
INDUSTRY OVERVIEW

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

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

GLOBAL COAL INDUSTRY

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

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

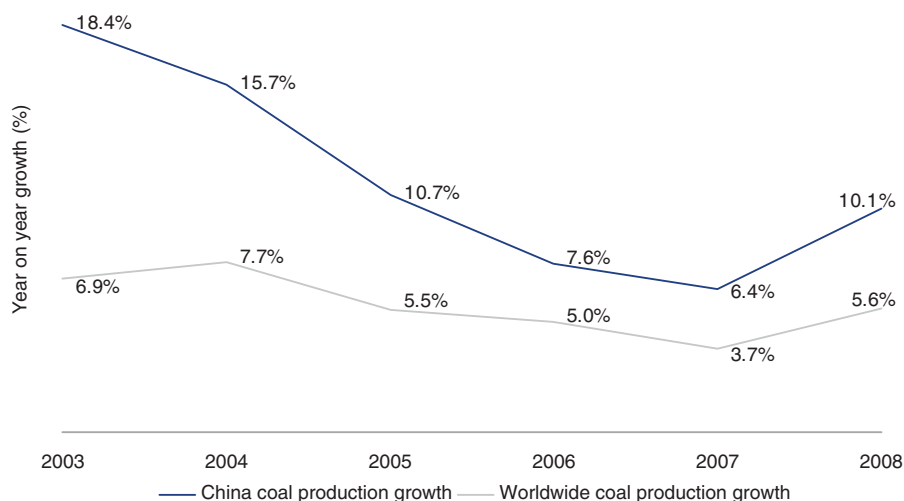
CHINA COAL INDUSTRY

Overview

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

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

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



Source: BP Statistical Review of World Energy 2009

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

Coal fields in China with good mining conditions are mainly concentrated in Xinjiang, parts of Ningxia, as well as the area referred to in the industry as the "Tri-West Area", which consists of Shanxi, Shaanxi and western Inner Mongolia. The Tri-West Area has favourable geological conditions for coal production. Coal reserves in this area are of high quality and contain a wide variety of coal. However, due to limited local consumption and the remote distance of these reserves from major customers and major ports, these high-quality coal reserves have not been fully

INDUSTRY OVERVIEW

exploited. The coal reserves in Jiangsu, Anhui, Shandong and Henan are also of high quality and contain a wide variety of coal. Furthermore, they are close to transportation facilities as they are located near China's more economically developed coastal regions. However, the coal reserves in these provinces are relatively small, and represent only 9.2% of the proven reserves in China.

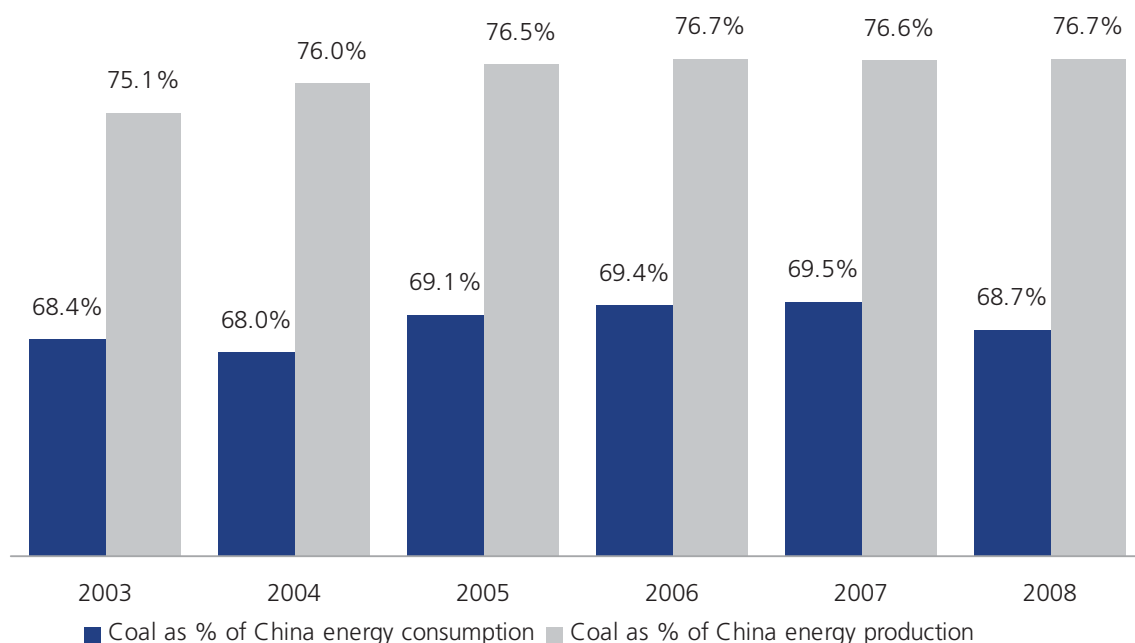
The following table sets forth the five provinces or regions with the most proven coal reserves and the coal production in these provinces or regions in China in 2008.

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

Source: China's National Bureau of Statistics

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

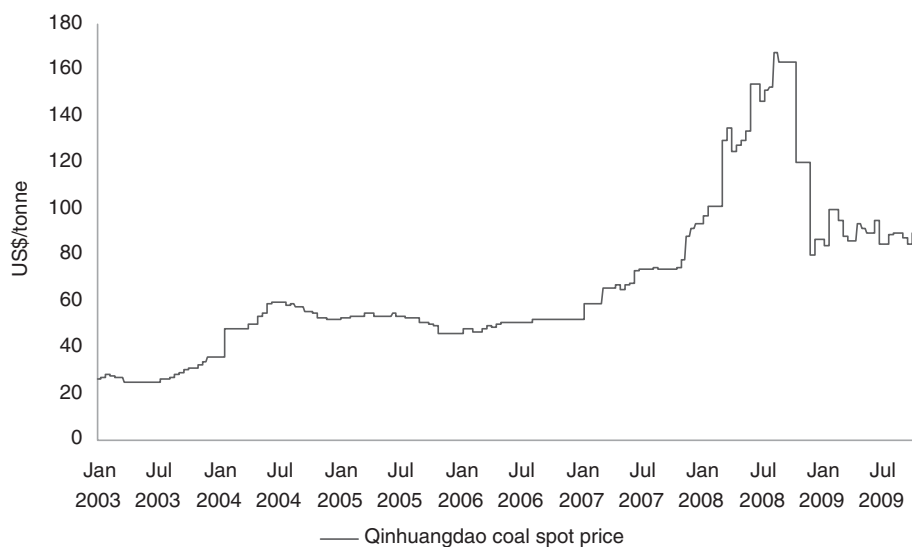
The following chart illustrates coal consumption and production as a percentage of China's total energy consumption and production for the period indicated.



Source: China's National Bureau of Statistics

INDUSTRY OVERVIEW

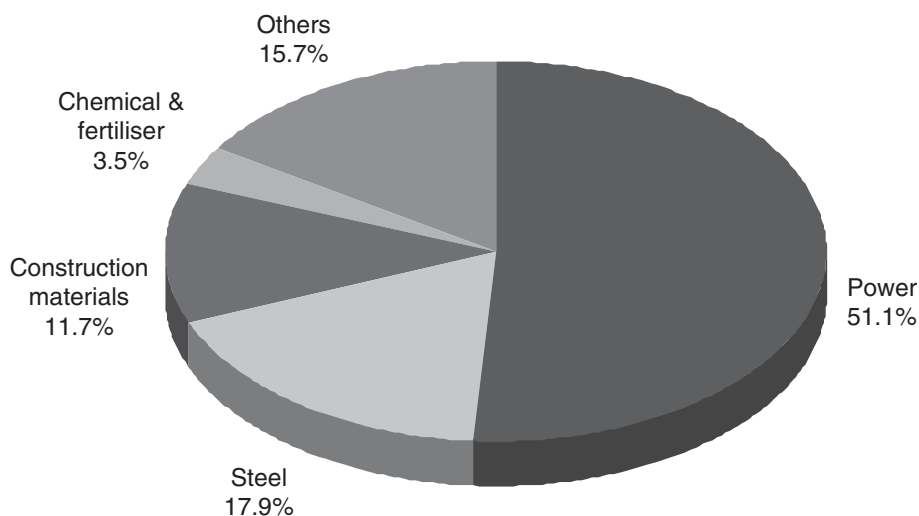
The price of coal in China has risen steadily since 2003. In 2008, the price of coal more than doubled to each a high of US\$169/tonne in August 2008, followed by a decline of 50% by the end of 2008. Despite the large drop in price at the end of 2008, the price of coal at the end of 2008 was still higher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



Source: Bloomberg

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

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



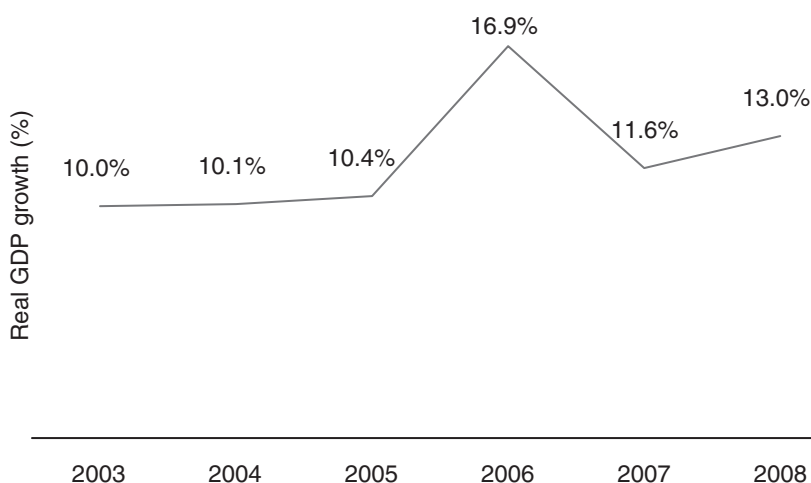
Source: China's National Bureau of Statistics

Key Factors Affecting China's Coal Industry

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

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

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

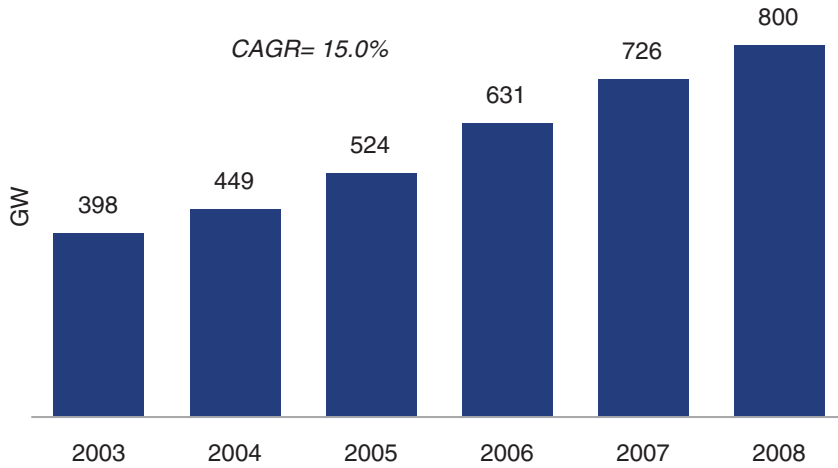


Source: China's National Bureau of Statistics

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

INDUSTRY OVERVIEW

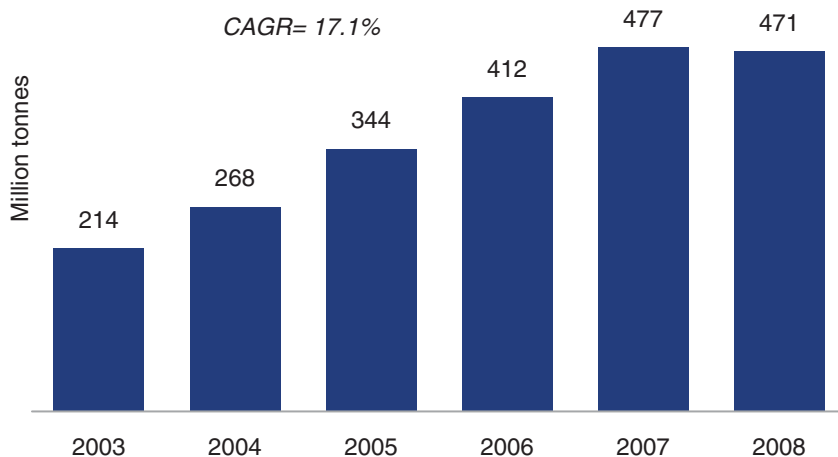
The following chart sets forth the growth of China's power capacity for the periods indicated.



Source: China Electricity Council

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

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



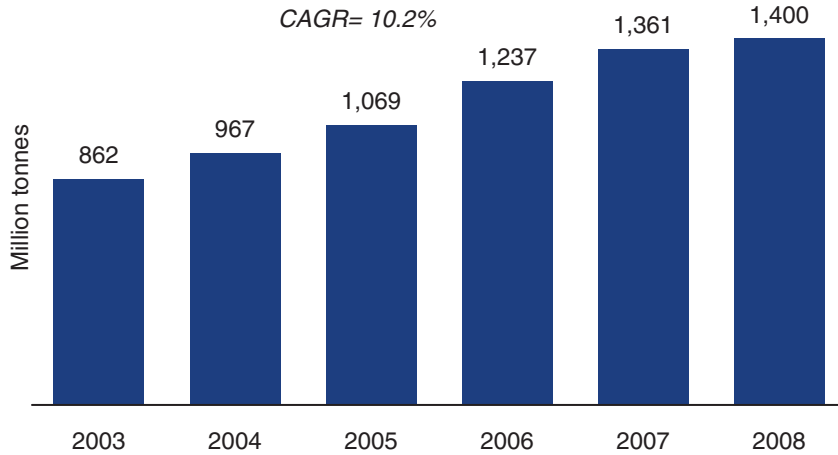
Source: China's National Bureau of Statistics

- *The construction materials sector.* The construction materials industry in China encompasses a wide range of materials, including cement, glass and ceramics. According to China's National Bureau of Statistics, the cement industry in China produced 1,400 million tonnes of cement in 2008 increasing by 2.9% compared to 2007. According to SXCoal, the cement industry in

INDUSTRY OVERVIEW

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

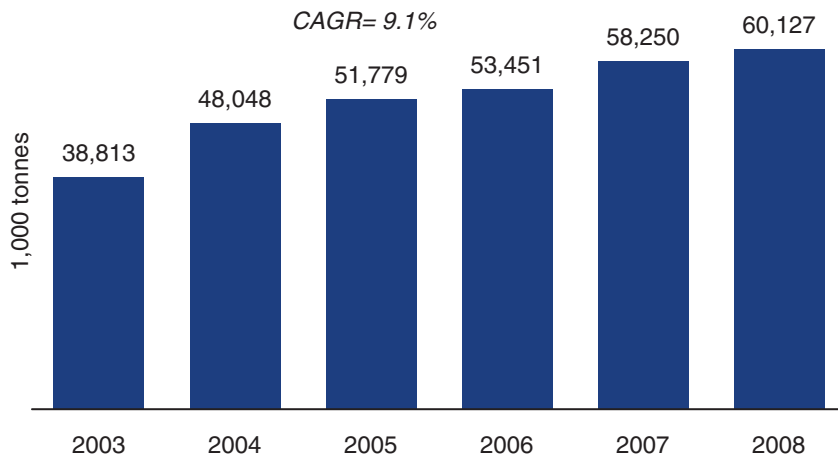
The following chart sets forth the growth of China's cement production for the periods indicated.



Source: China's National Bureau of Statistics

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

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



Source: China's National Bureau of Statistics

Government Policy Regarding Investment in the China Coal Mining Industry

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

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

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

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

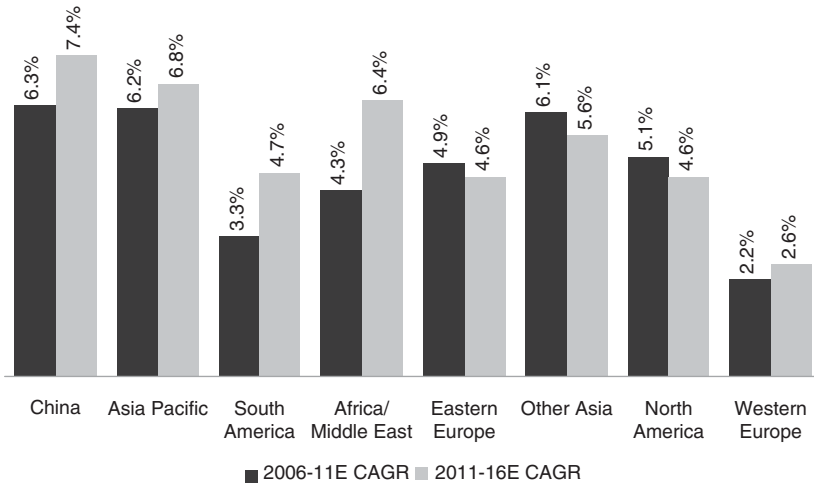
During the first seven months of 2009, fixed asset investment in the coal mining industry increased by 39.6% compared to the same period in 2008. The significant fixed asset investment is expected to directly benefit the coal mining machinery industry.

GLOBAL COAL MINING MACHINERY INDUSTRY

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

INDUSTRY OVERVIEW

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



Source: *Freedonia*

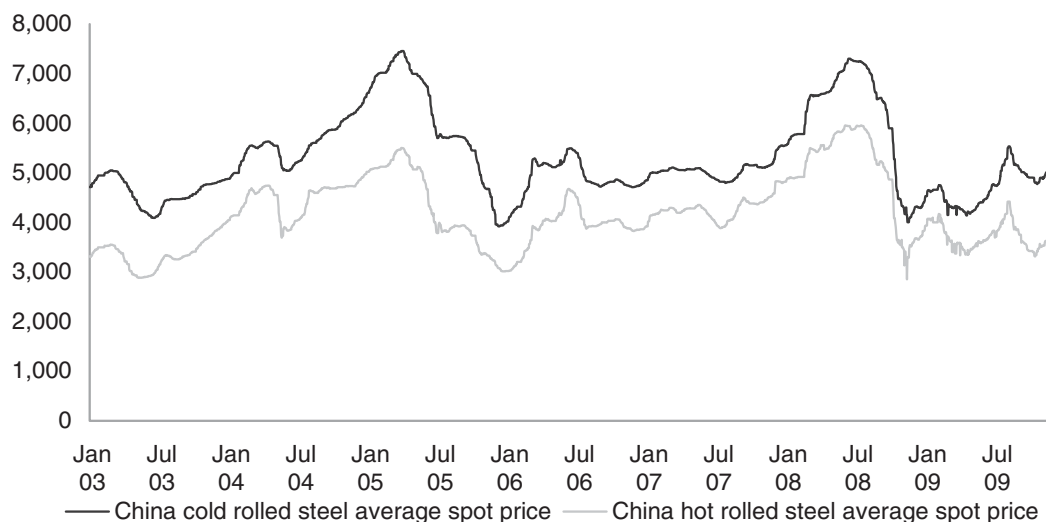
The following table sets forth the growth in demand for each country or region in the chart above in terms of U.S. dollars.

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

Source: *Freedonia*

INDUSTRY OVERVIEW

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



Source: Bloomberg

CHINA COAL MINING MACHINERY INDUSTRY

Overview

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

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

INDUSTRY OVERVIEW

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

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

Source: China National Coal Machinery Industry Association

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

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

Source: China National Coal Machinery Industry Association

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

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

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

Source: China National Coal Machinery Industry Association

Competitive Landscape and Major Players

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

Domestic coal mining machinery still lags behind imported products in terms of technology, reliability, service life and level of automation. However, domestic products have improved significantly in recent years primarily due to a number of breakthroughs in the research and

INDUSTRY OVERVIEW

development, design and manufacturing of coal mining machinery. Currently, the technology, service life and level of automation of some high-end PRC products and models have reached world leading standards. Consequently domestic coal mines mainly utilise domestic coal mining machinery, as compared to imported products that only account for approximately 3% of the total coal mining machinery market in the PRC.

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

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

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

Source: *China National Coal Machinery Industry Association*

(1) The number of roadheaders sold by us in 2008 was calculated based on the date on which the relevant sales contracts were entered into as opposed to the date of delivery or completion of the sale. As a result, this amount may differ from those presented elsewhere in the Prospectus, including in “Business — Our Products and Services” and “Financial Information”.

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

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

Source: *China National Coal Machinery Industry Association*

(1) The number of shearers sold by us in 2008 was calculated based on the date on which the relevant sales contracts were entered into. See note (1) to the table above.

INDUSTRY OVERVIEW

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

- *Sany Heavy Equipment International Holdings Co. Ltd.* Sany Heavy Equipment International Holdings Co. Ltd. was established in January 2004 by Sany Group. It has been listed in Hong Kong since November 2009. It is engaged in the research, design and manufacturing of coal mining machinery, with the roadheader being its principal coal mining machinery product. In 2008, Sany Heavy Equipment International Holdings Co. Ltd.'s revenue was RMB1,146.8 million.
- *Taiyuan Mining Machinery Group Co Ltd.* Taiyuan Mining Machinery Group Co Ltd is a wholly state owned enterprise established from the equity reform of Taiyuan Mining Machinery Factory. The company's key products are divided into coal mining machinery, metalworking machinery, lubricated hydraulic systems and components, as well as electronic control systems.
- *China National Coal Mining Equipment Co Ltd.* China National Coal Mining Equipment Co Ltd is a state owned enterprise consisting mainly of Zhangjiakou Coal Mining Machinery Co Ltd and Beijing Coal Mining Machinery Co Ltd. The company's parent company, China Coal Energy Co Ltd, has been listed in Hong Kong since 2006 and in Shanghai since 2008. The company's products include roadheaders, shearers and armoured-face conveyors. In 2008, China National Coal Mining Equipment Co Ltd's revenue was RMB4,133.6 million.
- *Shanghai Chuangli Coal Mine Equipment Co. Ltd.* Shanghai Chuangli Coal Mine Equipment Co. Ltd. was founded in 2003. The company's key products include roadheaders, shearers and other mining equipment such as electronic systems and other mining equipment components.
- *Xi'an Coal Mining Machinery Co. Ltd.* Xi'an Coal Mining Machinery Co. Ltd. was established in 1951 as the Xi'an Coal Mine Equipment Factory. The company's main products include shearers, roadheaders, and other coal mine equipment.
- *Wuxi Shengda Machinery Co. Ltd.* Wuxi Shengda Machinery Co. Ltd. was established in 1965 as the Wuxi Coal Machinery Factory, and was acquired in 2008 by Joy Global Inc. The company's key products include ultra-thin seam, thin seam, medium and thick seam shearers.

Major Industry Trends

Integrated sets of coal mining machinery is demanded

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

China's coal mining machinery industry was first developed during the planned economy period, where it was initially based on and developed in accordance with the national coal production

INDUSTRY OVERVIEW

allocation system controlled by the PRC Government. As a result, different pieces of the same product were manufactured and processed by several different manufacturing companies. The structure of the industry has persisted and the market is fragmented, consisting mainly of small-scale operations.

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

Focus on high productivity and high efficiency machinery

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

Industry consolidation is expected

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

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

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

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

Key Future Growth Factors

Strong growth in related industries

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

Improvement of mechanisation levels in coal mines

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

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

Construction of new mine bases

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

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

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

Aftermarket, upgrades and replacement of old equipment

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

As China continues its efforts to increase coal production with the mechanisation of existing coal mines and the construction of 13 new coal production bases, the demand for coal mining machinery is also expected to increase. This fosters growth in the need for aftermarket services and machinery components. In particular, aftermarket service is expected to be a key growth area for Chinese coal mining machinery manufacturers. Manufacturers with the ability to provide one-stop value-added services are expected to be influential in the market. In this respect, the provision of technical

INDUSTRY OVERVIEW

training and the establishment of a strong network of service operations close to customers will allow them to provide on-time, 24/7 service and solutions and in doing so significantly improve their understanding of, and communication with, their customers. This will in turn improve their overall market position and accelerate growth.

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

Preferential government policies

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

BACKGROUND INFORMATION ON ASSOCIATIONS AND INDUSTRY GROUPS

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

- *BP Statistical Review of World Energy.* BP Statistical Review of World Energy is an annual publication which has been authored by BP since 1951, and currently has a worldwide circulation of 60,000 printed copies. The statistics in the document are taken from government and other primary sources as well as published data. BP is one of the world’s largest energy companies engaged in the exploration and production, refining and marketing of oil & gas products as well as alternative energy.
- *Energy Information Administration.* Energy Information Administration is an independent statistical agency within the Department of Energy of the United States of America. The agency collects data on energy reserves, production, consumption, distribution, prices, technology and related international, economic and financial matters. This information is disseminated as policy-independent data.
- *China’s National Bureau of Statistics.* Directly governed by the Central Government of the PRC, the National Bureau of Statistics is responsible for the collection and coordination of national statistics, ensuring the truthfulness, accuracy and timeliness of statistical data, as well as establishing policies and guidelines with respect to national statistics.

INDUSTRY OVERVIEW

- *China Coal Industry Association.* China Coal Industry Association is responsible for the collection of information regarding policy, technology, industry data in the China coal industry.
- *CEIC.* CEIC Data Company Ltd is an independent research provider. Its data is assembled by data specialists and researchers in collaboration with prime national and regional statistical agencies.
- *SXCoal.* Established in 1998, SXCoal.com consists of teams of professional coal experts dedicated to the collection of data regarding resources, price, policy, analysis, companies and related industries.
- *Freedonia.* Freedonia is an independent research provider based in Ohio, United States. It authors independent reports using trade publications, government statistics, proprietary databases and annual and industry reports.
- *China National Coal Mining Machinery Industry Association.* China National Coal Mining Machinery Industry Association is a national organisation with membership covering all medium and large coal mining machinery manufacturers in China. It compiles an annual yearbook on the production and economic indicators of coal mining machinery manufacturers, which is distributed to member companies.