

OVERVIEW

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

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

- *Roadheader products.* We are a leading roadheader supplier in China, with a 27% market share based on units sold in 2008, according to China National Coal Machinery Industry Association, or CMIA. According to the same source, we also had the largest installed base of roadheaders as of 31 December 2008, based on the aggregate number of units sold from 2005 to 2008. Jiamusi Machinery, our subsidiary that designs and manufactures our roadheader products, traces its history back to 1957 and manufactured the first roadheader in China in 1976. We currently offer 24 series of roadheaders, classified by installed cutting power under the categories of light-duty, medium-duty and heavy-duty. We believe our EBZ350 series roadheaders have the highest installed cutting power among roadheaders manufactured in China today.
- *Shearer products.* We are the largest longwall shearer supplier in China, with a 27% market share based on units sold in 2008, according to CMIA. According to the same source, we also had the largest installed base of shearers as of 31 December 2008, based on the aggregate number of units sold from 2005 to 2008. Jixi Machinery, our subsidiary that designs and manufactures our shearer products, traces its history back to 1936 and manufactured the first shearer in China in 1953. We offer a full line of shearers to operate under a wide range of coal bed conditions, from ultra-thin coal seams of 0.65 metres to thick seams of 6 metres. We believe that we are one of the few manufacturers in China with the capability to design and manufacture shearers with total power output over 2,000KW.
- *Armoured-face conveyors and related products.* We established our Huainan Longwall subsidiary in 2007 as a joint venture in which we initially held a 75% equity interest. Huainan Benniu, our joint venture partner at the time, was principally engaged in the manufacture and sale of mining machinery, conveyor machinery including armoured-face conveyors, and related spare parts. As part of the joint venture arrangement, Huainan Benniu contributed substantially all of its assets for the remaining 25% interest in Huainan Longwall. Capitalising on Huainan Benniu's customer base, we generated significant sales of armoured-face conveyors and related products in 2008, which we exceeded within the first seven months of 2009. We entered into an agreement with Huainan Benniu to purchase the remaining 25% equity interest of Huainan Longwall in December 2009. Approvals and registration procedures relating to the purchase were completed on 19 January 2010, and we expect the consideration for the purchase to be paid in March 2010.

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

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

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

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

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

COMPETITIVE STRENGTHS

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

Market leadership in key products

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

Largest installed base of roadheaders and shearers in China

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

Extensive distribution and service network covering a broad customer base

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

relationships with key end customers, will contribute significantly to our efforts in solidifying our position in China's coal mining machinery market.

Strong product development capability

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

Commitment to reliability, safety and productivity

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

Experienced management team with a proven track record

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

BUSINESS STRATEGY

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

Expand capacity to capture growth opportunities and increase efficiency

We expect the demand for coal mining equipment to grow significantly as a result of a number of industry and regulatory factors. Accordingly, we believe that the current environment offers favourable opportunities for production capacity expansion. Expanding production capacity will also enhance our ability to in-source processes such as castings and surface processing that are currently out-sourced but can be processed more cost-effectively in-house, thereby improving our margins and production efficiency. We also expect that this increasing level of vertical integration will reduce our sales cycle and shorten our response time to changes in our customer's demands. Additional production capacity will also enable us to expand sales into areas which have been constrained by capacity in the past, including international sales, spare parts sales and sales to smaller privately held mines. Our new production facilities located in Huainan are expected to commence production of our armoured-face conveyor in June 2010 and the production capacity is expected to increase by 50%. The new production facilities in Huainan and planned upgrades to our current facilities will allow us to increase our overall production capacity, enhance our product quality and diversity, further integrate our production process as well as to expand into new products segments. We expect that our upgraded production facilities will enable us to produce approximately 444 roadheaders, 246 shearers, and 250 units of armoured-face conveyors annually by the end of 2010, and 528 roadheaders, 296 shearers and 340 armoured-face conveyors annually by the end of 2011. We expect to enter into new product segments, including other longwall coal mining related products, to complement our existing business within the next two years. To implement our expansion plans, we intend to allocate approximately HK\$593.7 million of the net proceeds from the Global Offering, assuming the Offer Shares are priced at HK\$5.63, the mid-point of the indicative Offer Price range, towards acquisitions of additional land, construction of new plants, purchase of new equipment as well as upgrades of existing plants and equipment. We are also exploring opportunities in making selective acquisitions to complement our needs.

Capture aftermarket sales opportunities

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

Expand our capability to provide complete longwall system solutions

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

Expand distribution and service network and strengthen relationships with key customers

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

Further enhance product development capability

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

OUR PRODUCTS AND SERVICES

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

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to work. The armoured-face conveyor carries the raw coal away from the working face to a crusher, and then to a series of belt conveyors that eventually carry the coal out of the mine. After the shearer makes a complete pass along the mine face, the entire longwall mining system moves forward to work further along the mine face.

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

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

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

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

Roadheader Products

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

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

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



EBZ300 roadheader, with a cutting power of 300kw.



EBZ260 roadheader, with a cutting power of 260kw.



EBZ230 roadheader, with a cutting power of 230kw.



EBZ200A roadheader, with a cutting power of 200kw.



EBZ150A roadheader, with a cutting power of 150kw.



EBZ135 roadheader, with a cutting power of 135kw.



EBZ100E roadheader, with a cutting power of 100kw.



EBZ55 roadheader, with a cutting power of 55kw.

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

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

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

Shearer Products

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

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

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



MG2x40/102-TWD Shearer



MG2x65/312-WD Shearer



MG2x100/460-WD Shearer



MG2x150/700-WD Shearer



MG100/240-BW Shearer



MG132/320-W Shearer



MG160/390-WD Shearer



MG300/355-NWD Shearer



MG300/701-WD Shearer



MG300/730-WD Shearer



MG400/940-WD Shearer



MG500/1180-WD Shearer



MG700/1660-WD Shearer



MG800/2040-WD Shearer

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

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

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

Armoured-Face Conveyors and Related Products

We established our Huainan Longwall subsidiary in 2007 as a joint venture in which we initially held a 75% equity interest. Huainan Benniu, our former joint venture partner, was principally engaged in the production and sales of mining machinery, conveyor machinery including armoured-face conveyors, and related parts and, as part of the joint venture, contributed substantially all of its assets of Huainan Benniu, including facilities and equipment for the remaining 25% interest in Huainan Longwall. Please refer to “History — History and Development — History of our

operations” for more information on the background of Huainan Benniu and details of the joint venture. Capitalising on Huainan Benniu’s established customer base, we generated significant sales in 2008, which we exceeded within the first seven months of 2009. Prior to November 2007, Huainan Longwall’s sole activities were those in connection with the setting up of the then joint venture with Huainan Benniu. We began production of armoured-face conveyors and related products at Huainan Longwall in November 2007 and sales commenced in January 2008. During the Track Record Period, Huainan Benniu was engaged as one of the distributors and sales agents of Huainan Longwall. We entered into an agreement with Huainan Benniu to purchase the remaining 25% equity interest of Huainan Longwall in December 2009. Approvals and registration procedures relating to the purchase were completed on 19 January 2010, and we expect the consideration for the purchase to be paid in March 2010. Huainan Benniu will act as our sales agent for armoured-face conveyors and related products and as distributor for spare parts.

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

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



SG(B, D, Z)630 scraper conveyor



SGZ764(730) scraper conveyor



SGZ800(830,900) scraper conveyor



SGZ1000/1400 conveyor



SZ(Z, D, B) bridge stage loader



Sliding plow



PML hammer crusher



Stage loader

Aftermarket Parts and Services

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

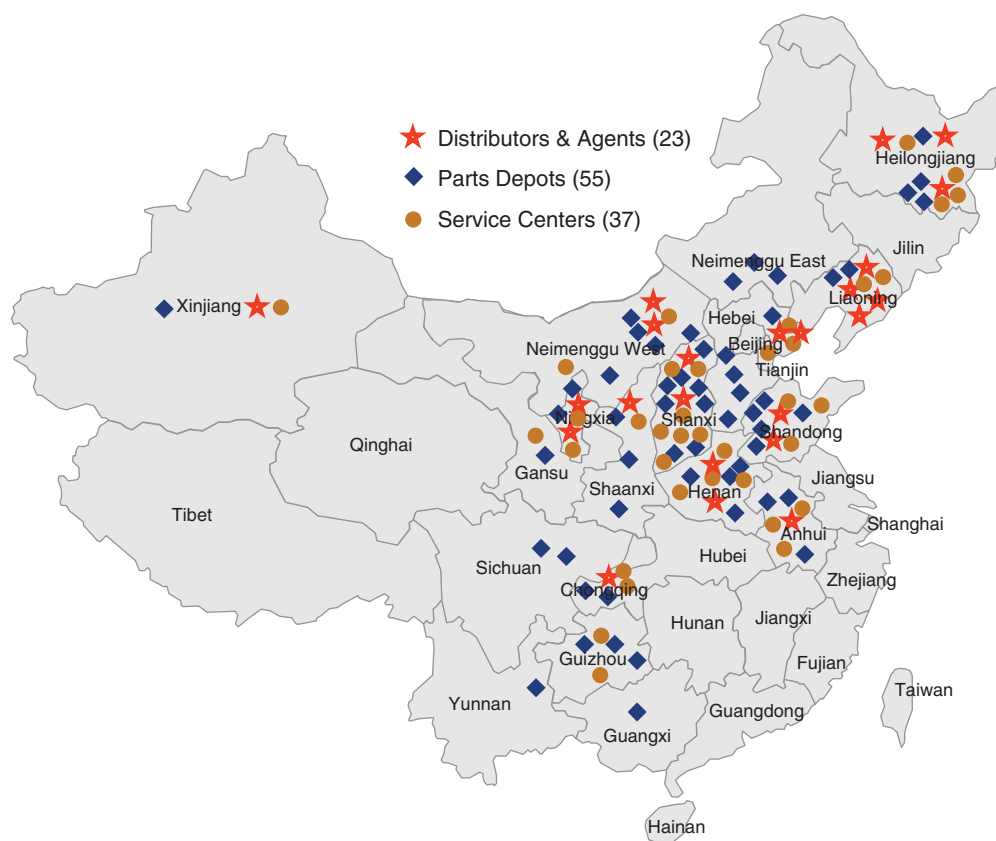
Our end customer base includes all of the 50 largest coal producers in China (as ranked by China Coal News in August 2009), which collectively accounted for approximately 60% of the total coal produced in China in 2008. To further solidify our relationships with our targeted end customers, we have established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

SALES AND MARKETING**Sales and Distribution Channels**

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

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

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



We enter into exclusive arrangements with our distributors and sales agents. As part of these arrangements, each of our distributors and sales agents is allowed to distribute and service only products manufactured by us and only within a certain geographical region. Our distributorship agreements with our distributors are generally for one year and are renewable based on performance. Typically, for sales through distributors, we sell our products to the distributors, who then re-sell our products to our end-customers based on pricing guidelines provided by us. Our end-customers pay the distributors for our products. On the other hand, for sales through agents we enter into contracts directly with our end-customers who pay us directly for the products. Commission to our sales agents is determined by either (i) the difference between our standard sale price and the actual amount received from our end-customers; or (ii) a fixed percentage of the transaction amount. The commission for sales agents is determined by taking in account various factors such as the profit margin, the competitive nature of our products and the nature of our end-customers. We pay our sales agents a commission once we receive payment from our end-customers. For both sales through distributors and sales through sales agents, we generally deliver our products directly to our end-customers except for spare parts, which in most cases are delivered directly to distributors. Sales revenue is recognised upon delivery of our products to our end-customers. We conduct onsite visits to provide technical and engineering support for the entire sales and after market process, including support for the initial bidding, design and engineering required for customised equipment, delivery and installation, customer training in the operation and maintenance of the equipment and aftermarket service, repair and parts. We do not negotiate with, or submit bids to, end-customers directly. This is done by our independent distributors and agents. Historically, our

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relationships with our distributors and agents have been stable, generally averaging approximately four years and two years, respectively, as of 31 July 2009. The responsibilities of our distributors and agents are similar, because, in addition to sales and marketing, our distributors and sales agents generally provide aftermarket parts and services and are required to coordinate with our sales headquarters and regional sales managers in order to make equipment sales. In providing sales and marketing as well as aftermarket parts and services, our distributors and sales agents are supported by our technical personnel who deliver and install our products. These technical personnel are our employees and their costs are borne by us. Our internal sales departments generally cover sales and services in relatively new market areas and regions that are otherwise not covered by our network of distributors and sales agents.

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

- manage our product prices, as our products are sold to distributors at fixed prices;
- expand our sales and distribution network in a cost-effective manner; and
- provide better aftermarket services as our distributors and agents are located in close proximity to our end customers, thereby expediting service response times and reducing potential downtime for end customers.

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

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

Sales Cycle

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

- *Identifying potential orders.* Our end customers generally purchase coal mining equipment through bidding processes. Such process often begins with the potential end customer publishing a notice listing the type of product to be procured and the requirements for the product. If interested, we typically conduct an onsite visit to understand the technical requirements. The potential end customer often also conducts an onsite visit to our facility to

inspect our qualifications and production capacity. After such visits, our bid is then prepared and submitted by our sales agents and distributors. For direct sales to our end-customers, we submit our bids directly.

- *Signing of sales contract.* If we win the bid, we enter into a sales contract with the end customer or distributor, as applicable.
- *Production.* Similar to other equipment manufacturers, our production process generally consists of design, preparation, processing, assembly and testing.
- *Delivery.* We generally make delivery of our products onsite at our manufacturing plants when the customers accept the products. At the customer's request, we may arrange shipment by rail or truck to the customer's designated destination. In the cases of sales through distributors, our distributors are generally responsible for the cost of delivering the products to the end customers.

Credit and Warranty Policies

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

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

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

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CUSTOMERS

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

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

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

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

MATERIALS AND SUPPLIERS

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

We procure our raw materials used in our production both through direct supply arrangements and processing subcontracting arrangements. Under our direct supply arrangements, we procure parts

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

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

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

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

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

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

capital, to the knowledge of our Directors, owned any interest in any of the above five largest suppliers as of the Latest Practicable Date.

PRODUCT DEVELOPMENT

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

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

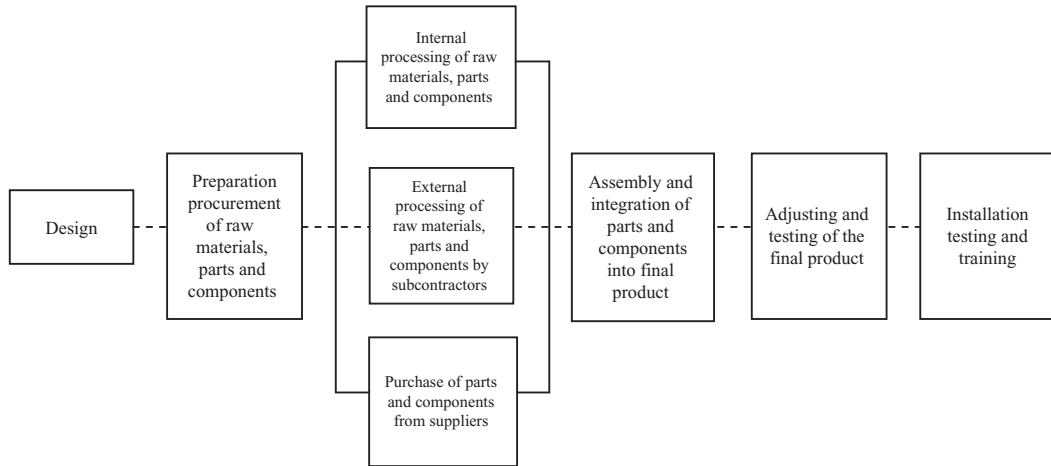
As of 31 July 2009, we had more than 263 professionals, including industry and manufacturing engineers, and engineering technicians, engaged in design, engineering, research and development. Our total expenditures for product development in 2006, 2007, 2008 and the seven months ended 31 July 2009 amounted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

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

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

PRODUCTION AND INSTALLATION PROCESS

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



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

- **Design.** We design our products according to the requirements of our customers before we commence production.
- **Preparation.** At the preparation stage, we procure raw materials and parts used in our production process. Our principal raw material for each of our product lines is steel. Other raw materials include plastic and rubber. Our procured parts vary depending on the product lines:
 - For roadheader production, the procured parts are mainly electric and hydraulic parts and bearings.
 - For shearer production, the procured parts are mainly electric parts, bearings, hydraulic parts and standardised components.
 - For armoured-face conveyor production, the procured parts and components are mainly electric and control systems.
- **Processing.** Raw materials are processed into parts to be assembled. The processing generally includes cutting raw materials into desired shapes, forging, welding, heat processing, and machine processing. Our roadheader and shearer production facilities have vertically integrated production processes which enable us to carry out casting, forging, riveting, welding, machine processing and heat processing in our facilities.

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- **Assembly.** The finished parts and procured parts are assembled to make the finished product.
- **Testing.** Before each product is warehoused or delivered to the customer, it is tested to ensure it meets our and customer's quality standards.
- **Installation and aftermarket service.** We regularly provide training to our technicians to ensure the provision of proper installation and high quality aftermarket services to our customers. A technician will attend to our customer within 24 hours of our receipt of notice from the customer.

PRODUCTION FACILITIES AND PRODUCTION CAPACITY

Our existing production facilities are located in Jiamusi City and Jixi City in Heilongjiang Province, with an aggregate gross site area of approximately 538,719.4 sq.m., and we are in the process of constructing our new production facilities in Huainan City in Anhui Province, PRC, with an aggregate gross site area of approximately 168,528.7 sq.m. The construction is expected to be completed in April 2010. Our new production facilities located in Huainan City are expected to commence production of our armoured-face conveyors in June 2010 and the production capacity is expected to increase by approximately 50%. These new production facilities will allow us to increase our overall production capacity, enhance our product quality and diversity, further integrate our production process as well as to expand into new products segments. We expect that our upgraded production facilities will enable us to produce approximately 444 roadheaders, 246 shearers, and 250 units of armoured-face conveyors annually by the end of 2010, and 528 roadheaders, 296 shearers and 340 armoured face conveyors annually by the end of 2011. We expect to enter into new product segments to complement our existing business within the next two years. To implement our expansion plans, we intend to allocate approximately HK\$593.7 million of the net proceeds from the Global Offering, assuming an Offer price of HK\$5.63, the mid-point of the indicative Offer Price range, towards acquisition of additional land, construction of new plants, purchase of new equipment, set up of aftermarket service locations, and upgrades of existing plants and equipment. We purchase our production equipment from domestic and overseas suppliers. As of 31 July 2009, we have over 998 units of production machinery, on which we carry out regular maintenance.

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

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

- (1) Production capacity is based on our estimate of full production capacity and current working conditions, discounted for downtime for scheduled maintenance, and planned production line reconfiguration between production runs. We estimate our production capacity as 90% of our estimate of full production capacity. The basis of calculation on which we estimate production capacity may differ from that used by other companies.
- (2) Utilisation rate. Calculated as actual production volume divided by production capacity.

QUALITY CONTROL

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

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

In recognition of the quality and technology of our products, we have received 17 honours and awards for our products. In particular, in 1986 Jiamusi Machinery received the National Quality Gold Medal for our EBZ100 roadheader, which is the only National Quality Gold Medal that has been awarded to domestic coal mining equipment manufacturer in PRC's coal mining equipment industry in history. Furthermore, we won the first prize for technology advancement awarded by the Heilongjiang Provincial government for our MG132/315-WD shearer in 2007, as well as nine other technology advancement awards issued by the PRC Government at the national- and provincial-levels. We designed and manufactured China's first domestically-built roadheader and shearer. In 2008, we introduced the EBZ260 series shearers, which have the highest cutting capacity in China as well as the EBZ350 series, which we believe to have the highest installed cutting power among roadheaders manufactured in China.

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

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

INTELLECTUAL PROPERTY

We rely on patents, trademarks and contractual rights to protect our intellectual property rights. Our intellectual property rights are critical to our businesses. As of the Latest Practicable Date, we held seven trademarks and 22 utility model patents and had two additional patent applications and

12 trademark applications pending the approval from the relevant authorities on intellectual property. From time to time, we submit patent applications for products and technologies that we have developed to actively protect our intellectual property rights.

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

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

COMPETITION

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

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

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

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

REAL PROPERTIES

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

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

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

Owned Land

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

- seven parcels of granted land with a total site area of approximately 538,719.4 sq.m., for which the relevant subsidiaries of the Company have obtained the relevant granted land use rights certificates. Of these seven parcels of land, six parcels with a total site area of approximately 273,919.0 sq.m. are occupied by our subsidiary in Jixi City and the remaining parcel with a site area of approximately 264,800.4 sq.m. is occupied by our subsidiary in Jiamusi City; and
- two parcels of granted land with a total site area of approximately 168,528.7 sq.m. in Huainan City, with buildings under construction. The land in Huainan City is for use by our wholly-owned subsidiary Huainan Longwall upon completion of the construction of production facilities.

Owned Buildings and Units

The buildings we own include:

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

- one unit with a total gross floor area of approximately 139.7 sq.m. in Xiangyang District, Jiamusi City, for which our relevant subsidiary has obtained proper building ownership certificate; and
- five buildings with a total gross floor area of approximately 4,694.1 sq.m., for which our Company or the subsidiaries of our Company do not have proper building ownership certificates.

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

Buildings Under Construction

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

Leased Properties

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

Additionally, we have also rented four office units in Shenyang City and one office unit in Beijing with an aggregate floor area of approximately 555.7 sq.m. and one residential unit in Beijing with a floor area of approximately 97.0 sq.m. for use in connection with our business. We are seeking the landlords' cooperation in applying for registration of the lease of the office unit (330 sq.m.) and the residential unit (97 sq.m.) in Beijing with the relevant PRC Government authority. We are advised by our PRC legal counsel, King & Wood, that, in the rarest and worst cases, the relevant government authorities may order the responsible party to complete the registration and impose penalties, and it is still unclear as to whether the lessor or the lessee should be deemed as such responsible party and there is no clear specification regarding the magnitude of the possible administrative penalties that may be imposed on the lessees. We consider the chance that we are subject to administrative penalties is low and the lack of registration will not affect the

validity or performance of these leases. As the aggregate floor area of the unregistered leased properties is small and those properties are not used as manufacturing sites, we consider them not crucial. The non-registration of the lease agreements will not have a material adverse impact on our operations.

OCCUPATIONAL HEALTH AND SAFETY

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

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

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

ENVIRONMENTAL MATTERS

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

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

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

We believe we are currently in compliance in all material respects with applicable national, provincial and municipal environmental laws and regulations and we have obtained all the relevant

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

INSURANCE

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

We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance coverage in line with our needs and with industry practice in China. As of the Latest Practicable Date, we have not received any material claims from our customers regarding any of our products.

EMPLOYEES

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

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

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

The remuneration package for our employees generally includes salaries and bonuses. We conduct periodic performance reviews for all of our employees and their salaries and provide our employees with performance-based bonuses. Employees also receive welfare benefits, including medical care, housing subsidies, retirement, occupational injury insurance and other miscellaneous benefits as required by the PRC law. In addition, we contribute to various pension funds organised by

municipal and provincial governments for our employees in compliance with applicable laws and regulations. In recognition of our human resource practice and employee retention efforts, Jiamusi Machinery received the National Award for Excellence from the All China Federation of Trade Unions in 2007.

LEGAL COMPLIANCE AND PROCEEDINGS

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

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