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

COAL INDUSTRY OVERVIEW

Global Coal Industry Overview

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

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

Source: BP Statistical Review of World Energy June 2012

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

Global Coal Consumption

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

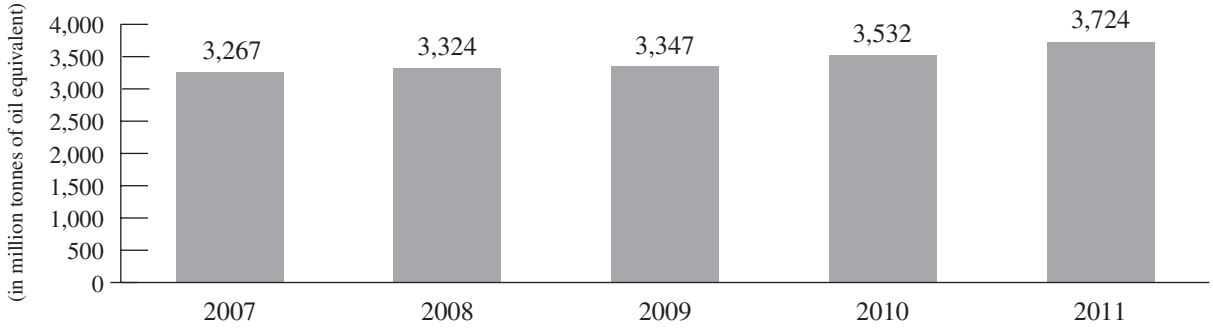
The following table sets forth the distribution of total global energy consumption by energy resource in 2011:

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

Source: BP Statistical Review of World Energy June 2012

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

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



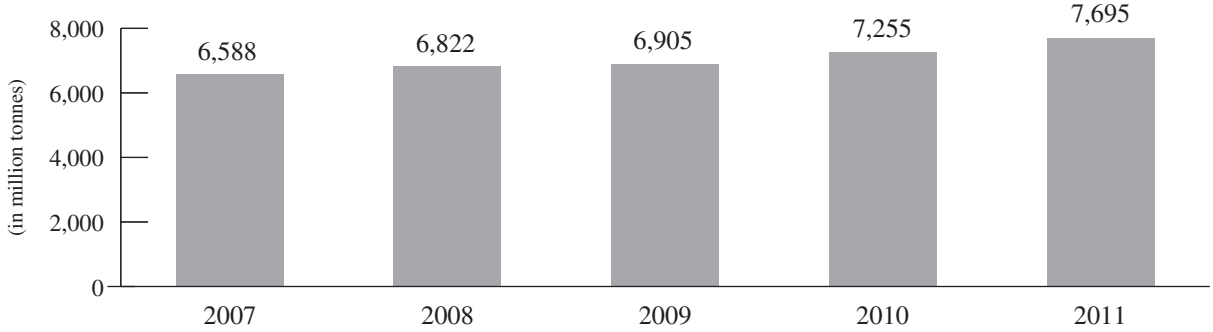
Source: BP Statistical Review of World Energy June 2012

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

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

Global Coal Production

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



Source: BP Statistical Review of World Energy June 2012

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

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

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

Source: BP Statistical Review of World Energy June 2012

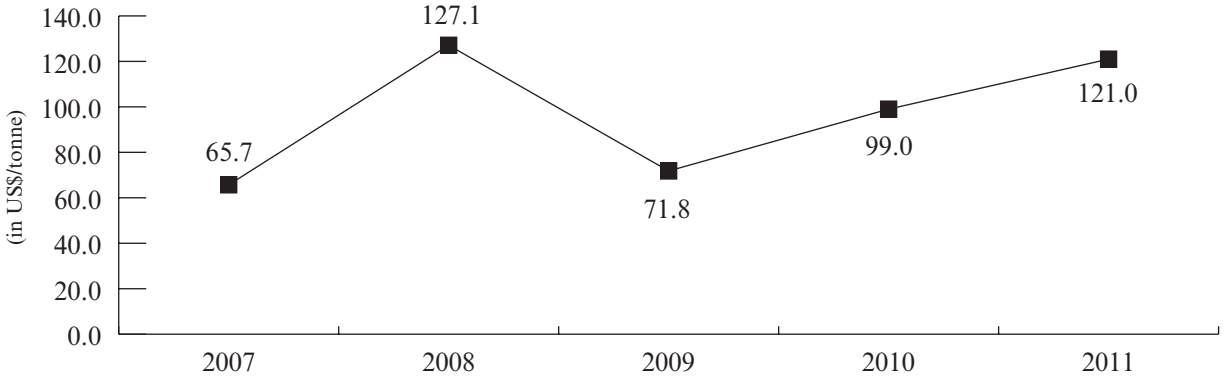
Global Coal Prices

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

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

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

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



Source: EIU

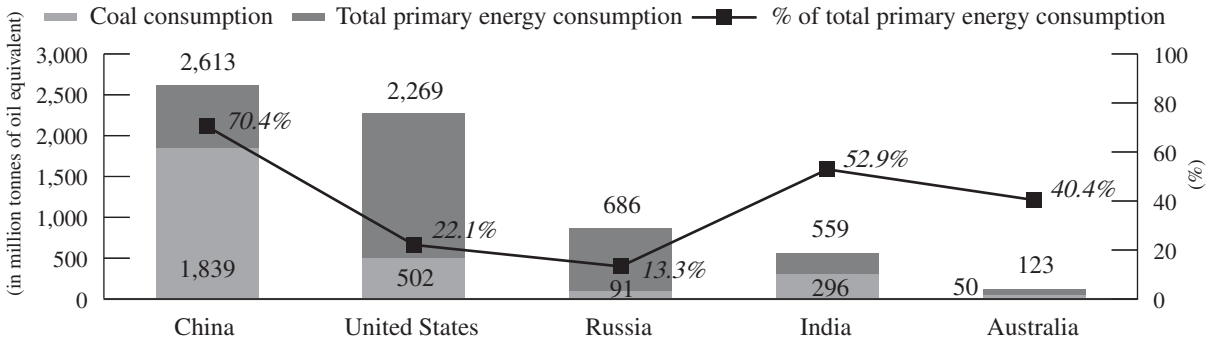
PRC Coal Industry Overview

Coal Consumption in the PRC

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

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

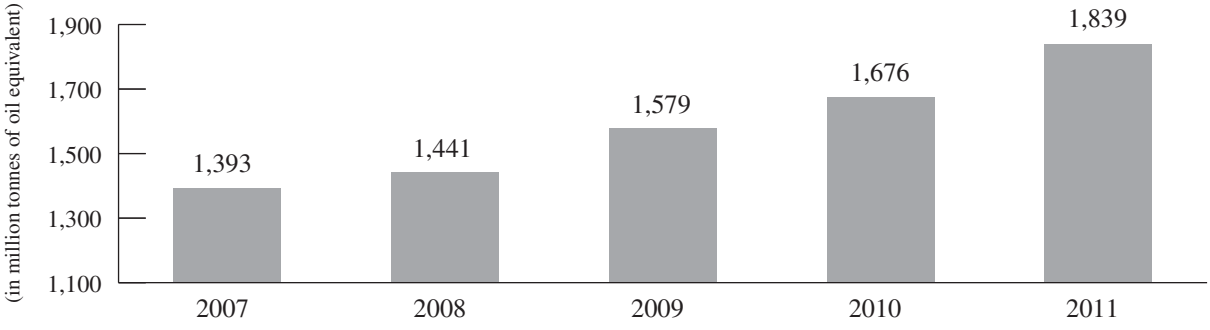
The following chart illustrates the coal consumption of the countries with the most abundant coal reserves in 2011:



Source: BP Statistical Review of World Energy June 2012

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

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

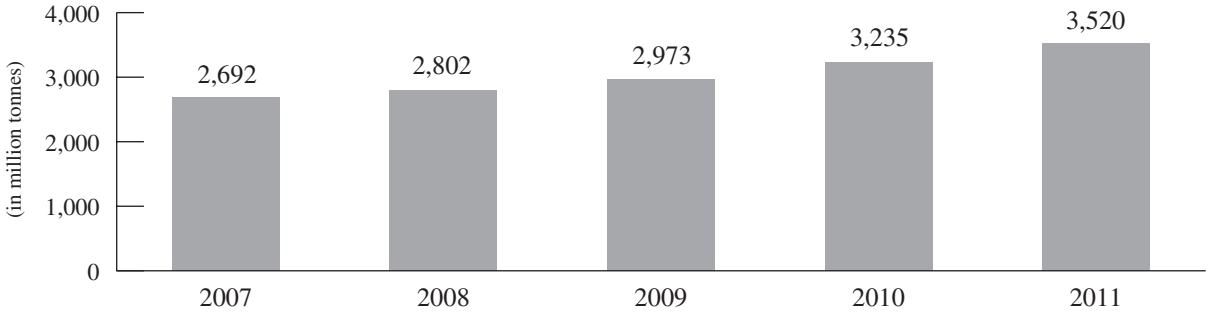


Source: BP Statistical Review of World Energy June 2012

Coal Production in the PRC

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

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



Source: BP Statistical Review of World Energy June 2012

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

Key Drivers of the PRC Coal Industry

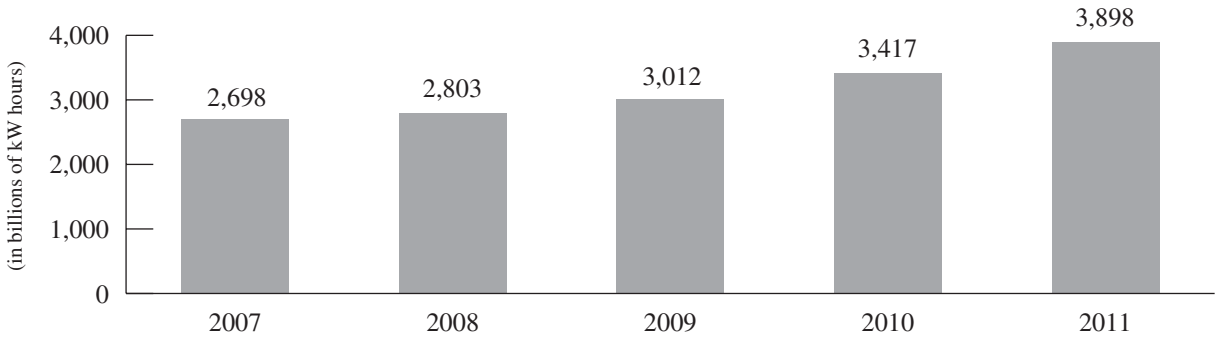
The growth of the coal industry of the PRC is driven by several factors, some of which are discussed below.

Growth of the PRC Electricity Power Industry

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

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

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



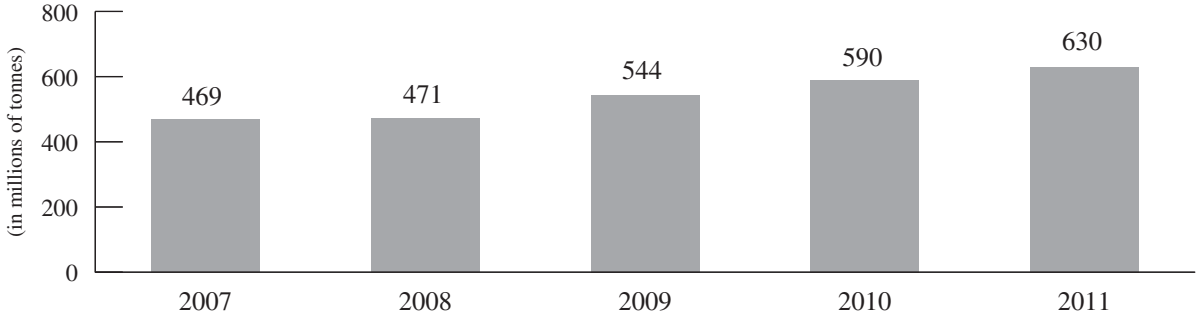
Source: China Electricity Council

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

Growth of the PRC Iron and Steel Industry

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

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



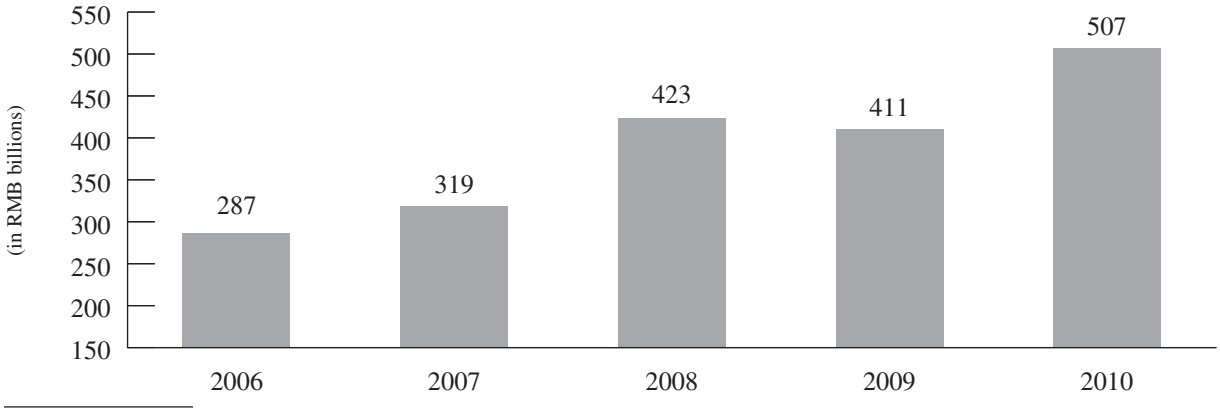
Sources: www.chinacoal.org.cn and www.cnii.com.cn

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

Growth of the PRC Fertilizer Industry

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

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



Source: National Bureau of Statistics of China

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

Development of Large-Scale Coal Mines

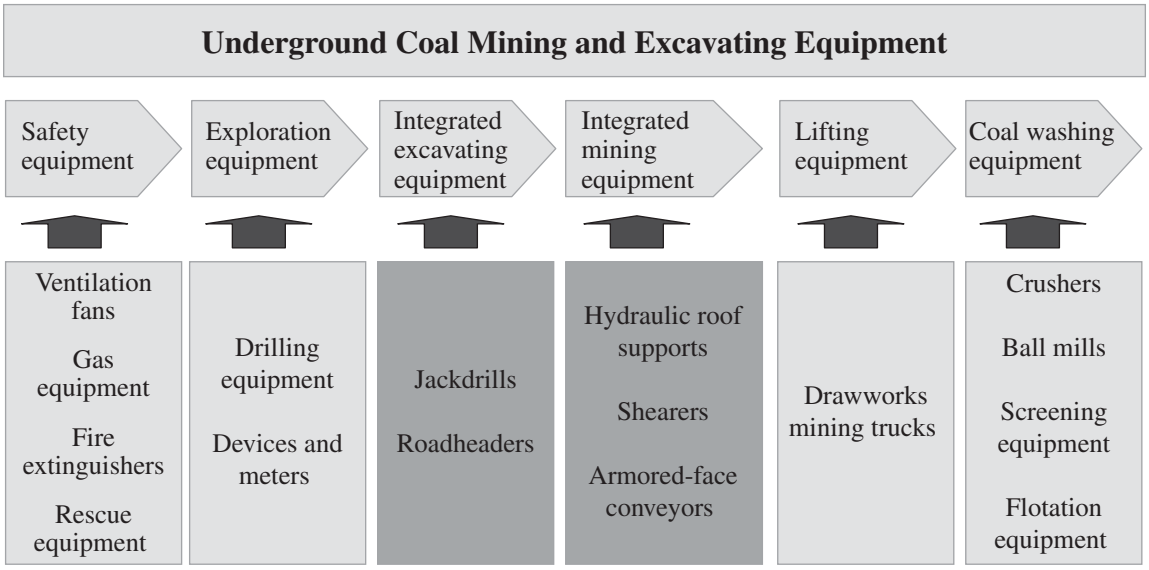
The *Twelfth Five-Year Plan* in relation to the coal industry seeks to create ten 100 million-tonne and ten 50 million-tonne coal enterprises, which, in the aggregate, will account for more than 60% of the total national coal production in the PRC. According to the *Coal Industry Policy*, published by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

COAL MINING AND EXCAVATING EQUIPMENT INDUSTRY OVERVIEW

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

Underground Coal Mining and Excavating Equipment

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



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

The following table describes selected coal mining and excavating equipment:

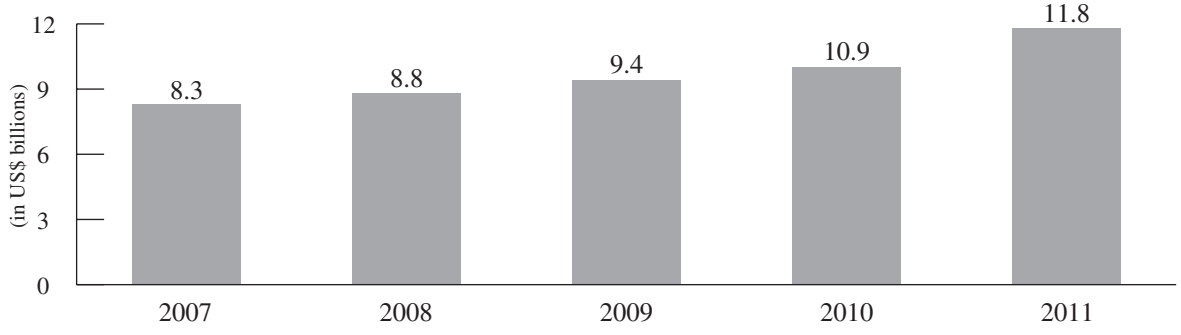
Type of Equipment	Definition	Functions
Hydraulic roof support 	Specialized machine that uses hydraulic mechanisms to control and provide support to the roof of coal mine.	Controls and supports the roof of the working face and prevents rock fragments and other debris from entering the working area and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

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

Overview of the Global Coal Mining and Excavating Equipment Industry

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

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



Source: Heading Century Consulting

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

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

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

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

Source: Heading Century Consulting

Note:

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

Hydraulic Roof Supports

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

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

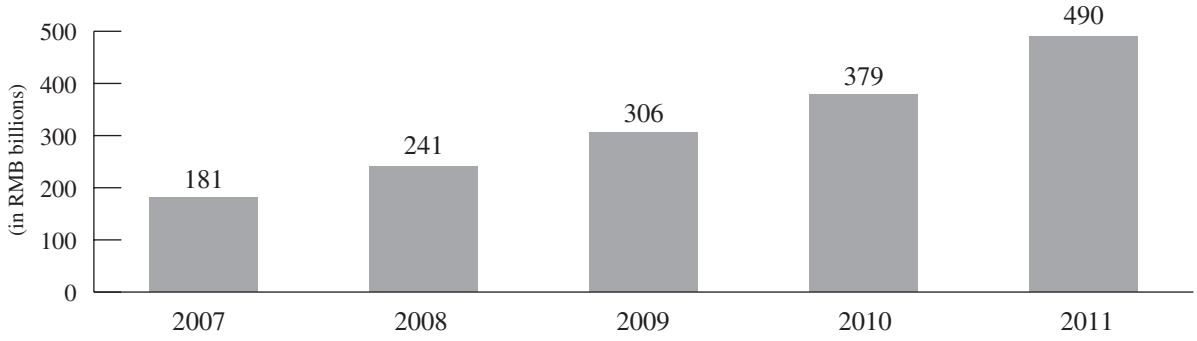
Source: Heading Century Consulting

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

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

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

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

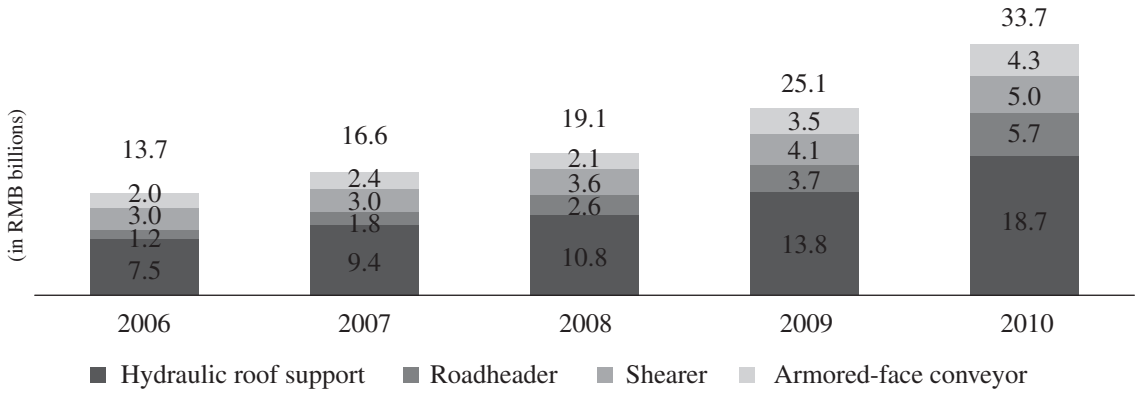


Source: National Bureau of Statistics of China

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

Overall Industry Scale

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



Source: China National Coal Mining Machinery Industry Association

Development Trends of the PRC Coal Mining and Excavating Equipment Industry

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

Industry Consolidation Trends

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

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

Localization

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

New Coal Mine Investments and the Use of Finance Leases

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

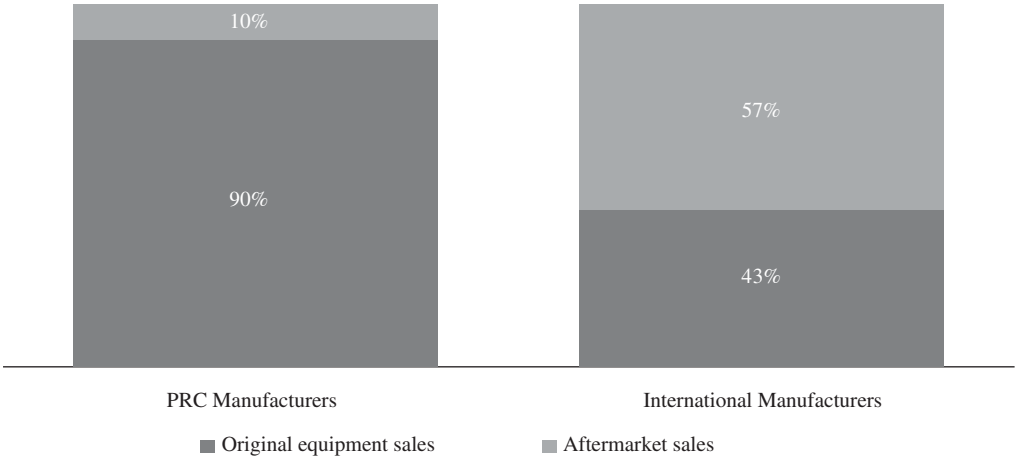
Finance lease arrangements are commonly used by international companies to purchase coal mining and excavating equipment. Typically, a purchaser will lease coal mining and excavating equipment from a supplier, which is generally responsible for providing all maintenance-related services to the customer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

Upgrades, Replacement and Aftermarket Services

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

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

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



Source: Heading Century Consulting

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

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

Improved Production Safety and Mechanization Rates

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

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

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

Recent Industry Developments

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

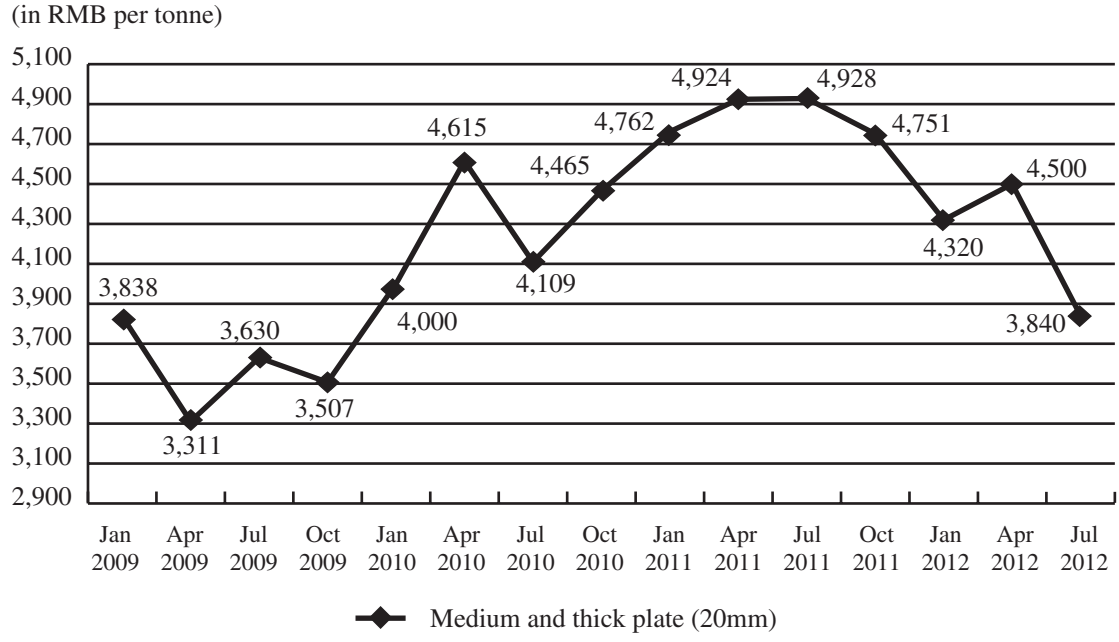
The PRC government's recent efforts to improve safe production are expected to drive the growth of the coal mining and excavating equipment industry. The SAWS and SACMS have recently announced a series of policies in relation to safe production in the PRC coal mining industry. Such efforts are expected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

Recent Steel Price Trends

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

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

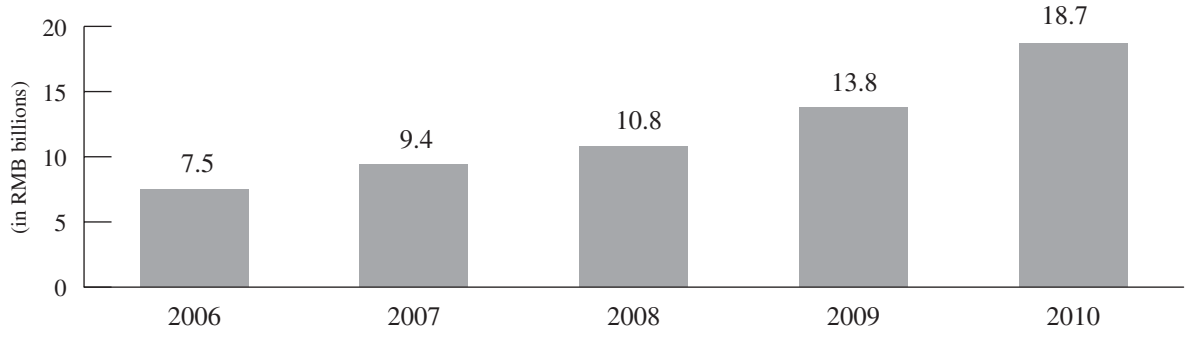
The following chart sets forth the prices of medium and thick plate (20mm) steel in the PRC during the periods indicated:



Sources: China Iron and Steel Association and Bsteel Online

Hydraulic Roof Support Market of the PRC

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



Source: China National Coal Mining Machinery Industry Association

Future Growth Trends of Hydraulic Roof Supports in the PRC

Prevalence of Electronic Hydraulic Control Systems

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

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

Import Substitution for Electronic Hydraulic Control Systems in the PRC

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

Competitive Landscape of the PRC Hydraulic Roof Support Market

Market Competitors

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

- manufacturers with significant manufacturing and research and development capabilities and the ability to independently design and manufacture hydraulic roof supports;

- manufacturers with better manufacturing capabilities than those in the third category discussed below but are in the process of developing independent design and/or research and development capabilities; and

- manufacturers that do not have independent design and/or research and development capabilities, and mainly assemble hydraulic roof supports or produce related parts and components. These entities primarily evolved from coal mining and excavating equipment maintenance enterprises and have experience in repairing hydraulic roof supports.

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

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

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

Source: China National Coal Machinery Industry Association

Note:

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

Barriers to Entry

(1) Technology barriers

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

(2) Customer relationship barriers

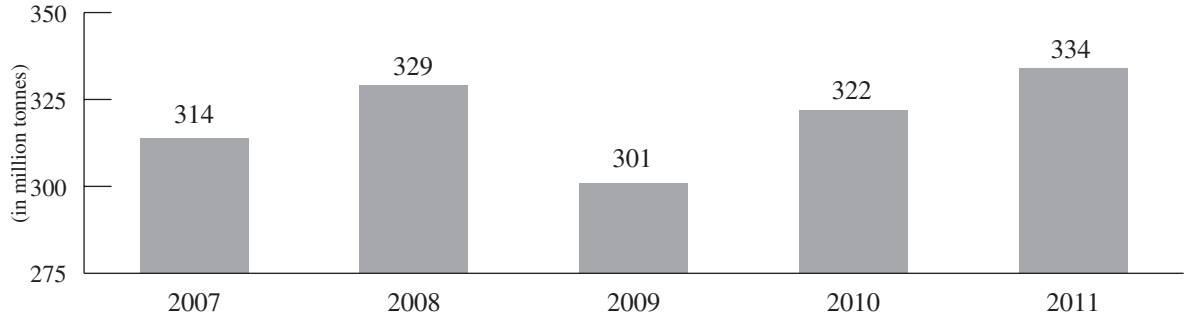
The current state of the PRC coal mining and excavating equipment industry is characterized by a few well-known enterprises, whose brands have significant competitive advantages as a result of many years of experience and proven track records. As a result, these enterprises have loyal and stable customer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

(3) Capital barriers

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

Overview of the Coal Mining and Excavating Equipment Industry of Russia

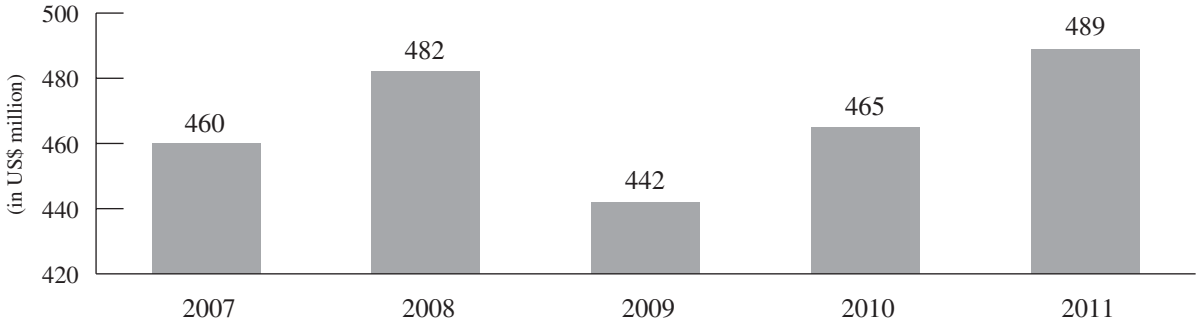
According to the BP Statistical Review June 2012, Russia is the world's fifth largest coal producing country and has the second largest proven coal reserves in the world. The demand for coal in Russia is mainly driven by energy consumption and coal export. According to Heading Century Consulting, coal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



Source: BP Statistical Review of World Energy June 2012

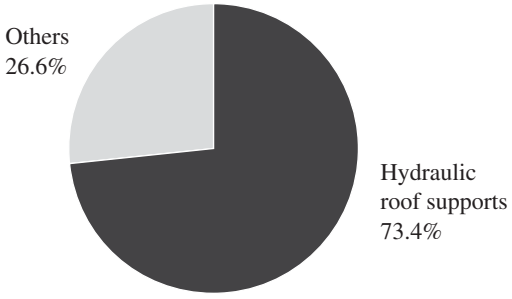
According to Heading Century Consulting, from 2000 to 2009, underground mining accounted for approximately 35.0% of overall coal output in Russia, while the output of fully mechanized longwall mining accounted for approximately 50.0% of overall underground mining coal output in Russia.

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



Source: Heading Century Consulting

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



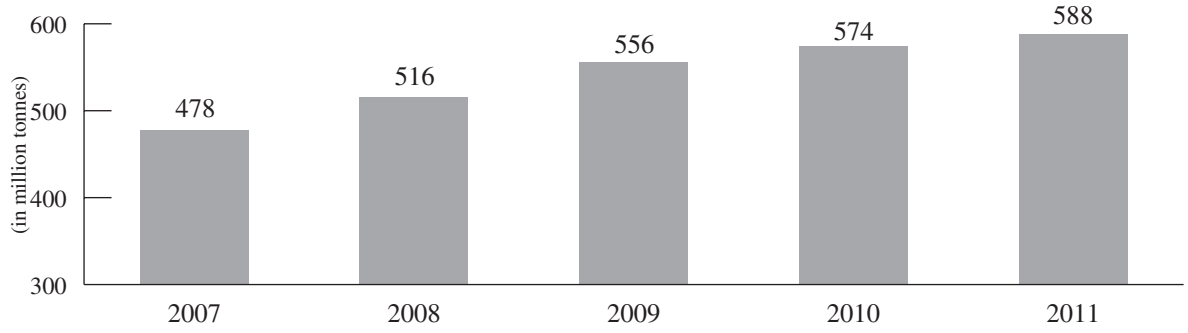
Source: Heading Century Consulting

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

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

Overview of the Coal Mining and Excavating Equipment Industry of India

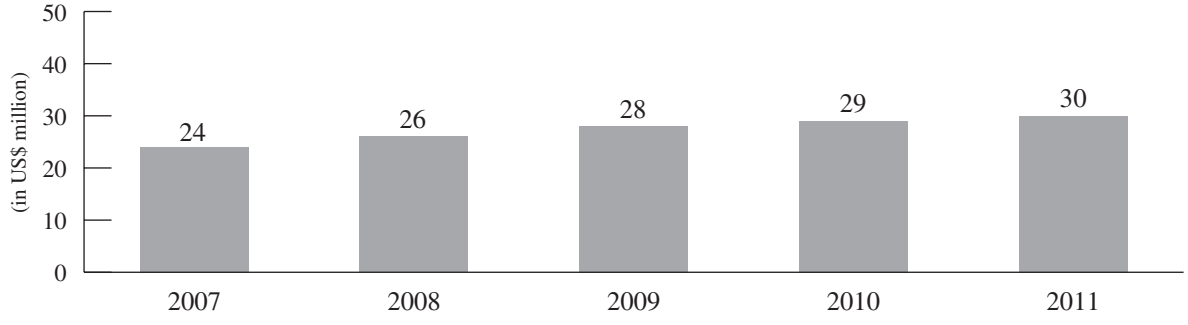
According to the BP Statistical Review June 2012, India is the third largest coal producing country and has the fifth largest proven reserves in the world. According to Infraline, a coal industry information provider specializing in India, coal production in India will reach approximately 634 million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



Source: BP Statistical Review of World Energy June 2012

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

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



Source: Heading Century Consulting

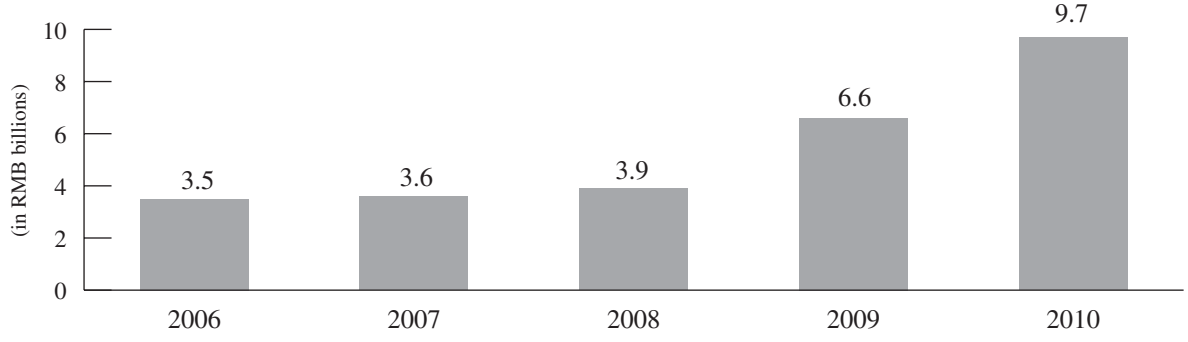
The two conventional mining methods that are generally utilized in underground coal mining in India are room-and-pillar mining method and the longwall mining method. While room-and-pillar mining method accounts for a significant majority of underground mining in India, the higher coal recovery rates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

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

Overview of Coal Washing Equipment Industry of the PRC

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

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



Source: China Market Research Center and Heading Century Consulting

Competitive Landscape of the PRC Coal Washing Equipment Industry

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

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

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

INDUSTRY CONSULTANTS AND INFORMATION SOURCES

Heading Century Consulting

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

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

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

Infraline

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

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

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

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