RISKS RELATING TO OUR BUSINESS

Our business performance depends heavily on the level of coal exploration and production activities in China.

Substantially all of our revenue is derived from the sales of our excavating machinery and other coal mining-related products in China. The demand for our products heavily depends on the level of coal exploration and production activities and the capital expenditures of coal producers, which are in turn driven by the demand and the current and future price trends for coal. The demand for coal fluctuates for a variety of reasons, including among others, changes in macroeconomic conditions, PRC government policies towards the coal industry and other energy industries and the adoption of alternative fuels. 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 in Qinghuangdao in China was US$51 per metric ton, US$74 per metric ton, US$146.50 per metric ton and US$85 per metric ton as at 30 June 2006, 2007, 2008 and 2009, respectively. The level of coal exploration and production activity is sensitive to coal prices. Any event that has an adverse effect on the coal industry in China may have a material and adverse effect on our business, financial position and results of operations.

Fluctuations in the prices of steel and other raw materials could significantly affect our business performance and results of operations.

Our production process depends on reliable sources of large quantities of raw materials, particularly steel. The prices of these raw materials are subject to volatility caused by external conditions, such as fluctuations in the prices of commodities and changes in economic conditions and government policies. In 2006, 2007 and 2008, our costs for steel, machinery components and other raw materials accounted for approximately 81.0%, 80.0%, and 78.7% of our cost of sales, respectively. In particular, steel, the price of which has experienced significant volatility, plays a prominent role in the construction of our products. For example, the China domestic hot rolled steel spot price was RMB4,508 per metric ton, RMB3,994 per metric ton, RMB5,891 per metric ton and RMB3,798 per metric ton as at 30 June 2006, 2007, 2008 and 2009, respectively. From 30 June 2009 to 15 October 2009, the domestic hot rolled steel sheet spot price decreased by 13%.

We expect the volatility and uncertainty of steel prices to continue. We cannot assure you that we will be able to transfer any incremental cost increases to our customers. In addition, we cannot assure you that our key suppliers will continue to provide us with raw materials at reasonable prices or at all. We do not currently engage in any transactions to hedge against risks relating to fluctuations in the prices of raw materials. As a result, any increase in the prices of the raw materials used to make our products may materially and adversely affect our results of operations.

We depend on third parties to deliver steel, certain other raw materials, components and services that meet our quality standards in a timely manner to manufacture our products.

We procure some of our parts and components that we use to make our products from external suppliers. We also employ third party contractors to process or manufacture some of the components that we design. We currently source our steel and externally-supplied parts and components from overseas or domestic distributors. We currently do not have long-term contractual arrangements with most of our suppliers. Any unexpected shortage, delay in delivery, price fluctuations, or other factors beyond our control may result in an interruption in such supply of raw materials and components. Such interruption may affect our manufacturing schedule and we may need to source materials, components and services from alternative suppliers at higher prices, which may harm our reputation and affect our profitability. In particular, to the extent that we are dependent on a limited number of suppliers for certain parts, it may be difficult to replace them on similar terms in a timely manner. Failure to secure sufficient quantities of raw materials and machinery components at the required standards for our existing operations and our planned business expansion at reasonable prices, or at all, may have a material and adverse impact on our business, financial position and results of operations.

We rely on a limited number of key customers and the loss of any of these customers may have a material and adverse effect on our business, financial position and results of operations.

We rely on a limited number of key customers for our revenue. As at the Latest Practicable Date, we have established relationships with approximately 340 customers in China. Our top five customers, in the aggregate, accounted for approximately 27.4%, 27.2%, 12.9% and 16.9% of our total revenue for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, respectively. We cannot assure you that we will be able to retain our existing customers or that they will maintain their current level of business with us. Some of our customers have also begun manufacturing certain coal-related machinery that is similar to our products. If there is a reduction or cessation of orders from our customers for whatever reason and we are unable to obtain, in substitution, suitable orders of a comparable size, our business, financial position and results of operations may be materially and adversely affected.

Our products may become obsolete due to technological developments in the market and our research and development activities may not yield the benefits that we expect.

The market for our products is characterised by continuous technological developments to provide better performance. Our future performance and reputation depend on our ability to continue developing new products. Research and development activities require considerable human resources and capital investment. As of the Latest Practicable Date, we had approximately 450 research and development professionals, one research headquarters and five research institutions. For the years ended 31 December 2006, 2007 and 2008, and the six months ended 30 June 2009, we spent approximately RMB12.9 million, RMB29.9 million, RMB43.7 million and RMB22.5 million on research and development, respectively. Our research and development efforts may not be successful or yield the anticipated level of economic benefits. Even if our research and development efforts are successful, we may not be able to apply these newly developed technologies to products that will be accepted by the market or apply them in a timely manner to take advantage of the opportunities presented in the market. Furthermore, the market demand expected at the development stage may not materialise or the market may not accept our new products when we introduce them. The level of economic benefits that can be derived from newly developed technologies or products may be affected by how quickly our competitors can replicate these technologies or products or develop newer or cheaper alternatives. If our technologies or products are replicated, replaced or made redundant in a manner that we did not anticipate, our revenue may not offset the costs that we have incurred in developing the new technologies. Furthermore, if we are not able to anticipate trends in technological or product developments and rapidly develop new and innovative technologies or products required by our customers, we may not be able to produce sufficiently advanced products at competitive prices, which in turn may have a material and adverse impact on our business, financial position and results of operations.

Our business and reputation may be affected by potential product liability claims, litigation, complaints or negative publicity in relation to our products' quality and safety.

If our products fail to perform as expected, or prove to be defective or result in industrial accidents, personal injuries, casualties or financial losses to our customers, we may be subject to liability claims for damages. We cannot assure you that we will not be exposed to future product liability claims. We have not obtained insurance coverage for product liability and have not implemented any other protection scheme. If our products do not meet the specifications and requirements requested by our customers, or if any of our products are defective, such defects and any complaints or negative publicity resulting therefrom could result in decreased sales of our products, and we may also be subject to product liability claims and litigation. 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 may encounter unexpected difficulties in implementing our strategies for future growth.

We have experienced significant growth during the Track Record Period. For the years ended 31 December 2006, 2007 and 2008 and for the six months ended 30 June 2009, our revenue was approximately RMB159.9 million, RMB461.6 million, RMB1,146.8 million and RMB891.6 million, respectively. The increase in our revenue was primarily due to the growth in the demand for our products and the expansion of our production capacity. As part of our business strategy, we plan to develop new products and expand into new markets over the next several years. For example, we plan to make significant investments in our coal mining-related equipment, which may involve acquiring land, investing in research and development, and constructing new production facilities. Our ability to implement our business plans depends on, among other things, global economic conditions, our research and development for new technologies and new products, our ability to realise the results of our research and development through the introduction of new products, the availability of suitable land to expand our production sites, our ability to obtain any necessary government or regulatory approval or licenses, and the availability of management, financial and other resources. We may not be able to grow at a rate comparable to our growth in the past, either in terms of revenue or net profit. If we fail to effectively implement strategies to manage our growth, our business, financial position and results of operations may be materially and adversely affected.

Our success is dependent upon retaining and hiring qualified personnel and there may be a material adverse impact on our business if we are unable to secure qualified personnel for our operations.

Our success depends on the continued service of our skilled personnel and our ability to continue to retain, attract and motivate such personnel, and in particular retaining our executive directors and senior management team. Our senior management team has been working with us and Sany Group for as many as 15 years and has substantial experience in the machinery industry in China. Please see the section headed "Directors, Senior Management and Employees" in this document for more information. Competition to retain and recruit technically competent personnel is intense in the industry in which we operate. Inability to retain and recruit technically competent personnel could limit our output capacity or reduce our product quality, which may have a material adverse impact on our business, financial position and results of operations.

We rely on the PRC market and we may be unable to adjust our resources to other markets if the economic slowdown in China persists.

Almost all of our revenue is derived from sales in China. We are therefore heavily dependent on general economic conditions in China for our continued growth. The pace of economic growth in China has slowed down since the fourth quarter of 2008. The PRC government, along with a number of economists around the world, have expressed the view that they expect that China's gross domestic product, or GDP, will grow at a slower rate in 2009 or beyond than in years past. We cannot assure you that China's economy will continue to grow or that its growth will be steady or occur in the geographical regions or economic sectors from which we benefit. In addition, we anticipate that sales to customers based in China will continue to represent a significant proportion of our revenue. Any continued slowdown in China's economic growth or a decline in the general economic environment could have a material and adverse effect on our business, financial position and results of operations.

Our interests may conflict with those of the Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our other Shareholders' best interests and any negative publicity relating to our affiliates may have a negative impact on our reputation.

The Controlling Shareholders, through their representatives on our Board and their shareholding, will be able to influence certain policy decisions, including our overall strategic and investment decisions, dividend plans, issuance of securities and adjustments to our capital structure and other actions that require the approval of our Shareholders. Currently, four of our Board members also serve as directors for the SG Group. Three are non-executive directors of the Company and one is a non-executive director of the SG Group. Please refer to the section headed "Relationship with the SG Group — Management independence" in this document for more information. In addition, the Controlling Shareholders will be able to control the election of our Directors, and in turn, indirectly control the selection of our senior management.

The interests of the Controlling Shareholders may not always coincide with our or your best interests. The Controlling Shareholders will have the ability to exert significant influence over our actions and may have the ability to require us to effect corporate transactions irrespective of the desires of our other Shareholders. If the interests of the Controlling Shareholders conflict with the interests of our other Shareholders, or if the Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, those other Shareholders may be disadvantaged as a result.

Past, existing and/or future negative publicity or media coverage concerning the corporate affairs of Sany Group, Sany Heavy Industry or any of their respective affiliates, whether or not accurate and whether or not applicable to us, may have a material adverse effect on our corporate image and reputation, which may in turn adversely affect the price of our Shares. As we operate independently of, and hence do not control the actions of, our Controlling Shareholders, Sany Group and its affiliates, we cannot assure you that there will not be any further negative publicity or media coverage related to our Controlling Shareholders, Sany Group, Sany Heavy Industry or our affiliates in the future.

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

We cannot assure you that we will pay dividends in the future or at all, and potential investors should be aware that the amount of dividends that were paid in the past should not be used as a reference or basis upon which future dividends will be determined. Whether dividends will be distributed and the amount to be distributed will depend on factors such as our profitability, financial condition, business development requirements, future prospects and cash requirements. Any declaration and payment, as well as the amount of dividends, will be subject to our constitutional documents and the Cayman Islands laws, including the approval of our Shareholders or our Directors. We cannot assure you that we will make any dividend payments on our ordinary Shares in the future.

We may be unable to obtain adequate financing or generate sufficient cash from our operations to fund our capital requirements.

We have relied on cash generated from our operations, short-term and long-term bank loans, advances from our related parties and a capital contribution from Sany HK to fund our capital requirements. We expect to continue to derive funding from cash generated from our operations and bank loans. As of 31 December 2006 and 2007, we had net current liabilities of approximately RMB44.6 million and RMB230.9 million, respectively. As of 30 September 2009, we did not have any bank loan, but we had RMB714.9 million in trade and bills payables and other payables and accruals. For the years ended 31 December 2006, 2007 and 2008, our net cash outflow from operating activities was RMB0.7 million, RMB12.6 million and RMB148.0 million, respectively and for the six months ended 30 June 2009, our net cash inflow from operating activities was RMB47.2 million. Our ability to obtain adequate funding and generate sufficient cash from our operating activities to finance our operations and expansion plans depends on a number of factors, including but not limited to general economic and capital market conditions, credit availability from banks and other lenders, investor confidence, the performance of our operations and our customer ability to settle their payments. In particular, as at 30 June 2009, our gross trade receivables were approximately RMB501.6 million (net trade receivables were approximately RMB478.9 million and the impairment was RMB22.7 million), of which RMB164.5 million had been settled by 30 September 2009. As of 30 September 2009, the unsettled trade receivable balance of RMB 337.1 million from 30 June 2009 included (i) receivables derived from sales of machines comprising an amount not past due of approximately RMB193.1 million and an amount past due of approximately RMB75.3 million and (ii) receivables from sales of spare parts and other components comprising an amount not past due of approximately RMB44.0 million and an amount past due of approximately RMB24.7 million. We provide special sales policies to selected customers and allow them to settle (a) their payments within one year from their receipt of goods and (b) 90% of their payments within three months after the issuance of an installation report issued by such customers. The above past due amounts arose mainly for the following reasons: (i) we extended the credit periods of our trade receivables for some of our reputable and long-term customers; and (ii) according to our historical financial records, some of our customers typically do not settle their trade payables until the last one or two months of each year. As a result, we are subject to certain risks relating to our customer settlements. If our customer ability to settle their payment is significantly limited or affected for any reason, our business, cash flows, results of operations and financial position may be materially and adversely affected.

Although we have historically been able to obtain financing on acceptable terms, we cannot assure you that sufficient financing will be available to us. Without sufficient adequate liquidity, we will be forced to curtail our operations and expansion plans. Disruption, uncertainty or volatility in the capital markets or credit markets may limit our access to capital for our operations and for the expansion of our business, decrease our profitability and significantly reduce our financial flexibility. Furthermore, our liquidity also depends on cash generated from operating activities and our cash and cash equivalents. The higher level of our indebtedness will require us to allocate a higher portion of our cash flow from operating activities to fund repayments of our debt, thereby reducing the availability of our cash flow to fund working capital, capital expenditure and other general corporate purposes. As a result, our business, financial position and results of operations may be materially and adversely affected.

We may not be able to enforce our own intellectual property rights, or we may be subject to claims from third parties for the infringement of their intellectual property rights.

Our patents, trade secrets and other intellectual property rights are important to our business. We rely on a combination of our brand name, trademarks, and intellectual property rights to protect our intellectual property. We cannot assure you that these measures will be sufficient to prevent any misappropriation of our intellectual property, or that our competitors will not independently develop alternative technologies that are equivalent or superior to technologies based on our intellectual property. The legal regime governing intellectual property in China is still evolving and the level of protection of intellectual property rights in China differs from that in other jurisdictions. In addition, we may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. If we are unable to adequately protect our brand name, trademarks, and intellectual property rights or defend ourselves from infringement or licences claims, our business, financial position and results of operations may be materially and adversely affected.

Our existing production facilities are located in one location in close proximity to one another. Any damage or disruption at any of these facilities could have a material and adverse effect on our financial condition and results of operations.

Our existing production facilities are located in close proximity to one another at one location in Shenyang. We cannot assure you that fire, flooding or other disasters will not occur and interrupt our operations. Because all of our existing production facilities are at one location, any condition which halts or severely restrains production in that location would result in a material and adverse effect on our financial condition and results of operations.

We have limited insurance coverage for our production facilities or business interruption and may incur damages arising from fire, natural disasters or production accidents.

We have limited insurance coverage for our production facilities and may incur damages arising from fire, natural disasters, or production accidents. If we were to incur substantial losses or liabilities and our insurance coverage were unavailable or inadequate to cover such losses and liabilities, we may have to pay, out of our own funds, for financial and other losses, damages and liabilities, including those caused by natural disasters and other events beyond our control, which could have a material and adverse effect on our business, financial condition and results of operations.

We may experience difficulties in expanding into overseas markets.

To continue to grow our business, we plan to expand our business in terms of products, geography and services. Please refer to the section headed "Business — Service System, Sales and Marketing" in this document for more information. Entry into overseas markets exposes us to a number of risks, including but not limited to:

- differences in legal and regulatory environments and requirements;
- the burden of complying with a variety of foreign laws and regulations, including delays or difficulties in obtaining import and export licenses and unexpected changes in trade restrictions and economic sanctions;
- reduced protection for intellectual property rights in some jurisdictions;
- longer accounts receivable collection periods and greater difficulty in accounts receivable collection;
- difficulties in entering new markets and establishing recognition of our products, including reliance on local agents and distributors for our marketing and sales, and difficulties in obtaining required certifications for our products in overseas markets;
- changes in political and economic conditions; and
- potentially adverse tax and currency consequences.

Expanding our business overseas may require the deployment of additional human and financial resources to manage these risks. These additional resources may not be available to us in a timely manner, or at all. We cannot assure you that our expansion plans will be successful. If such expansion plans do not achieve the success that we expect, our business, financial condition and results of operations may be materially and adversely affected.

Our operations are subject to social insurance contributions under the PRC national and local labour laws and regulations.

In accordance with relevant PRC national labour laws and regulations, we are required to contribute to a number of employee social insurance schemes such as pension insurance. We provide social insurance to our employees in accordance with local government authorities' implementation policies. Such policies could be less stringent than the requirements under the PRC labour laws and regulations. On 30 October 2009, we received confirmation letters from the local government authorities indicating that our social insurance contribution is in compliance with the policies implemented by the relevant local government authorities. If the PRC government or the relevant local authorities implement more stringent laws and regulations, or interpret the existing laws and regulations more strictly, we may be required to incur additional expenses to comply with such laws and regulations, which in turn may affect our results of operations.

RISKS RELATING TO OUR INDUSTRY

Changes in the PRC government's policies in relation to the industry in which we or our customers operate may materially and adversely affect our business, financial position and results of operations.

China has experienced constant changes in government regulations and policies. In recent years, the PRC government has adopted policies and measures that actively support non-carbon and renewable energy projects. For example, the PRC government has implemented the PRC Renewable Energy Law and promulgated the Eleventh Five-Year Development Plan for Renewable Energy to accelerate the development of renewable energy and to increase the percentage of energy consumption from renewable energy. Such actions could negatively affect the PRC coal industry which in turn may result in a decrease in the demand for our products.

In addition, our operations require a substantial number of government approvals, and we are subject to a broad range of laws and regulations governing various matters. In particular, the continuance of our operations depends on our compliance with applicable environmental, health and safety, fire prevention and other regulations. We cannot assure you that the PRC government will not impose additional or more stringent laws or regulations. Compliance with such laws or regulations may cause us to incur significant capital expenditures which we may be unable to pass on to our customers. Any change in the scope or application of these laws, regulations or approvals may limit our production capacity or increase our costs, which may therefore have a material and adverse effect on our business, financial position and results of operations.

Prolonged disruptions to the global credit and capital markets and their impact on the PRC economy may materially and adversely affect our liquidity, results of operations, financial position, prospects and future expansion plans.

Since the second half of 2007, global credit and capital markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility, a reduction in available financing and a lack of market confidence. These factors, combined with declining oil prices and consumer confidence and increased unemployment around the world, have precipitated a global economic slowdown and may lead to a decrease in the level of energy demand and coal mining activities in China. Given the dramatic change in the overall credit environment and economy, it is difficult to predict how long these conditions will exist and the extent to which we may be affected.

In addition, we cannot assure you that measures implemented by governments around the world to stabilise the credit and capital markets will improve market confidence and the overall credit environment and economy. As a result, prolonged disruptions to the global credit and capital markets could limit our financing options, increase our financing cost or cause our financing to be more expensive or subject to less favourable terms, which in turn may materially and adversely affect our liquidity, results of operations, financial position, prospects and future expansion plans.

The industry in which we operate is highly competitive.

The industry in which we operate is highly competitive. Our major competitors include other major domestic coal mining machinery manufacturers in China and to a lesser extent overseas coal mining machinery manufacturers. Some of our competitors may operate on a larger or international scale and may have cost advantages as a result of their economies of scale and their ability to obtain volume discounts for raw materials. In addition, they may have better brand name recognition or a larger customer base. We also face increasing competition from our existing customers that have begun manufacturing their own coal machinery or new foreign entrants that are seeking to enter the PRC market. Competitors that have lower operating costs or that have more advanced equipment may have a competitive advantage over us.

Our market position depends on our ability to anticipate and quickly respond to various competitive factors, including the introduction of new or improved products by our competitors, pricing strategies adopted by our competitors and changes in our customers' preferences. We cannot assure you that our current and potential competitors will not offer products that are comparable or superior to our products, at the same or lower prices, or adapt more quickly to evolving industry trends or market requirements. We may lose customers to our competitors if, among other things, we fail to keep our prices at competitive levels for comparable products or if we are unable to differentiate ourselves from our competitors. Increased competition may result in price reductions, lower gross profit margins and loss of our market share.

RISKS RELATING TO CHINA

The political and economic policies of the PRC government may affect our business operations.

The economy of China differs from the economies of other countries in a number of aspects, including the degree of government involvement, control of capital investment and the overall level of development. Before the beginning of its adoption of reform and open door policies from 1978, China was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and has also begun reforming the government structure. These reforms have emphasised the use of market mechanisms which have resulted in significant economic growth and social progress. Changes in China's political, economic and social conditions, laws, regulations and policies may have an adverse effect on our current or future business operations.

Uncertainties with respect to the PRC legal system may have a material and adverse effect on us.

Almost all of our business and operations are primarily conducted in China and governed by PRC laws, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules, and regulations applicable to foreign investments in China. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited weight as precedents. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investments in China. However, China has not developed a fully-integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of the economic activities in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules, and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and diversion of resources and management attention.

Any occurrence of a widespread public health problem, such as SARS or H1N1 influenza A, could have a material adverse effect on our results of operations.

The outbreak of SARS in early 2003 led to a significant decline in travel volume and business activities and substantially affected businesses in Asia. We are unable to forecast the potential impact of another outbreak of any other serious contagious disease. Recently, certain countries, including China, have encountered incidents of H1N1 influenza A. If any of our employees are identified as a possible source of H1N1 influenza A or any other epidemic or serious disease, we may be required to quarantine the employees who are suspected of being infected, as well as others who have come into contact with those employees. We may also be required to disinfect any affected production facilities, which could cause a temporary suspension of operations at those sites. As a result, our business, financial condition and results of operations could be adversely affected. Even if we are not directly affected by the epidemic, an outbreak of H1N1 influenza A or SARS or another epidemic or serious disease, whether inside or outside China, could slow down, disrupt or restrict the level of economic activity generally, which could also adversely affect our business, financial condition and results of operations.

We may be deemed as a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC taxation on worldwide income.

On 6 December 2007, the State Council issued the Regulation on the Implementation of PRC Enterprise Income Tax Law, or the EIT Law, effective as of 1 January 2008, which defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises". Under the EIT Law, an enterprise outside of China whose "defacto management bodies" are located in China is considered a "resident enterprise" and will be subject to a uniform 25% enterprise income tax rate on its global income. In April 2009, the State Administration of Taxation further specified certain criteria for the determination of the "de facto management bodies" for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its "de facto management bodies" located in China and therefore be considered a PRC resident enterprise. These criteria include: (i) the enterprise's day-to-day operational management is primarily exercised in China, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in China, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China.

However, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves). Therefore, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents, as is our case. We are currently not treated as a PRC resident enterprise by the relevant tax authorities. Since substantially all of our management is currently based in China and is expected to remain in China in the future, we cannot assure you that we will not be considered a "resident enterprise" under the new EIT Law and not be subject to the enterprise income tax rate of 25% on our global income. In addition, although the EIT Law provides that "dividend income between qualified resident enterprises" is exempted income, it is not clear what is considered a "qualified resident enterprise" under such law.

Dividends payable by us to our foreign investors and gains on the sales of our Shares may become subject to withholding tax under PRC tax laws.

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within China. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. If we are considered a PRC "resident enterprise", it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, would be treated as income derived from sources within China and be subject to PRC tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders who are not within China, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in your Shares may be materially and adversely affected.

PRC government control of currency conversion and future movements in exchange rates may adversely affect our business operations and our ability to utilise our cash efficiently or to remit dividends.

We export a small portion of our products to overseas markets and the RMB is our reporting currency. The value of RMB is subject to changes in the PRC government's policies and international economic and political developments. As of 21 July 2005, the RMB is no longer pegged solely to the U.S. dollar. Instead, the PRC government introduced a managed floating exchange rate system to allow the value of the RMB to rise or fall by as much as 0.5% each day, based on market supply and demand and by reference to a basket of currencies. The RMB may appreciate significantly in value compared to its current value or it may be permitted to enter into a full float, which may also result in an appreciation of the RMB against the U.S. dollar. Fluctuations in exchange rates may adversely affect the value, as translated or converted into U.S. dollars or Hong Kong dollars (which are pegged to the U.S. dollar), of the net assets, earnings and any declared dividends of our company. Substantially all of our purchases or raw materials are denominated in RMB and substantially all of our operations are conducted in China. Further appreciation of the RMB against these currencies may lead to an increase in our costs or decline in our revenue, which may materially and adversely affect our business operations. We have not entered into any agreements to hedge our exchange rate exposure.

In addition, conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. The RMB cannot be freely converted into any other foreign currency. Pursuant to the PRC foreign exchange control system, it cannot be guaranteed that there will be sufficient foreign exchange to meet the foreign exchange requirement of an enterprise. Under existing PRC foreign exchange regulations, payments of current account items, including profit distribution, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, approval from SAFE is required where RMB are to be converted into foreign currencies and remitted outside of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payment to Shareholders or satisfy any other foreign exchange requirement. If we fail to obtain the approval from SAFE to convert RMB into any foreign exchange for any of the above purposes, our capital expenditure plans, and our business, may be materially and adversely affected.

Failure to comply with SAFE regulations relating to establishment of offshore special purpose companies by PRC residents may materially and adversely affect our business, financial position and results of operations.

On 21 October 2005, SAFE issued the Notice of SAFE on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Vehicles (《國家外滙管理局關於境內居民通過境外特殊目的公司融資及返程投資外滙管理有關問題的通知》) ("**Notice 75**"), which became effective on 1 November 2005. Notice 75 requires PRC domestic residents to register with the relevant local SAFE branch in the following circumstances: (i) before establishing or taking control of any offshore company (referred to in the notice as a "special purpose vehicle") for the purpose of capital financing; (ii) after contributing their assets or shares of a PRC domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contribution; and (iii) after any major change in the share capital of the special purpose vehicle without any return investment being made.

Our beneficial shareholders who are domestic residents defined under Notice 75 (namely, Liang Wengen, Tang Xiuguo, Xiang Wenbo, Mao Zhongwu, Yuan Jinhua, Zhou Fugui, Wang Haiyan, Yi Xiaogang, Wang Zuochun, Zhai Xian, Zhai Chun, Zhao Xiangzhang, Duan Dawei and Huang Jianlong) have registered with SAFE, Liaoning branch in respect of the establishment of our Company. Going forward, such beneficial shareholders are required to comply with further foreign exchange registration requirements in all material aspects in connection with our investments and financing activities. If our beneficial shareholders fail to comply with the relevant SAFE requirements, such failure may subject the beneficial owners to fines and legal sanctions and may have material and adverse effects on our business, financial position and results of operations.

It may be difficult to effect service of process upon us or our directors or executive officers who reside in China, or to enforce against us or them in China any judgments obtained from non-PRC courts.

Most of our directors and executive officers reside within China. Substantially all of our assets and those of our directors and executive officers are located within China. China does not have treaties providing for reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. Therefore, it may not be possible for investors to effect service of process upon us or those people in China or to enforce against us or them in China, any judgments obtained from non-PRC courts. In addition, recognition and enforcement in China of judgments of a court of any other jurisdiction in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

We enjoy certain PRC government incentives. Expirations of, or changes to, these incentives may materially and adversely affect our business, financial position and results of operations.

We have certain subsidiaries in China that are entitled to government support in the form of certain government incentives relating to the development of coal mining technology. We also receive government grants related to development of the Shenyang Economic and Technological Development Area, where our new production facility will be located. The PRC government also offers incentives, preferential import duties and technology development grants for certain machinery producers to which we had been entitled during the Track Record Period. Please refer to the section headed "Industry Overview" for more details. We cannot assure you that we will be able to continue to enjoy such preferential treatment, incentives and favourable support on the same terms, or at all, in the future. Unfavourable changes to our preferential treatment and incentives in the future will adversely and materially affect our business, financial position and results of operations.