in Note 3.2 of Section II below which are in conformity with IFRSs.

I. FINANCIAL INFORMATION

Income statement

For the period from 1 January 2006 to 15 May 2006

	Notes	RMB'000
REVENUE	5	134,131
Cost of sales		(86,120)
Gross profit		48,011
Other income and gains	5	28,581
Selling and distribution costs		(8,273)
Administrative expenses		(13,196)
Other expenses		(6,746)
Finance revenue	6	6
Finance costs	6	(3,557)
PROFIT BEFORE TAX	7	44,826
Income tax-expense	10	(8,864)
PROFIT FOR THE PERIOD		35,962
Attributable to:		
Equity holder of Jixi Machinery		35,962

"Profit for the period" represents the "total comprehensive income" for the Relevant Period presented. Accordingly, no statement of comprehensive income is presented.

Statement of financial position

As at 15 May 2006

	Notes	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	14	67,133
Land use rights	15	19,494
Deferred tax assets	16	7,460
		94,087
CURRENT ASSETS		
Inventories	17	121,945
Trade and bills receivables	18	112,735
Prepayments, deposits and other receivables	19	13,223
Cash and cash equivalents	20	5,591
		253,494
CURRENT LIABILITIES		
Interest-bearing loans	21	106,842
Trade payables	22	79,923
Other payables and accruals	23	198,600
Tax payable		22,107
		407,472
NET CURRENT LIABILITIES		(153,978)
TOTAL ASSETS LESS CURRENT LIABILITIES		(59,891)
NET LIABILITIES		(59,891)
EQUITY		
Equity attributable to the equity holder of Jixi Machinery		
Paid-up capital	24	92,380
Reserves	25	(152,271)
Total deficits		(59,891)

Statement of Changes in Equity

For the period from 1 January 2006 to 15 May 2006

	Equity attributable to the equity holder of Jixi Machinery			
	Paid-up capital	Capital reserve	Accumulated losses	Deficits of equity
	RMB'000 (Note 24)	RMB'000 (Note 25)	RMB'000 (Note 25)	RMB'000
At 1 January 2006	92,380	24,650	(212,883)	(95,853)
Profit for the period	—	—	35,962	35,962
At 15 May 2006	92,380	24,650	(176,921)	(59,891)

Cash Flow Statement

For the period from 1 January 2006 to 15 May 2006

	Notes	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		44,826
Adjustments for:		
Finance costs	6	3,557
Finance revenue	6	(6)
Interest waived	5	(28,220)
Loss on disposal of items of property, plant and equipment	7	187
Depreciation		2,723
Amortisation of land use rights	7	185
Impairment of trade receivables	7	4,399
Write-down of inventories to net realisable value	7	842
		28,493
Decrease in inventories		7,178
Increase in trade and bills receivables		(19,670)
Decrease in prepayments, deposits and other receivables		20,850
Decrease in trade payables		(9,127)
Decrease in other payables and accruals		(11,232)
Cash generated from operations		16,492
Income tax paid		—
Net cash inflow from operating activities		16,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	6	6
Purchases of items of property, plant and equipment		(2,007)
Proceeds from disposal of items of property, plant and equipment		153
Net cash outflow from investing activities		(1,848)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans		11,410
Repayments of bank loans		(23,000)
Interest paid		(3,557)
Net cash outflow from financing activities		(15,147)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(503)
Cash and cash equivalents at beginning of the period		6,094
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		5,591

II. NOTES TO FINANCIAL INFORMATION

1. GENERAL

As at 15 May 2006, the current liabilities of Jixi Machinery exceeded its current assets by approximately RMB153,978,000.

The Directors have prepared the financial statements on a going concern basis notwithstanding the net current liabilities position as the ultimate holding company, TJCC Holdings Ltd., has undertaken to provide continuing financial support to Jixi Machinery to enable Jixi Machinery to meet its liabilities as and when they fall due.

2. BASIS OF PREPARATION

The Financial Information incorporates the financial statements of Jixi Machinery for the period from 1 January 2006 to 15 May 2006 to present the results and financial position of Jixi Machinery before IMM obtained control.

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the IASB that are applicable to the Relevant Period and the disclosure requirements of the Hong Kong Companies Ordinance, except for any new or revised standards and interpretations that are not yet effective for the accounting period beginning on 1 January 2009, and the disclosure requirements of the Hong Kong Companies Ordinance.

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

3.1 APPLICATION OF NEW AND REVISED IFRSs AND IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

For the purpose of preparing and presenting the Financial Information for the Relevant Period, Jixi Machinery has consistently early adopted IASs, IFRSs, amendments and the related IFRICs (hereinafter collectively referred to as "new IFRSs"), which are effective for the accounting period beginning on January 1, 2009, except for IAS 39 & IFRS 7 (Amendments) Reclassification of Financial Assets, which are effective from July 1, 2008 but should not be applied before July 1, 2008, throughout the Relevant Period.

Jixi Machinery has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in this Financial Information.

IFRS 1 (Revised)	*First-time Adoption of IFRSs*[1]
IFRS 3 (Revised)	*Business Combinations*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 18	*Transfers of Assets from Customers*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[3]
IAS 32 Amendment	Classifications of Rights Issues[4]
IAS 24 (Revised)	Related Party Transactions[5]
IFRS 9	Financial Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009

2 Effective for transfer of assets from customers received on or after 1 July 2009

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

Jixi Machinery is in the process of making an assessment of the impact of these new and revised IFRSs and IFRICs upon initial application. The directors of Jixi Machinery anticipate that these new and revised IFRSs and IFRICs are unlikely to have any significant impact on Jixi Machinery's results of operations and financial position.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by Jixi Machinery in arriving at the Financial Information set out in this report, which conforms with the IFRSs, are set out below:

Revenue recognition

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

(a) Sale of goods

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

(b) Rendering of services

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

(c) Interest income

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, *i.e.*, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of these assets. The capitalisation of such borrowing costs cease when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

The functional and presentation currency of Jixi Machinery is RMB.

Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date. All differences are taken to the income statement. Non-monetary items that are measured in items of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

Government grants

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Dividends

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement. Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

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

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

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

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

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

Intangible assets (other than goodwill)

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

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

Research and development costs

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

Land use rights

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

Impairment of non-financial assets other than goodwill

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

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

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

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Jixi Machinery assesses whether a contract contains an embedded derivative when Jixi Machinery first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Jixi Machinery determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the reporting date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" above.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets
Jixi Machinery assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (*i.e.*, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either

directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Jixi Machinery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that Jixi Machinery will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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

Available-for-sale financial assets
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In addition, Jixi Machinery evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

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

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

➢ Jixi Machinery retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

➢ Jixi Machinery has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where Jixi Machinery has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Jixi Machinery's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Jixi Machinery could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of Jixi Machinery's continuing involvement is the amount of the transferred asset that Jixi Machinery may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of Jixi Machinery's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)
Financial liabilities including trade payables, other payables and accruals and interest-bearing loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

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

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

Cash and cash equivalents

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

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

Inventories

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

Net realisable value is based on estimated selling prices, less estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when Jixi Machinery has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included in finance cost in the income statement.

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

Leases

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

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

Retirement benefits

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

Related parties

A party is considered to be related to Jixi Machinery if:

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

(b) the party is an associate;

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

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

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

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

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

3.3 SUMMARY OF ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

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

(i) Impairment of trade receivables

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

(ii) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an asset, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires Jixi Machinery to estimate future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Useful lives of property, plant and equipment

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

(iv) Net realisable value of inventories

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

(v) Deferred tax assets

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

(vi) Warranty expenses

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

4. SEGMENTAL INFORMATION

Jixi Machinery's turnover and profit for the Relevant Period were mainly derived from the sale of mining machinery to customers in Mainland China. The principal assets employed by Jixi Machinery are located in Mainland China. Accordingly, Jixi Machinery's operating activities are attributable to a single business segment and location, and no segment information has been presented for the Relevant Period.

5. REVENUE, OTHER INCOME AND GAINS

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

	RMB'000
Revenue	
Sales of Shearer products	107,657
After market parts and services	26,474
	134,131
Other income and gains	
Interest expenses waived by banks*	28,220
Others	361
	28,581

* During the period ended 15 May 2006, Jixi Machinery entered into an agreement with the Industrial and Commercial Bank of China ("ICBC") whereby ICBC waived the overdue interest on loans due by Jixi Machinery amounting to RMB28,220,000, accumulated from previous years.

6. FINANCE REVENUE AND FINANCE COSTS

	RMB'000
Finance revenue	
Interest income	6
Finance costs	
Loan interest	3,416
Interest arising from discounted bills	141
Total finance costs	3,557

7. PROFIT BEFORE TAX

Jixi Machinery's profit before tax is arrived at after charging:

	RMB'000
Cost of inventories sold	66,516
Cost of service provided	19,604
Employee benefit expense (including Directors' remuneration as set out in Note 8):	
Wages and salaries	19,384
Pension scheme contributions	4,410
	23,794
Auditors' remuneration	219
Depreciation of items of property, plant and equipment (Note 14)	2,723
Amortisation of land use rights (Note 15)	185
Impairment of trade receivables (Note 18)	4,399
Write-down of inventories to net realisable value	842
Product warranty provision	3,353
Loss on disposal of items of property, plant and equipment	187

8. DIRECTORS' REMUNERATION

Directors' remuneration for the period from 1 January 2006 to 15 May 2006, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, is as follows:

	RMB'000
Salaries, allowances and benefits in kind	26
Performance related bonuses	28
Retirement benefit scheme contributions	4
	58

The remuneration of each of the directors for the period from 1 January 2006 to 15 May 2006 is set out below:

	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefit scheme contributions	Total Remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Name of directors				
Mr. Shulin Li	—	—	—	—
Mr. Xiangbin Du	—	—	—	—
Mr. Xinguo Liu	—	—	—	—
Mr. Donghui Xing	26	28	4	58
	26	28	4	58

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

9. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within Jixi Machinery during the Relevant Period is as follows:

	Number of employees
Directors	1
Non-directors	4
	5

	RMB'000
Salaries, allowances and benefits in kind	188
Performance related bonuses	132
Retirement benefit scheme contributions	20
	340

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

	Number of employees
Nil to RMB1,000,000	4

During the Relevant Period, no Directors or highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by Jixi Machinery to the non-directors and highest paid individuals as an inducement to join or upon joining Jixi Machinery or as compensation for loss of office.

10. TAX

Jixi Machinery was initially registered as a PRC domestic enterprise and subject to PRC corporate income tax ("CIT") on the taxable income as reported in its PRC statutory accounts adjusted in accordance with the relevant PRC income tax rules governing the domestic enterprises. The applicable CIT rate was 33%.

Jixi Machinery was converted from a PRC domestic enterprise to a foreign investment enterprise ("FIE") on 10 April 2006. According to the applicable PRC income tax law governing the FIEs and foreign enterprises, a FIE is subject to a statutory income tax rate of 33%, comprising of 30% state tax plus 3% local tax. Additionally, a manufacturing FIE may be entitled to a five-year tax holiday (*i.e.* two-year CIT full exemption followed by three-year 50% CIT exemption) starting from its first tax profitable year. Pursuant to a written approval dated 30 June 2006 issued by the local in-charged tax authority, with effect from 10 April 2006, Jixi Machinery was recognised as a manufacturing FIE and therefore entitled to enjoy the five-year tax holiday. As Jixi Machinery recorded taxable profit for the year ended 31 December 2006, the five-year tax holiday period commenced in 2006. Therefore, Jixi Machinery is exempted from CIT for the years ended 31 December 2006 (full CIT exemption started from 10 April 2006 when Jixi Machinery became a FIE) and 31 December 2007 and would entitle to a 50% exemption of CIT for the years ended/ ending 31 December 2008, 2009 and 2010.

The major components of income tax expenses for the Relevant Period are as follows:

	RMB'000
Current taxation	
Income tax in the Mainland China for the period	3,907
Deferred tax assets (Note 16)	4,957
Total tax expenses for the period	8,864

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rate for the country in which Jixi Machinery is domiciled (*i.e.* the PRC) is as follows:

	RMB'000
Profit before tax	44,826
Tax at the applicable tax rate (33%)	14,793
Income not subject to tax*	(12,726)
Expenses not deductible for tax	1,840
Effect of change in tax rate	4,957
Tax charge at Jixi Machinery's effective rate	8,864

* Pursuant to a written approval dated 30 June 2006 issued by the local in-charged tax authority, Jixi Machinery was recognised as a manufacturing FIE with effect from 10 April 2006 onwards. Therefore, income for the Relevant Period generated from [10] April 2006 onwards was exempted from tax.

11. DIVIDENDS

No dividends have been paid or declared by Jixi Machinery during the Relevant Period.

12. EARNINGS PER SHARE

Information of earnings per share is not presented as such information is not meaningful given the purpose of this report.

13. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

Retirement benefits

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

Accommodation benefits

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

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2006	38,386	93,631	7,735	8,330	15,958	164,040
Additions	—	—	186	10	1,811	2,007
Transfers	616	8,291	—	—	(8,907)	—
Disposals	—	(367)	(35)	(350)	—	(752)
At 15 May 2006	39,002	101,555	7,886	7,990	8,862	165,295
Accumulated depreciation						
At 1 January 2006	25,975	61,472	4,891	3,513	—	95,851
Charge for the period	226	1,714	314	469	—	2,723
Disposals	—	(365)	(35)	(12)	—	(412)
At 15 May 2006	26,201	62,821	5,170	3,970	—	98,162
Net book value						
At 15 May 2006	12,801	38,734	2,716	4,020	8,862	67,133

At 15 May 2006, Jixi Machinery's buildings with net book value of approximately RMB11,230,000 were pledged as security for interest-bearing loans granted to Jixi Machinery.

15. LAND USE RIGHTS

	RMB'000
At cost:	
At the beginning and end of period	24,650
Accumulated amortisation:	
At beginning of the period	(4,971)
Charge for the period	(185)
At the end of period	(5,156)
Net book value:	
At the end of period	19,494

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

16. DEFERRED TAX ASSETS

The following is the deferred tax assets recognised and their movements during the Relevant Period:

	Decelerated tax property, plant and equipment depreciation	Provision against obsolete inventories	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	3,628	8,789	12,417
Deferred tax credited/(charged) to the income statement during the period (Note 10)	86	(7)	79
Effect in tax rate change (Note 10)	(242)	(4,794)	(5,036)
Gross deferred tax assets at 15 May 2006	3,472	3,988	7,460

17. INVENTORIES

	RMB'000
Raw materials and components	89,410
Work in progress	51,957
Finished goods	8,054
	149,421
Less: Provision for obsolete inventories	(27,476)
	121,945

18. TRADE AND BILLS RECEIVABLES

	RMB'000
Trade receivables	98,017
Bills receivable	21,410
Less: Impairment provision	(6,692)
	112,735

Jixi Machinery grants different credit periods to customers. The credit period of individual customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate. Certain customers are required to make partial payment before or upon delivery. In the opinion of the Directors, Jixi Machinery has effectively granted an average credit period of 30 days to 180 days to the customers after taking into account the practice of the industry in which Jixi Machinery conducted its business. Jixi Machinery seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise its credit risk. Overdue balances are reviewed regularly by senior management. Jixi Machinery's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

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

An aged analysis of trade receivables as at 15 May 2006 based on the invoice date, net of provisions, is as follows:

	RMB'000
Outstanding balances with ages:	
Within 90 days	52,663
91 to 180 days	29,736
181 to 365 days	6,254
1 to 2 years	2,672
	91,325

Movements in the provision for impairment of trade receivables during the period ended 15 May 2006 is as follows:

	RMB'000
At 1 January	2,293
Impairment of trade receivables (Note 7)	4,399
At 15 May 2006	6,692

The provision for impairment of trade receivables of Jixi Machinery during the period ended 15 May 2006 was individually impaired trade receivables.

The carrying amounts of the trade and bills receivables approximate to their fair values. The bills receivable were all mature within 180 days from the reporting date.

As at 15 May 2006, bills receivables of RMB11,410,000 were pledged to bank for interest-bearing bank loans as set out in Note 21 to the Financial Information.

The analysis of trade receivables that were past due but not impaired is as follow:

	Total	Neither past due nor impaired	Past due but not impaired		
			< 90 days	91 to 180 days	181 to 360 days
		RMB'000	RMB'000	RMB'000	RMB'000
At 15 May 2006	91,325	59,257	8,082	18,952	5,034

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

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

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	RMB'000
Prepayments	9,865
Other receivables	3,358
	13,223

The carrying amounts of prepayments, deposits and other receivables approximate to their fair values.

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

20. CASH AND CASH EQUIVALENTS

	RMB'000
Cash and bank balances	5,591

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

21. INTEREST-BEARING LOANS

	Notes	RMB'000
Bank loans:		
Secured	(a)	100,090
Guaranteed	(b)	3,000
Unsecured	(c)	3,752
		106,842
Repayable within one year		106,842
The bank loans bear interest at rates per annum in the range of		5.54% to 7.81%

The carrying amounts of Jixi Machinery's borrowings approximate to their fair values.

(a) As at 15 May 2006, loans of RMB100,090,000 were of which:
  (i) Loans of RMB11,410,000 are secured by Jixi Machinery's bills receivable, with an aggregate carrying value on 15 May 2006 of RMB11,410,000 as set out in Note 18 to the Financial Information.
  (ii) Loans of RMB88,680,000 are secured by Jixi Machinery's plant and machinery, which had an aggregate carrying value of approximately RMB11,230,000 as at 15 May 2006 as set out in Note 14 to the Financial Information.

(b) Loans of RMB3,000,000 as at 15 May 2006 are guaranteed by Jixi Jinhui Investment Guarantee Co., Ltd. (雞西市金惠投資擔保有限公司), a third party company.

(c) Loans of RMB3,752,000 as at 15 May 2006 are unsecured and repayable on demand.

22. TRADE PAYABLES

	RMB'000
Trade payables	79,923

An aged analysis of trade payables at 15 May 2006, based on the invoice date, is as follows:

	RMB'000
Outstanding balances with ages:	
Within 90 days	50,609
91 to 180 days	9,259
181 to 365 days	7,061
1 to 2 years	775
2 to 3 years	314
Over 3 years	11,905
	79,923

The trade payables are non-interest-bearing and are normally settled on terms of 0 to 90 day. The carrying amounts of the trade payables approximate to their fair values.

23. OTHER PAYABLES AND ACCRUALS

	RMB'000
Advances from customers	28,659
Payroll payables	4,125
Welfare payables	695
Other payables	55,123
Accrued expense	9,509
Value-added tax payable	100,489
	198,600

The carrying amounts of the accrued liabilities and other payables approximate to their fair values.

Other payables are non-interest-bearing and have an average term of three months.

24. PAID-UP CAPITAL

	RMB'000
Registered and paid-up capital	92,380

25. RESERVES

Capital reserve

The capital reserve represents the land use right granted by the government in 1995. The land was valued at RMB24,650,000 and was approved by the Heilongjiang Coal Industry Administrative Bureau.

26. COMMITMENTS

Jixi Machinery had the following capital commitments at the reporting date:

	RMB'000
Contracted, but not provided for: Plant and machinery	5,571

27. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

	RMB'000
Salaries, allowances and benefits in kind	472
Performance related bonuses	262
Retirement benefit scheme contributions	60
	794

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been during the Relevant Period, Jixi Machinery's policy that no trading in financial instruments shall be undertaken.

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

Interest rate risk

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

Foreign currency risk

Since Jixi Machinery operates in PRC and its transactions are carried out in RMB, Jixi Machinery's financial assets and liabilities are not subject to foreign currency risk. Jixi Machinery has not entered into any hedging transactions to manage the potential fluctuation in foreign currency as the Directors consider that Jixi Machinery has no significant foreign currency risk.

Credit risk

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

With respect to credit risk arising from the other financial assets of Jixi Machinery, which comprise cash and cash equivalents, trade and bills receivables, Jixi Machinery's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Concentration of credit risk

Concentration of credit risk exists when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to Jixi Machinery's total credit exposure. There are no significant concentrations of credit risk within Jixi Machinery.

Liquidity risk

As at 15 May 2006, the current liabilities of Jixi Machinery exceeded its current assets by approximately RMB153,978,000.

With regard to 2006 and thereafter, the liquidity of Jixi Machinery mainly depends on its ability to maintain adequate cash flow from operations and continuity of funding through the ultimate holding company, and bank and other borrowings to meet its debt obligations as they fall due. Based on the letters received by the Directors from the ultimate holding company, the Directors are of the opinion that Jixi Machinery will get financial support from its ultimate holding company to meet its liabilities as and when they fall due.

The maturity profile of Jixi Machinery's financial liabilities as at the reporting date, based on the contractual undiscounted payments, was as follows:

	On demand	Less than 3 months	3 to 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing loans	3,752	103,090	—	106,842
Trade payables	44,392	35,531	—	79,923
Other payables and accruals	169,941	—	—	169,941
	218,085	138,621	—	356,706

Capital management

The primary objective of Jixi Machinery's capital management is to safeguard Jixi Machinery's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

Jixi Machinery manages its capital structure and makes adjustments to it, in light of changes in economic condition. To maintain or adjust the capital structure, Jixi Machinery may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the Relevant Period.

Jixi Machinery monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Jixi Machinery's net debts include interest-bearing loans less cash and cash equivalent. Capital includes equity attributable to equity holders of Jixi Machinery.

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

	RMB'000
Interest-bearing loans	106,842
Less: Cash and cash equivalents	(5,591)
Net debt	101,251
Total equity	(59,891)
Capital and net debt	41,360
Gearing ratio	245%

29. FINANCIAL INSTRUMENTS

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

Financial assets

	RMB'000
Loan and receivables	
Trade and bill receivables	112,735
Financial assets included in prepayments, deposits and other receivables	3,358
Cash and cash equivalents	5,591
	121,684

Financial liabilities

	RMB'000
Financial liabilities at amortised costs	
Trade payables	79,923
Financial liabilities included in other payables and accruals (Note 23)	169,941
Interest-bearing loans	106,842
	356,706

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Jixi Machinery in respect of any period subsequent to 15 May 2006.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

The estimated consolidated profit attributable to the equity holders for the year ended 31 December 2009 is set forth under "Profit Estimate For the Year Ended 31 December 2009" in the section headed "Financial information" in this document.

(A) BASES

The Directors have prepared the estimated consolidated profit attributable to the equity holders for the year ended 31 December 2009 on the basis of the audited results of the Group for the seven months ended 31 July 2009, the results as shown in the unaudited management accounts of the Group for the four months ended 30 November 2009 and an estimate of the consolidated results of the Group for the remaining one month ended 31 December 2009. The estimate has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the Accountants' Report, the text of which is set forth in Appendix I to this document.

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this document received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their opinion of values of the property interests of the Group as at 30 November 2009.

The Directors
International Mining Machinery Holdings Limited
Level 3, Block A
Aimer Plaza
Wangjing Development Zone
Chaoyang District
Beijing
PRC

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T: (852) 2801 6100
F: (852) 2530 0756

EA LICENCE: C-023750
savills.com

[●] January 2010

Dear Sirs,

In accordance with your instructions for us to value the properties located in the People's Republic of China (the "PRC") in which International Mining Machinery Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 30 November 2009 ("date of valuation").

Our valuation of each of the property interests is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the properties for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owners of the properties have enforceable titles to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

The properties in Group I are held by the Group for owner-occupation in the PRC. In valuing Property No. 7, we have adopted the "Direct Comparison Approach" by making reference to the comparable market transactions assuming sale with the benefit of vacant possession. For the remaining properties in Group I, due to the specific purposes for which the buildings and structures of the properties were constructed, there are no readily identifiable market comparables. Thus the buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement cost. We would define "depreciated replacement cost" for these purposes to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including professional fees and finance charges, from which deductions are then made to allow for age, physical and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

In valuing the property in Group II, which is held by the Group under development in the PRC, we have valued the property on the basis that it will be developed and completed in accordance with the Group's latest development proposals provided to us. We have assumed that all consents, approvals and licences from relevant government authorities for these proposals have been obtained. In arriving at our opinion of value, depending on the nature of the property, we have valued it by adopting the depreciated replacement cost approach.

In valuing the properties in Group III, which are rented by the Group in the PRC, we have assigned no commercial values to such properties due to prohibition against assignment or sub-letting or otherwise due to lack of substantial profit rent.

We have been shown copies of various title documents including State-owned Land Use Certificates and Building Ownership Certificates by the Group relating to the properties. However, we have not inspected the original documents to verify the ownership or to verify any amendments which may not appear on the copies provided to us. We have relied to a very considerable extent on the information given by the Group and its PRC's legal adviser, King & Wood, on PRC laws, regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, development proposals easements, tenure, particulars of occupancy, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided by the Group to us and are therefore only approximations. No on-site measurements have been taken. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to our valuations. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied.

We have inspected the exterior and where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made, we are therefore not able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the properties, we have complied with the requirements by the relevant regulatory authority and Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all monetary amounts stated in this report are in Renminbi (RMB).

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note:
Charles C K Chan, Chartered Estate Surveyor, MSc, FRICS, FHKIS, MCIArb, RPS(GP), has about 25 years' experience in the valuation of properties in Hong Kong and 20 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 30 November 2009	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30 November 2009
Group I — Property interests held by the Group for owner-occupation in the PRC				
1.	An industrial complex located at No. 2 Hongqi Road Xiangyangban Jiguang District Jixi Heilongjiang Province PRC	RMB90,900,000	100%	RMB90,900,000
2.	A building located in Yaodiwei Xiangyangban Jiguang District Jixi Heilongjiang Province PRC	RMB960,000	100%	RMB960,000
3.	An industrial complex situated at No. 87 Nanxing Street Nanshanban Jiguang District Jixi Heilongjiang Province PRC	RMB1,880,000	100%	RMB1,880,000
4.	An industrial complex located in Zhongxin Taxiao Zone Xiangyangban Jixi Heilongjiang Province PRC	RMB29,100,000	100%	RMB29,100,000
5.	A building located at No. 2 Hongqi Road Xiangyangban Jiguang District Jixi Heilongjiang Province PRC	RMB370,000	100%	RMB370,000
6.	An industrial complex located at No. 64 Wei Yonghong District Jiamusi Heilongjiang Province PRC	RMB137,000,000	100%	RMB137,000,000
7.	No. 5 on Level 16 Yingding Apartment Lingjiang Huayuan Xiangyang District Jiamusi Heilongjiang Province PRC	RMB480,000	100%	RMB480,000
	Sub-total	**RMB260,690,000**		**RMB260,690,000**

No.	Property	Capital value in existing state as at 30 November 2009	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 30 November 2009
Group II — Property interest held by the Group under development in the PRC				
8.	A parcel of land East of Zhengxing Road Huainan Economic and Technology Development Zone Huainan Anhui Province PRC	RMB63,300,000	100%	RMB63,300,000
	Sub-total	**RMB63,300,000**		**RMB[63,300,000]**
Group III — Property interests rented by the Group in the PRC				
9.	Unit Nos. 1212 to 1215 Xinhua Building No. 70 Zhongshan Road Heping District Shenyang Liaoning Province PRC	No commercial value		No commercial value
10.	Unit No. 301B Block No. 218 Lize Zhongyuan 2nd Zone Wangjing Development Zone Chaoyang District Beijing PRC	No commercial value		No commercial value
11.	An industrial complex located at No. 3 Guoqing East Road Tianjiaan District Huainan Anhui Province PRC	No commercial value		No commercial value
12.	Unit 2308 on Level 23 Block 109 Lize Xiyuan Wangjing Development Zone Chaoyang District Beijing PRC	No commercial value		No commercial value
	Sub-total	**Nil**		**Nil**
	Grand-total	**RMB323,990,000**		**RMB[323,990,000]**

VALUATION CERTIFICATE

Group I — Property interests held by the Group for owner–occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2009
1.	An industrial complex located at No. 2 Hongqi Road Xiangyangban Jiguang District Jixi Heilongjiang Province PRC	The property comprises 43 buildings and various structures erected on 2 parcels of land with a total site area of approximately 172,647.00 sq.m. (1,858,372 sq.ft.) completed in various stages between 1960 and 2008. The total gross floor area of the property is approximately 79,604.75 sq.m. (856,866 sq.ft.), the breakdown of which is as follows: **Usage** / **Gross Floor Area (sq.m.)** Production: 61,169.08 Office: 14,862.47 Storage: 2,012.57 Others: 1,560.63 Total: 79,604.75 The land use rights of the property have been granted for a term expiring on 14 January 2058 for industrial uses.	The property is occupied by the Group for production, office, and storage purposes.	RMB90,900,000 (100% interests attributable to the Group: RMB90,900,000)

Notes:

1. Pursuant to two State-owned Land Use Certificates Nos. Zhi Yi Guo Yong (2008) Di 800005 and 800007 issued by the People's Government of Jixi, the land use rights of the land of the property with a total site area of 172,647.00 sq m have been granted to Jixi Coal Mining Machinery Co., Ltd. (hereinafter referred to as "Jixi Machinery") for a land use term expiring on 14 January 2058 for industrial uses.
2. Pursuant to 28 Building Ownership Certificates all issued by Jixi Housing Administrative Bureau, the building ownership of 42 buildings of the property with a total gross floor area of 78,044.12 sq m is held by Jixi Machinery.
3. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-
   (i) Jixi Machinery has legally obtained the land use rights of the property;
   (ii) the land use rights of the property was subject to two mortgages and Jixi Machinery has to obtain the mortgagee's prior written consent before transferring, leasing or mortgaging the land use rights of the property during the mortgage term;
   (iii) Jixi Machinery has legally obtained the building ownership of portion of the property with approximately 78,044.12 sq.m.;
   (iv) portion of the property with a gross floor area of approximately 55,234.84 sq.m. as mentioned in Note (3)(iii) is subject to various mortgages and Jixi Machinery has to obtain the mortgagee's prior written consent before transferring, leasing or remortgaging such portion of the property during the mortgage term;

(v) Jixi Machinery is entitled to occupy, transfer, lease or mortgage portion of the property with a total gross floor area of 22,809.28 sq.m. as mentioned in Note (3)(iii);

(vi) Jixi Machinery has not obtained the Building Ownership Certificates of portion of the buildings with a total gross floor area of 1,560.63 sq m.; and

(vii) the portion of the property as mentioned in Note (3)(vi) may be regarded as unauthorised construction and asked by the relevant authorities to demolish it as no Building Ownership Certificate has been obtained. As advised by Jixi Machinery, the demolition of such property has no material impact on their operation and they can find an alternative accommodation easily if the said property is asked to be demolished.

4. During the course of our valuation, we have not given any commercial value to the portion of the property as mentioned in Note (3)(vi). If the relevant Building Ownership Certificates have been obtained, the capital value of this portion as at 30 November 2009 was RMB1,650,000.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2009
2.	A building located in Yaodiwei Xiangyangban Jiguang District Jixi Heilongjiang Province PRC	The property comprises a single-storey building erected on a parcel of land with a site area of approximately 4,555.00 sq.m. (49,030 sq.ft.) completed in 1959. The gross floor area of the property is approximately 356.39 sq.m. (3,836 sq.ft.). The land use rights of the property have been granted for a term expiring on 24 January 2058 for industrial uses.	The property is occupied by the Group for ancillary purpose.	RMB960,000 (100% interests attributable to the Group: RMB960,000)

Notes:

1. Pursuant to the State-owned Land Use Certificate No. Ji Guang Guo Yong (2008) Di. 200004 issued by the People's Government of Jixi, the land use rights of the land of the property with a site area of 4,555.00 sq.m. have been granted to Jixi Coal Mining Machinery Co., Ltd. (hereinafter referred to as "Jixi Machinery") for a land use term expiring on 24 January 2058 for industrial uses.

2. Pursuant to the Building Ownership Certificate No. Ji Guang Fang Zi Di S200701330 issued by Jixi Housing Administrative Bureau, the building ownership of the property with a gross floor area of 356.39 sq.m. is held by Jixi Machinery.

3. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-

   (i) Jixi Machinery has legally obtained the land use rights and the building ownership of the property; and

   (ii) the land use rights and the building ownership of property are mortgaged and Jixi Machinery has to obtain the mortgagee's prior written consent before transferring, leasing or remortgaging the land use rights and the building ownership rights of the property during the mortgage term.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2009
3.	An industrial complex situated at No. 87 Nanxing Street Nanshanban Jiguang District Jixi Heilongjiang Province PRC	The property comprises 7 buildings and various structures erected on a parcel of land with a site area of approximately 10,563.00 sq.m. (113,700 sq.ft.) completed in various stages between 1958 and 1988. The total gross floor area of the property is approximately 1,982.30 sq.m. (21,337 sq.ft.), the breakdown of which is as follows:	The property is occupied by the Group for production, office, and storage purposes.	RMB1,880,000 (100% interest attributable to the Group: RMB1,880,000)

Usage	Gross Floor Area
	(sq.m.)
Production:	1,048.59
Office:	532.00
Storage:	401.71
Total:	1,982.30

The land use rights of the property have been granted for a term expiring on 15 January 2058 for industrial uses.

Notes:

1. Pursuant to the State-owned Land Use Certificate No. Zhi Yi Guo Yong (2008) Di. 800003 issued by the People's Government of Jixi, the land use rights of the land of the property with a site area of 10,563.00 sq.m. have been granted to Jixi Coal Mining Machinery Co., Ltd (hereinafter referred to as "Jixi Machinery") for a land use term expiring on 15 January 2058 for industrial uses.
2. Pursuant to 7 Building Ownership Certificates Nos. Ji Guang Fang Zi Di S200701310, S200701311, S200701312, S200701313, S200701343, S200701365 and S200701373 all issued by Jixi Housing Administrative Bureau, the building ownership of 7 buildings of the property with a total gross floor area of 1,982.30 sq.m. is held by Jixi Machinery.
3. Pursuant to a contract signed between Jixi Machinery and Jixi Huachen Property Development Company Limited ("Huachen") on 7 July 2008, the property was contracted to be sold to Huachen for a consideration of RMB8,300,000.

   As advised by the Group, the property is in the process of transferring the title to Huachen.
4. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-
   (i) Jixi Machinery has legally obtained the land use rights of the property and is entitled to transfer, lease or mortgage the land use rights of the property;
   (ii) Jixi Machinery has legally obtained the building ownership of the property and is entitled to transfer, lease or mortgage the aforesaid buildings;
   (iii) the property is free from any mortgages;
   (iv) the aforesaid contract mentioned in Note 3 is legal and valid; and
   (v) the property is under the process of transferring the title from Jixi Machinery to Huachen. Prior to the completion of the change of ownership, the land use rights and the building ownership of the property belong to Jixi Machinery.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2009
4.	An industrial complex located in Zhongxin Taxiao Zone Xiangyanban Jiguang District Jixi Heilongjiang Province PRC	The property comprises 45 buildings and various structures erected on a parcel of land with a site area of approximately 84,976.00 sq.m. (914,682 sq.ft.) completed in various stages between 1938 and 2006. The total gross floor area of the property is approximately 29,011.15 sq.m. (312,278 sq.ft.), the breakdown of which is as follows:	The property is occupied by the Group for production, office, storage, dormitory and ancillary purposes.	RMB29,100,000 (100% interest attributable to the Group: RMB29,100,000)

Usage	Gross Floor Area (sq.m.)
Production:	19,339.60
Office:	4,093.04
Storage:	5,259.59
Ancillary:	318.92
Total:	29,011.15

The land use rights of the property have been granted for a term expiring on 24 January 2058 for industrial uses.

Notes:

1. Pursuant to the State-owned Land Use Certificate No. Zhi Yi Guo Yong (2008) Di 800006 issued by the People's Government of Jixi, the land use rights of the land of the property with a site area of 84,976.00 sq.m. have been granted to Jixi Coal Mining Machinery Co., Ltd. (hereinafter referred to as "Jixi Machinery") for a land use term expiring on 24 January 2058 for industrial uses.

2. Pursuant to 42 Building Ownership Certificates all issued by Jixi Housing Administrative Bureau, the building ownership of 43 buildings of the property with a total gross floor area of 28,021.55 sq.m. is held by Jixi Machinery.

3. Pursuant to a contract signed between Jixi Machinery and Harbin Fufengda Trading Company Limited ("Fufengda") on 15 December 2008, the property was contracted to be sold to Fufengda for a consideration of RMB15,465,700.

   As advised by the Group, the property is in the process of transferring the title to Fufengda.

4. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-

   (i) Jixi Machinery has legally obtained the land use rights of the property and is entitled to transfer, lease or mortgage the aforesaid land use rights;

   (ii) Jixi Machinery has legally obtained the building ownership of portion of the buildings with a total gross floor area of 28,021.55 sq.m. of the property and is entitled to transfer, lease or mortgage the aforesaid buildings;

(iii) the property is free from any mortgages;

(iv) the property is under the process of transferring the title from Jixi Machinery to Fufengda. Prior to the completion of the change of ownership, the land use rights and the building ownership of the property belong to Jixi Machinery;

(v) Jixi Machinery has not obtained the Building Ownership Certificates of portion of the buildings with a total gross floor area of 989.60 sq.m.; and

(vi) the portion of the property as mentioned in Note (4)(v) may be regarded as unauthorised construction and asked to demolish it as no Building Ownership Certificate has been obtained. As stated in the contract mentioned in Note (3), Fufengda has satisfied to the title to the property. Even if the said portion of the property is asked to be demolished, the risk of Jixi Machinery to bear the responsibility of breaching the contract is minimal.

5. During the course of our valuation, we have not given any commercial value to 2 buildings of the property as mentioned in Note (4)(v). If the relevant Building Ownership Certificates have been obtained, the capital value of this portion as at 30 November 2009 was RMB280,000.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2009
5.	A building located at No. 2 Hongqi Road Xiangyangban Jiguang District Jixi Heilongjiang Province PRC	The property comprises a single-storey building erected on a parcel of land with a site area of approximately 1,178.00 sq.m. (12,680 sq.ft.) completed in 2006. The gross floor area of the property is approximately 84.00 sq.m. (904 sq.ft.). The land use rights of the property have been granted for a term expiring on 14 January 2058 for industrial uses.	The property is occupied by the Group for office purpose.	RMB370,000 (100% interest attributable to the Group: RMB370,000)

Notes:

1. Pursuant to the State-owned Land Use Certificate No. Zhi Yi Guo Yong (2008) Di 800004 issued by the People's Government of Jixi, the land use rights of the land of the property with a site area of 1,178.00 sq.m. have been granted to Jixi Coal Mining Machinery Co., Ltd. (hereinafter referred to as "Jixi Machinery") for a land use term expiring on 14 January 2058 for industrial uses.

2. Pursuant to the Building Ownership Certificate No. Ji Guang Fang Zi Di 047170 issued by Jixi Housing Administrative Bureau, the building ownership of the property with a gross floor area of 84.00 sq.m. is held by Jixi Machinery for office uses.

3. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-

   (i) Jixi Machinery has legally obtained the land use rights of the property;

   (ii) the land use rights of the property is subject to a mortgage and Jixi Machinery has to obtain the mortgagee's prior written consent before transferring, leasing or remortgaging the land use rights of the property during the mortgage term; and

   (iii) Jixi Machinery has legally obtained the building ownership of the property and is entitled to occupy, transfer, lease or mortgage the building.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2009
6.	An industrial complex located at No. 64 Wei Yonghong District Jiamusi Heilongjiang Province PRC	The property comprises 71 buildings and various structures erected on a parcel of land with a site area of approximately 264,800.36 sq.m. (2,850,311 sq.ft.) completed in various stages between 1957 and 2008. The total gross floor area of the property is approximately 93,220.14 sq.m. (1,003,422 sq.ft.), the breakdown of which is as follows: **Usage** — **Gross Floor Area (sq.m.)** Production: 61,434.42 Office: 12,109.88 Storage: 15,203.06 Ancillary: 4,472.78 Total: 93,220.14 The land use rights of the property have been granted for a term expiring on 14 May 2056 for industrial uses.	The property is occupied by the Group for production, office, storage and ancillary purposes.	RMB137,000,000 (100% interest attributable to the Group: RMB137,000,000)

Notes:

1. Pursuant to the State-owned Land Use Certificate No. Jia Shi Guo Yong (08) Di 200800126 issued by the People's Government of Jiamusi, the land use rights of the land of the property with a site area of 264,800.36 sq.m. have been granted to Jiamusi Coal Mining Machinery Co., Ltd. (hereinafter referred to as "Jiamusi Machinery") for a land use term expiring on 14 May 2056 for industrial uses.

2. Pursuant to 57 Building Ownership Certificates, all issued by Jiamusi Housing Administrative Bureau, the building ownership of 69 buildings of the property with a total gross floor area of 91,076.23 sq.m. is held by Jiamusi Machinery.

3. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-

   (i) Jiamusi Machinery has legally obtained the land use rights of the property;

   (ii) Jiamusi Machinery is entitled to occupy, transfer, lease or mortgage the land use rights of the property;

   (iii) Jiamusi Machinery has legally obtained the building ownership of portion of the property with a total gross floor area of 91,076.23 sq.m.;

(iv) portion of the buildings with a total gross floor area of 80,961.45 sq.m. as mentioned in Note (3)(iii) is subject to mortgages and Jiamusi Machinery has to obtain the mortgagee's prior written consent before transferring, leasing or remortgaging such portion of the property during the mortgage term;

(v) Jiamusi Machinery is entitled to occupy, transfer, lease or mortgage portion of the buildings with a total gross floor area of 10,114.78 sq.m. of the property as mentioned in Note (3)(iii);

(vi) Jiamusi Machinery has not obtained the Building Ownership Certificates of portion of the buildings with a total gross floor area of 2,143.91 sq.m; and

(vii) the portion of the property as mentioned in Note (3)(vi) may be regarded as unauthorised construction and asked by the relevant authorities as no Building Ownership Certificate has been obtained. As advised by Jiamusi Machinery, the demolition of such property has no material impact on their operation and they can find an alternative accommodation easily if the said property is asked to be demolished.

4. During the course of our valuation, we have not given any commercial value to 2 buildings of the property as mentioned in Note (3)(vi). If the relevant Building Ownership Certificates have been obtained, the capital value of this portion as at 30 November 2009 was RMB2,160,000.

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2009
7.	No. 5 on Level 16 Yingding Apartment Lingjiang Huayuan Xiangyang District Jiamusi Heilongjiang Province PRC	The property comprises a residential unit on Level 16 of a 24-storey residential building completed in 2004. The gross floor area of the property is approximately 139.74 sq.m. (1,504 sq.ft.).	The property is occupied by the Group for domestic purpose.	RMB480,000 (100% interest attributable to the Group: RMB480,000)

Notes:

1. Pursuant to Building Ownership Certificate No. Jia Fang Quan Zheng Xiang Zi Di 2006026671 issued by Jiamusi Housing Administrative Bureau, the building ownership of the property with a gross floor area of 139.74 sq.m. is held by Jiamusi Mining Machinery Co., Ltd. ("Jiamusi Machinery").

2. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter-alia, the following information:

   (i) Jiamusi Machinery has legally obtained the building ownership of the property and is entitled to occupy, transfer, lease or mortgage the property.

Group II — Property interest held by the Group under development in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 November 2009
8.	A parcel of land East of Zhengxing Road Huainan Economic and Technology Development Zone Huainan Anhui Province PRC	The property comprises 2 parcels of land with a total site area of approximately 168,528.67 sq.m. (1,814,043 sq.ft.). According to the latest development proposal provided by the Group, the property will be developed into an industrial complex to be completed in 2010. Upon completion, the development will provide a total gross floor area of 26,857.00 sq. m. (289,089 sq. ft.) The land use rights of the property have been granted for two terms expiring on 30 September 2057 and 24 December 2058 for industrial uses.	The property is under construction.	RMB63,300,000 (100% interest attributable to the Group: RMB63,300,000)

Notes:

1. Pursuant to two State-owned Land Use Certificates Nos. Huai Guo Yong (2009) Di. 020037 and Huai Guo Yong (2009) Di 020048 issued by the People's Government of Huainan, the land use rights of the land of the property with a total site area of 168,528.67 sq.m. have been granted to Huainan Longwall Coal Mining Machinery Co., Ltd. (hereinafter referred to as "Huainan Longwall") for two land use terms expiring on 30 September 2057 and 24 December 2058 for industrial uses.

2. Huainan Longwall has obtained the Planning Permit for Construction Land No. Di Zi Di 340402 (2009)25 issued by Huainan Town Planning Bureau in relation to the property.

3. Pursuant to a Construction Works Planning Permit No. Jian Zi Di 340401 (2009) 76, the construction scale of the property with a total gross floor area of 26,857 sq.m. was permitted.

4. As advised by the Group, the outstanding construction cost to be spent to complete the property as at 30 November 2009 was approximately RMB27,880,000.

5. The capital value of the property as if completed as at 30 November 2009 was RMB91,200,000.

6. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-

   (i) Huainan Longwall has legally obtained the land use rights of the property;

   (ii) portion of the property with a site area of 156,886.87 sq.m. is subject to a mortgage. Huainan Longwall is entitled to occupy such portion. Huainan Longwall has to obtain the mortgagee's prior written consent before remortgaging such portion of the property and is entitled to transfer the said portion after investing 25% of the total investment amount;

   (iii) Huainan Longwall is entitled to occupy or mortgage portion of the property with a site area of 11,641.8 sq.m. and is entitled to transfer the said portion after investing 25% of the total investment amount; and

   (iv) Huainan Longwall has obtained all the relevant approvals for the construction works.

Group III — Property interests rented by the Group in the PRC

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 November 2009
9.	Unit Nos. 1212 to 1215 Xinhua Building No. 70 Zhongshan Road Heping District Shenyang Liaoning Province PRC	The property comprises four office units on Level 12 of a 21-storey office building completed in 2007. The total gross floor area of the property is approximately 225.65 sq.m. (2,429 sq.ft.). The property is leased to the Group for a term commencing on 1 August 2008 and expiring on 31 July 2010 at an annual rental of RMB159,740.	The property is occupied by the Group for office use.	No commercial value

Notes:

1. The property is leased from Liu Jikuan (the "Lessor"), an independent third party, to Jiamusi Coal Mining Machinery Co., Ltd., a wholly-owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-

   (i) the Lessor has obtained the Building Ownership Certificate of the property and has the right to lease the property;

   (ii) the tenancy has been registered; and

   (iii) the tenancy is legal and valid.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 November 2009
10.	Unit No. 301B Block No. 218 Lize Zhongyuan 2nd Zone Wangjing Development Zone Chaoyang District Beijing PRC	The property comprises an office unit on Level 3 of a 10-storey office building completed in 1995. The gross floor area of the property is approximately 330.00 sq.m. (3,552 sq.ft.). The property is leased to the Group for a term commencing on 1 September 2006 and expiring on 14 May 2010 at an annual rental of RMB347,580.	The property is occupied by the Group for office use.	No commercial value

Notes:

1. The property is leased from Beijing Aimu Underwear Company Limited (the "Lessor"), an independent third party, to Jiamusi Coal Mining Machinery Co., Ltd. ("Jiamusi Machinery"), a wholly-owned subsidiary of the Company.
2. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-
   (i) the Lessor has obtained the Building Ownership Certificate of the property and has the right to lease the property; and
   (ii) the tenancy agreement has not been registered but this will not affect the validity of the tenancy agreement.

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 November 2009
11.	An industrial complex located at No. 3 Guoqing East Road Tianjiaan District Huainan Anhui Province PRC	The property comprises an industrial complex accommodating 20 single to 4-storey buildings with a total gross floor area of approximately 21,175.99 sq m (227,938 sq ft) completed between 1958 and 1986. The property is leased to the Group for a term commencing on 21 November 2007 and expiring on 30 June 2010 at an annual rental of RMB3,000,000.	The property is occupied by the Group for production, office, dormitory and warehouse purposes.	No commercial value

Notes:

1. The property is leased from Huainan Benniu Machinery Company Limited (the "Lessor"), a former joint venture party of Huainan Longwall Mine Machinery Co., Ltd. ("Huainan Longwall") to Huainan Longwall, a wholly owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser, which contains, inter alia, the following information:-

   (i) the Lessor has obtained the Building Ownership Certificate of the property and has the right to lease the property; and

   (ii) the tenancy is legal and valid.

No.	Property	Description and tenancy details	Particulars of occupancy	Capital value in existing state as at 30 November 2009
12.	Unit 2308 on Level 23 Block 109 Lize Xiyuan Wangjing Development Zone Chaoyang District Beijing PRC	The property comprises a residential unit on Levels 23 of a 24-storey residential building completed in 2001. The gross floor area of the property is approximately 97.00 sq.m. (1,044 sq.ft.). The property is leased to the Group for a term commencing on 15 November 2009 and expiring on 14 November 2010 at an annual rental of RMB44,400.	Portion of the property with a gross floor area of 35.00 sq.m. is subject to a tenancy for a term from 10 July 1997 to 10 July 2016 at an annual rental of RMB15,000 for ancillary uses. The remaining portion of the property is occupied by the Group for dormitory uses.	No commercial value

Notes:

1. The property is leased from an independent third party to Jiamusi Coal Mining Machinery Co., Ltd., a wholly-owned subsidiary of the Company.

2. We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, inter alia, the following information:-

   (i) the Lessor has obtained the Building Ownership Certificate of the property and has the right to lease the property; and

   (ii) the tenancy agreement has not been registered but this will not affect the validity of the tenancy agreement.

Set out below is a summary of

- ➢ certain Hong Kong and Cayman Islands tax consequences of ownership of Shares;
- ➢ taxation of our Company in the PRC, Hong Kong and the Cayman Islands; and
- ➢ foreign exchange regulations in the PRC.

The summary of certain Hong Kong and Cayman Islands tax consequences of ownership of Shares does not purport to address all material tax consequences of the ownership of our Shares, and does not take into account the specific circumstances. This summary is based on the laws of Hong Kong and the Cayman Islands in effect on the date of this document, which are subject to change (or changes in interpretation), possibly with retroactive effect. The summary does not address any aspects of Hong Kong or Cayman Islands taxation other than income taxation, capital taxation, stamp duty and estate taxation. Prospective readers are urged to consult their tax advisers regarding the tax consequences of owning and disposing of our Shares.

TAXATION

Taxation of Shareholders

Taxation of dividends

Hong Kong
Under the current practice of the Hong Kong Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Cayman Islands
The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

Taxation of capital gains

Hong Kong
No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 17.5% and on individuals at a maximum rate of 16%. Gains from sales of Shares effected on the Hong Kong Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would therefore arise in respect of trading gains from sales of our Shares realised by person carrying on a business of trading or dealing in securities in Hong Kong.

Cayman Islands
The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

Stamp duty

Hong Kong

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of our Shares registered on the Hong Kong branch register. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and the purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5. Where a sale or purchase of Shares registered on the Hong Kong branch register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract notes is paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable on the instrument of transfer and the transferee will be liable to pay such duty. No stamp duty will be levied on the transfer of Shares that are registered on a share register outside Hong Kong.

Cayman Islands

No stamp duty is payable in the Cayman Islands on the transfers of our Shares.

Estate duty

Hong Kong

There is no longer taxation in the nature of inheritance tax or estate duty in Hong Kong.

Cayman Islands

The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax.

Taxation of Our Company

Taxation of the Company in PRC

Income tax

Income tax payable by foreign-invested enterprises established in PRC is governed by the Enterprise Income Tax Law of the PRC ("PRC Enterprise Income Tax Law") and its implementing rules, which provide for an income tax rate of 25% unless a lower rate is provided by law, administrative regulations or State Council regulations. Pursuant to the PRC Enterprise Income Tax Law and its implementing rules, foreign-invested enterprises established in the PRC are liable to pay income tax on their income derived from sources both in and outside the PRC, and foreign enterprises which have establishments in the PRC and engage in production or business operations and which, though without establishments in the PRC, have income derived from sources in the PRC are liable to pay income tax on their income derived from sources in the PRC. Accordingly, we will be subject to enterprise income tax on our income derived from sources in the PRC, if any. Two of our subsidiaries in the PRC receive tax reduction treatment and are subject to enterprise income tax at a rate of 12.5% on their income derived from sources both within and outside the PRC. Our other subsidiaries are subject to enterprise income tax at the rate of 25% on their income derived from sources both within and outside the PRC.

Dividends from our PRC operations

Under the current PRC tax laws, regulations and rulings, dividends from our operations in the PRC paid to us by our operating subsidiaries established in the PRC are currently subject to a withholding tax at the rate of 5%.

Taxation of our Company in Hong Kong

We do not consider that any of our income or the income of our Group is derived from or arises in Hong Kong for the purposes of Hong Kong taxation. We will therefore not be subject to Hong Kong taxation.

Taxation of our Company in the Cayman Islands

Pursuant to section 6 of the Tax Concession Law (as amended) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

➢ That no law which is enacted in the Cayman Islands imposing any tax to the levied on profits or income or gains or appreciation shall apply to our Company or operations; and

➢ That no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our Company:

  ➢ on or in respect of the shares, debentures or other obligations of our Company; or

  ➢ by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concession Law (as amended).

The undertaking is for a period of 20 years from the date of the undertaking, which is 2 May 2006.

➢ There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands other than certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

FOREIGN EXCHANGE

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.

In 1994, the conditional convertibility of Renminbi in current account items was implemented and the official Renminbi exchange rate and the market rate for Renminbi was unified. On 29 January 1996, the State Council promulgated the amended Regulations of the People's Republic of China for the Control of Foreign Exchange ("Foreign Exchange Control Regulations"), which became effective on 1 April 1996. The Foreign Exchange Control Regulations classify all international payments and transfers into current account items and capital account items. Current account items are not subject to SAFE approval while capital account items are. The Foreign Exchange Control Regulations were subsequently amended on 14 January 1997 to affirmatively state the State shall not restrict international currency account payments and transfers.

On 20 June 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (the "Settlement Regulations"), which became effective on 1 July 1996. The Settlement Regulations abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions of foreign exchange transactions in respect of capital account items.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply. The PBOC set and published daily the RMB-U.S. dollar base exchange rate. This exchange rate was determined with reference to the transaction price for RMB-U.S. dollar in the inter-bank foreign exchange market on the previous day. The PBOC also, with reference to exchange rates in the international foreign exchange markets, announced the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks could, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

The PBOC announced in 2005 that, beginning from 21 July 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of a foreign currency such as the U.S. dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, setting the central parity for trading of the Renminbi on the following working day.

All foreign exchange income (except such amount of foreign exchange income which is permitted to be retained and deposited into foreign exchange accounts at the designated foreign exchange banks) generated from current account transactions of Chinese enterprises (including foreign-invested enterprises) should be sold to designated foreign exchange banks.

Chinese 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 accounts 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 the Chinese enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange, may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, including direct investments and capital contributions, is still subject to restrictions, and prior approval from SAFE must be obtained.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 April 2006 under the Companies Law. The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted pursuant to a shareholders' resolution passed on 24 January 2010. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Composition of the Board

Unless otherwise determined by the Company in general meeting, the number of directors shall not be less than three. There is no maximum number of directors.

(ii) Power to allot and issue Shares and warrants

Subject to the Articles, any direction that may be given by the Company in general meeting and, where applicable, certain applicable rules and regulations and without prejudice to any special rights or restrictions for the time being attached to any Shares or any class of Shares, all Shares for the time being unissued shall be under the control of the Directors who may designate, re-designate, offer, issue, allot and dispose of the same to such persons, in such manner, on such terms and having such rights and being subject to such restrictions as they may from time to time determine but so that no Shares shall be issued at a discount; and grant options with respect to such Shares and issue warrants, convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of Shares or securities in the capital of the Company on such terms as they may from time to time determine, and, for such purposes, the Directors may reserve an appropriate number of Shares for the time being unissued.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(v) Loans and provision of security for loans to Directors

There are provisions in the Articles restricting the making of loans or provision of security to Directors.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

Subject as otherwise provided by the Articles, the Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of Shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of Shares or debentures or other securities of the Company by virtue only of his/their interest in Shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in five percent. or more of the issued Shares or of the voting rights of any class of Shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a Share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of Shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any Shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place.

The office of Director shall also be vacated if:

(aa) the Director resigns his office by notice in writing to the Company at its registered office or its head office;

(bb) an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(cc) the Director, without leave, is absent from meetings of Directors (unless an alternate Director appointed by him attends in his place) for a continuous period of 12 months, and the Directors resolve that his office be vacated;

(dd) the Director becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) the Director ceases to be or is prohibited from being a director by law or by virtue of any provisions in the Articles; or

(ff) the Director is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

The Directors may from time to time appoint any person, whether or not a Director to hold such office in the Company as the Directors may think necessary for the administration of the Company, including but not limited to, the office of president, one or more vice-presidents, treasurer, assistant treasurer, manager or controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. Any person so appointed by the Directors may be removed by the Directors. The Directors may also appoint one or more of their number to the office of managing director upon like terms, but any such appointment shall ipso facto determine if any managing director ceases from any cause to be a Director, or if the Company by ordinary resolution resolves that his tenure of office be terminated.

The Directors may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorise the members of any such local board, or any of them to fill any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation.

(viii) Borrowing powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or part of its undertaking, property and uncalled capital or any part thereof, and subject to the Companies Law, to issue debentures, debenture stock, and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The Board may meet together with (either within or outside the Cayman Islands) for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of Directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty days of any change in such Directors or officers.

(b) Alterations to Constitutional Documents / Change of Name

The Articles may be altered or amended by the Company in general meeting by special resolution. The Companies Law provides that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of Capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into Shares of such classes and amount, as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into Shares of larger amount than its existing Shares;

(iii) convert all or any of its paid up Shares into stock and reconvert that stock into paid up Shares of any denomination;

(iv) subdivide its Shares, or any of them into Shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced Share shall be the same as it was in case of the Share from which the reduced Share is derived; or

(v) cancel any Shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the Shares so cancelled.

The Company may by special resolutions reduce its Share capital and any capital redemption reserve in any manner authorised by law.

(d) Variation of Rights of Existing Shares or Classes of Shares

Whenever the capital of the Company is divided into different classes the rights attached to any such class may, subject to any rights or restrictions for the time being attached to any class, only be materially adversely varied or abrogated with the consent in writing of the holders of not less than three-fourths of the issued Shares of the relevant class, or with the sanction of a resolution passed at a separate meeting of the holders of the Shares of such class by a majority of not less than three-fourths of the votes cast at such a meeting. To every such separate meeting all the provisions of the Articles relating to general meetings of the Company or to the proceedings thereat shall mutatis mutandis, apply except that the necessary quorum shall be two persons at least holding or representing by proxy one-third in nominal or par value amount of the issued Shares of the relevant class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present, those shareholders who are present shall form a quorum) and that, subject to any rights or restrictions for the time being attached to the Shares of that class, every shareholder of the class shall on a poll have one vote for each Share of the class held by him.

The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the Shares of that class, be deemed to be materially adversely varied or abrogated by, inter alia, the creation, allotment or issue of further Shares ranking pari passu with or subsequent to them or the redemption or purchase of any Shares of any class by the Company.

(e) Transfer of Shares

Transfers of Shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve, which is consistent with the standard form of transfer as prescribed by the relevant regulatory authority and approved by the Directors. All instruments of transfer must be left at the registered office of the Company or at such other place as the Directors may appoint. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members in respect thereof. The Board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The Board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any Share which is not fully paid up, and it may also refuse to register any transfer of any Share to more than four joint holders or any transfer of any Share on which the Company has a lien.

The Board may decline to recognise any instrument of transfer unless a fee of such maximum sum as the relevant regulatory authority may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of Share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on 14 days' notice being given by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles.

(f) Power for the Company to Purchase its Own Shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements of the relevant rules and regulations.

(g) Power for Any Subsidiary of the Company to Own Shares in the Company

There are no provisions in the Articles relating to ownership of Shares in the Company by a subsidiary.

(h) Requirements for Annual General Meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles) at such time and place as may be determined by the Board.

(i) Notices of Meetings and Business to be Conducted Thereat

An annual general meeting shall be called by notice of not less than 21 clear days and not less than 20 clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall be called by notice of at least 21 clear days and not less than 10 clear business days. All other extraordinary general meetings shall be called by notice of at least 14 clear days and not less than 10 clear business days. The notice shall specify the time, place, and agenda of the meeting, particulars of the resolutions to be considered at the meeting and in the case of special business (as defined in the Articles) the general nature of that business. Notice of every general meeting shall be given to all members of the Company (except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the share register), the Company's auditors, each Director and alternate Director, and such other person(s) to whom such notice is required to be given in accordance with the relevant rules and regulations.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, if permitted by the relevant rules and regulations, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. in nominal value of the issued Shares giving that right.

All business carried out at a general meeting shall be deemed special with the exception of (a) declaration and sanctioning a dividend; (b) the consideration of the accounts, balance sheets, and any report of the Directors or of the Company's auditors; (c) the election of Directors whether by rotation or otherwise in the place of those retiring; (d) the appointment of the Company's auditors and other officers; (e) the fixing of the remuneration of the company's auditors, and the voting of remuneration or extra remuneration to the Directors; (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued Shares in the capital of the Company representing not more than 20 per cent. in nominal value of its existing issued share capital; and (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

No special business shall be transacted at any general meeting without the consent of all members of the Company entitled to receive notice of that meeting unless notice of such special business has been given in the notice convening that meeting.

(j) Quorum for Meetings and Separate Class Meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued Shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(k) Special / Ordinary Resolution-Majorities Required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of such members as, being entitled so to do, vote in person or, in the case of such members being corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice, specifying the intention to propose the resolution as a special resolution, has been duly given, or in writing by all members of the Company entitled to vote at a general meeting of the Company.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of such members as, being entitled to do so, vote in person or, in the case of such members being corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles, or in writing by all members of the Company entitled to vote at a general meeting of the Company.

(l) Voting Rights

Subject to any special rights or restrictions as to voting for the time being attached to any Shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid Share of which he is the holder but so that no amount paid up or credited as paid up on a Share in advance of calls or instalments is treated for the foregoing purposes as paid up on the Share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the Shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the relevant rules and regulations, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(m) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise.

(n) Accounts and Audit

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the Directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(o) Dividends and Other Methods of Distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of Share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit. The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of Shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the Shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any Share shall bear interest against the Company.

(p) Call on Shares and Forfeiture of Shares

Subject to the Articles and to the terms of allotment, the Board may from time to time make such calls upon the members in respect of any moneys unpaid on the Shares held by them (whether on account of the nominal value of the Shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of eight per cent. per annum from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any Shares held by him, and upon all or any of the moneys so advanced the Company may pay interest at such rate as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any Share in respect of which notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the date of forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the Shares, but this liability shall cease if and when the Company receives payment in full of the amount unpaid on the Shares forfeited.

(q) Rights of the Minorities in Relation to Fraud or Oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(r) Procedures on Liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution, except where the Company is to be wound up voluntarily because it is unable to pay its debts as they fall due. In such case the resolution shall be an ordinary resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the Shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the authority of an ordinary resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any Shares or other property in respect of which there is a liability.

(s) Untraceable Members

Pursuant to the Articles, the Company may sell any of the Shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the Shares in question (being not less than three in total number) for any sum payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) following the expiry of the 12 year period, the Company has caused an advertisement to be published in accordance with the relevant rules and regulations giving notice of its intention to sell such Shares and a period of three months, or such shorter period as may be permitted by the relevant regulatory authority, has elapsed since the date of such advertisement and the relevant regulatory authority has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(t) Subscription Rights Reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share Capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Memorandum and Articles of Association of the Company to be conditionally adopted on 24 January 2010 (the "Articles") include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial Assistance to Purchase Shares of a Company or its Holding Company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the Directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of Shares and Warrants by a Company and its Subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the Directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account.

(f) Protection of Minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up. Or, as an alternative to a winding-up order, the Court may make the following orders: (a) an order regulating the conduct of the company's affairs in the future; (b) an order requiring the company to refrain from doing or continuing an act complained of by the petitioner or to do an act which the petitioner has complained it has omitted to do; (c) an order authorising civil proceedings to be brought in the name of and on behalf of the company by the petitioner on such terms as the Court may direct; or (d) an order providing for the purchase of the shares of any members of the company by other members or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and Auditing Requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company. Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 2 May 2006. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to Directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of Corporate Records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding Up

A company may be wound up by either an order of the Court, voluntarily or subject to the supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily (a) when the period (if any) fixed for the duration of the company by its memorandum or articles of association expires; (b) if the event (if any) occurs, on the occurrence of which the memorandum or articles of association provide that the company is to be wound up; (c) if the company resolves by special resolution that it be wound up voluntarily; or (d) if the company resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company shall from the commencement of its winding up, cease to carry on its business except so far as it may be beneficial for its winding up.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed one or more than one person to be called an official liquidator or official liquidators of the Company. The Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person may qualify as an official liquidator if that person holds the qualifications specified in the Insolvency Practitioners Regulations of the Cayman Islands. The Court may appoint a foreign practitioner to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, unless one or more persons have been designated as liquidator or liquidators of the company in the company's memorandum and articles of association, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation for it. At least 21 days before the meeting the liquidator must send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Cayman Islands Gazette.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. While a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Mergers and Consolidations

The Companies Law provides that any two or more Cayman Islands companies limited by shares (other than segregated portfolio companies) may merge or consolidate in accordance with the Companies Law. The Companies Law also allows one or more Cayman Islands companies to merge or consolidate with one or more foreign companies (provided that the laws of the foreign jurisdiction permit such merger or consolidation), where the surviving or consolidated company will be a Cayman Islands company.

To effect a merger or consolidation the directors of each constituent company must approve a written plan of merger or consolidation in accordance with the Companies Law. The Plan must then be authorised by each constituent company by a shareholder resolution by a majority in number representing 75% in value of the shareholders voting together as one class. If the shares to be issued to each shareholder in the consolidated or surviving company are to have the same rights and economic value as the shares held in the constituent company, the plan must be authorised by each constituent company by a special resolution of the shareholders voting together as one class.

Where a parent is merging with one or more of its Cayman Islands subsidiaries, shareholder consent is not required.

(q) Compulsory Acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety per cent of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Walkers, the Company's legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Companies Law. Any person wishing to have a detailed summary of the Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

I. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of Our Company

We were incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 April 2006. We are registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 28 December 2009, and our Company's principal place of business in Hong Kong is at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. Mr. Wai Fung Ngai, whose office is located at 8/F, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong has been appointed to accept service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, our corporate structure and our Memorandum and Articles of Association are subject to the laws of the Cayman Islands. A summary of certain provisions of our Memorandum and Articles of Association and certain aspects of the Companies Law is set forth in Appendix VI, "Summary of Memorandum and Articles of Association and Cayman Companies Law " to this document.

2. Changes in the Share Capital of Our Company

The following sets out the changes in our Company's issued share capital since the date of its incorporation:

(a) As of the incorporation of the Company on 12 April 2006, its authorised share capital was US$50,000 divided into 2,500 ordinary shares of US$10.00 each and 2,500 preferred shares of US$10.00 each.

(b) On 16 May 2006, 910 ordinary shares, 63 ordinary shares, 13.5 ordinary shares and 13.5 ordinary shares of nominal value US$10.00 each of the Company were allotted and issued to TJCC Holdings, Mr. Rubo Li, Mr. Emory Williams, and Williams Realty, respectively, at the purchase price of US$1,000.00 each.

(c) On 16 May 2006, 1,000 preferred shares of nominal value of US$10.00 each were issued to TJCC Holdings at the purchase price of US$64,000 each for an aggregate of US$64 million.

(d) On 12 December 2007, 601.5625 preferred shares of nominal value of US$10.00 each were issued to TJCC Holdings at the purchase price of US$64,000 each for an aggregate of US$38.5 million.

(e) On 17 December 2009, the Company repurchased 156.25 preferred shares of nominal value of US$10.00 each from TJCC Holdings at the repurchase price of US$10.0 million.

(f) On 23 December 2009, the Company repurchased 522.234375 preferred shares of nominal value of US$10.00 each from TJCC Holdings at the repurchase price of US$33.4 million, with 923.078125 preferred shares remaining outstanding.

(g) On 24 January 2010, the Company increased and revised its authorised share capital to HK$500,000,000 divided into 5,000,000,000 Shares with a par value of HK$0.10 each and 10,000 Shares were allotted and issued to the four holders of our ordinary shares in proportion to their existing shareholdings in exchange for the 1,000 issued ordinary shares with a nominal value of US$10.00 each held by them and the authorised and unissued 1,500 ordinary shares with a nominal value of US$10.00 each will be cancelled.

Save as disclosed herein, there has been no alteration in our share capital since our incorporation.

3. Written Resolutions of Our Shareholders Passed on 24 January 2010

Pursuant to the written resolutions of all shareholders entitled to vote at general meetings of the Company, the following resolutions, among others, passed on 24 January 2010:

(a) the authorised share capital of the Company was increased from US$50,000 divided into (i) 2,500 common shares of a nominal or par value of US$10.00 each and (ii) 2,500 preferred shares of a nominal or par value of US$10.00 each, to (i) HK$500,000,000 divided into 5,000,000,000 ordinary shares of a nominal or par value of HK$0.10 each; and (ii) US$50,000 divided into (A) 2,500 common shares (1,000 common shares having been issued and 1,500 common shares authorised but unissued) and (B) 2,500 preferred shares (923.078125 preferred shares issued and outstanding and 1,576.921875 unauthorised but unissued preferred shares), by the creation of 5,000,000,000 ordinary shares; and

(b) immediately following the Company's repurchase of the 1,000 common shares held by the existing four holders of common shares at par value in consideration for the simultaneous issuance by the Company to them in proportion to their existing shareholdings as follows at par value, fully paid, of an aggregate of 10,000 Shares, to be authorised by the resolutions passed at a meeting of the Board of even date and effected thereafter in the register of members of the Company (such repurchase and issuance having been agreed to by the four holders of common shares), the authorised share capital of the Company be reduced from (i) HK$500,000,000 divided into 5,000,000,000 ordinary shares; and (ii) US$50,000 divided into (A) 2,500 common shares and (B) 2,500 preferred shares, to (i) HK$500,000,000 divided into 5,000,000,000 ordinary shares and (ii) US$25,000 divided into 2,500 preferred shares by the cancellation of the 2,500 common shares.

Name of Shareholder	Number of common shares to be repurchased by the Company	Number of Shares to be issued in exchange for the existing common shares
TJCC Holdings	910	9,100
Rubo Li	63	630
Emory Williams	13.5	135
Williams Realty	13.5	135
Total:	1,000	10,000

4. Corporate Reorganisation

For information with regard to our corporate reorganisation, please refer to the section headed "Reorganisation" in this document.

5. Changes in the Share Capital of Our Subsidiaries

The subsidiaries of our Company as of the date of this document include all entities set out in the section headed "Accountants' Report of International Mining Machinery Holdings Limited" as included in Appendix I to this document. 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 document.

6. Sino-foreign Joint Ventures

Information regarding the Sino-foreign equity joint ventures, cooperative or contractual joint ventures:

Huainan Longwall

Parties and equity interest:	IMM AFC 75%; and Huainan Benniu (淮南奔牛機械有限責任公司) 25%
Term of joint venture:	50 years
Date of establishment:	27 June 2007
Scope of business:	Design, production, sale, maintenance and repair, and after-sale services in respect of coal mining machinery, conveyor machinery, crushing machinery, gadding machinery and spare parts and accessories; installation and maintenance and repair of coal mining machinery
Nature:	Sino-foreign equity joint venture
Total investment amount:	RMB 220,000,000
Registered share capital:	RMB 100,000,000

In December 2009, IMM AFC entered into an equity transfer agreement with Huainan Benniu to acquire the remaining 25% equity interest in Huainan Longwall. Upon completion of the approval and registration procedures with the relevant PRC authorities, Huainan Longwall will become a wholly-owned subsidiary of the Company. Approval and registration procedures relating to the acquisition were completed on 19 January 2010.

II. 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 document, which are or may be material:

(a) An assignment contract dated 15 August 2008 entered into between Jiamusi Machinery and Zhengzhou Siwei, pursuant to which Zhengzhou Siwei agreed to assign and Jiamusi Machinery agreed to acquire Zhengzhou Siwei's rights and obligations to subscribe for RMB20,000,000 in Tianlong Machinery's registered capital together with all the rights and obligations related thereto at nil consideration;

(b) An intangible asset sale and purchase contract dated 1 November 2008 entered into between Huainan Longwall and Huainan Benniu, pursuant to which Huainan Longwall agreed to purchase and Huainan Benniu agreed to sell 5 patents for utility model, 44 proprietary technologies relating to drawings and manufacturing process flow and other intangible assets relating to technology documents regarding 41 safety logo certificates for mining products in the total consideration of RMB25,000,000;

(c) A plant lease contract dated 26 November 2008 as supplemented by a supplemental plant lease contract dated 31 December 2009, entered into between Huainan Longwall and Huainan Benniu, pursuant to which Huainan Benniu as lessor agreed to lease to Huainan Longwall as leasee a plant in an aggregate gross floor area of approximately 21,176 m^2 situated at Luohe Economic Development Zone, Huainan City, Anhui, the PRC at a consideration of RMB250,000 per month for a term commencing from 21 November 2007 to 30 June 2010;

(d) An equity transfer agreement dated 3 December 2009 entered into between IMM AFC and Huainan Benniu, pursuant to which IMM AFC acquired 25% equity interest in Huainan Longwall from Huainan Benniu at a cash consideration of RMB51,400,000;

(e) An amended consulting agreement dated 4 December 2009 entered into between the Company and Mr. Rubo Li whereby the Company agreed to retain Mr. Rubo Li as a consultant to provide advisory and consulting services to the Company for a compensation of US$21,000 per month for a term commencing from 4 December 2009 to 1 May 2011;

(f) An omnibus assignment and assumption agreement dated 31 December 2009 entered into between the Company and TJCC Holdings, pursuant to which the Company agreed to assign the loans and interest receivables, payable by HK Siwei, Mr. Rubo Li, Mr. Emory Williams and Williams Realty, in an aggregate amount of approximately US$22.9 million to TJCC Holdings and TJCC Holdings to forgive and discharge approximately US$22.9 million of intercompany loans and interests owed by the Company to TJCC Holdings;

(g) A letter agreement dated 4 December 2009 entered into among the Company, TJCC Holdings, TJCC Services, Mr. Rubo Li, Mr. Emory Williams and Williams Realty whereby the parties agreed, among other things, (i) the entering into of the amended consulting agreement between the Company and Mr. Rubo Li as mentioned in (e) above, (ii) the assignment and set-off of various related parties loans between the Company, TJCC Holdings and TJCC Services; (iii) the declaration of a contingent dividend; (iv) the termination of the founder participation agreement; (v) the assignment of the "International Mining Machinery" name from Mr. Rubo Li, Mr. Emory Williams and Williams Realty to the Company, etc.; and

(h) A non-competition undertaking dated 24 January 2010 entered into between the Company, The Resolute Fund, L.P. and The Jordan Company, L.P. pursuant to which The Resolute Fund, L.P. and The Jordan Company, L.P. agreed not to compete with our main business, further details of which are set out in the section headed "Relationship With Our Controlling Shareholders — Non-Competition Undertaking".

2. Intellectual Property Rights

(a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks:

Trademark	Registered owner	Class	Place of registration	Validity period	Registration number
国际煤机	Company	7	PRC	7 August 2007 to 6 August 2017	4394989
IMM	Company	7	PRC	7 August 2007 to 6 August 2017	4394991
	Jixi Machinery	7	PRC	7 January 2006 to 6 January 2016	3822928
哈美龙	Jixi Machinery	9	PRC	28 May 2006 to 27 May 2016	4021395
大力士	Jiamusi Machinery	7	PRC	14 January 2001 to 13 January 2011	1507495
大力士	Jiamusi Machinery	7	PRC	5 July 2003 to 4 July 2013	182027
佳煤机械	Jiamusi Machinery	7	PRC	28 May 2009 to 27 May 2019	5438120
佳煤	Jiamusi Machinery	7	PRC	28 May 2009 to 27 May 2019	5438122
佳煤机	Jiamusi Machinery	7	PRC	28 May 2009 to 27 May 2019	5445308

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks:

Trademark	Name of applicant	Class	Place of application	Application number	Application date
IMM INTERNATIONAL MINING MACHINERY	Company	7	PRC	6958375	17 September 2008
IMM INTERNATIONAL MINING MACHINERY	Company	9	PRC	6958376	17 September 2008
IMM INTERNATIONAL MINING MACHINERY	Company	11	PRC	6958427	17 September 2008
IMM INTERNATIONAL MINING MACHINERY	Company	35	PRC	6958428	17 September 2008
IMM INTERNATIONAL MINING MACHINERY	Company	37	PRC	6958429	17 September 2008
IMM 国际煤机集团 INTERNATIONAL MINING MACHINERY	Company	7	PRC	6958370	17 September 2008
IMM 国际煤机集团 INTERNATIONAL MINING MACHINERY	Company	9	PRC	6958371	17 September 2008
IMM 国际煤机集团 INTERNATIONAL MINING MACHINERY	Company	11	PRC	6958372	17 September 2008
IMM 国际煤机集团 INTERNATIONAL MINING MACHINERY	Company	35	PRC	6958373	17 September 2008
IMM 国际煤机集团 INTERNATIONAL MINING MACHINERY	Company	37	PRC	6958374	17 September 2008
IMM 国际煤机集团 INTERNATIONAL MINING MACHINERY	Company	7, 9, 11, 35, 37	Hong Kong	301477062	16 November 2009

(b) Patents

As at the Latest Practicable Date, our Group had registered the following patents:

Patent	Registered owner	Place of registration	Validity period	Registration number
Loading test bed for shearer loaders used on coal mining unit (採煤機截割機構載入試驗裝置)	Jixi Machinery	PRC	8 November 2004 to 7 November 2014	ZL 2004 2 0063726.1
Speed regulating device for haulage system used on coal mining unit (採煤機牽引系統的調速裝置)	Jixi Machinery	PRC	4 March 2005 to 3 March 2015	ZL 2005 2 0020346.4
Helical drum for cutting unit of roadheaders (掘進機截割頭螺旋滾筒)	Jiamusi Machinery	PRC	11 August 2005 to 10 August 2015	ZL 2005 2 0021418.7

Patent	Registered owner	Place of registration	Validity period	Registration number
Inside spray device for roadheaders (掘進機內噴霧裝置)	Jiamusi Machinery	PRC	11 August 2005 to 10 August 2015	ZL 2005 2 0021417.2
Bolting drill rig for roadheaders (掘進機錨杆鑽機裝置)	Jiamusi Machinery	PRC	11 August 2005 to 10 August 2015	ZL 2005 2 0021419.1
Finned plate oil cooler for roadheaders (掘進機板翅式油冷卻器)	Jiamusi Machinery	PRC	30 August 2005 to 29 August 2015	ZL 2005 2 0021537.2
Triple chain scraper for roadheaders (掘進機三鏈式刮板裝置)	Jiamusi Machinery	PRC	11 August 2005 to 10 August 2015	ZL 2005 2 0021416.8
Tensioner for oil tank (油缸張緊裝置)	Jiamusi Machinery	PRC	30 August 2005 to 29 August 2015	ZL 2005 2 0021538.7
Internal finned tube cooler for oil tanks of roadheaders (掘進機油箱內置式管翅冷卻器)	Jiamusi Machinery	PRC	24 September 2007 to 23 September 2017	ZL20072011 7092.7
Auxiliary thrust device for roadheaders (掘進機助推裝置)	Jiamusi Machinery	PRC	15 July 2007 to 14 July 2017	ZL20072011 6611.8
Water feeder for internal spray of roadheaders (掘進機內噴霧給水裝置)	Jiamusi Machinery	PRC	15 July 2007 to 14 July 2017	ZL20072011 6612.2
Locking device for explosion-proof compartment of roadheaders (掘進機隔爆殼體門閉鎖裝置)	Jiamusi Machinery	PRC	3 September 2007 to 2 September 2017	ZL20072011 6945.5
Oil temperature and oil volume monitoring device for roadheaders (掘進機油溫油位監控裝置)	Jiamusi Machinery	PRC	3 September 2007 to 2 September 2017	ZL20072011 6946.X
Narrow bolt drilling device (窄錨杆鑽車裝置)	Jiamusi Machinery	PRC	24 September 2008 to 23 September 2018	ZL20082009 0990.2
Rotary device for vacuum dust cleaner of roadheaders (掘進機負壓除塵回轉裝置)	Jiamusi Machinery	PRC	24 September 2008 to 23 September 2018	ZL20082009 0988.5

Patent	Registered owner	Place of registration	Validity period	Registration number
Blowing device for vacuum dust cleaner of roadheaders (掘進機負壓除塵風筒裝置)	Jiamusi Machinery	PRC	24 September 2008 to 23 September 2018	ZL20082009 0989.X
Roadheaders (掘進機)	Jiamusi Machinery	PRC	3 September 2007 to 2 September 2017	ZL20073013 0191.4
Open roof linepan with sliding side windows (擋板側抽拉式開天窗中部槽)	Huainan Longwall	PRC	26 July 2006 to 25 July 2016	ZL20062007 6071.0
Common sprocket (通用銷排)	Huainan Longwall	PRC	26 July 2006 to 25 July 2016	ZL20062007 6073.X
Multi-function linepan with open roof (多功能開天窗中部槽)	Huainan Longwall	PRC	26 July 2006 to 25 July 2016	ZL20062007 6074.4
Non-symmetric linking linepan for mining (礦用非對稱連接的中部槽)	Huainan Longwall	PRC	26 July 2006 to 25 July 2016	ZL20062007 6072.5
Mining scraper-type conveyor adapted for double chain usage (可適用於兩種鏈條的礦用輸送刮板機)	Huainan Longwall	PRC	26 July 2006 to 25 July 2016	ZL20062007 6067.4

As at the Latest Practicable Date, our Group had applied for registration of the following patents:

Patent	Name of applicant	Place of application	Application number	Application date
Sealed inside spray device for roadheaders (掘進機內噴霧密封裝置)	Jiamusi Machinery	PRC	200920100043.1	31 May 2009
Steam and water spray dust cleaning device for roadheaders (掘進機氣液噴射滅塵裝置)	Jiamusi Machinery and Sichuan Jiayang Group Co., Ltd. (四川嘉陽集團有限責任公司) (Note)	PRC	200920100044.6	31 May 2009

Note: This application was made jointly by Jiamusi Machinery and Sichuan Jiayang Group Co., Ltd. (*四川嘉陽集團有限責任公司*), which was an independent third party of the Company.

(c) Domain names

As at the Latest Practicable Date, we have full legal rights over and have registered the following domain names:

Domain name	Registrant	Date of registration	Expiry date
immchina.com	the Company	18 October 2006	18 October 2011

Save as aforesaid, there are no other trademarks, patents or other intellectual property rights which are material in relation to the Group's business.

III. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Particulars of Directors' Service Agreements and Letters of Appointment

Each of the executive Directors, except for Mr. Thomas H. Quinn, has entered into a service contract with our Company for an initial term of three years. Each of these service contracts may be terminated by either party thereto giving to the other party not less than three months' prior notice in writing. The aggregate annual salary of our executive Directors is expected to be approximately US$1,117,205.9 (equivalent to approximately HK$8,659,239.5) for the year of 2010.

Each of the non-executive Directors, except for Mr. John W. Jordan II, and independent non-executive Directors, has entered into a letter of appointment with our Company. Except for the letter of appointment entered into with Mr. Rubo Li which has a term commencing from 4 December 2009 and ending on 1 May 2011, each letter of appointment for an initial term of three years. The aggregate annual salary of our non-executive Directors and independent non-executive Directors is expected to be approximately US$499,235.3 (equivalent to approximately HK$3,869,473.0) for the year of 2010.

Save as disclosed in this document, none of our Directors has or is proposed to have a service contract with any member of our Company (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

We have not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determinable by us within one year without payment of compensation (other than statutory compensation).

2. Directors' Remuneration

Our Company's policies concerning remuneration of executive Directors are as follows:

(i) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on the Director's experience, responsibility, workload, time devoted and contribution to our Group;

(ii) certain executive Directors are entitled to a discretionary bonus, the calculation of such bonus is based on the performance of our Company; and

(iii) the executive Directors may be granted, at the discretion of the Board and subject to relevant rules and regulations and the relevant share option scheme, share options under the share option scheme of the Company.

The aggregate remuneration paid (including benefits in kind) to our Directors by our Company and members of the Group in respect of the three financial years ended 31 December 2008 and the seven months period ended 31 July 2009 were approximately RMB17.991 million, RMB14.145 million, RMB9.302 million and RMB7.731 million, respectively. Details of the Directors' remuneration are also set out in note 9 of the "Accountants' Report of International Mining Machinery Holdings Limited" in Appendix I to this document. In addition, each of Mr. Kee-Kwan Allen Chan and Mr. Youming Ye holds 40.0% equity interest in TJCC Services. During the Relevant Period, we paid TJCC Services a management fee of US$2.5 million (equivalent to approximately HK$19.4 million) per year for the services it provided, pursuant to a management consulting agreement. Under their respective employment agreement with TJCC Services, besides their potential bonuses, Mr. Kee-Kwan Allen Chan was entitled to a compensation of US$360,000 per year (equivalent to approximately HK$2,790,288) and Mr. Youming Ye was entitled to a compensation of US$400,000 per year (equivalent to approximately HK$3,100,320). Upon the completion of the Reorganisation, the management consulting agreement will be terminated, and Mr. Kee-Kwan Allen Chan and Mr. Youming Ye, each as our executive Director, will receive compensation directly from our Company.

Save as disclosed in this document, no other emoluments have been paid or are payable by our Company or members of the Group to the Directors in respect of the three financial years ended 31 December 2008.

None of the Directors or any past directors of any member of our Group has been paid any sum of money for the three years ended 31 December 2008 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

Under the current arrangements, our Company estimates that our Directors will be entitled to receive remuneration and benefits in kind (excluding discretionary bonus) from our Company or members of the Group for the financial year ending 31 December 2010 of approximately US$1,616,441.2 (equivalent to approximately HK$12,528,712.5) in aggregate.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2008 and the seven months ended 31 July 2009.

3. Disclaimers

Save as disclosed in this document:

(a) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;

(b) none of our Directors or any of the persons referred to in the paragraph headed "Qualifications of Experts" of this Appendix is interested, directly or indirectly, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of our Group, or are proposed to be so acquired, disposed of or leased to any member of our Group; and

(c) none of the persons referred to in the paragraph headed "Qualifications of Experts" of this Appendix has any shareholding in our Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Company.

IV. SHARE OPTION SCHEME

1. Summary of Terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by written resolutions of all the shareholders passed on 24 January 2010. The terms of the Share Option Scheme are in compliance with the provisions of the relevant rules and regulations. For the purpose of this section, unless the context otherwise requires:

"Adoption Date" means 24 January 2010 (being the date on which the Share Option Scheme will be conditionally adopted by written resolutions of the shareholders of the Company);

"Grant Date" means the date (being a Business day) on which the grant of an Option is made to (and subject to acceptance by) a Participant;

"Grantee" means any Participant who accepts the grant of Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled under the Share Option Scheme to exercise any such Option in consequence of the death of the original Grantee;

"Participant" means any individual being an employee, officer, agent, consultant or representative of the Company or any subsidiary, including any executive or non-executive director of the company or any subsidiary, who satisfies the criteria set out in the Share Option Scheme;

"Option(s)" means an option or options to subscribe for Shares granted (and subject to acceptance by) a Participant pursuant to the Share Option Scheme;

"Option Period" means the period of ten years commencing on the Adoption Date or the Grant Date, whichever is the earlier; and

"Subscription Price" the price per Share at which the Grantee may subscribe for Shares on the exercise of an Option, subject to adjustment in accordance with the Share Option Scheme.

(a) Purposes of the scheme

The purpose of the Share Option Scheme is to provide incentives to Participants to contribute to the Group by providing the Participants the opportunity to acquire proprietary interests in the Company and to encourage the Participants to work towards enhancing the value of the Company as well as to enable the Group to recruit high-caliber employees and/or attract human resources that are valuable to the Group.

(b) Who may join

The Board may at any time and from time to time during the Option Period to grant (subject to acceptance by the Grantee in accordance with the terms of the Share Option Scheme) to any Participant who, the Board may determine in its absolution discretion, is regarded as valuable human resources of the Group based on his work experience, knowledge in the industry and other relevant factors, and subject to such conditions as the Board may think fit, an Option to subscribe for such number of Shares as the Board may determine at the Subscription Price. No such grants shall be made except to such number of Participants and in such circumstances that (a) the Company will not be required under applicable securities laws and regulations to issue a Prospectus or other offer document in respect of the grant of the Options; and (b) will not result in the breach by the Company or its directors of any applicable securities laws and regulations or in any filing or other requirements arising.

(c) Payment on acceptance of Option

HK$1.00 is payable by the Grantee on acceptance of the grant of an Option.

(d) Subscription Price

The Subscription Price for the Shares under the Options to be granted under the Share Option Scheme shall be a price determined by the Board and notified to a Participant at the time the grant of the Option(s) (subject to adjustments made pursuant to the terms of the Share Option Scheme) is made to (and subject to acceptance by) the Participant and shall be at least the highest of the nominal value of the Shares.

(e) Maximum number of Shares subject to the Share Option Scheme

The limit on the total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of any member of the Group must not exceed 30% of the number of issued Shares from time to time. No Option may be granted if such grant will result in the 30% limit being exceeded. Options lapsed or cancelled in accordance with the terms of the Share Option Scheme or any other share option scheme(s) of any member of the Group, shall not be counted for the purpose of calculating the said 30% limit.

In addition, subject as provided below in this paragraph (e), the total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme, together with all Options to be granted under any other share option schemes of any member of the Group, must not represent more than 10% of the total number of Shares. No Option may be granted if such grant will result in the 10% limit being exceeded. Options lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme(s) of any member of the Group shall not be counted for the purpose of calculating the 10% limit.

The Company may refresh the 10% limit (or further refresh a refreshed 10% limit) at any time, subject to prior shareholders' approval given at a general meeting of the Company in accordance with the relevant procedural requirements of relevant rules and regulations, provided that the new refreshed 10% limit must not exceed 10% of the number of issued Shares as at the date of the approval of the new refreshed 10% limit. No Options may be granted to (and subject to acceptance by) a Participant on or after the date of the approval of the new refreshed 10% limit if such grant will result in the new refreshed 10% limited being exceeded unless the Company obtains separate approval from the shareholders in general meeting in accordance with the relevant procedural requirements of relevant rules and regulations for granting Options beyond the 10% limit (or new refreshed 10% limit) to such Participants, in respect of such number of Shares and on such terms as may be specified in such approval. Any Options previously granted under the Share Option Scheme or any other share option scheme(s) of any member of the Group (including those outstanding, cancelled or lapsed or exercised Options) will not be counted for the purpose of calculating the new refreshed 10% limit.

No Participant shall be granted an Option which, if accepted and exercised in full, would result in the total number of Shares already issued and which may fall to be issued upon exercise of such Option proposed to be granted and all other Options already granted and to be granted to him/her under the Share Option Scheme and any other share option scheme(s) of any member of the Group, within the 12-month period up to and including the proposed Grant Date (including exercised, cancelled and outstanding Options), would represent in aggregate over 1% of the number of Shares in issue as at the proposed Grant Date. Any further grant of Options to a Participant in excess of 1% limit is subject to the prior approval of the shareholders of the Company in general meeting, in accordance with the relevant procedural requirements of relevant rules and regulations, at which meeting such Participant and his/her Associates shall abstain from voting on the relevant resolution, the Board may grant Options to such Participant in respect of such number of Shares and on such terms as may be specified in the shareholders' approval, notwithstanding that such grant of Options will result in the 1% limit being exceeded.

(f) Exercise of Option

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

The right to exercise an Option is not subject to or conditional upon the achievement of any performance target.

(g) Rights are personal to Grantee

An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option or purport to do any of the foregoing. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option, or any part of it, in favour of such Grantee.

(h) Rights on ceasing employment or other engagement

In the event of the Grantee ceasing to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of any member of the Group for any reason, other than his death, ill health, disability or insanity or the termination of his employment, office, agency, consultancy or representation on one or more of the grounds specified in the Share Option Scheme, then, if the Option Period has not at the date of such cessation commenced, the Option shall lapse; and if the Option Period has commenced, the Grantee may exercise the Option up to his entitlement at the date of cessation (to the extent not already exercised) until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of one month (or such longer period as the Board may determine) following the date of such cessation, which date shall be the last actual day of employment, office, agency, consultancy or representation with the relevant member of the Group whether payment in lieu of notice is made or not (if applicable);

For the purposes of this paragraph (h), a Grantee shall not be regarded as ceasing to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of the relevant member of the Group if he ceases to hold a position of employment, office, agency, consultancy or representation with a particular member of the Group but at the same time takes up a different position of employment, office, agency, consultancy or representation with another member of the Group.

(i) Rights on death, ill health, disability or insanity

In the event of the Grantee ceasing to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of the Company or any member of the Group by reason of death, ill health, disability or insanity and none of the events which would be a ground for termination of his employment, office, agency, consultancy or representation specified in the Share Option Scheme has occurred, the Grantee or the legal personal representative(s) of the Grantee shall be entitled after commencement of the Option Period until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 12 months from the date of cessation (or such longer period as the Board may determine) to exercise the Option (to the extent not already exercised) in full or to the extent specified in the notice to exercise such Option;

(j) Rights on takeover

If a general offer to acquire Shares (whether by takeover offer, merger, privatisation proposal by scheme of arrangement between the Company and its members or otherwise in like manner) is made to all the shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, the Grantee (or his legal personal representative(s)) shall, even if the Option Period has not yet commenced, be entitled to exercise the Option (to the extent not already exercised) at any time until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 14 days after the date on which the offer becomes or is declared unconditional, after which the Option shall lapse;

(k) Rights on winding up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith after it despatches such notice to each member of the Company give notice to all Grantees, and upon receipt of such notice, each Grantee (or his legal personal representative(s)) shall, even if the Option Period has not yet commenced, be entitled to exercise all or any of his Options at any time not later than five Business Days prior to the record date for ascertaining entitlements to attend and vote at the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the record date for ascertaining entitlements to attend and vote at the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid;

(l) Rights on reconstruction of the Company

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies and a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving such a compromise or arrangement, the Company shall forthwith after it despatches such notice to each member of the Company give notice to all Grantees, and upon receipt of the notice, each Grantee (or his legal personal representative(s)) shall, even if the Option Period has not yet commenced, be entitled to exercise all or any of his Options at any time not later than five Business Days prior to the record date for ascertaining entitlements to attend and vote at the proposed general meeting of the Company (after which the Option shall lapse) by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the record date for ascertaining entitlements to attend and vote at the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

(m) Effects of alterations to capital

In the event of any alteration to the capital structure of the Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of the Company in accordance with legal requirements of the relevant authorities (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction), the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

(a) the maximum number of Shares subject to the Share Option Scheme; and/or

(b) the aggregate number of Shares subject to the Option so far as unexercised; and/or

(c) the subscription price of each outstanding Option,

provided that:

(a) any such adjustments shall give a Grantee the same proportion of the equity capital of our Company as that to which that Grantee was previously entitled; and

(b) any such adjustments shall be made in accordance with the provisions as stipulated under relevant rules and regulations and supplementary guidance on the interpretation of relevant rules and regulations issued by the relevant authorities from time to time,

but no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value. In respect of any such adjustments, an independent financial adviser or our auditors must confirm to the Directors in writing that the adjustments are in their opinion fair and reasonable.

(n) Lapse of Options

An Option shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the expiry of the Option Period;

(ii) the expiry of any of the other periods referred to in paragraphs relating to exercise of Options in (h), (i), (j) or (l) above;

(iii) subject to the paragraphs relating to exercise of Option in (k) above, the date of the commencement of the winding-up of the Company;

(iv) save as otherwise provided in the paragraphs relating to exercise of Options in (j) or (1) above, or by the Court in relation to the scheme in question, upon the sanctioning pursuant to the Companies Law of a compromise or arrangement between the Company and its members or creditors for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies;

(v) the date on which the Grantee ceases to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of the relevant member of the Group by reason of the termination of his employment, office, agency, consultancy or representation on any one or more of the grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer or principal would be entitled to terminate his employment, office, agency, consultancy or representation at common law or pursuant to any applicable laws or under the Grantee's service contract, terms of office, or agency, consultancy, or representation agreement or arrangement with the relevant member of the Group. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the employment, office, agency, consultancy or representation of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph or that one or more of the grounds specified in this paragraph has arisen in respect of the employment, office, agency, consultancy or representation of a Grantee shall be conclusive and binding on the Grantee and, where appropriate, the Grantee's legal personal representative(s);

(vi) the date on which the Grantee ceases to be an employee (including any executive director), officer (including any non-executive director), agent, consultant or representative of the relevant member of the Group for any reason other than death, ill health, disability or insanity if the Option Period has not then commenced and for the purposes of this paragraph the date of cessation shall be the last actual day of employment, office, agency, consultancy or representation with the relevant member of the Group whether payment in lieu of notice is made or not (if applicable); and

(vii) where the Grantee commits breach of paragraph (g) above, the date on which the Board shall exercise the Company's right to cancel the Option.

(o) Ranking and voting rights of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Memorandum and Articles of Association of the Company and will rank pari passu with the fully paid Shares in issue on the date of allotment or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of allotment, or, if later, before the date of registration of the allotment in the register of members of the Company.

A Share issued upon the exercise of an Option shall not carry any voting rights until the registration of the Grantee (or any other person) as the holder of such Share.

(p) Cancellation of Options

The Board may effect the cancellation of any Options granted but not exercised on such terms as may be agreed with the relevant Grantee, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for such cancellation.

Where the Company cancels any Options granted but not exercised and grants new Options to the same Grantee, the grant of such new Options may only be made under the Share Option Scheme if there is available unissued Options (excluding the cancelled Options) within each of the 10%-limits as referred to in paragraph (e) above.

(q) Alteration to the Share Option Scheme

The terms of the Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme relating to matters contained in relevant rules and regulations shall not be altered to the advantage of Participants unless with the prior sanction of a resolution of the shareholders in general meeting.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of Options granted must first be approved by the shareholders of the Company in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

The amended terms of the Share Option Scheme or the Options must still comply with the relevant requirements of relevant rules and regulations.

Any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must first be approved by the shareholders of the Company in general meeting.

(r) Termination of the Share Option Scheme

The Company may at any time by resolution of its shareholders in general meeting or of the Board terminate the operation of the Share Option Scheme and in such event no further Options will be granted or accepted but the provisions of the Share Option Scheme shall remain in force in all other respects. All Options granted and accepted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

(s) Period of the Share Option Scheme

Subject to termination as referred to in paragraph (r) above, the Share Option Scheme shall be valid and effective for: a period of ten years commencing on the Adoption Date or the Grant Date, whichever is the earlier (after which period no further Options will be granted or accepted); and thereafter for so long as there are outstanding any unexercised Options granted and accepted pursuant to the Share Option Scheme prior to the expiration of the said ten-year period and in order to give effect to the exercise of any such Options or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

(t) Conditions

The Share Option Scheme shall come into effect on the date on which the approval of all the shareholders of the Company by written resolutions to approve the adoption of the Share Option Scheme.

(u) Restrictions on the timing of grant of Option

A grant of Options may not be made after a price sensitive event in relation to the securities of the Company has occurred or has been the subject of a decision, until an announcement of such price sensitive information has been duly published. In particular, no Option may be granted within the period commencing 60 days immediately preceding the earlier of: (i) the date of the Board meeting for the approval of the Company's quarterly, interim, half-year or annual results; and (ii) the deadline for the Company to publish its quarterly, interim, half-year or annual results announcement, and ending on the date of such results announcement.

(v) Grant of Options to Connected Persons

Where any grant of Options is proposed to be made to a Participant who is a director, chief executive or substantial shareholder of the Company, or any of their respective Associates, such grant must (i) first be approved by all the independent non-executive directors of the Company excluding any independent non-executive director who is the proposed Grantee of the Options and (ii) shall be made in accordance with the procedures and requirements of applicable laws and applicable regulations.

V. OTHER INFORMATION

1. Taxation on Holders of Shares

(a) Hong Kong

Tax on dividends

No Tax is payable in Hong Kong in respect of dividends paid by us.

Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after 11 February 2006.

(b) Cayman Islands

Under the Cayman Islands law currently in force, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

2. Litigation

We may from time to time be involved in contract disputes or legal proceedings arising from the ordinary course of our business. As of the Latest Practicable Date, neither we nor any of our subsidiaries is a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition, or results of operations, taken as a whole. So far as we are aware, as of the Latest Practicable Date, no such material litigation, arbitration or administrative proceedings are threatened.

3. Tax and Other Indemnity

Estate Duty

The Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, Hong Kong and the PRC, being jurisdictions in which the companies comprising our Group are incorporated.

4. Qualifications of experts

Name	Qualifications
Ernst & Young	Certified public accountants
Savills Valuation and Professional Services Limited	Chartered surveyors and valuers
King & Wood	Legal advisers on PRC law
Walkers	Legal advisers on Cayman Islands law

5. Consents of Experts

Each of Ernst & Young, Savills Valuation and Professional Services Limited, King & Wood and Walkers has given and has not withdrawn its respective written consents to the issue of this document with copies of their reports, valuation certificates, letters or opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

6. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 July 2009 (being the date on which our latest audited combined financial statements were made up).

7. Miscellaneous

7.1 Save as disclosed in this document:

(a) within the two years immediately preceding the date of this document, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or a consideration other than cash;

(b) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) within the two years immediately preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(d) no commission has been paid or is payable to any person for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in the Company;

(e) we have not issued or agreed to issue any founder shares, management shares or deferred shares;

(f) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and

(g) the English text of this document shall prevail over the Chinese text.

7.2 No company within our Group is presently listed on any stock exchange or traded on any trading system.

8. Bilingual Document

The English language and Chinese language versions of this document are being published separately.